



HISTORICAL EVALUATION OF SOCIAL PERFORMANCE

Fundación D-MIRO
Guayaquil, Ecuador

December 2012



MicroFinanza Rating
Quito, Ecuador

EXECUTIVE SUMMARY

In accordance with MicroFinanza Rating's proposal in response to the terms of reference, the current study does not correspond to an analysis impact of D-MIRO's work since the start of its microfinance activities in 1997, but to a historical evaluation of social performance, that includes an analysis of the following areas: Social Performance Management, Outreach, Quality of Service and Analysis of Variations.

In the first part of the report, D-MIRO's historic trajectory will be presented, identifying 5 "phases", from its birth as a program, through the creation of the foundation, to its transformation to bank. D-MIRO's most relevant strategic factors will be analyzed, evaluating the historic evolution and results in the different phases. The main themes that will be evaluated include the following:

- **Institutional Mission and Values:** there is substantial stability in the mission from the start of its activities as a program up to its transformation to bank. There have not been any doubts to its clear focus, which has been one of the main success factors to maintain social performance in D-MIRO's the different phases.
- **Governance and Property:** another key factor, related to the previous point, is the stability in D-MIRO's governance that has had the same "property" structure since the start of its activities, as well as the fact of having maintained stable and strong leadership at operations level, especially in the figure of the General Manager.
- **Branches and Geographic Areas of Intervention:** D-MIRO started intervening in the neighborhoods of Isla Trinitaria, result of land occupations of new migrations to the city of Guayaquil which, until recent years, did not have access to basic services such as roads, drinking water and sewage systems, reflecting the extreme poverty and very high insecurity levels characterizing these areas. With the experience learned in this zone, other branches with similar characteristics were opened, confirming that the focus of the population served has not changed during the process of institutional evolution.
- **Operational and Financial Performance:** another factor that clearly reflects the process of institutional strengthening is operational and financial performance. D-MIRO initiates its operations in 1997, reaching at the end of its first year 98 active clients; as of September 2012, D-MIRO has 46.705 active clients. The same tendency is registered in all the main accounting aspects such as assets, liabilities, equity and portfolio. It is important to take into account that financial performance is very strongly related to social performance: this same growth process translated in increased outreach and a greater variety of services, which is the reflection of the institution's sustainability. A notable aspect is the operational expenses' tendency over the last years, which presents a very strong improvement in institutional efficiency, as well as portfolio yield, presenting a strong decrease in the cost of the services offered (from a portfolio yield of 41% in 2006 to 24,5% in the October 2011 – September 2012 period).

The second chapter will analyze D-MIRO's outreach. Among the most relevant aspects, it is worth mentioning the limited amplitude of geographic outreach, with a concentration (of 67% of the portfolio and clients) in the Province of Guayas. On the other hand, the depth of D-MIRO's outreach is adequate and aligned to the mission. It is important to underline that D-MIRO is located in peri-urban zones with lower access to basic services and a limited level of development, as well as restricted offer of financial services; in some sectors, it is the only financial institutional with physical presence of a branch. With respect to the socio-economic profile of clients, the poverty levels of the population served are aligned to the institutional mission; the PPI tool, which D-MIRO applies systematically to all new clients, suggests that 21,3% of the institution's clients as of September 2012 live below the national poverty line; although this percentage is lower than the national average (33%), this indicator reflects a good level of depth in outreach, taking into account that, in general, it is difficult for microfinance institutions to work with clients in extreme poverty conditions. It is also worth noting that MicroFinanza Rating's national and regional benchmarks confirm a very good level of depth in D-Miro's outreach.

The third chapter analyzes the quality of service. D-MIRO presents a **good ability to design products and distribution channels based on the target population's characteristics** while, in general, the conditions of the loan products adapt to the different financial needs of the target population, with convenient delivery and personalized service, reflected in the institution's growth, adequate portfolio quality and positive results of the surveys and focus groups carried out. In general, clients in their first loan cycle present a slightly lower satisfaction with respect to the characteristics of the loans, which is partly due to the rise in credit offer to the sectors served by D-MIRO, and partly the result of an increased level of formality in the procedures as required by regulation.

In the Analysis of Variations (chapter 4), it was found that the increase in assets, estate, income and profit in the financial situation declared by D-MIRO's clients in their loan request forms reflect that **the borrowers have improved their financial situation**; although we cannot confirm that this improvement is a direct result of D-MIRO, surely some merit can be attributed to D-MIRO: during the focus groups conducted with longstanding clients, a high level of gratitude towards D-MIRO could be noted for its support over the years and for having offered a service in sectors where, a few years before, there was no possibility of accessing to financial services. Additionally, the increase in the average disbursed loan for these recurring clients reflects that, though this financial data is based on declarations by clients in the loan request forms, it is important to indicate that D-MIRO trusted in this information and these people through the disbursement of larger amounts, and that these loans were fully repaid: this data confirms the reliability of the information mentioned earlier. Another interesting aspect is the analysis of variations by cycle, which reflects larger changes in the financial data of clients with more loan cycles, meaning that improvements in the clients' situation is reached through longer-term experiences with D-MIRO, that includes a few cycles with the institution.

The last chapter will report various lessons learned and recommendations. It is important to mention that the recommendations do not represent criticisms of the past, but are intended to support D-MIRO's future development process and show that the path to follow is still long and full of new challenges. In this section, it has been attempted to analyze all the aspects that have emerged from the analysis of the policies, the interviews, the surveys and the focus groups, in order to offer new ideas for the future. The recommendations have been divided into the following 4 areas: social performance, outreach, quality and social responsibility.

Index

Introduction	1
1. Social performance management system	2
1.1 Phases of Institutional Development	2
1.2 Institutional Mission and Values	3
1.3 Governance and Property	6
1.4 External evaluations on social performance, impact studies and client satisfaction	6
1.5 Staff and Structure	9
1.6 Branches and geographic areas of intervention.....	12
1.7 Offer of Products and Services	13
1.8 Operational and Financial Performance	16
2. Outreach.....	19
2.1 Areas of operation.....	19
2.2 Clients reached	19
2.3 Social vulnerability and profile of households	19
2.4 Financed activities	20
2.5 Home and assets	20
2.6 Access to financial services	20
2.7 Loan size	21
2.8 Economic poverty.....	21
3. Quality of service	22
3.1 Variety of the service.....	22
3.2 Adequacy of the service	22
3.3 Client's protection system.....	25
4. Analysis of variations	27
4.1 The database	27
4.2 Results in the variations in financial aspects	27
4.3 The survey	31
4.3 Results in the variations in socio-economic aspects	31
5. Lessons learned and Recommendations.....	34
5.1 Lessons learned	34
5.2 Recommendations	35
Annex 1 - Statistics	38
Database.....	38
Survey to clients	38

Introduction

The consultancy was carried out in the November 2012 – January 2013 period and had the following **specific objectives**:

- Historical analysis of the systems with the institutional mission and vision;
- Analysis of the volume and characteristics of the microentrepreneurs that had access to D-MIRO's financing;
- Analysis of the variations in certain key variables of the clients (declared income, declared expenses, amount of the loan disbursed, declared assets and estate) and other variables that will be agreed with the institution, although they will depend on the availability and reliability of the data;
- Analysis of the quality and characteristics of the services provided by D-MIRO to the microentrepreneurs;
- Identification of the lessons learned.

This report is divided into five chapters:

1. SOCIAL PERFORMANCE SYSTEM.
In this first chapter, social performance and its evolution over the years will be analyzed. Identified weaknesses, signaled strategically with the words (**CHALLENGE 1, CHALLENGE 2...**), will be included in the analysis. The same "challenges" will be mentioned in the recommendations (Chapter 5).
2. OUTREACH.
In the second chapter, the institution's outreach will be analyzed: particular emphasis will be given to the areas of intervention and to the profile of the client served. Eventual weaknesses will also be indicated with the words (**CHALLENGE 1, CHALLENGE 2...**), which will also be included in the recommendations (Chapter 5).
3. CALIDAD.
The third chapter will evaluate quality with respect of variety and adequacy, indicating the results of the surveys in terms of the quality perceived by the clients. Eventual weaknesses will also be indicated with the words (**CHALLENGE 1, CHALLENGE 2...**), which will also be included in the recommendations (Chapter 5).
4. ANALYSIS OF VARIATIONS:
The analysis of variations does not correspond to an analysis of impact nor does it contemplate an analysis of the attribution of this impact. In this chapter, the variations in certain key variables declared by clients, such as income, expenses, amount of disbursed loan, assets and estate, will be analyzed.
5. LESSONS LEARNED AND RECOMENDATIONS.

Additionally, the following will be included in the report:

- **Annex 1**, with details on the methodology used for the definition of the samples.

1. Social performance management system

Misión Alianza of Norway is a Christian NGO, very active at international level and with a long trajectory in Ecuador. Its vision is to “Be a diaconal¹ Organization that gives opportunities for integral development”, while its mission is to “Facilitate empowerment processes to developing communities, promoting justice, human rights and a full life, with Jesus as a model”.

Misión Alianza starts its microcredit activities in 1997 with a Microcredit Program, denominated Diaconía Micro Crédito Rotativo “D-MIRO” (from here on D-Miro), with the intention to attend the less-favored population in urban-marginal areas of the Isla Trinitaria, on the outskirts of Guayaquil, in the Province of Guayas.

Analyzing the history of the foundation and its institutional path, it is possible to identify five “phases”, that represent different phases of development and operations.

1.1 Phases of Institutional Development

First phase: 1997

Birth of the Microcredit Program

As mentioned earlier, in 1997 the Programa Diaconal Micro Crédito Rotativo D-Miro started its operations at its headquarters in Isla Trinitaria; the program was funded by an international cooperation project under the responsibility of ONG Misión Alianza: although there were “dreams” of the program’s future sustainability, the operational focus was that of a cooperation project, where the main objective was to fulfill the activities and results expected with the approved budget. In fact, in this phase, the main goal still was to carry out different technical and economical cooperation programs to develop areas such as education, health, infrastructure, credit and training for a period of five years.

Second phase: 2003 - 2006

Creation of Fundación D-MIRO

At this moment, the NGO becomes aware of the need to “institutionalize” its intervention in the area of microcredit, to guarantee the necessary growth and the service’s sustainability in the long term. If on one hand, there is a growing demand for loan services in the zones of intervention, on the other hand, the Foundation realizes that this matter cannot be managed solely through a cooperation program; rather the cooperation program needs to be the impulse necessary for the creation of an independent institution, capable of a professional and sustainable management, as well as finding external funding to feed its growth, turning financial intermediation into an opportunity for the growth of its clients. From 2003, the Programa Diaconal Micro Crédito Rotativo D-Miro initiates its transformation process into a Foundation, culminating in 2006 when, through the ministerial agreement No. 8118 of 2006, the bylaws of Fundación para el Desarrollo Microempresarial D-Miro, Misión Alianza, Ecuador, achieving the constitution of a legal entity under civil law, independent of the international NGO, although maintaining its focus and objective (non-profit) as a national foundation regulated by the Ministerio de Bienestar Social.

Third phase: 2007 - 2008

Growth of operations and branches

The third institutional phase coincides with the expansion phase: thanks to the Foundation’s positioning in areas of elevated population density and absolute absence of financial services, the Foundation reaches very high growth levels, growing not only in assets, portfolio and liabilities, but also in structure and equity. It is important to underline that the limited presence of competitors in

¹ The “Diaconal Identity” is the characteristic of the being and that to do with the organization, embracing Jesus Christ and his Gospel as a pillar and guide of his actions. “Diaconal” refers to the service of disinterested love through words and work, based on the model of Jesus.

Fundación D-Miro's areas of intervention is due to the elevated risk in these areas, which are mainly areas invaded by the population (as is the case with the head office in Isla Trinitaria), still characterized by high levels of criminality and insecurity.

As of April 2008, Fundación D-Miro's portfolio reaches US\$ 16 million, serving 27.000 families.

Fourth phase: 2009-2010

Crisis and recovery

Fundación D-Miro, ascribed to Misión Alianza Noruega, obtained in 2009 third place between the 100 institutions that offer microcredit, obtaining the Excellence in Microfinance Award in the category "best outreach". This nomination was received at the XII Foro Interamericano de la Microempresa (Foromic), sponsored by the Inter-American Development Bank (IADB).

At this moment, Fundación D-Miro was offering individual and group loans, through a portfolio of over US\$ 20 million and 33.000 clients, indirectly benefitting 200 thousand people.

But this same year, due to the international crisis and the increased offer of financial services that resulted in over-indebtedness, D-Miro entered a crisis that it confronted by decreasing its disbursements and controlling its delinquent portfolio, being more cautious in its credit management. The number of employees decreased from 202 at the beginning of this period to 185 at the end of 2009.

As of December 2010, its active portfolio reaches US\$ 30 million, attending to 37 thousand families. In that year, the loan portfolio grew by more than 75%, with more than 36.000 operations, reaching 200 employees (50 of them new), and maintaining positive sustainability and profitability indicators.

Fifth phase: 2011 to present

Transformation to Bank

The fifth phase represents the present.

Through a long process, the Foundation transformed to a microfinance Bank: the Superintendencia de Bancos y Seguros del Ecuador, through Resolution No. SBS-2010-844 of the 24th of November 2010, has authorized the constitution of the Public Limited Company Banco D-MIRO S.A. and, on the 26th of January 2011, after having fulfilled all the conditions required by the law, provided the Certificate for the Head Office to initiate its operations in Isla Trinitaria.

It is important to stress that the transformation to bank does not represent a deviation in its focus: although a bank – in its legal form – is a profit-making entity unlike a foundation, in D-MIRO's case, this institutional transformation responds to the vision of finding the structure that best allows to maximize the technical level and the professional offer of services, not to a new vision of profit generation. In fact, once it has been defined that the offer of microfinance services needs to be large scale and sustainable, the transformation to bank is a completely aligned result, that additionally forces the institution to comply with the regulation of the Superintendencia de Bancos y Seguros del Ecuador, participating in all aspects to the rules of the "big leagues" of financial institutions, which represents a challenge and continuous control of the level of professionalism required. It is important to mention D-MIRO's vision of offering additional services, such as savings, having transformed to a regulated financial institution.

Beyond the identification of the five "phases" in D-MIRO's history, we will analyze, in the following sections, certain key aspects of D-MIRO's social performance, evaluating the history, as well as the evolution and development process, of these aspects.

The first aspect that will be analyzed is the institutional mission, representing the institution's goal, onto which the strategy and operations are constructed.

1.2 Institutional Mission and Values

There is substantial coherence in the institutional mission over the years on D-MIRO's part.

In fact, apart from small changes in its form, the following central ideas have remained the main drivers of the institution:

MicroFinanza Rating

- Excluded sectors: in spite of not defining in more detail (in the institutional mission statement) the types of people that will be served (**social objective 1**), in all the periods analyzed, there is a focus towards excluded sectors. D-MIRO wants to offer its services in these sectors, including all the subjects that live in them. As mentioned earlier (and will be analyzed in greater depth in the following chapters), the sectors served by D-MIRO are between the most vulnerable in Ecuador, presenting complete consistency with the social objective included in the mission. On the other hand, in the strategic planning documents, D-MIRO reanalyzes the target market, adding other characteristics of the target client: families and microentrepreneurs marginalized for different reasons (culture, poverty, lack of collateral and guidance, race, gender, etc.) from the traditional financial system.

With respect to the **social objective 2**, answering the question of “how”, D-MIRO has responded, in almost in all the periods of analysis, through two relevant strategic directions:

- On the basis of Christian values: although this does not represent a strategic objective, for the institution, these “Christian values” have been the reason why this project started and is still continuing.
- Timely and convenient services: the focus towards a timely and convenient service mainly reflect the niche attended by D-MIRO: in general, microentrepreneurs require easy (in terms of less processes and speed) and convenient (amount and term adjusted to specific needs) access to loan services. On the other hand, this same focus is present in D-MIRO’s entire process of institutionalization and institutional transformation over the years, which reflects the continuous quest for increased levels of efficiency and organization.
- Contribution to the improvement of the quality of life: with regards to the **social objective 3**, answering the question “for what”, since its inception, D-MIRO has focused on providing financial services as a strategy to propel an improvement in the quality of life of its clients/beneficiaries.

Period / Doc.	Vision	Mission	Values
STRATEGIC PLANNING 2003-2007	To be the leading microfinance institution in the country terms of number of borrowers.	Promote justice, opportunities and comprehensive development, offering timely microfinance services to excluded sectors, on the basis of our Christian values that demonstrate the love of God.	Faith Efficiency Transparency
STRATEGIC PLANNING 2008-2011	D-MIRO’s institutional vision is to be a national organization based on the gospel Jesus Christ that inspires the diaconal life to restore to the Ecuadorian community.	To be the microfinance institution that contributes to improve the quality of life of the country’s marginal sectors, providing agile and convenient services that reflect the trust in our clients, on the basis of our Christian values that demonstrates the	Justice Trust Solidarity Integrity Perseverance, Truth

		love of God.	
STRATEGIC PLANNING 2009-2011	D-MIRO's institutional vision is to be a national organization based on the gospel Jesus Christ that inspires the diaconal life to restore to the Ecuadorian community.	To be a Christian microfinance organization that contributes to the improvement of the quality of life in the country's marginal sectors, providing agile and convenient services.	Justice Trust Solidarity Integrity Perseverance, Truth
STRATEGIC PLANNING 2011-2015	To be the microfinance institution that most contributes to poverty alleviation.	On the basis of Christian values, we offer financial services with the objective of promoting the development of the Ecuadorian coast's vulnerable sectors.	Justice Efficiency Trust

As shown in the above table, these ideas can be found in all the different statements of the institutional mission.

Although, at the beginning, the mission included the “promotion of justice, opportunities and comprehensive development, offering timely microfinance services to excluded sectors, on the basis of our Christian values that demonstrate the love of God”, in subsequent versions, D-MIRO reduces the mission's expressed part, although without altering its substance.

On the other hand, greater details can be found in the strategic documents than have been reviewed, while also contributing to the coherence of the statements. In fact, the main objective is still to **provide timely loans, preferably to people of limited economic resources, through branches located in their sectors, with personalized treatment, a diaconal cultured, solidarity, image and a wide range of services**. It is important to underline that the objective to provide support to people in a particular zone is also reflected in the variety of products, which attempt to cover all the necessities, including the segment of microfinance (which according to the portfolio classification in Ecuador – by the loan's repayment source – represents the entire niche of people that do not have formal employment and request loans of lower amounts, and the segment of housing, which is really a strong necessity of the served niche).

Additionally, as mentioned previously, in its entire institutional development process, D-MIRO has maintained its principal working strategy, which has been the diaconal base and the vocation of service to the most vulnerable people, with personalized treatment and services adjusted to the needs of the clientele. This is put into practice through:

- Adequacy of services and products.
- Develop multifunctional staff, qualified and proactive.
- Management of expenses in order to reach the poorest, funded by wealthier segments.
- Maximize productive assets and diversify funding sources.

On the other hand, **it is important to mention, for the future, the need to improve the definition of the social objectives that are generally found in the mission statement, into clear univocal ones (CHALLENGE 1)**. In fact, the definitions of the social objectives found in certain strategic documents, as well as in certain manuals, do not always coincide with the current mission.

Another aspect to strengthen is social performance management, through the development of specific strategies for each social objective, identifying a monitoring and follow-up system to social performance (**CHALLENGE 2**).

The second aspect that we will evaluate is the governance process, which represents one of the most relevant processes in the analysis of social performance in an institution. In particular, the aspects that will be analyzed include the property structure and its evolution over time, as well as the organizational structure and key personnel at management and operations level.

1.3 Governance and Property

The governance, especially the “property” of D-MIRO has surely been one of its main success factors, allowing it to maintain, without relevant deviations, the institution’s mission and strategic focus. In fact, D-MIRO has maintained the same “property” structure over the course of its entire history. If, on one hand, Misión Alianza of Norway has been the “owner” in all the institutional phases (clearly as a program and foundation, the concept of owner is more similar to the concept of responsibility and direction), on the other hand, it is important to take into account that Misión Alianza was able to maintain the vision and mission over the years, in spite of changes in the people in charge of the NGO and of the projects in Ecuador; this is the most important result, reflecting the NGO’s capacity to align its staff to a long-term project and find professional people locally that were able to commit themselves to this project.

Currently, the shareholders of Banco D-MIRO are: Misión Alianza of Norway with 63% of participation, Fundación D-MIRO Misión Alianza with 36% of participation, Alliance Microfinance AS AMAS with 1,25% of participation, and two natural people with 0,001% of participation.

Another fundamental matter is the stability of the General Manager, which really complements the property structure in the operational and administrative part, guaranteeing that the vision and mission will be taken into practice: the fact that the General Manager has been at the head of the institution since 2009 represents a very positive result for D-Miro in itself, which has found in the management a person capable of guiding strong growth and institutional transformation processes, without forgetting the reasons at the base of the institution.

Nonetheless, a factor to consider for the future is the need to structure the institutional goals and values in specific documents such as the Shareholders’ Agreement, in order to protect the institution’s vision and mission in times of change in personnel (different representatives of the same shareholder, or eventually new shareholders) (**CHALLENGE 3**)

A very interesting aspect to consider for the historical analysis of social performance is a review of the external evaluations and studies relating to social performance, social responsibility and impact.

If, on one hand, these evaluations reflect D-MIRO’s commitment towards the continuous measurement of its social performance, on the other hand, they now provide a panorama of its institutional development.

1.4 External evaluations on social performance, impact studies and client satisfaction

Study conducted:	Commentaries and Notable points:
Social performance evaluation; Red Financiera Rural ; 2007	In 2007, D-MIRO obtained its first report on social performance by the Red Financiera Rural, presenting an equilibrium between the evaluation’s 4 dimensions: Focus to the poor and excluded, social responsibility, adaptation and improvement of social capital according to the SPI tool; with the Focus to the poor and excluded being the most outstanding aspect, thus fulfilling its social objectives of operating in low-income sectors, providing timely and convenient microfinance services, and contributing to the improvement of the clients and their families’ quality of life, focusing its intervention to

	<p>the poorest sectors of the provinces where it operates, selecting such sectors according to poverty levels defined by the Instituto de Censos y Estadísticas del Ecuador and to diagnostics performed by Misión Alianza Noruega. According to this report, D-MIRO's sustained growth lies to a great extent in the increasing levels of satisfaction in relation to the services offered by the staff, who express a sense of commitment and gratitude towards the institution.</p>
<p>Market study; Consultant Santiago Pérez; 2007</p>	<p>The loans offered are mainly for home improvement or own enterprise, however, for economic complications or eventualities, part of the loan, or in certain cases its totality, was destined to cover emergencies. <u>Another fundamental aspect that was expressed by D-MIRO's clientele was that, when using the loan for their enterprise, they occasionally felt that their lack of knowledge of the market or business has resulted in their investment being lost or not producing the expected outcome, making it difficult to fulfill the payments, which can in turn result requesting loans to informal lenders in order to cover their emergencies. The clients' preferred products are housing or home improvement loans and own enterprise loans. The least attractive products are group or solidarity loans, considered dangerous and little convenient due to shared responsibilities with other people.</u></p> <p>D-MIRO's image towards its clients is very positive due to its social nature, as well as that of helping the poorest people. In terms of potential clients, there are similarities with current clients, considering that interest for loans are also centered around financing home improvement and own enterprise. However, many of those that have already had experience with loans from other institutions indicate that it is difficult not to use these loans towards other ends due to economic complications. Another possible interest for loans would be for seasonal necessities such as the start of classes; loans for funerals are the least attractive due to the rejection the idea of death causes in people.</p> <p><u>Loan officers corroborate information declared by clients, but prefer to work on the enterprise since they enjoy contact with the microentrepreneur and witnessing the development of the enterprise. The product that causes them the most difficulty to work is the loan for funerals, for its negative connotation, and the Village Banks product, since it requires mobilizing to less accessible places and they consider that the product involves various matters that may be difficult to explain to potential clients.</u></p> <p>Due to the competition, it is easier for D-MIRO to work with people from poorer zones where there is less penetration and publicity by other institutions. The main difficulty faced by loan officers is the lack of advice and legal support during the recovery of loans, for which <u>they consider that D-MIRO should have a legal department focused directly to this problem.</u></p>
<p>Market study; Consultant Santiago Pérez; 2008</p>	<p>There are opportunities in terms of potential clients' interest and their enterprise aspirations, considering that most would consider a commercial entity. It is important to remember that D-MIRO's guide in this respect is fundamental to stimulate the creativity of interested parties and direct them towards fields they might not have contemplated due to lack of information.</p>

		<p>The services requested by potential clients are fairly traditional: loans for enterprise and housing or home improvement. Loans for immediate and occasional necessities such as health and schooling can also be considered aspects of interest for clients. The market D-MIRO has to position itself in every city is quite ample, although there is a need for further informative and communicative work in Machala, while initial results in El Empalme and Playas are quite favorable.</p> <p><u>Due to the quantity of microfinance institutions, there is a bombardment of publicity and information, often negative, which D-MIRO needs to confront through a communicative strategy that should center around differences from both NGOs that provide this service or financial institutions often seen as only interested in their business and profit.</u></p>
Social Rating; 2008	Performance Microrate;	<p>In 2008, the Rating Agency Microrate awarded 3 and a half stars in rating its social performance, based on the alignment of the processes and procedures to the social mission, although <u>it would be necessary to improve the monitoring of social variables, client protection, especially in terms of over-indebtedness and the staff training process.</u> Notable aspects is the social results achieved include the average loan's limited levels of around US\$ 600, which represents 66% of GNI per capita, as well as a (relatively) low cost for the client (effective annual interest rate of 51%). D-MIRO also presents a good degree of institutional responsibility, reflected in elevated levels of client loyalty and moderated levels of staff turnover, as well as offering different programs in the community and depth in its market niche.</p>
Social Rating; 2009	Performance Microrate;	<p>In 2009, D-MIRO performed another Social Performance Rating with the rating agency Microrate, obtaining for the second time a rating of 3 and a half stars. The main results included excellent levels of depth, with products offered to marginalized segments; its low interest rates, adjusted to the ceilings set by Ecuadorian regulations; however, its operational costs are still high, which does <u>not allow the transfer of the benefits of increased efficient to its clients.</u> Also, the rating agency indicates <u>opportunities of improvement related to institutional responsibility towards staff, the community and the environment.</u> Its social commitment remains good, with more formalized internal processes, unlike previous periods. Nevertheless, the institution still <u>needs to formalize the inclusion of social factors within its training processes.</u> Further notable strengths include client protection and service, as well as having initiated a process to monitor the economic evolution of its clients.</p>
Client satisfaction survey; 2010	Red Financiera Rural;	<p>In the client satisfaction survey, as part of the Red Financiera Rural's financial, social and market performance report of 2010, the clients express satisfaction with the following aspects: Products in line with the necessities (98%), Timeliness and response time to their requirements (90%), Physical space comfortable and adequate (91%), Adequate attention and treatment (98%).</p>
Social Rating; 2010	Performance Microrate;	<p>In Microrate's opinion, D-MIRO is fulfilling its institutional mission, based on a Christian perspective it focuses its operations in marginal and peri-urban zones of the Ecuadorian coast, the design</p>

	<p>of its products is aligned with the necessities of its public. With products specifically aimed at excluded populations, it achieves better results in accordance with its social mission.</p> <p>D-MIRO is again awarded 3 and a half stars in its 2010 rating, where it presents good social results; notable aspects include the depth of its attention in areas characterized by high levels of poverty in the Ecuadorian coast. It maintains adequate operational efficiency indicators, which allows it to offer its products at low interest rates. In spite of the difficult environment created by government policies that could affect financial results, the sustainability of its operations are not compromised. The MFI is backed by Misión Alianza de Norway. On the other hand, areas to improve include social responsibility towards staff and clients.</p>
--	---

In general, D-MIRO demonstrates its systematic focus towards the monitoring of its social performance, having performed numerous studies and analysis in different years. As mentioned earlier, **it is important to further structure policies for the systematic monitoring of certain indicators, especially on a monthly basis, in order to guarantee the complete alignment of its performance with the institutional mission (CHALLENGE 4).**

The fourth aspect that is important to analyze in the evolution of staff management and the organizational structure. In fact, the microfinance industry greatly depends on the human factor, and an institution's capacity to manage its staff and especially "human talent" reflects its capacity to expect a sustainable performance, where "owners" and staff work together to fulfill the mission.

1.5 Staff and Structure

In terms of staff and organizational structure, D-MIRO presents a coherent path in all the years of analysis: it can be said that **the institution has grown together with its staff, currently enjoying good staff management processes and an organization structure suitable to its size and to the fact of being a regulated financial institution.**

The main moments in the evolution of human resources management include the following:

- The program starts in 1997 with nine people. As is normal, there is a high level of informality in the first period, where staff responds to all the program's necessities without a real organizational structure: the responsibilities of each position are adjusted to the necessities found on the way. However, this is a key period in order to understand the market and business, and to fuel the growth registered over the years with new staff.
- In 2003, the Human Resources area is created: it initiated as administration and payroll, and was later made independent. A Human Resources Manager is hired in 2005 as part of the preparation of the transformation from Program to Foundation, and an internal work policy is elaborated.
- The area of social responsibility is launched in 2005, in charge of a pastor in order to guarantee the follow-up to Christian candidates.
- In accordance with the law, in 2007, the area of Human Well-being is created due to the number of employees. The area is run by a doctor who, by coincidence, is a pastor that has been part of the Foundation since 1998.
- Fundación D-MIRO has managed to position itself over time, thanks to the consolidation of a team that grew from 87 staff in 2006 to 185 in 2010 and 202 in 2009. This was a result of the growth of the portfolio and structure (back-office), as well as of the need of the necessary personnel to enable D-MIRO's transformation to Bank; it is important to underline that the growth registered in all the periods of analysis also represents work opportunities for the population of Guayas and other provinces involved in the process.

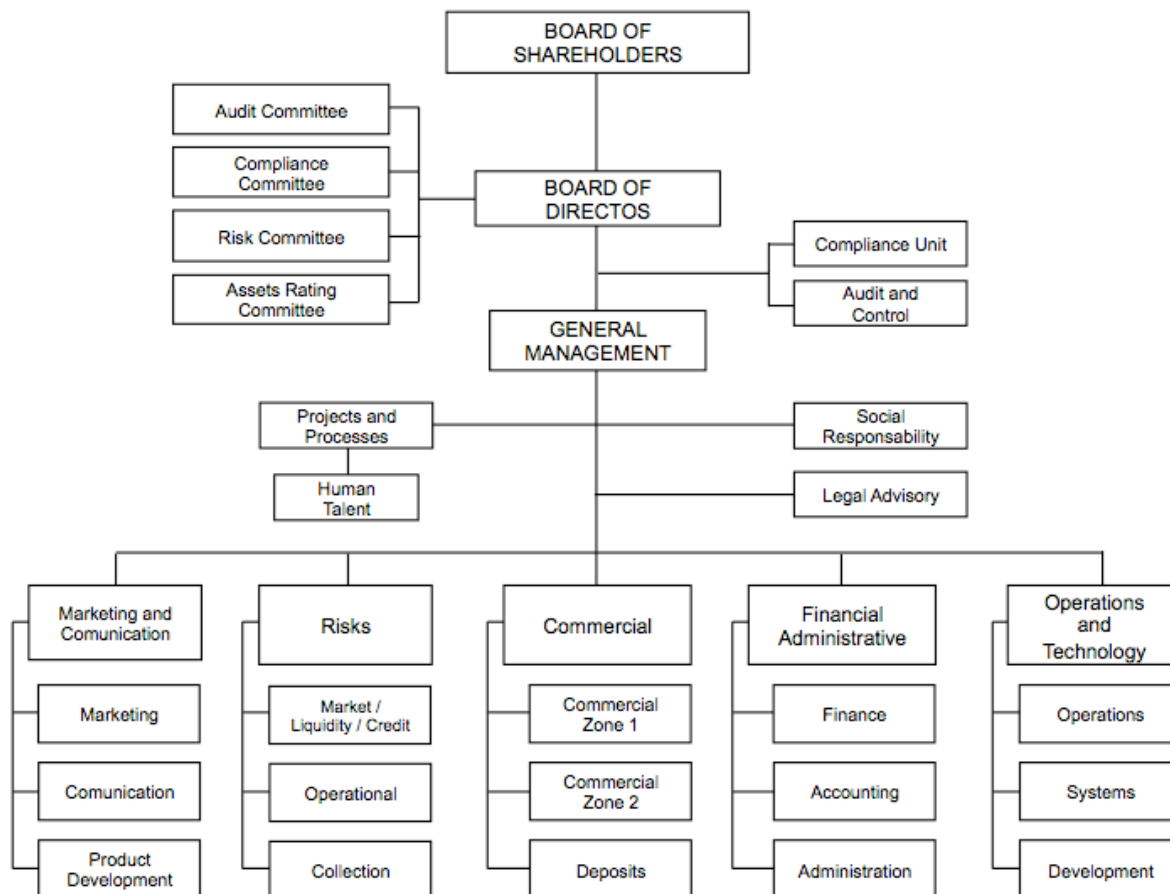
- In 2010, the complete recuperation of productivity and efficiency was achieved, and the Human Resources department is renamed Human Talent, positioning the bases for the area to later strengthen with the hiring of a specialist in selection, a persona in charge of payroll and a social worker.
- In 2010, the Social Well-Being area becomes the Sub-Management of Social Responsibility, reporting directly to the General Manager and in charge, amongst other things, of the institution's organizational culture and diaconal base, as well as the coordination of the CREER and VIDA products in the Health Sector.
- In 2011, the Human Talent area is strengthened, a Code of Ethics for the employees is elaborated and a performance appraisal system is established; the Internal Work Policy is updated and D-MIRO reaches 265 employees in 2011.
- Also in 2011, the School of Officers is created; due to the high levels of rotation in this position, D-MIRO focuses on hiring candidates that have completed higher education and have sales skills, although experience is not a requirement, such as to provide them with comprehensive training. Loan officers that are hired are given training, always encouraging a service culture.
- D-MIRO now has an Ethics Committee in order to monitor the staff's behavior; in the case of an irregularity and according to institutional policy, employees are aware that they may have to leave the institution after three warnings.
- As of September 2012, Banco D-MIRO has a total of 261 employees (266 as of June 2012 and 280 as of March 2012), registering a slight decrease in 2012. The Bank presents a staff allocation ratio of 42% (110 loan officers) reflecting, on one hand, the increase in administrative staff resulting from the transformation to bank and, on the other, the limited growth of loan officers.
- The bank records high levels of staff turnover, especially in loan officers which, in certain branches, has generated problems with the portfolio quality and internal discomfort.
- Banco D-MIRO has a Head of Human Talent and a Head of Payroll that report to the Project and Processes Manager. The bank has formalized selection, orientation, training, appraisal and separation policies for staff, approved by the Board of Directors.
- With respect to the selection process, Banco D-MIRO currently requests staff without experience in order to avoid employees with bad practices or experience with other methodologies that are not in line with the bank's practices. Priority is given to internal staff in the case that they fulfill the profile required by the position, otherwise candidates are found through publications, references or head-hunters. All contracts are for indefinite terms with a 3-month trial period. D-MIRO has developed an orientation program for all loan officers that lasts one month, during which they are offered training on internal policies, financial analysis, marketing, regulation as well as field training; a suitable preselection process is conducted in this period, after which they are hired taking into account the trial period and are assigned an experienced loan officer for training field training.
- The bank has an established orientation process for all personnel, where training is offered on D-MIRO's profile, internal policies, prevention of money-laundering and risks.
- The training plan for 2012 was elaborated based on each area's requirements with a special focus towards regulation and legal matters. The institution is yet to develop a more specific training plan based on the each position's profile and requirements.
- The remuneration offered by the bank consists of a fixed salary, a variable part (for loan officers and, soon, for collection officers), the benefits required by law, a Christmas bonus and non-monetary benefits, such as 50% of alimentation, transport, uniforms, health and life insurance. According to internal information, the salaries are competitive and in line with the market. It is worth mentioning that the variable remuneration system is currently being reviewed; Banco D-MIRO plans on including factors such as productivity, as well as related to the fulfillment of institutional goals and objectives, into the its definition.
- The bank contracted a consultancy in August 2012 in order to strengthen processes relating to Human Resources, which include institutional diagnostic, training plans, career plans, skills

identification, work environment, policies for staff retention and a revision of remuneration policies. The consultancy is planned to last two years.

- Internal communication processes are adequate; there is an intranet where manuals, processes and other communications are published, while meetings with staff are organized frequently.
- The bank is yet to elaborate a Functions Manual based on the responsibilities that each position requires that includes a back-up for all positions, including the General Manager.
- Banco D-MIRO has an Internal Work Policy approved by the Board of Directors and the Ministry of Labor Relations. The bank has hired a doctor as required by the law of labor relations. Additionally, in line with regulation, there is a Remuneration Committee and an equally represented Occupational Safety Committee. The occupational safety manual has been presented to the Ministry of Labor Relations, whose observations are still pending.
- The bank fulfills the percentage of personnel with disability required by law.

As illustrated in the graphic, **the organizational structure reflects a mature institution, with an appropriate hierarchical structure that allows an adequate level of control and delegation of functions:** the Commercial Manager, Financial Administrative Manager, Operations and Technology Manager, Risk Manager and Marketing and Communication Manager are located directly below the General Manager. The Social Responsibility Manager, the Projects and Processes Manager and Legal Advisory also report directly to the General Manager. The Human Talent Department reports to the Projects and Processes Manager.

A notable aspect is the technological development that has always accompanied D-MIRO's growth process; the bank currently uses version 5 of the information software TOPAZ, which allows a better level of automatization, security, modules improvement and customization to the requirements of the current regulation. The system is in line across all the branches, with redundant connections through two main links, as well as a contingency link. The bank has hired Level 3 Housing services for its main server, while an alternative data center with an adequate infrastructure is still operational in the head office. Back-up policies are adequate and are conducted in the main server.



On the other hand, given the bank’s current size and future projections, **human talent management still represents, as at the start of the program, a central strategic dimension; at the moment and as a bank, the main challenges are related to staff turnover (especially loan officers), as well as to the strengthening of mid-level executives, who in the current phase need to be the new pillars for future growth, replicating at each branch the leadership and commitment that the current managers have shown in the growth process of the last years. (CHALLENGE 5)**

The fifth aspect to consider is the evolution of the areas of intervention and the opening of new branches over the years.

1.6 Branches and geographic areas of intervention

As mentioned earlier, D-MIRO initiated its operations in peri-urban zones of Guayaquil, targeting the poor and vulnerable population with the need to access economic resources in order to improve their enterprise, especially microentrepreneurs in urban-marginal zones.

It is important to remember that the neighborhoods of Isla Trinitaria are the result of land occupations of new migrations to the city of Guayaquil, meaning that until recent years, these neighborhoods did not have access to basic services such as roads, drinking water and sewage systems, reflecting the extreme poverty and very high insecurity levels characterizing these areas.

Over the years, the situation has improved; the municipality started to take charge of this zone, investing in infrastructure and resolving the issue of land property. On the other hand, Isla Trinitaria still represents one of the most insecure sectors in the country.

It is precisely with this experience with the marginalized population that D-MIRO starts its microfinance operations, “giving loans” to excluded people in areas even today characterized by high levels of insecurity and delinquency.

In the following years, D-MIRO replicates this successful experience in other areas similar to Isla Trinitaria: the branch Paraíso in 2001 and the branch Suburbio in 2003, always on the outskirts of Guayaquil.

In 2008, five new branches were opened: Orquídeas and Durán (Province of Guayas); Libertad (Province of Santa Elena; Machala (Province of El Oro) and Quevedo (Province of Los Ríos).

In 2010, three new branches were opened: Milagro (Province of Guayas), Portoviejo and Manta (Province of Manabí)

The evolution of the growth in branches between 1997 and 2009 is illustrated in the following table, where one can appreciate the start of the expansion process from 2001.



	1997	2001	2003	2007	2008	2009
Branches	Isla Trinitaria	Paraiso	Suburbio	Orquídeas, Duran, La Libertad, Machala and Quevedo	Guasmo, Portoviejo and Manta	El Fortín, Milagro and Playas

It is important to stress that the process of opening new branches has remained in line with D-MIRO’s social performance strategy during the entire growth and transformation process. In fact, the selection of those sectors is based on poverty levels defined by the Instituto de Censos y Estadísticas del Ecuador and on diagnostics conducted by Misión Alianza of Norway.

The sixth aspect that will be analyzed refers to product offer. In fact, eventual deviations from the market niche are reflected by modifications in the conditions of the services and products offered, for example, in the amounts disbursed, collateral required or term.

1.7 Offer of Products and Services

The evolution of D-MIRO portfolio of products presents different stages that represent a continuation:

	1997	2000	2003	2007	2008	2009
Products	Individual for enterprise	Village banks, Solidarity Groups	Home improvement	VIDA	Schooling parallel, health parallel	CREER

- The first loans were disbursed in October 1997: it was an individual product with fortnightly payments.
- In 1998, the loan was complemented by medical support as a service to the population where Misión Alianza operated, offering talks on matters such as malnutrition and dermatitis.

MicroFinanza Rating

- In the subsequent years, the niche attended by DOMIRO is consolidated around microentrepreneurs dedicated mainly to commerce, handcraft workshops and service enterprises.
- In 2000, following a specialized training course with the Foundation's sister program in Bolivia, group loans are launched.
- In 2003, a loan product aimed at home improvement is launched.
- In 2007 and 2009, products for clients with HIV (VIDA) and disabled clients (CREER) respectively are launched.
- As of 2010, D-MIRO already had 4 types of individual products: Individual (59,9%), home improvement (37,7%), parallel Schooling (1%) and parallel health (0,15%), with amounts starting at around US\$ 100 and going up to US\$ 7.000 depending on the product, with the lowest being for schooling and health loans. Additionally, they started to offer group loans through Solidarity Groups (0,9%) and Village Banks (0,4%), with average loan sizes of US\$ 113 and US\$ 181 respectively.
- It is important to mention that, D-MIRO was requesting a "guarantee fund" to clients together with the loan: this was a percentage of the loan that would represent a guarantee in the case the client failed to pay, which was returned at the end of the cycle. As will be analyzed in the following chapters, it is important to note that this guarantee fund mechanism was highly appreciated by the clients, who would perceive it as a saving, a small reserve fund in the case of problems and, in any case, support in the payment of the last installment of the loan.
- As shown in the table, over the years, D-MIRO has created and launched different types of products.
However, these products have been adapted to different market niches (microenterprise and consumption), creating sub-products for the individual loan:
 - Enterprise
 - Employee: Home Improvement, Consumption, Schooling and Health
 - Home Improvement
 - Health
 - Preferential
 - Schooling
- **Group products are in stand-by:** at the moment, D-MIRO is evaluating them in order to reactivate them. Special loans directed to the disabled (CREER), and clients with HIV (VIDA) are still being offered, while the **SEED loan** for people of very low economic resources is in a pilot phase.
- Although D-MIRO was already offering payment protection and life insurance, they have introduced a compulsory health insurance with every loan, calculated as a percentage of the loan.

The transformation to bank has generated certain changes, allowing the institution to extend some of the loan's conditions (especially amounts and terms), to be able to "accompany" clients in more advanced loan cycles.

Nevertheless, Banco D-MIRO still offers loans to clients in the microenterprise sector, who are usually located in sectors excluded from traditional financial services. The loans are destined to work capital, acquisition of fixed assets, improvement of the home's or enterprise's premises, schooling and health expenses. As mentioned earlier, Banco D-MIRO operates through individual methodology, however, there is also the limited participation of loan products under **group methodologies** that facilitate access to people without real guarantees, guaranteeing each other mutually; although the bank is not offering these group products at the moment, it is planning to begin offering these products again. There is also a product destined to finance **new business ventures**, on the condition that the clients' parents have a production, commercial or service activity that can cover the loan's installments.

On the other hand, D-MIRO **offers consumption products** (smaller loans to people with fixed income), although to a lesser extent, which include specific products such as home improvement, employee

consumption, education consumption and health consumption. The interest rates for these are at around 15%. The institution plans on maintaining the limited participation of these types of products in the portfolio (around 3% of total portfolio).

Currently, the bank offers 21 products that differ in their conditions such as amounts, terms, guarantees and end users; **it is important to note that the conditions of certain products overlap with others, indicating spaces for improvement in that these products could be consolidated for a more efficient communication and sale strategy.**

In 2012, the **Recharge loan** was launched for clients with good credit history and payment behavior, with the aim of promoting the loyalty of good clients. Also, D-MIRO is currently configuring the conditions of the SEED product in the system, while a product for SMEs as well as credit lines are being evaluated for a possible launch in 2013.

The products are offered with amounts starting at US\$ 80 (Microcredit solidarity groups) up to US\$ 20 thousand (Individual preferential microcredit and Special CREER microcredit), with monthly repayment of capital and interest. The maximum term is 36 months.

Guarantees: According to the credit policies, personal guarantees are required for loans up to US\$ 10.500; pledges for loans between US\$ 10.501 and US\$ 15.500 and mortgage deeds for loans between US\$ 15.501 and US\$ 20.000.

Savings: Banco D-MIRO developed the savings account product which is being offered in all its branches. Currently, the bank is planning on developing fixed-term deposits, for a different type of clientele.

Other services: Currently, the Bank offers to its clients, through qualified companies, micro life insurance, payment protection insurance and medical consultations, whose costs are assumed by the client. Banco D-MIRO has signed agreements with the Banco del Pacífico for the collection of basic services charges, with the Central Bank of Ecuador to provide the payment service of the subsidy “Bono de Desarrollo Humano”, and with the Banco Internacional for the usage of their cash dispenser network; all these previously mentioned alliances will offer better services to clients.

According to the Bank’s current policies, the client has a defined socio-economic profile: owner of a small-scale production, commercialization or service activity, while the loan’s main repayment source is adequately verified and comes from income related to the productive and/or commercialization activity or other concepts that annually generate income that, individually or as a household, are less than US\$ 100.000 and whose total indebtedness level directly with D-MIRO does not exceed US\$ 20.000.

In general, D-MIRO has maintained its focus towards the microenterprise niche over the years, although this was achieved primarily through the identification of certain intervention zones rather than a specific socio-economic profile. In fact, with the transformation to bank, a notable aspect that emerges is the increase in the loans’ amounts and terms, although this also reflects the need of the financial institution to reach expand its portfolio and reach higher economies of scale in order to continue funding smaller loans.

In this respect, some aspects that could be ameliorated include:

- **Structure an improved definition of the client’s socio-economic profile**, especially of the level of marginalization in terms of poverty, lack of collateral and guidance, race, gender, and **defining disbursement goals by loan product type** aimed at different segments (**CHALLENGE 6**);
- **Simplify the structure of the products portfolio in order to provide clients with more clarity on the offer and conditions** (**CHALLENGE 7**);
- **Clarify the costs and benefits of additional services, such as for example micro-insurance** (**CHALLENGE 8**); as will be analyzed in the following chapters, many clients do not fully understand how the insurance works, and various complaints were registered during the focus groups.

The last aspect to consider in this historical review of social performance is the evolution of operational and financial performance over the years. In fact, social performance is not incompatible with and financial performance, but rather both should be considered a reflection of the same activity.

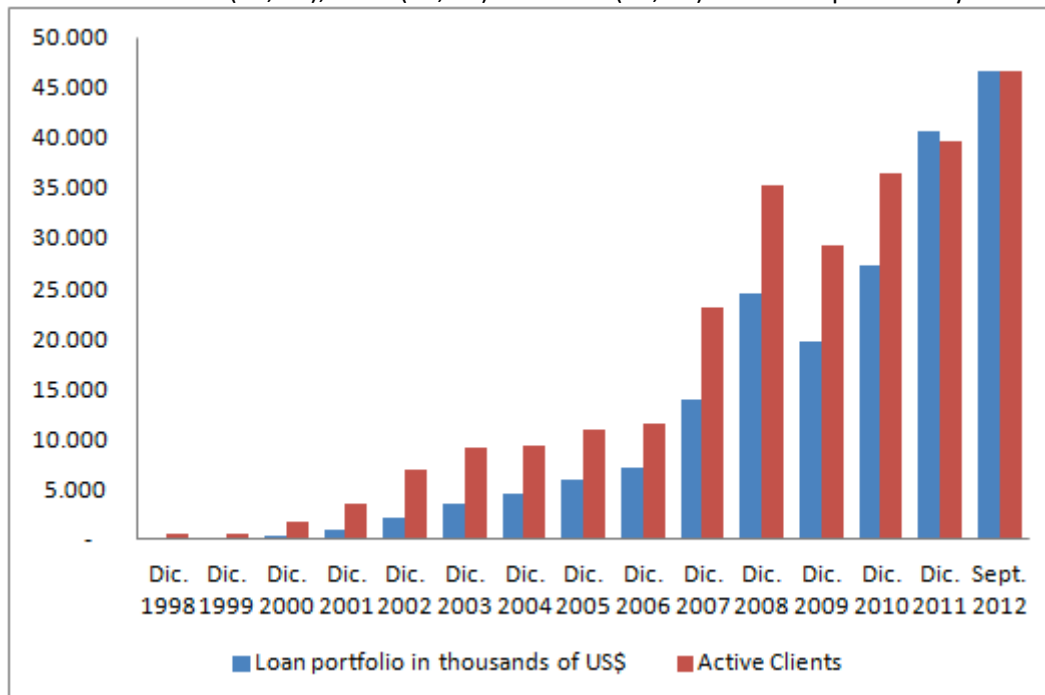
1.8 Operational and Financial Performance

Portfolio and Borrowers:

The first aspect in analyzing D-MIRO’s operational and financial performance is the loan portfolio and the borrowers.

The graph below is a summary of D-MIRO’s performance since the start of the program. Although, the program only manages to end with 98 active clients in its first year, the portfolio registers a constant growth in its portfolio after the first two years of operations (from 1999) and, in certain years, very aggressive growth rates.

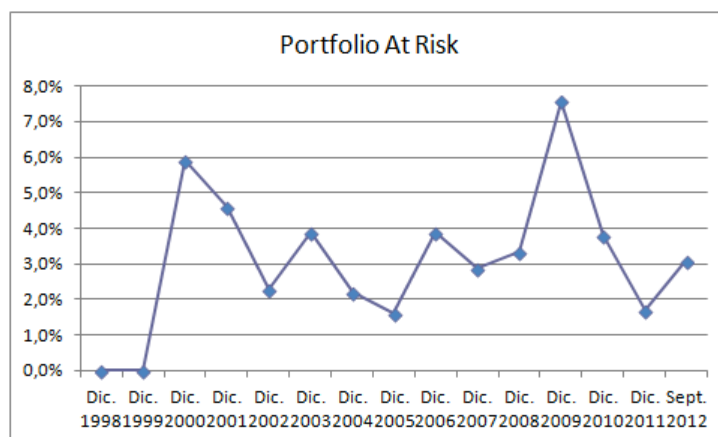
The growth rates of 2007 (97,1%), 2008 (74,8%) and 2011 (48,6%) stand out particularly.



It is important to consider that the portfolio growth rates reflect the market’s and clients’ positive response, reflecting the fact that, over the years, D-MIRO was able to find a market and a way to respond successfully to unsatisfied needs, growing not only in new clients, but also retaining older clients.

Portfolio Quality

An indicator that directly reflects whether the services offered met the clients’ needs is the quality of the portfolio, which indicates how well the client managed his situation through a loan that he was able to repay on time. An analysis of portfolio quality through one of the most relevant indicators, the portfolio at risk over 1 day, reveals that D-MIRO registered an adequate portfolio quality in almost all the period of analysis, reflecting the offer of a service in line with the client’s



MicroFinanza Rating

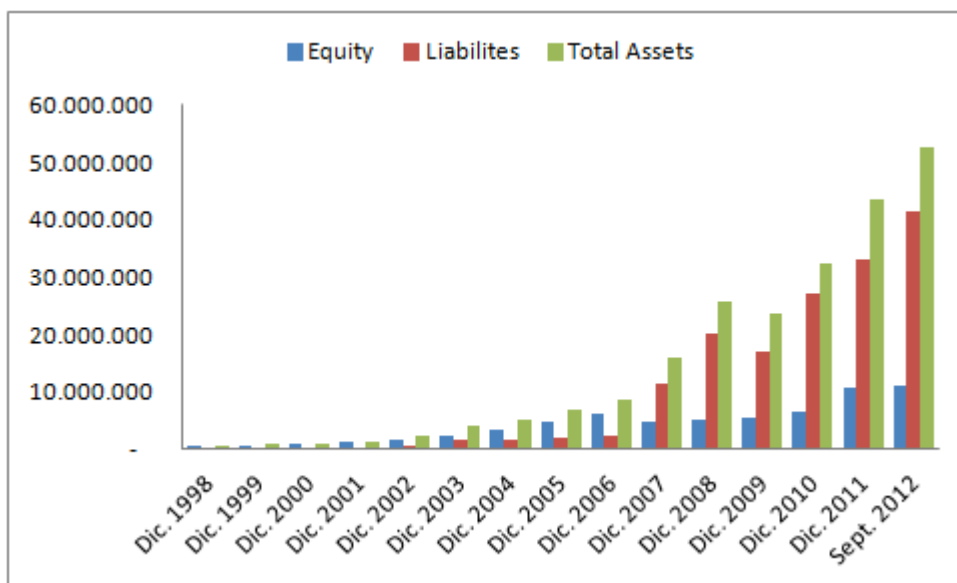
needs.

An interesting aspect to consider is that the periods in which the portfolio at risk indicator registered higher levels than normal were moments of higher growth rates (especially in 2009), reflecting the periods of institutional crisis.

Assets, Equity and Funding

The processes of assets growth, capital strengthening and access to external funding, immediately reflect D-MIRO's great institutional development process.

In 2007, the microcredit program depended completely on donations from Norway, registering very limited total assets (US\$ 137.000) and without access to external funding sources: as of 1997, total liabilities were only US\$ 5.000.



From 2002, the foundation started leveraging its equity, accessing to external funding sources: in 2002, Fundación D-MIRO recorded liabilities of US\$ 572.000. Between 2002 and September 2012, D-MIRO undertook a path of constant institutional growth, in assets as well as equity, achieved through elevated levels of capitalization of profits. As of September 2012, Banco D-MIRO registers assets of US\$ 52,5 million, equity of US\$ 11 million and liabilities of US\$ 41,5 million.

It is important to mention that D-MIRO was able to maintain prudential levels of financial leverage in all the periods of analysis. Although it reached the highest level of financial leverage of its history in 2010 (debt-to-equity ratio of 4,1 times), the transformation to bank allowed it to increase its level of solvency, closing September 2012 with a debt-to-equity ratio of 3,8 times, a very prudential level for a bank.

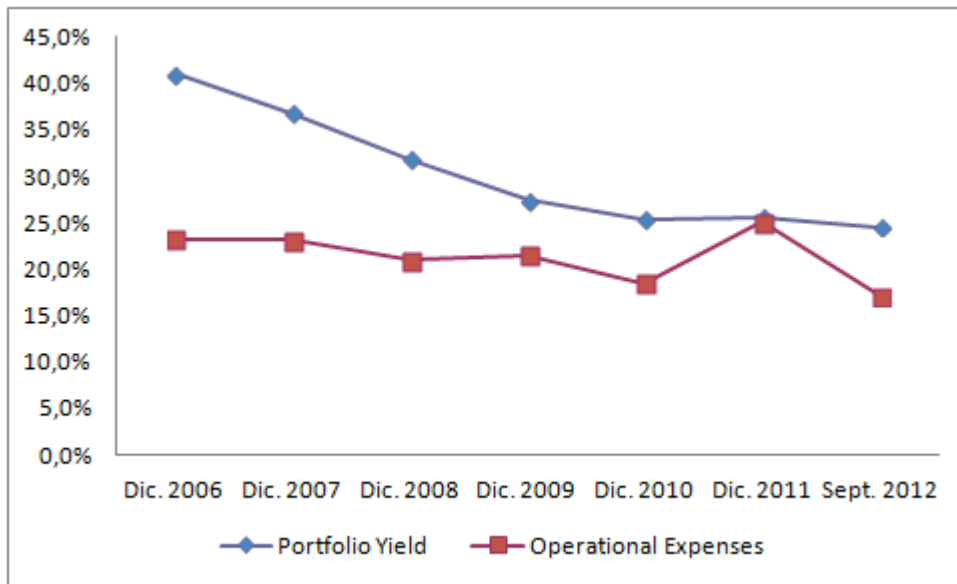
Operational Expenses and Portfolio Yield (Effective interest rate)

With respect to the evolution of institutional efficiency, operational expenses (operational expenses in the period over average gross portfolio) were analyzed from 2006, revealing important improvements in efficiency level in almost all the periods of analysis. In fact, D-MIRO registered an operational expenses ratio² of 23,3% in 2006, compared to 17,1% in the October 2011 - September 2012 period. On the other hand, it is important to indicate that the indicator is distorted in 2011, due to the process of transformation to bank, which has affected the indicator in the short term.

The same tendency can be seen with the portfolio yield³, which registers a constant tendency to decrease, reflecting D-MIRO's commitment to offer the best possible service (lowest cost), given its level of efficiency.

² The operational expenses ratio does not include financial expenses.

³ The portfolio yield only includes portfolio income (does not include other financial income or other income).



The portfolio yield was lowered from 41% in 2006 to 24,5% in the period October 2011-September 2012.

2. Outreach

2.1 Areas of operation

The amplitude of D-MIRO's geographic outreach is limited, with presence in 5 of Ecuador's 24 provinces, concentrated mainly in the province of Guayas with 67% of clients and 67% of active portfolio; followed by the province of Manabí with 12% of clients and 13% of active portfolio. The remaining branches register less than 10% in clients and active portfolio, while all are located in Ecuador's Coastal region.

The depth of D-MIRO's outreach is adequate and aligned to its mission, considering that 67% of the clients and active portfolio is concentrated in the province of Guayas, which registers by slightly lower poverty levels than the national poverty level; nevertheless, it is important to stress that D-MIRO operates in peri-urban areas characterized by a more limited access to basic services, as well as limited levels of development and offer of financial services; in certain areas, D-MIRO is the only financial institution with physical presence. The province of Manabí presents higher levels of poverty (53%) than the national average; in this province, D-MIRO registers 12% of its clients and 13% of its portfolio, with a tendency to increase in relation to previous periods⁴.

Regions of operation	Poverty ¹	UBN ²	D-Miro ³	
			Active clients	Outstanding portfolio
El Oro	28%	36%	5%	6%
Guayas	35%	44%	67%	67%
Los Ríos	49%	72%	8%	7%
Manabí	53%	63%	12%	13%
Santa Elena	na	na	8%	7%
Zone				
Urban	25%	25%	100%	100%
Rural	62%	82%	0%	0%
Ecuador	38%	46%	100%	100%

Source INEC 2006, Encuesta de Condiciones de Vida.

¹ Poverty: percentage of population living under the national poverty line

² UBN: percentage of population with Unsatisfied Basic Needs

³ Data as of September 2012.

na: not available

2.2 Clients reached

As of September 2012, the amplitude of D-MIRO's outreach is intermediate, with 44.721 active borrowers and an active portfolio of US\$ 47 million. As mentioned earlier, the institution presents good historic growth levels, reaching 23,1% in clients and 34,1% in portfolio in the October 2011 – September 2012 period, although slightly lower than previous periods (portfolio growth of 48,6% in 2011) as a result of the transformation and organization of the new bank.

The following analysis is based on the surveys conducted by MicroFinanza Rating, as well as on D-MIRO's client database. With respect to the information system, it is important to note that, although it includes many variables – including social indicators – there are rooms for improvement in the handling of the information, considering that the information could be cleaned, while the data input fields should be customized and compulsory, increasing its the reliability and precision, such as to ensure that the information recollected can really support future strategic analysis. (CHALLENGE 9)

2.3 Social vulnerability and profile of households

In general, the socio-economic profile of the households served by D-MIRO present a **limited vulnerability**. As of September 2012, D-MIRO's clients are **59% women and 41% men**, with 42,8% of clients single, 28,9% married and 22,1% in cohabitation.

The **clients' average age** is 40,7 years, with 1,2% under 20 years, 19,8% between 21-30 years, 30% between 31-40 years, 27,7% between 41-50 years, 16,7% between 51-60 years and 4,6% are over 60 years.

According to the survey, D-MIRO's clients have an average of 4,3 members in their household, while the **average number of dependents in the household is 1,6**; 30% have 0 dependents, 58% have between 1 and

⁴ As of September 2011, the clients represented 10,1% of the total.

3 dependents and 12% have more than 3 dependents. Also, 77% of the clients surveyed are head of their household.

The clients declare having an average of 1,3 fixed sources of income in the household.

The **educational level** of the clients and the attendance of minors to educational institutions are good. In fact, only 2% of the clients have not completed primary education, while 31% have completed primary education, 63% have completed

Social vulnerability	D-Miro
Clients head of household	77%
Clients without completed primary education	2%
Household members in age 6-12 attending school	91%
Household members in age 13-17 attending school	90%
No. of household members	4,3
No. of fixed sources of household income	1,3
Female clients	59%
Female clients with full control over the loan	80%

secondary education and 4% have completed higher education. Additionally, 91% of the households' 6 to 12 year old members and 90% of the households' 13 to 17 year old members attend school.

2.4 Financed activities

D-MIRO offers products especially aimed at microentrepreneurs through its individual methodology. The activities financed by D-MIRO are aligned with its target client, financing microentrepreneurs of limited economic resources. As of September 2012, the institution registers a concentration of 98% of its portfolio in microcredit, while consumption registers 2% of total portfolio and a tendency to decrease. Up-to-date data on the clients' specific activities is unavailable, although according to information provided by the institution, most of the portfolio finances productive activities, with 78% corresponding to fixed enterprises and 18% to street vendors⁵.

It is worth mentioning that, based on the survey, **83% of the clients invested their loan into their enterprise**. The financed enterprises have an **average of 1,46 employees**.

2.5 Home and assets

In relation to the **property and characteristics of the home**, the survey indicates that 86% of the clients are home owners. Furthermore, 18% of the households do not have suitable sources of water⁶ and 24% do not have suitable sanitation⁷, while all the surveyed households have electricity in their home. It is worth mentioning that 58% of the clients indicate that they have been in their current residence for more than 10 years.

Due to D-MIRO's methodology, 100% of the clients were given their loan through **personal guarantees**, confirming the institution's objective to serve populations of limited economic resources and without requiring real guarantees.

Since its transformation into bank, D-MIRO can offer **savings** services; the survey's results suggest that 32% of the clients do not have a current or savings account. It is important to indicate that D-MIRO requires its clients to open a savings account in order to receive a loan; as of September 2012, the institution has 10.346 savings accounts with an average balance of US\$ 96.

2.6 Access to financial services

The survey suggests that most of D-MIRO's clients are **exclusive**: 52% of the clients previously never had access to formal loans, showing an adequate result in terms of access to banking services by the institution. On the other hand, 80% of the clients declare not having a debit or credit card. Moreover, 70% of D-MIRO's clients do not have additional loans, while 24% have additional loans with banks or other financial institutions, 5% with NGOs or credit unions and 1% with informal moneylenders, family or friends. Another interesting result is that 10% of the clients stopped and 1% started taking loans with informal moneylenders respectively.

Also, 18% of the clients affirm having used loans to pay other debts in the past.

⁵ No information is available for the 4%.

⁶ Households with adequate sources of water refer to households that have a pipe network.

⁷ Households with adequate sources of water refer to households with sewers or septic tank.

2.7 Loan size

The size of D-MIRO's loans is adequate and competitive, as well as aligned to the needs of new clients. As of September 2012, the average outstanding loan balance is US\$ 1.095, which represents 36% of GBO per capita, while the average loan disbursed in the October 2011 – September 2012 period is US\$ 1.829.

Loan size	sep-12
Promedio de préstamo vigente	1.025
Average balance per borrower / GNI pc	36%
Average disbursed loan amount,	1.829
Crecimiento anual en el saldo de préstamo promedio, último año	13%

On the other hand, it is important to mention that the average loan disbursed registers a strong increase over the last years. In fact, the average loan disbursed by D-MIRO was US\$ 811 in 2007, US\$ 912 in 2008 and US\$ 912 in 2009, while its growth rate increase significantly in the following years: US\$ 1.100 in 2010, US\$ 1.529 in 2011 and US\$ 1.829 in the October 2011 – September 2012 period.

If on one hand, this increase reflects D-MIRO strategy to transform into a bank and better meet its clients' needs, including through products of larger amounts, on the other hand, **it is important to define a clear strategy for its product offer, projecting growth in portfolio, clients and average amount (CHALLENGE 10) in order to avoid deviating from the mission and ending up only offering services with higher amounts.**

D-MIRO offers loan products starting at around US\$ 80 for solidarity groups, US\$ 200 for individual loans and US\$ 10.000 for microcredit of enhanced reproduction, while maximum amounts are around US\$ 20.000.

2.8 Economic poverty

A comparison with the national average suggests that the poverty levels of **D-MIRO's new clients** are aligned to its institutional mission; in fact, the PPI that the institution systematically applies to all new clients shows that, as of September 2012, 21,3% of its clients lay below the national poverty line. Although these results indicate a lower poverty level than the national average (33%), they reflect a **very good level of depth in its outreach.**

Access to financial services	D-Miro
Clients without previous access to formal credit*	52%
Clients without additional credit	70%
Clients who stopped borrowing from moneylenders	10%
Clients who started borrowing from moneylenders	1%
Clients without current / savings account	32%
Clients without credit/debit card	80%
Previous access to credit	
None	44%
Moneylenders, providers, family, friends	8%
NGOs, cooperatives, credit and saving associations	11%
Banks and regulated financial institutions	38%

Households of recent clients. See annex 1. *Includes: None, Moneylenders

3. Quality of service

3.1 Variety of the service

The institution offers an **intermediate range of financial services**. As previously mentioned, D-MIRO has been developing different credit products according to what is allowed under its legal form, demonstrating a good ability to design products and distribution channels according to the target population's characteristics. The legal transformation into bank in the middle of 2011 opened the possibility to offer clients the savings service, reason why the demand deposit product was introduced and the institution is currently working on the implementation of the term deposit (TD) product. There is space for the design of fixed-term savings products directed to specific segments of the target population, such as senior citizens, children, and families of migrants (**CHALLENGE 11**).

D-MIRO Bank currently offers an **adequate range of credit products**, aimed at financing commercial micro-enterprises (90% of total portfolio as of September 2012) and, to a lesser extent, home improvement necessities (7%), consumption (2%), education (0,2%) and health (0,1%), **mainly through individual credit methodology**. Although D-MIRO previously offered access to credit through solidarity groups' methodology (2000 – 2011 period) and village banking (2007 - 2009), with the aim of deepening the outreach of sectors excluded by formal credit, it was decided to remove these products due to default problems, and put under revision the group methodology. Additionally, is important to note that in the last years individual credit sub-products were introduced, in order to specifically address the most vulnerable segments (CREER for disabled persons, which represents 0,6% of portfolio as of September 2012 and VIDA for people affected by HIV, which reaches 0,2% as of September 2012). The institution also offers the possibility of accessing financing for new business ventures and parallel emergency loans, which represent an important advantage for the most vulnerable sectors. On the other hand, as previously mentioned, there is room for improvement in structuring products portfolio, contributing to a clear and effective communication of products' offer and conditions, allowing clients to select the most suitable product (**CHALLENGE 7**).

As a result of the transformation into a bank, the institution has widened also the offer of other financial services, currently displaying **life micro-insurance, payment protection insurance and health micro-insurance**, as well as payments services at national level. There is the potential for designing and offering (together with insurance companies) **new micro-insurance products addressing even more specific necessities of sectors exposed to events** such as floods, assaults and robberies, in addition to services for sending and receiving remittances from foreign countries and online transfers for target clients with different socio-economic profile, who could be served by the bank (**CHALLENGE 12**). In line with the objective of fostering the development of the most vulnerable sectors, there is **space for potentially offering complementary non-financial services such as financial education and entrepreneurial training**, leveraging on the experience and knowledge developed by D-MIRO or in alliance with other specialized entities (**CHALLENGE 13**).

3.2 Adequacy of the service

In general terms, **the conditions of the credit products offered by D-MIRO Bank are aligned to the different target populations' financial necessities and are delivered with agility and personalized customer care**, which is reflected in the institution's positive growth, the adequate portfolio's quality and the positive results in the surveys and focus groups conducted. It is worth specifying that surveys were conducted on two different groups of clients: borrowers in their first credit cycle with D-MIRO Bank and borrowers with more than 5 loan cycles with the institution and a long trajectory as clients of D-MIRO Foundation, in order to observe the evolution of service as perceived by the client. In general, a **lower level of satisfaction is declared by clients in their first loan cycle with respect to the characteristics of the loans**, partly due to the growth of credit offer to the sectors attended by D-MIRO, and partly to the higher level of formalization required by the regulation.



- D-MIRO enjoys an **adequate distribution network for its services**, and D-MIRO Bank currently has a headquarters and agency based in Isla Trinitaria and 13 branches in 5 provinces, which guarantee ease of access to the most venerable segments. Indeed, **61% of surveyed clients consider as “very good” the location of offices and 31% as “good”** (respectively 65% and 29% of senior clients), and on the basis of a study conducted in 2008⁸, client’s mobilization time towards and from the branch ranges from 14 minutes in Suburbio agency with a transaction cost of US\$ 0,57, to 35 minutes in La Libertad with a transaction cost of US\$ 0,98, thing that confirms the proximity of the institution to the peripheral-urban sectors of the Ecuadorian coast. Furthermore, clients recognize during focus groups discussions the advantage of receiving loans directly on their saving accounts at D-MIRO Bank; and additionally agreements were signed with Banco del Pacifico for the payment of basic services, with BCE for the payment of the subsidy “Bono de Desarrollo Humano” and with Banco Internacional for the use of ATM network’s services, which will contribute to bring a better service to clients. The installment payments are made in the bank’s offices and cash payments to loan officers on site are not allowed, with the aim of avoiding the risk of assault and robbery.

⁸ RVS Foundation, Consultancy on the Optimization of Client Service Systems, May 2008.

- In terms of **agility of the procedures to access credit**, even if during focus groups clients underline an increase in requirements and lower flexibility after the transformation into bank, the documents asked are basic and reachable by target client, generally excluded by the formal financial system, which is reflected by a **56% of surveyed clients who consider as “very good” the agility of procedures**, even if below the 62% of senior clients surveyed. In terms of **timing for loans’ disbursement**, it takes an average 48 hours from the moment of the application, which constitutes a competitive advantage, although in focus groups some cases of delays up till 2 weeks emerged, mainly related to the rotation of loan officers.
- The **guarantees** required by the institution are **aligned to the strategy of reaching the most vulnerable sectors** of the Ecuadorian cost’s peripheral-urban zones given that, as of September 2012, 94% of portfolio is constituted by loans of an amount below US\$ 10.000, with the requirement of a guarantor, while only 6% of portfolio is backed by pledges. Additionally, the Foundation offered the possibility of accessing credit under the group methodology and village banking with solidarity guarantee (1,3% of portfolio as of December 2010), which resulted only partially adaptable to the characteristics of the served sectors, reason why D-MIRO Bank is currently revising the group methodology. It’s worth noting that before the transformation into a bank the institution used to require a **“guarantee fund”** as a percentage of credit backing the loan and used to cover the last installment, which was considered as very valuable as a form of saving in the focus groups and **emphasizes clients’ potential demand for planned savings products in response to specific necessities (CHALLENGE 11)**.
- The minimum **amount of credit and savings** policy doesn’t constitute an entry barrier for the target client; as of September 2012 65,8% of clients have a loan of an amount up to US\$ 2.000 and 22,9% of an amount lower than US\$ 1.000, with is in line with target client’s necessities. On the other hand, the maximum amount disbursed is currently US\$ 20.000, which will be subject to revision considering the possible widening of target population and the intention to develop a credit product for SMEs. The opinion of 88% of surveyed clients **on the amount disbursed is ‘good’ (51%) or “very good” (38%)**, slightly below the satisfaction level expressed by senior respondents (45% respectively). Gradual loans of superior amount are offered through the process of “novación”.
- The **terms policy** foresees a maximum term of 36 months, even if 90,4% of portfolio as of September 2012 was contracted up to 24 months and the higher average term is offered for the consumption product. The **frequency of payment** of capital and interest is monthly for all the products, which is considered as adequate given that the majority of clients has a commercial activity (78,4% of portfolio is destined to the commercial sector as of June 2011). Clients in focus groups and in the realized survey expressed their conformity with the amortization plan, with **85% of recent clients giving an opinion within ‘good’ and “very good”**, slightly below the 88% of senior respondents. At the moment **no grace period is offered in case of contingency events**, however there is the possibility of restructuring credit in exceptional cases and in accordance to what is established by the control organism. On the basis of what is indicated in the Consumer protection law (“Ley orgánica de defensa del consumidor”), the institution allows the anticipated partial or total payment of loan with discounted interest, even if focus groups evidenced a limited knowledge by clients of this possibility.
- The **cost of credit** applied by D-MIRO Bank is constituted by the nominal interest rate, payment protection and life insurances, which are mandatory and payable in the installments, in addition to health insurance, increasing the actual interest rate and the complexity of costs’ structure (**CHALLENGE 8**). In conformity with the limits established by the BCE and below the level of regulated competitor institutions, D-MIRO applies an average interest rate around 25,6% for micro-credit, 15,2% for consumption and housing, and a **preferential interest rate of 15,9% for VIDA and CREER products, confirming the alignment to the institutional mission**. 74% of surveyed clients give an opinion within ‘acceptable’ and ‘good’ on the price of credit offered by D-MIRO Bank, in line with the 76% of senior clients.
- **The customer care by personnel**, in particular of loan officers, represents a strength for the institution, reflected by an excellent satisfaction level in the realized survey (highest score, with a 71% of new

clients and 61% of senior ones who evaluate it as “very good”). **Clients’ drop out ratio**⁹ registered in 2011 reaches an intermediate level around 22%, even if it shows a decreasing trend in the last three years; despite the product “Recarga” for loyal clients, this maintains the same conditions of normal credit, **showing room for the development of loyalty policies for clients with good credit history including preferential credit policies (CHALLENGE 14)**, which is an aspect that emerges also in focus groups.

- Regarding saving products, the **saving current account presents basic requirements for its opening and it doesn’t have minimum amount, in line with target client’s characteristic**, additionally it generates a passive interest rate of 3%, above other banks that operate in the same zone. On the side, the design and implementation of planned term saving products adequate to the target population’s necessities represents an important challenge and opportunity **(CHALLENGE 9)**.
- The **payment protection insurance** covers the capital balance in case of debtor’s death, while the institution exempts interest. On the other side, the client signs the authorization for the payment of premiums for life insurance and medical appointments insurance, offered in collaboration con the companies Equivida and H.M.O Systems; even if this can address target population’s necessities, it has raised **various complaints during focus groups, basically originated by the limited communication of benefits and conditions of the service (CHALLENGE 8)**.

3.3 Client’s protection system

The institution has been gradually building an **adequate client’s protection system**, initially based on mission’s vocation, institutional values of the Foundation and on the continuous effort to adapt services to target client’s characteristics and necessities, and subsequently strengthened during the process of adaptation to the requirements of the regulation for banks. Indeed, in conformity with the law, D-MIRO Bank created a **Service Desk as the area responsible for customer care and counts on a Customer care Officer** specifically in charge of managing and solving complaints and claims; in July 2011 the Customer care Policies Manual was approved. However, in the analytical framework established by the SMART Campaign¹⁰, there is still **space for consolidating the client’s protection system in the view of the fulfillment of the principles and standards defined at international level for microfinance institutions (CHALLENGE 15)**.

- Regarding the system of **credit policies and mechanisms aimed at avoiding clients’ over indebtedness**, the institution developed an adequate credit methodology that foresees the verification of capacity and willingness of payment through a visit to client and an exhaustive financial analysis of business and family unit; in addition to this an exposure limit equal to 60% of disposables and an indebtedness limit of 200% is applied, while there is no formal policy for the maximum number of debts in the financial system. It’s worth noting that the credit bureau Equifax was consulted systematically, even if the last data available are the ones of August 2012, as a result of the juridical change that established the creation of a new public register of credit data. In consideration of the increasing level of competition by regulated and non-regulated institutions in the area of intervention of D-MIRO Bank, this aspect emphasizes the **need for continuous strengthening of policies against over indebtedness (CHALLENGE 16)**. If on one side a **revision and implementation of limits and prudential credit policies** is convenient, on the other side the **strengthening of loan officers’ skills related to financial analysis and precise methodology application continues to be very relevant, in addition to the systematic revision of productivity targets and incentives’ system with a gradual impact of default’s level**, currently focused on PAR1, **and contributing to a higher retention of field personnel**.
- In terms of **transparency in communication to clients**, the institution has adapted to the requirements established by the law, indicating the effective interest rate in the pricing documents

² The drop-out rate is calculated as follows: (number of active clients at the beginning of period + number of new clients + number of write-offs + number of active clients at the end of period) / number of active clients at the beginning of period

¹⁰ 7 principles of client’s protection and related standards and indicators

present in all branches and in the promissory notes signed by clients, however there is **space for improvement in the communication of the costs' structure in documents addressed to clients**, given that the credit disbursement sheet and the amortization table indicate the nominal interest rate but do not break down clearly the payment protection and life insurance costs. The client is given a "knowledge of policies" document signed by the same, while a copy of promissory note and insurance policy document is systematically not delivered. On the other hand, the skills of field personnel are evident in their ability to communicate to very vulnerable segments of population, even if there is still space for improvement for a better presentation of conditions and benefits of services offered to the client, through multiple channels and considering client's comprehension level (**CHALLENGES 7 & 8**).

- Regarding the system for guaranteeing a **fair and respectful treatment of clients**, the institution counts on an Ethic and Conduct Code that includes the institutional values and conduct standards expected by personnel towards society and clients and beneficiaries, including the avoidance of discrimination related to ethnicity, religion or economical conditions, and a customer care characterized by dignity and respect. On the other hand, **no specific guidelines on forbidden/not acceptable behavior, particularly during collection activities, were formalized, in order to be directed to internal or external personnel involved in collection practices (CHALLENGE 18)**, given that the internal unit for payments' collection and the related internal regulation and training are currently in the structuring phase. Even if the internal regulation includes a general sanctions' system, categories of fault and sanctions still have to be clearly defined in order to minimize cases of bad behavior towards clients identified by administration and internal auditors or through an efficient mechanism of denunciation (**CHALLENGE 18**).
- Regarding the implementation of **mechanisms for managing and solving complaints and claims**, D-MIRO channeled clients' complaints and suggestions through post-boxes in branches and through telephone line, however data on complaints and their resolution weren't stored systematically in order to generate statistics and improve processes. With the transformation into a bank and in conformity to the Consumer protection law, the institution appointed a Customer care Official and purchased the software for support and service to client SysAid in order to guarantee the effective resolution of complaints within the time limit of 15 days established by the law. In the same month of our visit 4 over 13 cases of complaint were related to external collection, others to changes in procedures due to the juridical transformation. Even if clients are informed about the possibility of complaining through leaflets in branches, **there is still space for improvement in the effective and systemic communication to clients about the opportunity and way of formulating a claim, thing that emerged in focus groups**.

4. Analysis of variations

The analysis of variations does not correspond to an analysis of impact nor does it contemplate an analysis of the attribution of this impact.

The main problem with conducting an impact evaluation is having a base line of the socio-economic profile with the possibility to update it in a following period. This information does not correspond to the declarations made by clients in their loan request forms, which are usually significantly distorted, subtracting their expenses from their income. This chapter will include, on one hand, an analysis of the variations in certain key variables declared by clients (declared income, declared expenses, amount of the loan disbursed, assets and estate declared), comparing the information from their loan request a few years previously to that from their latest loan request and, on the other hand, a comparison of the results of a representative survey conducted to new clients to those of one conducted to longstanding clients, in order to analyze the variations in their socio-economic profile. Please refer to Annex 1 for details relating to the data used in this chapter.

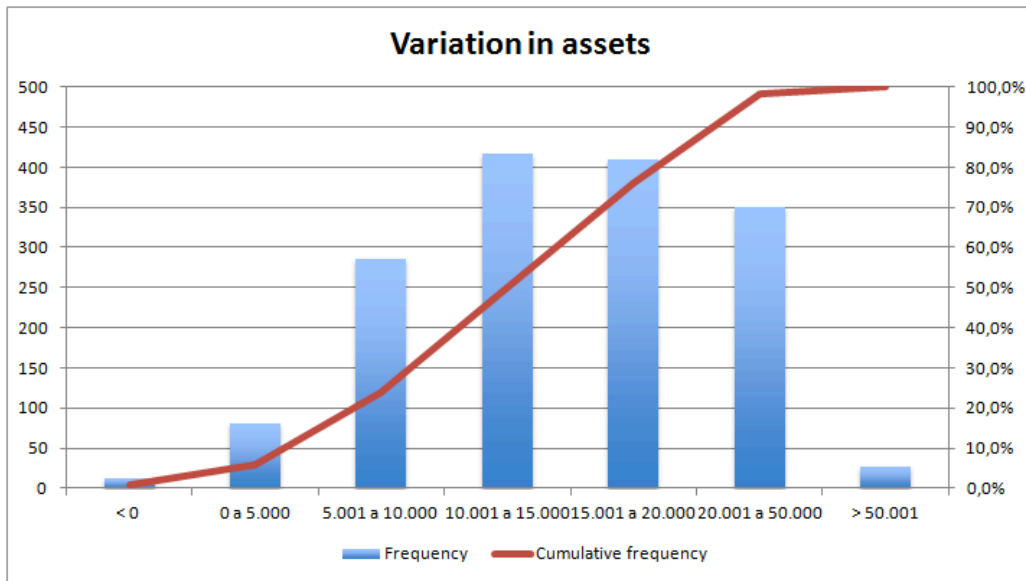
4.1 The database

The basis for the analysis of variations in financial aspects related to the clients is the database provided by Banco D-MIRO. The following analysis considers the variation in the clients' financial situation, comparing the information declared by the client during his first loan request, to the information declared by the client in his latest loan request, for which the database is comprised of recurring clients that have been active for various credit cycles: in this sense, it is important to present a first weakness with this analysis, which only concentrates on the successful cases of clients: all the clients that have been in arrears or could not regain access to D-MIRO's loans could obviously not be part of the database and thus have been omitted from the analysis of variations. Similarly, neither are included all the very successful cases of financial graduation which, especially during the first years of D-MIRO's microfinance program, was one of the main results and impacts: this analysis does not include the clients that, after one or more loan experiences with D-MIRO, were able to access larger loans in the formal financial system (to which Banco D-MIRO now also belongs). The database that will be analyzed consists of 1.576 borrowers, clients that were active at the time of our evaluation with a long trajectory with the institution (from 2 to 20 loan cycles): the database encompasses 3,4% of D-MIRO's total borrowers as of September 2012, through 11.804 loans with an average of 7,5 cycles.

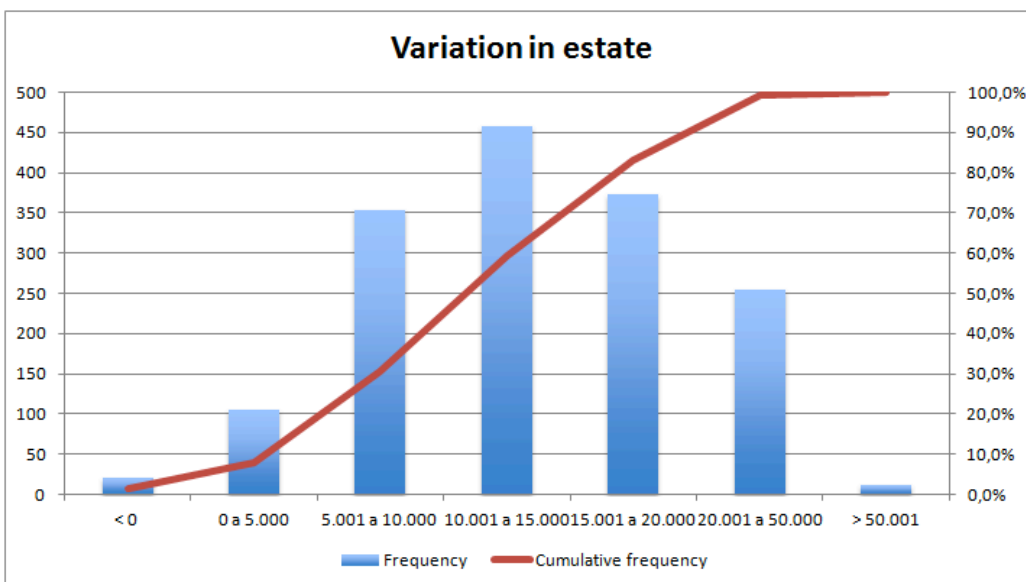
4.2 Results in the variations in financial aspects

In general, there is a very positive result in the clients' financial situation between their first and current loan cycle, with most clients increasing their assets and estate, as well as their income and net profit.

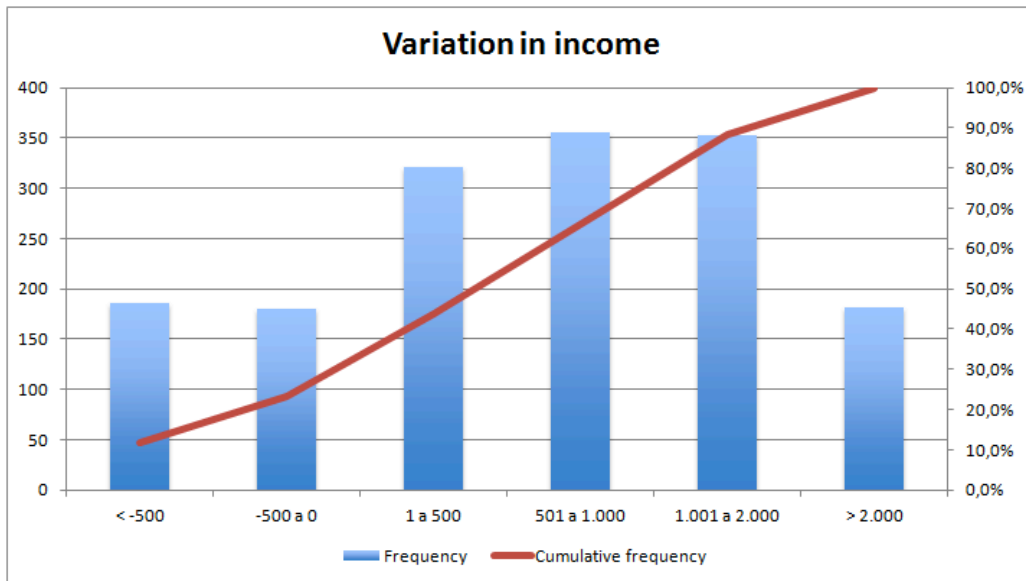
An analysis of the variation in total assets declared suggests that 99,2% of the sample's clients have increased their assets with respect to their first loan cycle with D-MIRO, with 52,4% registering an increase ranging from US\$ 10 thousand to US\$ 20 thousand. On average, the clients have expanded their assets by US\$ 16.411, representing an increase of 2.941% in relation to their initial assets.



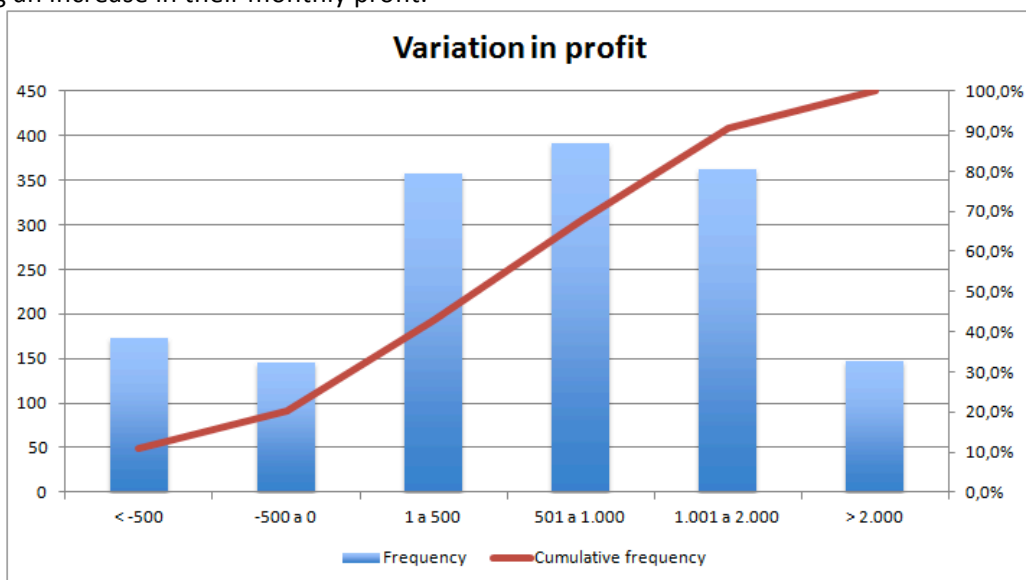
Similarly, 98,9% of clients have increased their **estate** compared to their first loan with D-MIRO, with 52,7% recording an increase ranging from US\$ 10 thousand and US\$ 20 thousand. On average, the clients present a rise in their estate of US\$ 14.373, representing an increase of 2.703% with respect to their original estate.



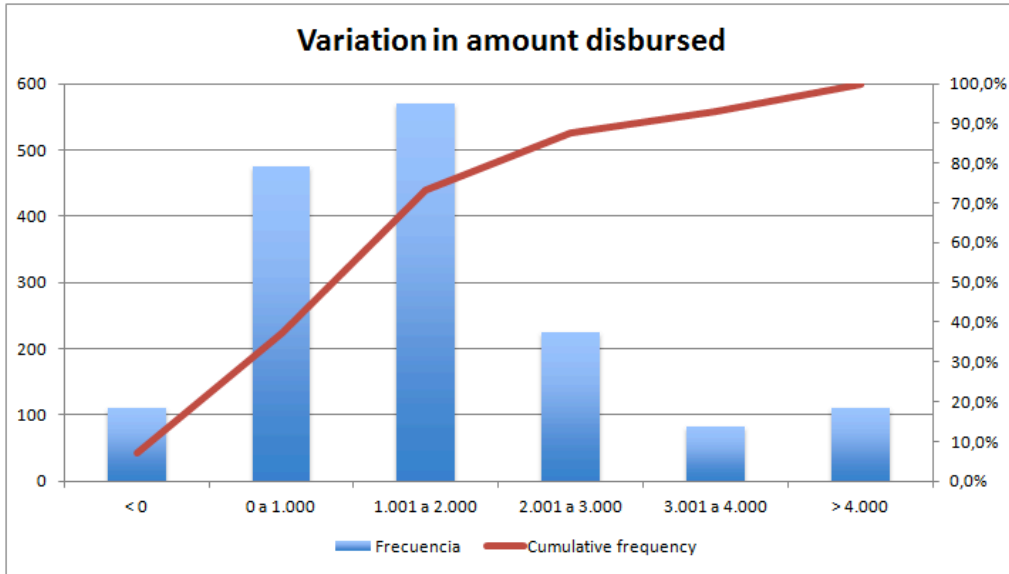
An analysis of the variation in **income** indicates that 76,8% of clients have improved their monthly income when compared to their first loan cycle, with 44,9% recording an increase ranging from US\$ 500 to US\$ 2 thousand. The average monthly income increase recorded with the clients is US\$ 707, representing an increase of 103% with respect to their original income.



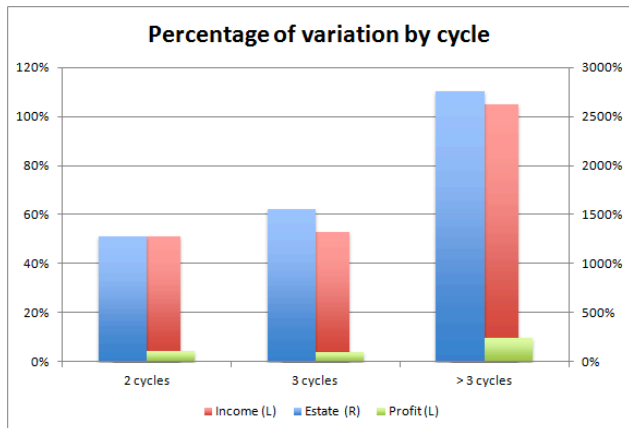
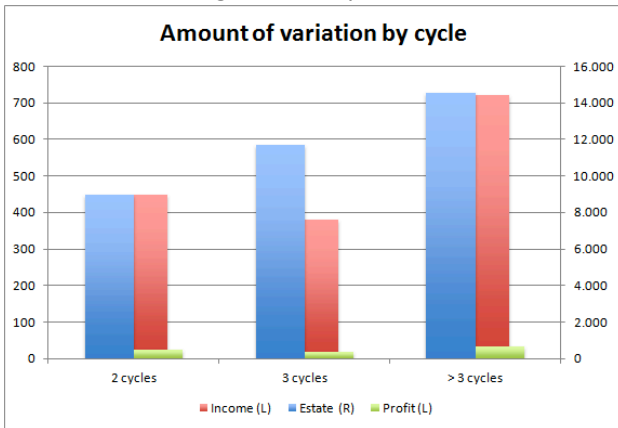
The variations in the clients’ **profit** (income minus expenditure) suggests a similar tendency, with 79,8% registering an increase in their monthly profit.



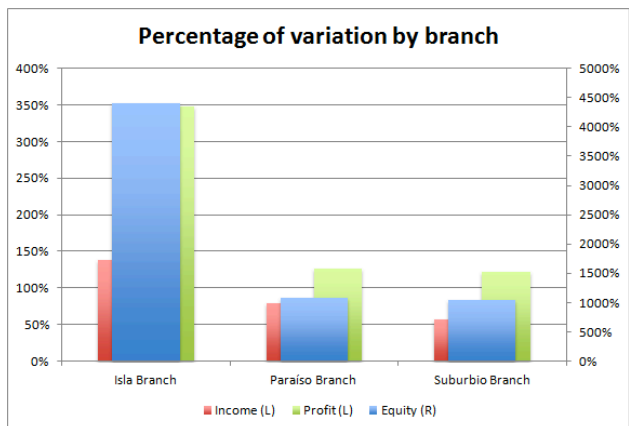
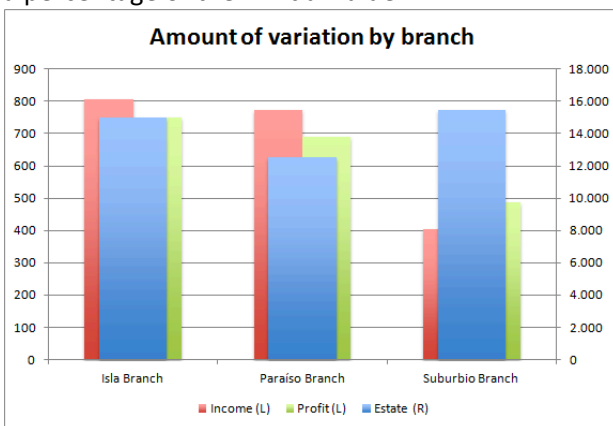
An additional indicator that has been analyzed is the variation in the **disbursed loan amount** between the first and current loan cycle. The results indicate that 93% of the sample’s clients have received a larger loan amount in their last loan with respect to their first one, mainly reflecting the increase in the clients’ ability to pay. On average, there is an increase in the disbursed loan amount of US\$ 1.588, which represents an increase of 253% with respect to the initial amount.



A more in-depth analysis of the variations points to a few additional results that are worth mentioning. An analysis **by cycle** indicates that clients with only two loan cycles with D-MIRO register the lower variations in estate, income and profit, followed by clients with three loan cycles. This result emerges in the analysis of the amount of variation as well as the percentage of variation. It is also important to note that, although the database provided by D-MIRO includes clients with up to 20 cycles, no relevant correlation could be found between higher loan cycles and variations in the variables considered.



An analysis **by branch** indicates more important variations in Isla Trinitaria compared to the other two branches in the sample (Paraíso and Suburbio). Although the results are not significant when considering variations in amount, very relevant results can be observed in the variations of estate, income and profit as a percentage of their initial value.



Summary of results:

- The increase in assets, estate, income and profit in DMIRO's clients' declared financial situation during their different loan requests reflect suggest that, over the years, while accessing to D-MIRO's loans, the borrowers have improved their financial situation: although it cannot be confirmed that this positive change is solely a result of D-MIRO's impact, some merit can surely be attributed to D-MIRO: during the focus groups conducted with longstanding clients, a high level of gratitude towards D-MIRO could be noted for its support over the years and for having offered a service in sectors where, a few years before, there was no possibility of accessing to financial services.
- The increase in the average disbursed loan reflects the fact that, although most of the data used in this chapter were declared by the clients in their loan request forms, D-MIRO also trusted in this information and these people through the disbursement of larger amounts, and that these loans were fully repaid: this data confirms the reliability of the information mentioned earlier.
- A very interesting analysis is that of the variations by cycle, which indicates that more important changes in the clients' financial situation occur with larger cycles, meaning that improvement in the clients' situation is reached through longer-term experiences with D-MIRO, that includes a few cycles with the institution.
- The analysis of the variations in the different branches, on the other hand, only confirms the reality, recording greater changes in D-MIRO's most historic branch, where most of the institution's work has been concentrated.

4.3 The survey

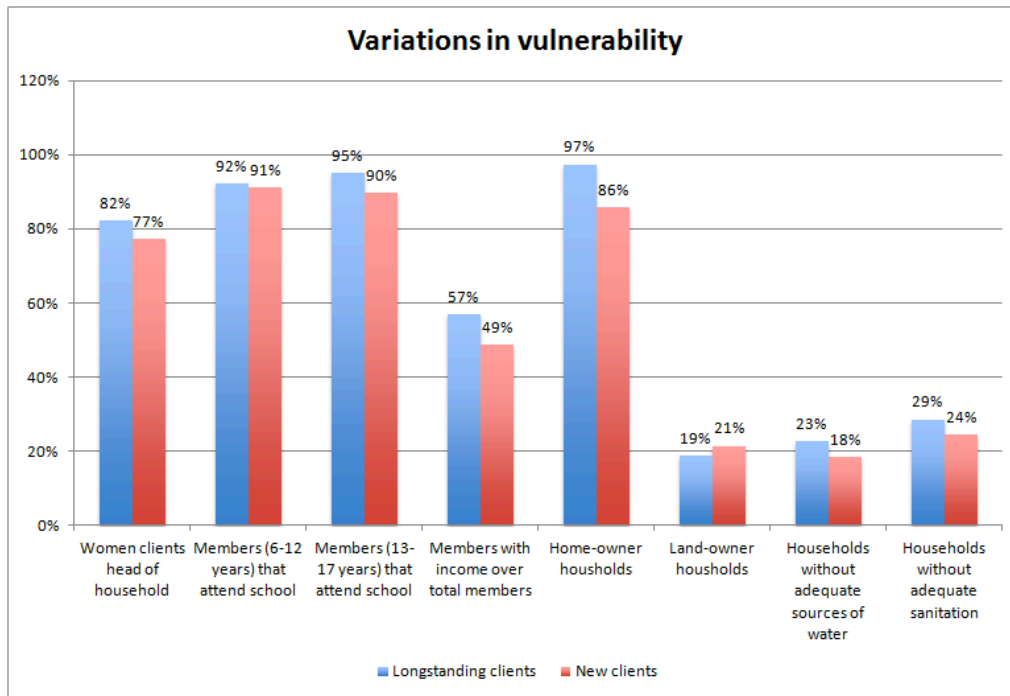
The analysis of the variations in the clients' socio-economic aspects is based on the surveys conducted to a sample of D-MIRO's new and longstanding clients. The following analysis evaluates de socio-economic situation of the clients, comparing the results of the surveys conducted to new clients with those conducted to longstanding clients. The aim of this analysis, *ceteris paribus*¹¹, was to show that D-MIRO's longstanding clients have improved their socio-economic situation over the years, reflected by a better current socio-economic situation than new clients, who have not yet had the opportunity to grow through D-MIRO's loans. It is important to indicate that the same weaknesses mentioned in section "4.1 The database" also apply to the following analysis.

The surveys were conducted to 180 new clients (first loan cycle) and 180 longstanding clients (more than five loan cycles with D-MIRO).

4.3 Results in the variations in socio-economic aspects

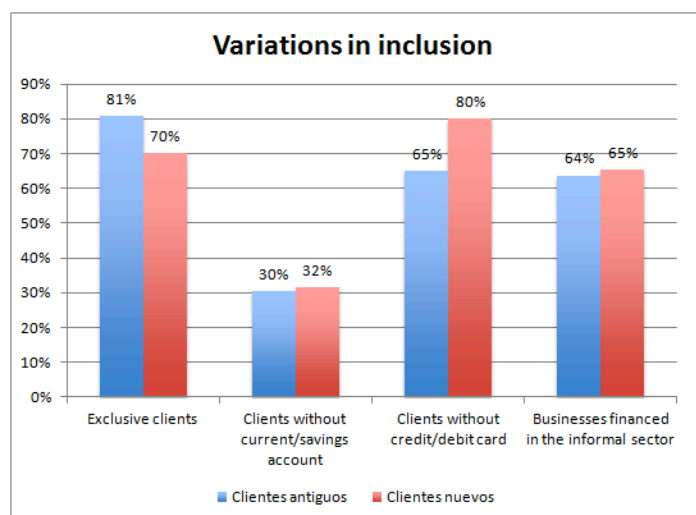
In general, the analysis of the variations in the clients' socio-economic aspects based on the surveys suggests a slight relationship between the clients' socio-economic situation and their time with D-MIRO, although the correlation is weak.

¹¹ "All other things being equal" over the years (D-MIRO's market niche and target client, development level of the areas of intervention, the country's economic environment, etc.).



The main results in terms of the variations in the clients’ vulnerability are as follows:

- 82% of long-standing women clients are now **heads of their household** (77% for new clients), indicating a positive result in terms of the empowerment of women, that could be related to the use of loans and the women’s increased capacity to manage their household.
- Another result that emerges is a slightly higher level of **schooling** for the children of long-standing clients (92% of children between 6-12 years and 95% of children between 13-17 years) with respect to those of new clients (91% and 90% respectively), which could also be related to an increase level of well-being in the household, as an indirect benefit of the loans.
- Perhaps the most significant results emerge from in the indicator measuring the number of **members with income** over the total number of members in the household, which registers 57% for long-standing clients and 49% for new clients, as well as in the percentage of households that are **home-owners**, reaching 97% for long-standing clients and 86% for new clients.
- On the other hand, the percentage of households that are **land-owners** (19% for long-standing clients and 21% for new clients), as well as the **inaccessibility to adequate sources of water** (23% for long-standing clients and 18% for new clients) and **adequate sanitation** (29% for long-standing clients and 24% for new clients), indicate negative results, considering that new clients enjoy a better situation in these aspects. However, it is important to mention that these indicators, especially the access to adequate sources of water and sanitation, are strongly related to the development of the community, for which it is highly probable that these results have been affected by external factors.



The results of the variations in the clients’ financial inclusion also present slightly positive results. The surveys conducted indicate a higher level of **exclusivity** in long-standing clients (81%) compared to new clients (70%), showing that D-MIRO was able to obtain the loyalty of its clients over the years. Also, there is

a lower percentage of clients without a current/savings account and without debit/credit cards (30% and 65% respectively for longstanding clients) with respect to new clients (32% and 80% respectively), suggesting a positive result in terms of access to financial services.

Summary of results:

Although there is a slight relationship between the clients' socio-economic situation and their time with D-MIRO, it is important to remember that it might have been affected by internal and external factors. Although the mission has not changed significantly, D-MIRO's market niche and target client may have been altered over the years, which would have an impact on the precision of this type of analysis. This aspect is reflected by an increasing average disbursed loan over the last periods (US\$ 1.829 in the October 2011 – September 2012 period, US\$ 1.569 in 2011, US\$ 1.100 in 2010 and US\$ 912 in 2009) which reflects, on one hand, the increase in the clients' payment ability resulting in their access to larger loans and, on the other hand, D-MIRO's focus towards a different a different client profile. Furthermore, exogenous factors, such as the development of the areas of intervention and Ecuador's economic context, may have affected the results.

5. Lessons learned and Recommendations

In the following sections, some of the most relevant Lessons Learned during the program – foundation – Banco D-MIRO will be reported. It is important to mention that this analysis does not aim to cover all of the lessons learned since 1997, but present some of the most relevant ideas that could support other similar projects.

5.1 Lessons learned

- **Focus on marginal sectors with loan services:** in general, D-MIRO demonstrates that a microcredit service can be developed in very poor and insecure sectors. Although the entire population cannot realistically have access to this type of service, there is significant demand and a continuously developing market.
- **Complementarity of credit with other development programs:** although D-MIRO's case shows the necessity of professionalizing a microcredit service, in its initial phases, the microcredit program benefited significantly from its complementarity with other services, not only to “enter” complex communities and neighborhoods from a security point of view, but also to have physical and economic support when the program's limited size did not allow branches and tools of its own, reflecting the importance of constantly searching for synergies and alliances with entities dedicated to promoting de comprehensive development of the sectors served by D-MIRO.
- **Credit methodology adapted to the target population's needs:** with the intention of deepening outreach to marginalized sectors without real guarantees, and based on the experiences learned from another country, group methodologies of village banks and solidarity groups have been introduced in the past, however, they ended up not adapting to the characteristics and culture of the target population, resulting in repayment problems.
- **A Bank can continue doing the work of the foundation and the program, and do it even better:** D-MIRO proves that the legal form of intervention does not affect the institutional mission and its values. In particular, institutional transformation has allowed reaching better service (larger scale, increased efficiency, lower cost for the client, more varied offer of financial services), which represents a direct benefit for the target population.
- **Stability in Governance, one of the key factors to put the mission into practice:** the permanence of a unique “owner” during the entire process of institutional development has been one of D-MIRO's main success factors. Although it is not impossible to coordinate a project such as D-MIRO's between different parties, the advantage of having a unique and clearly defined strategic direction by the “owner” has been a highly relevant factor.
- **Training and loyalty of loan officers is a key to growing in line with the mission:** considering the peculiarities of the sectors attended, as well as the growing competition and over-indebtedness levels in clients, these aspects have a strong impact on the ability to grow operations with quality and in line with the mission.

In the following section, we will present a list of recommendations that could help D-MIRO maintain and eventually improve its social performance in the future; in fact, it is important to consider that social performance results are never completely reached; rather social performance is the institution's continuous process, which requires attention in a systematic manner.

In order to facilitate the eventual inclusion of these recommendations in Banco D-MIRO's operational plans, the recommendations will also be presented in Excel.

5.2 Recommendations

Area	Specific problem or future challenge	Relevance	Activity
Social performance Management	Improve the definition of the social objectives that are generally found in the mission statement, into clear univocal ones. (CHALLENGE 1)	Medium	Review the mission statement, specifying within the mission itself or related strategic documents, a clear definition of the three social objectives: SO1, "who" we serve; SO2, "how" we serve; SO3, "for what", change objectives.
	Strengthen social performance management, through the development of specific strategies for each social objective, identifying a monitoring and follow-up system to social performance. (CHALLENGE 2)	High	For each social objective, develop specific activities, goals and indicators.
	Structure the institutional goals and values in specific documents such as the Shareholders' Agreement, in order to protect the institution's vision and mission in times of change in personnel (different representatives of the same shareholder, or eventually new shareholders). (CHALLENGE 3)	Medium	In the medium term, elaborate a Shareholders' Agreement, within which the minimum requirements of social performance and the eventual profile of new shareholders will be established.
	Further structure policies for the systematic monitoring of certain indicators, especially on a monthly basis, in order to guarantee the complete alignment of its performance with the institutional mission. (CHALLENGE 4)	Medium	Include social indicators in the monthly performance goals.
	Improve the definition of the client's socio-economic profile, defining disbursement goals in the different categories and loan products (CHALLENGE 6)	Medium	Update goals per product and market niche, clarifying the profile of the clients that are wished to be served (by product).
	With respect to the information system, it would be convenient to clean the information, while the data input fields should be customized and compulsory, increasing its the reliability and precision, such as to ensure that the information recollected can really support future strategic analysis. (CHALLENGE 9)	Medium	Analyze strategies to improve the information system in relation to clients' social information (for example, drop-out rate).

Area	Specific problem or future challenge	Relevance	Activity
Social responsibility	Human talent management: the main challenges are related to staff turnover (especially loan officers), as well as to the strengthening of mid-level executives, who in the current phase need to be the new pillars for future growth, replicating at each branch the leadership and commitment that the current managers have shown in the growth process of the last years (CHALLENGE 5)	Medium	Continue to focus on strengthening human talent management.
	Clarify the costs and benefits of additional services, such as for example micro-insurance (CHALLENGE 8)	Medium-high	It is necessary to improve the conditions (costs and benefits) of certain services.
	There is space to consolidate the client protection system according to the principles and standards defined at international level for microfinance institutions (CHALLENGE 15) .	High	Detailed analysis of the contents of the SMART Campaign and evaluation of the implementation process.
	There is the need for a continuous strengthening process of the policies to prevent over-indebtedness. (CHALLENGE 16)	Medium-high	Review and implementation of prudential credit limits and policies; strengthening of the loan officers' capacity in term of financial analysis and strict application of methodology; systematic review of productivity goals and incentive system.
	No specific guidelines on forbidden/not acceptable behavior have been formalized, particularly relating to collection activities that can harm clients, directed to internal and external staff involved in collection activities; additionally, categories of sanctions are yet to be defined clearly. (CHALLENGE 18)	Medium	Review of existing policies and possible formalization of client protection policies in the collection process, including aspects related to sanctions.
Outreach	Define a clear strategy for its product offer, projecting the growth in portfolio, clients and average amount (CHALLENGE 10) , in order to avoid deviating from the mission and ending up only offering services with higher amounts.	High	Improve the strategic definition of projected growth by product and average disbursed loan.

Area	Specific problem or future challenge	Relevance	Activity
Quality	There is space for the design of fixed-term savings products directed to specific segments of the target population, such as senior citizens, children, families of migrants (CHALLENGE 11)	Medium	Structure new savings products.
	Currently, certain products are inactive while it is not completely clear which products are available for the different types of clients (CHALLENGE 7)	Medium	Improve the structuring of the portfolio of products, in order to offer more clarity to clients with respect to product offer and conditions.
	There is potential for the design and offer (together with insurance companies) of micro-insurance products that meet the even more specific needs of the sectors exposed to events. (CHALLENGE 12)	Medium-low	Evaluate the possibility to increase the offer of micro-insurance services.
	In line with the objective of development of the vulnerable sectors, there is space for the potential offer of complementary non-financial services, especially financial education and entrepreneurial training (CHALLENGE 13)	Medium-low	Evaluate the possibility to offer complementary non-financial services, such as financial education and entrepreneurial training.
	Possibility to develop loyalty policies through preferential credit policies to clients with a good credit history. (CHALLENGE 14)	Medium	Evaluate the possibility to develop incentive systems to gain the loyalty of clients with good credit history.

Annex 1 - Statistics

Database

The database provided by Banco D-MIRO for the analysis of the variations in the clients' financial situation consists of 1.576 borrowers in the branches of Isla Trinitaria, Paraíso and Suburbio, clients that were active at the time of our evaluation with a long trajectory with the institution (from 2 to 20 loan cycles): the database encompasses 3,4% of D-MIRO's total borrowers as of September 2012, through 11.804 loans with an average of 7,5 cycles.

Survey to clients

In the survey of clients, new clients are defined as those in their first loan cycle at the time of the study, while longstanding clients are defined as those that have had more than five loan cycles with D-Miro. The survey was conducted in the period 19 – 30 of November 2012.

The formula used to calculate the size of the sample, based on the binomial theory, is as follows:

$$n = \frac{z^2}{e^2} (r)(1-r)$$

n: size of the sample

z: confidence level

r: estimation of the key parameter

e: error margin

Based on MicroFinanza Rating's experience, the average error margin of most of the survey's results is 5,5%, with a confidence level of 95%.

Characteristics of the sample:

- Design: *cluster* type in multiple phases;
- Size: 180 new clients and 180 longstanding clients;
- Representativity was also obtained by selecting clients in the sample with characteristics similar to the global population, considering factors such as branch, gender and products.

Applied definitions:

- *Household*: group of people that reside in the same home for at least six months every year and that cook together, united or not by family links.
- *Household head*: person that more contributes to the household's income and that takes most of the spending decisions for the household.

MicroFinanza Rating would like to thank all the clients that participated in the survey and the focus groups for their time, which enriched the this study with valuable information.