



OPPORTUNITIES *for the* MAJORITY

Corporate Clients as Distribution Agents for Microloans in Chile

Where others see obstacles, Chile's Banco de Crédito e Inversiones (BCI) sees opportunities.

About 64 percent of Chile's one million microenterprises, which account for 60 percent of the nation's employment, lack access to banking services, a drawback for the country's otherwise exemplary economic performance.

Banks are often reluctant to extend financial services to low-income entrepreneurs because of what they consider excessive risk, represented by the lack of a credit history for borrowers, their low incomes, and relatively low levels of education. This market is also associated with high service costs.

BCI concluded that the microenterprise market, largely ignored, could fit into its growth strategy, offering both profits and an opportunity to help fulfill the bank's social mission.

One of BCI's advantages is its ability to create alliances with suppliers, utilities, nongovernmental organizations and educational institutions to build a nonconventional credit risk profile of customers who otherwise lack a credit history. Obtaining a credit profile is the gateway for unlocking credit and other financial services for microenterprises. BCI is in the process of developing such partnerships with more than 30 organizations to help build a databank of creditworthy, low-income customers.

Another pioneering technique devised by BCI is to divide microenterprise loans into two types, *Alianza* and *Ejecutivo*. Customers for the *Alianza* loans, receiving credit from \$300 to \$1,000, are screened in a specially designed process using information from suppliers, such as Embonor, a distributor of Coca-Cola, and Comercial Torino, a distributor of beauty products. In addition to loans for working capital to buy business supplies, all qualified customers open bank accounts, designed to promote savings and timely loan payments.

The *Alianza* process enables BCI to approve credit profiles of new customers in "batches," reducing time and costs. The method works. The *Alianza* portfolio has a very low arrearage rate of 1.25 percent.

The customers for the *Ejecutivo* loans, from \$800 to \$1,800, are screened by a comprehensive system of credit checks that may include visits by loan officers to interview relatives and business associates. Since the *Ejecutivo* borrowers are considered less of a risk, their interest rates are reduced.

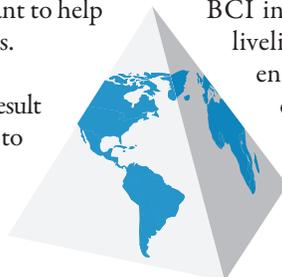
Other innovations being adopted by BCI are wireless point-of-sale electronic devices to gather credit information on potential microenterprise loan customers, the use of mobile educational classrooms to extend financial literacy, and the use of Web banking, mobile banking and telephone banking systems.

With its 326 bank branches and 988 ATM outlets, BCI is Chile's third largest private bank. It also has representation offices in Lima, Mexico City, Miami and São Paulo. Its size, solid financial track record, and investment in cutting edge technologies place BCI in a position to make a real impact in improving the livelihood of a substantial number of low-income entrepreneurs while building a new investment and development model that can be repeated throughout the region.

Through a new unit, Banca Emergente BCI Nova, BCI is aggressively pursuing business opportunities in the low-income microenterprise market by applying new and existing technologies, specialized training for both beneficiaries and bank personnel, and developing innovative alliances to allow suppliers, intermediary organizations and other large companies already serving the base of the pyramid to share credit history information.

The IDB's Opportunities for the Majority initiative is providing the new BCI investment strategy with a \$10 million partial credit guarantee to support microloans, while the Bank's Multilateral Investment Fund is providing a parallel \$600,000 grant to help finance training and the creation of business alliances.

Over the next six years BCI expects its new strategy to result in the extension of credit and other financial services to more than 80,000 microentrepreneurs.



For more information about the program
contact: OM-IDB@iadb.org