SUSTAINABLE BANKING with the POOR

Case Studies in Microfinance

COSTA RICA

FINCA - Village Banking

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The World Bank

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The study aims at improving the ability of donors, governments and practitioners to design and implement policies and programs to build sustainable financial institutions that effectively reach the poor. The SBP task managers are Lynn Bennett and Jacob Yaron; the technical manager is Carlos Cuevas and the associate manager is Korotoumou Ouattara. The administrative assistant is Sangae Sherman.

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*Note: In the **back cover box**, *Swiss Development Corporation*, should read ***Swiss Agency for Development and Cooperation (SDC).***

This report was prepared by Julia Paxton (consultant). Valuable comments were contributed by Carlos Cuevas, ???. A background report is available upon request.

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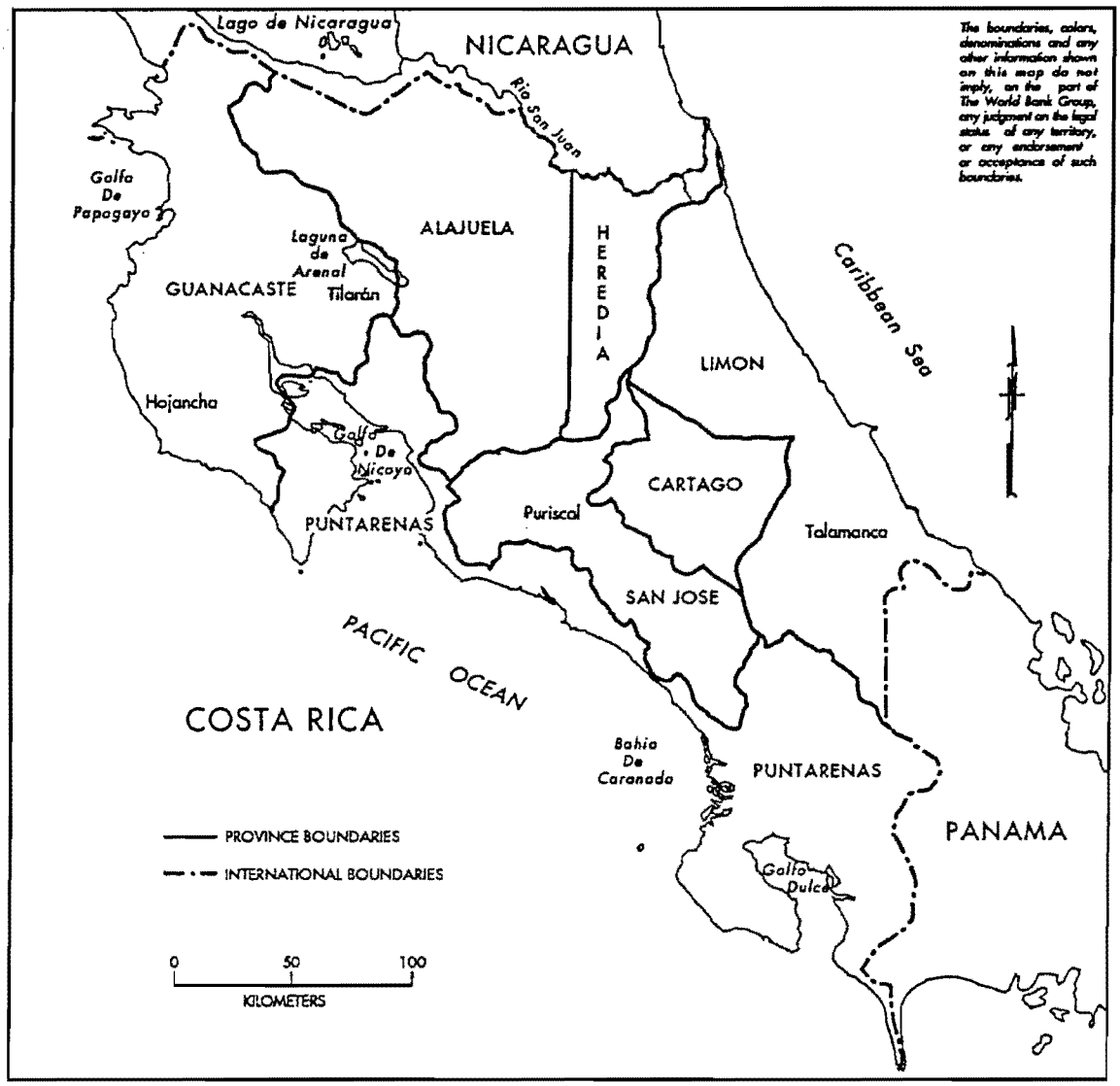
LIST OF ACRONYMS

CAP:	*Certificado de aporte patrimonial*
CRS:	Catholic Relief Services
FFH:	Freedom From Hunger
FINCA:	*Fundación Integral Campesina*
GDP:	Gross Domestic Product
GNP:	Gross National Product
IDB:	Interamerican Development Bank
MAG:	Ministry of Agriculture (Costa Rica)
MIS:	Management Information Systems
NGO:	Non-governmental Organization
ROSCA:	Rotating Savings and Credit Association
SA:	*Sociedad Anónima*
SDI:	Subsidy Dependence Index
VB:	Village Bank

EXCHANGE RATE

Currency Conversion Table		
	US dollar	**Costa Rican colon**
1991	1	135.4
1992	1	137.4
1993	1	151.4
1994	1	165.1
1995	1	194.9



Country Profile

Economic and Social Context		Inflation	
GDP per capita (1995)	US$2,650	1992	21.8%
Population (1995)	3.2 million	1993	9.8%
Population density	61.5 inhab/km^2	1994	13.5%
		1995	23.2%

CASE STUDIES IN MICROFINANCE

COSTA RICA
FINCA - INSIGHTS FROM A UNIQUE APPROACH TO VILLAGE BANKING

FINCA Costa Rica has been both a leader and a non-conformist in village banking. As one of the first village banking examples in Latin America, the program offers valuable lessons to other village banking institutions. While still retaining the FINCA name, FINCA Costa Rica has split from FINCA International, the US-based NGO that is credited with developing the village banking methodology. Some of the unique features of FINCA Costa Rica include: a minimalist approach to microfinance, a predominantly male, literate, agriculturally based target group, individual loans, a legal ownership structure of each village bank with voting based on percentage ownership of equity shares, relatively larger and longer loans, and legal penalties for default. The program leadership has shown a great willingness to adapt the methodology as problems have surfaced over the years. Given FINCA Costa Rica's history and willingness to adapt, it offers unique insights into the problems and potential of village banking. The following paper presents an overview of FINCA Costa Rica[1] and examines ten lessons that can be learned from FINCA's unique approach to village banking.

COUNTRY CONTEXT

Costa Rica lies between Nicaragua and Panama in Central America. While tourism accounts for the largest single industry, the economy continues to be closely linked to primary agricultural products, especially coffee and bananas. Costa Rica's GDP per capita (US $2650 in 1995) and real GDP per capita growth rates (averaging 4.6 percent annually from 1991 to 1995) exceed regional standards. However, fluctuations in inflation (shown in the Country Profile Table at the beginning of this case) have caused some uncertainty in a country known for its economic and political stability. The literacy rate is well above regional standards, with 91.5 percent of the population literate in 1992.

A long tradition of credit to small agricultural producers exists in Costa Rica. In the 1850's, coffee *beneficios* operated as small rural banks where the British coffee importers would lend money to local producers. In 1914, the Banco Internacional de Costa Rica established the Cajas Rurales de Crédito which granted credit to small groups of farmers. In 1936, these were converted to the Juntas Rurales de Crédito. The juntas rurales collapsed in the 1970's as inflation rates rose and real lending rates became negative. Subsidized lending slowly evaporated as the banks failed and retreated from rural areas.

[1] For a more complete analysis, refer to the full case study: "Case Study of FINCA Costa Rica" The World Bank, Sustainable Banking with the Poor, 1997.

This process was exacerbated by a financial sector crisis in the 1980's that cut off rural farmers from access to financial services. As a result, in the mid-1980's, a void existed in the rural financial landscape. Many small farmers who had previously had access to agricultural credit were left with no ties to formal financial institutions.

HISTORY OF FINCA COSTA RICA

The retreat of state sponsored agricultural credit programs and the financial crisis of the 1980's left many small rural farmers without access to former financial services. The void in the rural financial market created concern for development practitioners who believed in the importance of sustainable rural financial markets. In 1983, this situation attracted the attention of John Hatch, founder of FINCA International, who had recently developed a rural finance program based on a village banking methodology in Bolivia that he sought to replicate and modify in another context. Hatch met Maria Marta Padilla during a visit to Costa Rica in 1984 and enlisted her interest in starting a village banking program in Costa Rica. Hatch subsequently invited Padilla to visit FINCA's Bolivian village program to better understand and replicate that methodology. As a result of their collaborative efforts, FINCA Costa Rica was initiated in February of 1984. Initial funding came in the form of a $60,000 donation earmarked for credit to the village banks from CINDE-OPD (now ACORDE) and a $46,6000 grant to cover administrative expenses from the Interamerican Foundation. Some private businesses also contributed funds for project administration.

The methodology was very similar to that of the Bolivian experiment in the early phase of operation, but was modified as the program adapted to the Costa Rican rural context and improved on methodological deficiencies. Thirty village banks (VBs) of about 20 to 50 members each were formed in rural areas, including the eastern region and the southern region which had suffered hardships due to a recent earthquake, the retreat of the banana industry, a poor infrastructure, and poverty. In its initial design, the program was characterized by loans and repayment in kind (grains). Average loans of $60 were granted immediately at the first meeting to anyone interested in becoming a member and willing to accept the condition of joint liability. The loan to the village bank was structured with a five year term, although loans to the individual members had a term of one year. While no interest was explicitly charged, mandatory savings of 20 percent annually in kind were required so that each year more loans could be made.

One of the first alterations to the original methodology was to eliminate lending and payment in kind. Cash provided a much more logical medium given that it is divisible, homogeneous in quality, easier to manage, and does not require a double coincidence of wants. In addition, loans were synchronized to the agricultural harvest and FINCA encouraged better selection of members and screening through increased training at the village level.

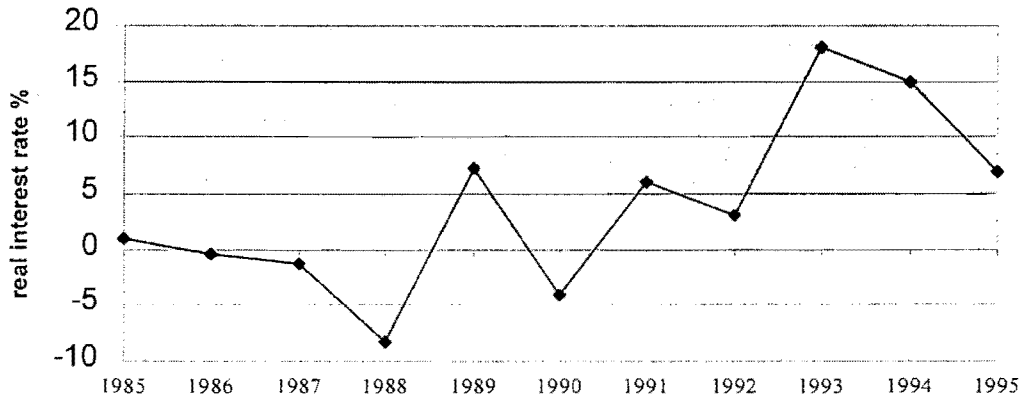
After several years of operation, new modifications were introduced based on the field experience. Many banks had failed in the Buenos Aires area of the southern region. This area had a history of government grants and several VBs collapsed after widespread default. Therefore, FINCA did not initiate any new loans there. In addition, the loan portfolio nearly doubled in 1989 and 1990 as the institution attempted to become sustainable. In order to allow for a greater refinement of loans, VBs were classified as either at Stage A (new or poorly performing) or Stage B (proven repayment, strong deposit mobilization). Through this type of classification, it was possible for FINCA to meet the demand for larger loans by increasing the average loan size from $75 in 1985 to $217 for Stage A banks and $1630 for Stage B banks in 1990.

A 1989 loan of $500,000 from the IDB accompanied by a grant of $85,000 for technical assistance was contingent on the provision of individual loans. Therefore, the group loan methodology was abandoned and individual loans were administered across the board. The main difference between the former system of loans to group members and the new system of individual loans is related to group liability. Under the old system, the entire group was barred from new credit until each of its members had repaid the individual loans. Under the new individual loan system, the group is not punished for the arrears of the individual, but it still plays an important role in monitoring activity. However, the legal liability for repayment lies with each individual. While this shift in policy was donor driven, it was supported by FINCA management since individual lending facilitated the tracking of accounts, allowed for legal enforcement of repayment, and was popular among clients who preferred individual liability. However, some disadvantages arose, such as increasing transaction costs and declining incentives toward group cooperation and peer pressure. Nevertheless, FINCA Costa Rica has maintained the individual lending process since 1989.

In the 1990's, management took a step towards increased sustainability by increasing interest rates. Figure 1 illustrates how real interest rates changed from unsustainable negative levels in the 1980's to positive rates in the 1990's. Fluctuations in inflation have caused real interest rates to vacillate considerably in the 1990's, especially since FINCA does not modify its nominal rates regularly to adjust to inflation (for simplification and to avoid logistical problems) the way formal financial intermediaries do.

One of the most innovative changes to occur in the 1990's has been the introduction of a new legal status with different voting rules. Formerly, each village bank was considered an association with a legal status as a non-profit group. In an association, one vote was given to one member as is the case in credit unions. Within the past couple of years, FINCA has encouraged banks to change their legal status to *sociedades anónimas* (SAs). This transforms the group into a for-profit legal entity in which equity is sold to members. Voting privileges correspond to the number of shares that an individual buys and likewise, credit is loosely based on an individual's number of shares. Currently, the majority of VBs are associations, but the number of SAs is growing.

Figure 1. Evolution of Real Interest rates Charged to FINCA clients 1985 - 1995



There are several advantages associated with the SA legal status. The main advantage is that the purchase of shares by members allows for member ownership of the bank. In addition, weighted voting provides incentives for those who have a greater share of the bank to take a greater role in monitoring and shaping the development of the bank and its use of funds, preventing the shirking that arises from a one person, one vote structure. From a legal standpoint, it is easier to prosecute the group and its members in case of default or other legal entanglements. In interviews with 32 FINCA members, most SA members favor the new legal status. However, some complained that those members with the greatest number of shares dominate the group's executive committee and receive more credit than they should. This domination could lead to regressive income effects as the poorest can not access an appropriate share of the scarce resources.

TARGET GROUP

As one of the oldest village banking programs, FINCA Costa Rica has provided a general framework for other programs, but in many ways, it is unique. While village banking programs vary from one another, most target poor working women. Membership in village banks typically ranges from 20 to 75 members. The loans tend to be quite small, averaging $50 to $300 for a term of 4 to 6 months.[2] Most often, these loans are granted to the group which bears responsibility for repayment. While preserving the village bank structure, FINCA Costa Rica has several characteristics that do not fit the most common village banking model. Box 1 summarizes the ways in which FINCA Costa Rica differs from most village banking programs. FINCA Costa Rica serves primarily male farmers

[2] The village banking and self-help group methodologies internationally have a median of 75 percent female clients with a median loan size of $107 according to Paxton, J. A Worldwide Inventory of Microfinance Institutions, The World Bank, 1996.

who receive relatively large agricultural loans for greater terms than loans offered by traditional village banking programs targeting urban women.

Box 1. Key Contrasts Between FINCA Costa Rica & Traditional Village Banking

	FINCA COSTA RICA	VILLAGE BANKING
Clients:		
location	rural	urban and rural
gender	male	female
activities	agriculture	microenterprise
income	low, lower-middle	low
Loans:		
type	individual	group
av. term	2 years	4-6 months
av. loan	$1000-$1700	$50-$300
structure	legally formed groups	informal groups
voting	by percentage of equity	one-person one-vote
enforcement	legal action	peer pressure

Source for village banking data: Holt, S. "The Village Bank Methodology: Performance and Prospects" The New World of Microenterprise Finance, ed. Otero, M. and Rhyne, E., Kumarian Press, 1992.

A comprehensive survey performed by Academia de Centroamérica in 1992[3] provides a revealing profile of FINCA clients. Sixty five percent of members are married and 72 percent are male. Most clients (88 percent) are literate although only 42 percent have completed primary school. Ninety two percent of VB members are involved in agriculture. Of the small farmers sampled, 25 percent owned less than one hectare of land, 25 percent owned between 1 and 3 hectares, 25 percent owned between 3 and 7.1 hectares, and 25 percent owned more than 7.1 hectares. Fifty five percent of clients own a land title. Upon visiting numerous members of the VBs, it became clear that FINCA indeed reaches some of the poorest households in Costa Rica, despite the relatively high average loan sizes ($1,000 in 1995) in comparison to other NGO microfinance operations[4]. While most village banking programs serve clients who have never used formal finance, 74 percent of FINCA Costa Rica clients have borrowed from a formal source at least once.

[3] Gonzalez-Vega, C., Jimenez, R., and Quiros, R. Financing Rural Microenterprises: FINCA Costa Rica Academia de Centroamerica, San Jose, Costa Rica, 1996.

[4] For example, the average loan size in the CARE Guatemala Women's Village Banking Program was $171 in 1995.

STRUCTURE

The general management of FINCA is overseen by an executive committee comprised of local business leaders, one academic, and one government representative (Figure 2). In addition, FINCA is audited externally. Within its central office, two main sectors exist: one related to financial management and the other related to administration. The central office supports the creation, training, and maintenance of VBs using a team of mobile loan officers, known as *promotores*. The average salary of a promotor is US$4925 per year, roughly 1.85 times the GDP per capita in Costa Rica.

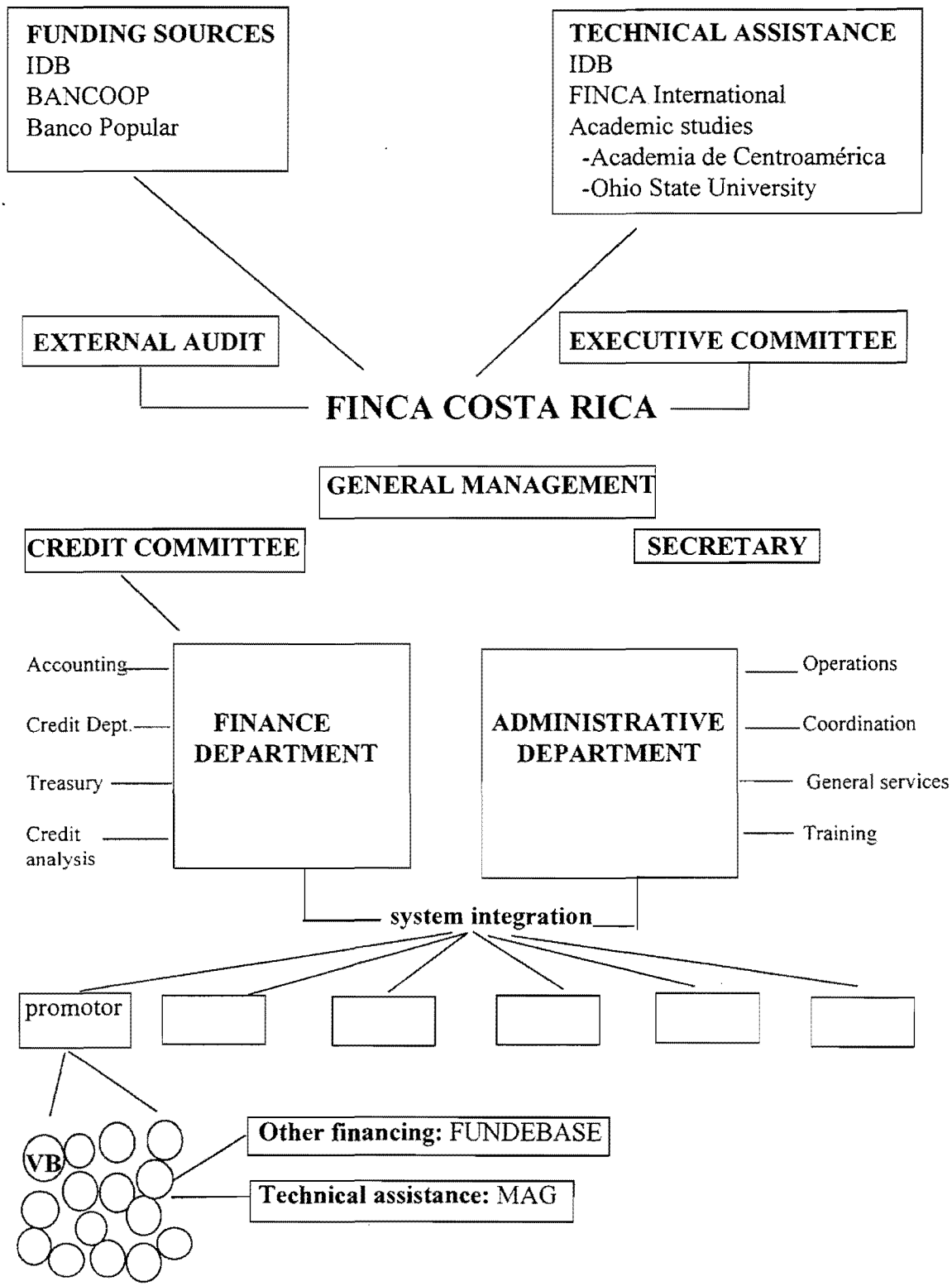
A village bank can be created either through the initiative of FINCA or village members themselves who invite FINCA to work with them. The main criteria are that the villages be rural, have low to medium incomes, are accessible, and have enough members to create a VB. A promotor visits the village on two occasions to determine community interest and to explain the rules and procedures. The VB has a high degree of autonomy regarding its own regulations. Once a bank is created, it must decide on its own internal procedures such as meeting times, penalties, guarantees, a board of directors (including president, vice president, secretary and treasurer), and deposit requirements.

The promotor provides information regarding different lines of credit available and accepts individual credit applications. The applications are taken to FINCA's central office where they are reviewed by a credit committee and the director of operations. The credit committee assigns the terms and conditions and the treasurer writes a check to the president and treasurer of the VB. The check is delivered by the promotor, along with a repayment table and receipt. The VB deposits the check into a commercial bank checking account and each individual can take his/her portion of the community loan. Payments on the loan are also performed through the commercial banks. When a payment is due, it is transferred from the VB checking account to a FINCA account in the bank and is confirmed by a fax to the FINCA central office.

FINCA has received technical assistance and funding from a variety of sources. The IDB has provided grants to enhance MIS through computerization and pays for a half time staff. FINCA also has benefited from academic research by such institutions as Academia de Centroamérica and Ohio State University, and technical assistance from the Ministry of Agriculture (MAG). A current IDB loan carries a 6.25 percent interest rate and restricts FINCA to a 7 point margin for financial intermediation. Banco Popular lends to FINCA at 19 percent and requires that FINCA's financial intermediation margin be no greater than 5 percent. BANCOOP lends at 7 points above the national prime interest rate[5]. In addition to the funding from FINCA Costa Rica, the village banks borrow directly from other sources, such as FUNDEBASE, a government-sponsored development program.

[5] As a result of the different funding sources with their different requirements for on-lending, FINCA Costa Rica charges varying nominal interest rates to its clients (see section IV.2).

Figure 2 . Organization of FINCA Costa Rica



Interestingly, the relationship with FINCA International gradually has declined since its foundation with an official termination of the relationship in early 1997. In short, the management of FINCA Costa Rica believed that its international counterpart demanded too much of its highly valued time and requested regular progress reports while not providing enough useful technical and financial support. Furthermore, as the village banking methodology of FINCA International increasingly turned toward financing microenterprises for women, FINCA Costa Rica viewed technical guidance from headquarters as increasingly irrelevant. FINCA International, on the other hand, was interested in maintaining the relationship with FINCA Costa Rica[6] but was frustrated by. FINCA Costa Rica's lack of financial transparency and reluctance to share information. FINCA International paid Padilla's salary for over a decade while also providing its affiliate with loan guarantees and limited grant funding, but FINCA Costa Rica was unable (and in some cases, unwilling) to provide the reports and management controls that headquarters required of its other affiliates.

SERVICES PROVIDED BY FINCA COSTA RICA

As Table 1 indicates, the number of village banks and number of members have steadily increased over time. From 1991 to 1995, the number of clients grew by an average of 15.7 percent annually. Of the 228 VBs that have been created since its inception, 171 were active by the end of 1995. While each VB varies in the types of financial services it offers, all VBs offer some combination of deposit services and loans.

Table 1. Outreach

	1991	1992	1993	1994	1995
Total number of village banks	177	193	210	217	228
Village banks--active (est.)	122	142	155	160	171
Total number of members	3670	4555	5237	5405	7253
Average number of members per VB	21	24	25	25	32
# loans outstanding at year's end	--	789	923	1080	1102

DEPOSIT MOBILIZATION

One of the most interesting components of FINCA Costa Rica is its growing emphasis on rural savings. However, no universal policy towards deposit mobilization exists in the VBs. In general, most banks have either liquid savings accounts, term savings accounts, or both. In addition, the VBs have either CAP (*certificado de aporte patrimonial* - a form of equity) if they are an association, or equity shares if they have the SA legal status.

[6] Based on 6/97 conversations with Founder, John Hatch, Director of Programs, Phil Broughton, and Manager for Policy and Program Development, Till Bruett.

Most VBs still require that individuals have at least 10 percent of their loan amount in compulsory savings. In several village banks, non-members including women and children are encouraged to set up savings accounts.While deposit mobilization has excelled in many VBs, FINCA has not been able to document this phenomenon fully due to MIS limitations, and many questions are left unanswered regarding the true depth of savings. Instead, deposit activity must be inferred from surveys and sample data.

A survey by Academia de Centroamérica provides insight into the state of deposit mobilization in 1991. Survey results showed that 3,369 of the 3,670 members were depositors. Only 43 non-members had deposit accounts. Of the total loans made by each VB, 10 percent came from internally mobilized deposits. This reflects a lack of voluntary savings since most VBs require compulsory savings of 10 percent of the loan size. An examination of deposit activity in 1997 shows that voluntary savings have grown in importance in many VBs.

In order to have a better idea about the current state of deposit mobilization, a random sample of 12 banks[7] was taken in February 1997 to examine the importance of savings. On average, each bank had 52 members, of which only 16 had loans from FINCA. Unlike the findings in 1991 which showed that only 10 percent of total funds came from deposits, the percentage of deposit funding in this sample was quite high. Total village bank funding was divided into funds from FINCA (49 percent), deposits (29 percent), and other institutions, such as FUNDEBASE (22 percent). This division of funding sources is an important finding since it demonstrates a trend away from dependence on FINCA for funding, from 90 percent in 1991 to 49 percent in 1997.

In the twelve sample banks, 10 banks had active liquid savings accounts for short-term deposits. An average of $1,315 was held in these accounts per VB, thus averaging $25 per member. Only 5 out of the 12 banks had term deposit accounts. The volume of savings mobilized in these accounts was much less, averaging only $406 per institution, or $8 per member[8]. The bulk of funds mobilized by members took the form of equity shares, known as CAP. The average amount of CAP or equity per VB in the 12 sample banks was $4,603, or nearly $150 per borrowing member[9]. Most of the CAP is used for on-lending to VB members, funds that supplement loans from FINCA.

LENDING ACTIVITIES

Village banking is known for its ability to achieve a wide outreach to rural clients, but likewise is known for its relatively homogeneous financial products. Due to cost considerations, typically village banking programs offer loans to an entire community

[7] The sample included: San Pedrito, Porvenir, El Sauce, UPADAL, San Bosco, San Juan Sur Turrialba, Cubujuqui Tayutio, ASCAP, ALSI, Cuatro Millas, and Estrella.

[8] Not all members have each type of savings account. However, data was not available for the number of members with each type of account.

[9] Typically, only borrowing members hold CAP or equity, while non-members use other types of savings instruments.

with the same term and interest rate, while loan sizes depend on past experience with the institution and an individual's volume of savings. In addition, village banking often requires joint liability so that no one in the group receives additional loans until all previously outstanding loans are repaid. From the client perspective, homogeneous loan terms and joint liability can be restrictive. However, FINCA Costa Rica has been able to adapt the village banking methodology to incorporate more heterogeneous loan terms as well as individual liability. A closer examination of loans from the external account and the internal account highlights some of FINCA's innovations and explains how the context has enabled FINCA to make such adaptations to the village banking methodology in Costa Rica.

The external account

The external account refers to the loan made by FINCA to the VBs directly. This loan then is administered directly to members without an additional mark up of the interest rate. The individual loan sizes are based on the loan applications of members, subject to approval by the VB leadership and FINCA. In contrast, the internal account is comprised of member savings that are then on-lent to members[10]. The VBs of FINCA Costa Rica range from banks that operate solely from the external account to others that have split from FINCA and use only funds from the internal account to finance lending activities. However, lending in most VBs is funded primarily by the external account.

Table 2 shows that the average loan size from the external account has fluctuated from $950 in 1991 to $1,773 in 1993 to $1,006 in 1995. The changes in loan size are attributed to availability of funds at FINCA and shifting client demand as interest rates change. In 1995, the minimum loan was $257 while the maximum loan was $2,565. In contrast to other village banking programs, FINCA Costa Rica's average loan sizes are quite high. In her study on village banking, Sharon Holt contrasts FINCA Costa Rica's 1990 maximum loan of $2,000 to other village banking programs with maximum loan sizes of $300 for FFH Thailand, $300 for CRS Thailand, $150 for CARE Guatemala, $300 for FINCA Mexico and $62 for SCF El Salvador.[11]

The context in Costa Rica accounts for much of the difference in loan size. Costa Rica has a relatively strong and stable economy. In addition, its population is well educated and the legal system is stronger than in most developing countries. Rural financial institutions have penetrated most parts of the country (targeting male farmers) and have established a precedent of lending. Under these circumstances, it is not surprising that average loan sizes have varied from 38 percent to 75 percent of GDP per capita in recent

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[10] In programs that do not on-lend their own savings, sometimes the internal account refers to the individual loans made by the village bank from the group loan. However, for this discussion, the internal account refers only to the loans made from member savings.

[11] Holt, S. "The Village Bank Methodology" The New World of Microenterprise Finance: Building Healthy Financial Institutions for the Poor, ed. Otero, M. and Rhyne, E., Kumarian Press, 1992.

years. For Latin America as a whole, microfinance NGOs grant loans that average 18 percent of GNP per capita.[12]

Table 2. Loan Sizes and Interest Rates: FINCA Costa Rica

	1991	1992	1993	1994	1995
Average loan size/GDP per capita	53%	67%	75%	53%	38%
Min. loan size	$148	$218	$330	$303	$257
Max. loan size	$1,108	$2,029	$1,982	$2,423	$2,565
Ave. loan size	$950	$1,497	$1,773	$1,371	$1,006
Nominal annual interest rates	37%	25%	30%	30.6%	32%
Annualized real effective interest rates	70%	28%	67%	64%	55%

Nominal interest rates varied from 30 to 37 percent during 1991 to 1995 while real effective interest rates that incorporate savings requirements, fees, and inflation, are higher ranging from 28 percent to 70 percent, depending on annual inflation. In general, the lending interest rates available in VBs are lower than those available in commercial banks or from informal lending sources. Within the VB itself, the interest rates charged by FINCA to the VBs are lower that those charged by other lending sources, such as FUNDEBASE. These different interest rates are passed on to the borrowers. Therefore, it is possible for a member of a VB to have one loan stemming from FINCA at a lower interest rate, a second loan from FUNDEBASE at a slightly higher rate and even a third loan originating from the internally mobilized deposits at an interest rate set by the individual VB. The relatively lower interest rates reflect FINCA's access to low cost funds and its determination to keep interest rates as low as possible while covering costs.

Most of the institutions lending to FINCA (ACORDE, BANCOOP, IDB) specify a margin to compensate FINCA for its intermediation costs. In this sense, FINCA does not have a great deal of control over its interest spread. According to program director, Maria Marta Padilla, a small intermediation spread adheres to her philosophy of interest rates. She believes that VB members should not have to pay high interest rates to compensate for institutional inefficiency. In addition, she rejects the notion of charging interest rates comparable to those charged in the informal sector since moneylenders are already filling that market niche. The ideal balance is to be able to charge comparatively lower interest rates than the informal sector while keeping costs down to make such rates possible.

Collateral requirements for loans depend on internal regulations within each VB. In 78 percent of VBs, one or two co-signers are required to obtain a loan and in 66 percent of VBs, a chattel mortgage (a physical asset offered as collateral) is solicited.[13] The use of

[12] Paxton, J. "An Inventory of Microfinance Institutions in Latin America and the Caribbean" Sustainable Banking with the Poor, The World Bank, Jan. 1997.

[13] Gonzalez-Vega, C., Jimenez, R., and Quiros, R. Financing Rural Microenterprises: FINCA Costa Rica, Academia de Centroamérica, San Jose, Costa Rica, 1996.

collateral allows FINCA to follow through with legal action in cases of default and eliminates the need for joint liability throughout the VB.

FINCA Costa Rica offers more flexibility in loan terms than most village banking programs. Because loans are made on an individual basis, there is no need for coinciding loan terms among members of the VB. As such, loan terms from FINCA range from 6 months to 4 years. In the early phase of VB development (stage A), the maximum loan term is one year. However, once VBs enter stage B, the maximum term is lengthened to four years. On the whole, average loan terms have grown from one year during the experimental period of FINCA to 21 months in 1991 to 24 months in 1995. The increase in the term reflects a gradual adjustment of the term to match the time needed to plant and harvest agricultural crops in Costa Rica.

The internal account

Interestingly, a greater number of members have loans from internally mobilized funds rather than loans from FINCA. In interviews with 32 members from 8 different VBs[14], 17 percent of the members reported that they had concurrent loans from FINCA and from the group savings. The terms and conditions varied depending on the source of the funds. Table 3 illustrates some important differences between loans from the internal vs. external accounts.

As seen in Table 3, loans from the internal account carry an average interest rate that is four points above the average interest rate on loans from the external account. In addition, the internal loan amounts are approximately half the size of the loans from FINCA. Also, the terms are significantly shorter, averaging just 9 months for the internal account in contrast to nearly 20 months for the external account. There are several justifications for the differences in loan conditions. Firstly, the group prefers a higher interest rate because the savers divide the interest income at the end of the loan cycle. This encourages savings which in turn provides a greater availability of funds. The terms are shorter and the amounts are smaller due to the need for liquidity in the VB to meet the demand of savers wishing to withdrawal funds. In addition, the small loan size reflects the relatively smaller volume of savings in comparison to the funds from FINCA.

Table 3. Internal Account vs. External Account Loan Characteristics

	Internal Account	External Account
Number of Borrowerss per VB	18	16
Average Loan Size (US$)	$1,055	$579
Average Loan Term (months)	19.4	8.6
Average Nominal Interest Rate	25.5	29

Source: Field interviews with sample of 30 clients, 1997.

[14] Field survey conducted in February, 1997 by Vilma Villalobos and the author.

Perhaps the most revealing insight that can be gleaned from the on-lending activity is that despite the higher interest rates on loans made from savings, members interviewed still prefer to borrow from group funds rather than from FINCA. Transaction costs are the primary reason for their preference. For loans originating from the internal account, relatively little paperwork is required and few questions are asked regarding the specific use of the loan. The lack of intensive screening is a result of the information advantages at the group level, where individuals know each other well enough to determine good credit risks. Not only is the bureaucracy cut to a minimum, but the loans tend to be immediate, an attribute that is useful in times of a pressing personal or work-related crisis.

A disadvantage associated with the on-lending of savings is related to the internal structure and leadership of the VB itself. While all members are eligible for loans from FINCA, only some may receive loans from the internal account. In banks with the SA status, the practice of linking members' voting shares to their volume of equity results in individuals with significant equity receiving large loans from the internal account while others receive none. In associations, the members of the executive committee may have greater input in determining how to divide the savings among individuals desiring loans. Upon completing the field surveys, it was evident that some members resent the fact that some VB members (either on the executive committee or with a dominant share of savings) can use the internal account to meet their own credit demand, while others rarely or never are able to acquire a loan from the internal account. However, it should be pointed out that it is precisely this type of screening and procedure that reduces transaction costs to the members who do obtain loans from the internal account.

PERFORMANCE

Performance can be evaluated at several levels. At the client level, a recent study[15] revealed that FINCA members tended to replace formal loans with village bank loans while maintaining informal lines of credit. In interviews with FINCA members, all reported that the FINCA loans had favorable terms and conditions and believed that the village banks were an asset to the small communities. Having a reliable source of financing is an important input in the agricultural cycle.

As Table 4 illustrates, the program has become increasingly reliant on internally generated funds and commercial loans rather than donations. Not only did FINCA reach operational self-sufficiency in 1994, but it also attained financial self-sufficiency as the ratio of operating income to operating and financial costs exceeded unity[16]. In order to do

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[15] Quirós, R. and Jiménez, R. "Access to Loans" in Gonzalez-Vega, C., Jimenez, R., and Quirós, R. Financing Rural Microenterprieses: FINCA Costa Rica, Academia de Centroamérica, San José, Costa Rica, 1996.

[16] It should be noted, however, that FINCA International staff members doubt the accuracy of these figures due to problems related to financial transparency and MIS.

so, FINCA has adopted a minimalist approach to microfinance, at times sacrificing investment in training and MIS.

Table 4. Costs and Income (US$)

	1991	1992	1993	1994	1995
Total Costs	$240,081	$269,789	$535,192	$386,190	$366,378
Operating costs	$235,805	$254,563	$394,584	$247,862	$274,705
Financial costs	$4,276	$15,226	$140,608	$177,262	$144,500
Income	$208,375	$236,172	$390,938	$523,010	$415,434
Operations	$139,520	$187,868	$375,291	$497,771	$394,946
Donations	$68,855	$48,304	$15,647	$3,271	$18,728
Op. income/operating costs	59%	74%	95%	201%	144%
Op. income/op. & fin. costs	58%	70%	70%	129%	108%

In recent years, the portfolio at risk has been growing (see Table 5). In addition, more rescheduling has occurred. FINCA must watch this trend carefully so that a domino effect does not occur throughout the village banks. In addition, the outstanding loan volume per staff member has declined in recent years due to the lower average loan size. However, the number of outstanding loans per staff member continues to increase.

Table 5. Repayment and Productivity Indicators

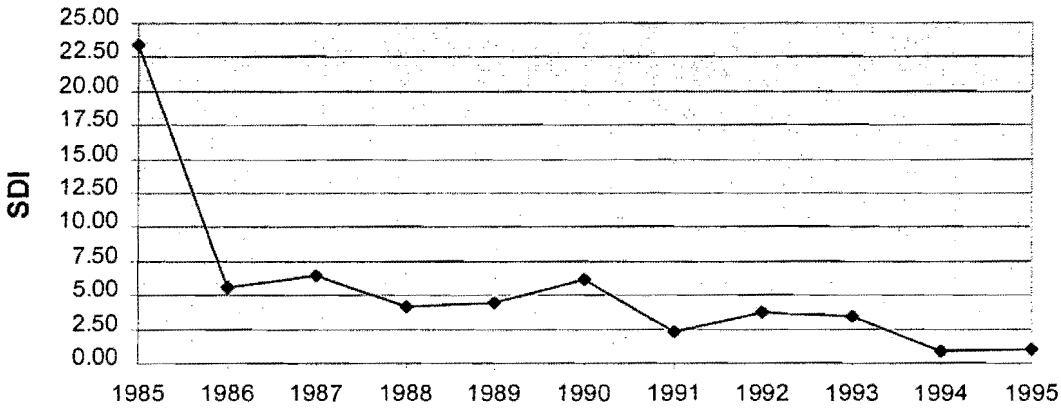
	1991	1992	1993	1994	1995
Arrears rate	6.40%	6.85%	6.68%	8.08%	7.59%
Portfolio at risk	--	15.55%	17.38%	17.46%	18.31%
Percent rescheduled	--	1.98%	1.98%	4.23%	7.7%
Loan vol. out./staff member	$60,795	$98,611	$136,393	$123,430	$92,355
# loans out./staff member	--	66	77	90	92

The Subsidy Dependence Index (SDI)[17] gives a measure of how much interest rates would have to increase hypothetically in order to cover program costs without using subsidized lines of credit. After the program initiation phase, the SDI measure dropped substantially from 23.45 (2,345%) in 1985 to 5.63 in 1986 (Figure 3). Since then, the measure has experienced a downward trend with some volatility. The lowest SDI calculation occurred in 1994, measuring 0.8. This means that interest rates would have to be increased by 80 percent in order to overcome the subsidized interest rates that FINCA currently receives from its various funding sources. While the ideal SDI would equal

[17] Yaron, J., "Assessing Development Finance Institutions. A Public Interest Analysis" Policy Research Working Paper No. 174. World Bank, 1992. SDI calculated using the equation: (A(m-c)+[E*m)-p]+k) / (LP*i).

zero or a negative number, positive numbers for the SDI calculation are the rule in most microfinance institutions. The Grameen Bank has experienced a steady decline in its SDI calculation, reaching 0.21 in 1994.[18] For comparison, CARE Guatemala, another village banking operation in Central America started four years after FINCA Costa Rica, had an alarmingly high SDI of 4.77 in 1995 (nearly 6 times higher than FINCA Costa Rica).

Figure 3. SDI Calculation 1985 - 1995



TEN LESSONS FROM A VILLAGE BANKING NON-CONFORMIST

To call FINCA Costa Rica a village banking non-conformist is a bit ironic given that it is one of the founding institutions of the village banking methodology. Since its creation, many other village banking programs (sponsored by FINCA International, FFH, CRS, CARE, etc.) have been developed. Nevertheless, FINCA Costa Rica has broken away from the characteristic village banking model, chartering new waters as it experiments with the village banking methodology. Its uniqueness makes it an ideal program to study since it can offer insight into village banking alternatives.

CONTEXT MATTERS

Innovations to the village banking methodology are due in large part to a particularly enabling environment in Costa Rica. While still a developing country with a primary export economy that fluctuates with global agricultural prices, several features of the socio-economic context set Costa Rica apart from many developing countries and facilitates the work of FINCA Costa Rica. The high literacy rate (92 percent) reduces the time and cost of VB training and allows for greater autonomy of the village banks. In

[18] Hashemi, S. and Schuler, S. "'A Case Study of the Grameen Bank", Sustainable Banking with the Poor, The World Bank, 1997.

addition, a relatively well established legal system provides lending institutions with a credible enforcement mechanism. Also, a long history of rural lending familiarizes clients with the details of financial instruments and provides a formal financial infrastructure to act as an intermediary between the VBs and FINCA. Finally, the high incidence of land ownership by small farmers and the linkage of the agricultural sector to the export market make subsistence farming unusual. Instead, small scale commercial farming is predominant which requires larger loan amounts than subsistence farming.

A DEVELOPED LEGAL SYSTEM REDUCES THE IMPACT OF GROUP DYNAMICS

Costa Rica has a more advanced legal system than in many developing countries. Because of this system, VBs can be registered as legal entities and held accountable for repayment. Joint liability often is used in countries or contexts where enforcement of loan repayment is difficult since no credible threats exist for defaulters. Instead, joint liability relies on the use of peer pressure to ensure repayment. Given the presence of legal channels in Costa Rica, FINCA Costa Rica has shifted from joint liability to individual liability. Rather than holding the entire group liable for the arrears of one member, each loan is considered separately with the possibility of legal action in cases of default. The abandonment of joint liability reduces incentives within the group to engage in peer pressure and group solidarity to encourage the prompt repayment of loans to FINCA. However, group dynamics are key to the successful operation of VBs. By creating VBs with equity shares to allow member ownership, an incentive exists to make sure that the internal account is repaid promptly and that good members are chosen to take loans from the internal account.

Results from the survey of 32 clients reveal that peer pressure is relatively low in both the case of loans from FINCA and the internal account. Respondents reported that in at least 23 cases members of their Vbs had had repayment problems. In 16 of these cases, an extension was given and in the other 7 cases, the co-signers or family members were required to pay. In most cases, extensions were given to those individuals whose projects or harvests were not ready at the repayment date. In the other cases, individuals were blamed for being lazy, refusing to repay, or being an alcoholic. Due to the information advantages within the close-knit communities, other members are able to detect whether or not the individual with arrears is the victim of bad luck or merely shirking. Given this information, the group can better determine the need for an extension or penalty.

On a scale from 1 to 10, an estimate of peer pressure was recorded in the cases of repayment problems. For FINCA Costa Rica, the average was 4.4 with the higher values associated with the controllable problems and the lower values linked to uncontrollable reasons. A similar survey was performed for CARE Guatemala, a program with joint liability. As expected, the amount of peer pressure was higher, averaging 5.4 on the same 10 point scale. In sum, once joint liability is eliminated, the use of peer pressure is reduced and extensions are given in cases of uncontrollable problems while guarantors are called upon or legal action is taken when no reasonable excuse is offered. Since peer

pressure can improve overall repayment rates, its elimination through the implementation of individual lending must be balanced with other credit threats of enforcement (such as legal action or seizure of collateral) which may or may not be feasible in countries with underdeveloped legal environments.

VILLAGE BANKING CAN SERVE A VARIETY OF MARKET NICHES

On a global scale, village banking has proven to be a flexible methodology in its ability to serve a variety of market niches. Successful VBs operate in Latin America, in Asia and in Africa, in both rural and urban areas and serve a wide range of clients. The clients of FINCA Costa Rica are an anomaly in village banking in that they are predominantly men with a history of access to formal credit. The widespread interest and acceptance of village banking among these clients coupled with favorable repayment rates exemplify how village banking can reach a diverse set of members. Even within FINCA Costa Rica, different market sectors are being served. In addition to the traditional agriculture sector, the growing interest in savings mobilization among women and children, as well as the use of loans for off-farm activities indicate the flexibility of this methodology.

DISTANCING ONESELF FROM AN INTERNATIONAL NETWORK HAS ITS PROS AND CONS

The separation of FINCA Costa Rica from FINCA International in 1997 has had positive and negative repercussions. Its autonomy has allowed it to pursue new paths and experiment with different methodologies. In addition, the program has benefited from working with a variety of partners from the donor world, academia, the government, and commercial banking. In addition, without a reliable funding source, FINCA Costa Rica has continually had to seek financing from a variety of sources, which has allowed it to diversify its borrowing sources. This borrowing savvy and diversification have prevented the program from becoming dependent on a single borrowing source, a problem facing many microfinance institutions.

While FINCA Costa Rica's independence can be seen in a positive light, there are several problems with its isolation from its sister organizations. In a recent conversation,[19] John Hatch pointed out a couple of potential problems with FINCA Costa Rica's isolation. First of all, as FINCA International has grown and accumulated more resources, it is better able to provide first rate technical assistance in the areas of training, accounting, management, etc. to its member institutions. FINCA Costa Rica admits that more technical assistance would be beneficial. In addition, by adhering to recording guidelines set by FINCA International, member organizations are forced to use standard accounting techniques and frequent evaluations. While these reports can be a nuisance in the short-run, they are instrumental in long-run decision making. Regular reporting is another

[19] At the DAI Village Banking seminar in May 1997.

problem area for FINCA Costa Rica. Finally, belonging to a network of international village banking institutions has the positive externality of sharing experiences and partaking in the synergy and information available at conferences. Often times the international organization takes an active role in managing, organizing, and funding these interactions. The management of FINCA Costa Rica is so consumed by its daily operation and has so few available resources that it can not participate in many of these activities.

OPERATING AT A LOW COST ENTAILS TRADE-OFFS

FINCA Costa Rica's goal of providing sustainable financial services to the rural poor has had mixed success. The FINCA Costa Rica program can be described as minimalist, not only because the program provides strictly financial services as opposed to other social services, but also because it has attempted to provide these financial services without investing heavily in fixed assets, personnel, MIS, training, etc. FINCA Costa Rica has been achieving operational and financial self-sufficiency since 1994. It stands out among VB programs as one that is operating at a relatively low cost, but in doing so, it must confront certain trade-offs.

The bare-bones approach to microfinance has led to some difficulties. In 1993 and 1994, a shortage of funds led to the rejection of many loans to its clients. At times, the revolving loan fund has been used to maintain solvency. In addition, some farmers have had to wait so long for loan disbursement that the harvest season had already passed by the time they received their loan. In order to make up for deficits, Maria Marta Padilla has donated her own money to keep the program running. Perhaps the most serious shortcoming of this minimalist approach is that clients often do not receive enough attention (training and field visits) and as a result, some village banks have disintegrated. Therefore, it is clear that a trade-off exists between low cost and 1.) outreach, 2.) program growth, 3.) screening, 4.) monitoring, 5.) training, 6.) evaluation, and 7.) MIS. Indeed, expenditure in each of these areas is lower than other village banking programs[20] and it is not surprising that FINCA Costa Rica does not grow at the same pace as other programs or that its repayment rates are not at 100 percent as in other village banking programs. While providing microfinance in the most cost-effective way possible is the goal of any program, a solid institution needs to have sufficient capital to offer consistent financial services to its clients and maintain smooth operations without the threat of an impending financial crisis. Increasing the interest rate spread marginally could alleviate some of this pressure in the long run.

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[20] Holt highlights FINCA Costa Rica as an example of a minimalist approach to program spending in Holt, S. "The Village Bank Methodology" The New World of Microenterprise Finance: Building Healthy Financial Institutions for the Poor, ed. Otero, M. and Rhyne, E., Kumarian Press, 1992.

AN UNDERDEVELOPED MIS CAN CAUSE INEFFICIENCY AND SKEW MANAGEMENT DECISIONS

Changes are currently being made by FINCA Costa Rica as it sets up a network of pentium computers that will alleviate some of its MIS headaches. The program has operated for 13 years without satisfactory MIS. A weak information system can multiply the time that simple office tasks take. To this day, many office procedures require duplicate copies, several signatures, stamps, etc. To exacerbate matters, only a few slow computers have been available. In order to make simple calculations, employees regularly calculate results by hand. It is no wonder that one of the complaints in the field was that loans were not distributed expediently. This inefficiency causes job stress in the central office as staff members work at a frenetic pace. Even at the highest level, Maria Marta Padilla is so busy that she often can not find the time to analyze performance and make management decisions. With proper programming and training, the new computer system can alleviate this inefficiency, create a more relaxed environment, and provide stronger accounting and progress reports.

VB OWNERSHIP STRUCTURE IS IMPORTANT

Until the mid 1990's, the VBs had a one-person, one-vote rule for internal control. In his 1992 study, Rodrigo Chaves[21] highlights the problems associated with this voting structure. Incentives exist to limit the size of the membership since new members may reduce an individual's control of decision making and assets. New members would have the same control as members who had participated for years. Regarding the use of financial services, net debtors and net creditors have different agendas in terms of interest rates, a factor that can lead to disagreements within the VB. One way to avoid these types of problems is to assign voting privileges in proportion to deposits.

As a result of this analysis, FINCA has started implementing a legal status that designates control over resources and voting based on equity shares. The sociedad anónima (SA) legal status allows the VBs to be for-profit organizations with equity shares. Voting is based on the amount of equity shares an individual has. While more research needs to be done on the impact of the legal structure, preliminary results suggest that the change from an association (non-profit, one-person, one-vote) to an SA structure has an impact on savings and membership. In a small sample of banks (4 SA and 8 associations), the average number of members per association was 49 while it reached 112 for SAs. In addition, the ratio of the internal account to the external account was 0.87 for associations and 1.40 for SAs. These early indicators support Chaves' hypothesis that proportional ownership and voting would increase membership and the internal account.

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[21] Chaves, R. "Institutional Design: The Case of the Bancomunales" in Gonzalez-Vega, C., Jimenez, R., and Quiros, R. Financing Rural Microenterprises: FINCA Costa Rica Academia de Centroamerica, San Jose, Costa Rica, 1996.

One of the complaints about the SA status is that it can have regressive income effects as the wealthiest individuals in the community who are most able to purchase equity have control over the VB. Not only does their equity lead to bigger loans from FINCA, but their control over the internal account leads to a source of funds that small savers can not tap. Another interesting result of this ownership structure is that some VBs encourage women and children to save in term savings accounts. This type of savings does not give ownership or voting privileges. In these banks, it is not uncommon to have 100 savers without equity while less than 50 individuals (mainly men) control VB operation, voting, profits, and decisions regarding who receives loans.

THE INTERNAL ACCOUNT CAN SURPASS THE EXTERNAL ACCOUNT IN VOLUME

In approximately one third of the VBs examined, the internal account exceeded the external account in size. This indicates a dramatic increase in savings mobilization since 1992 when a survey performed by Academia de Centroamérica showed that VBs tended to save only the 10 percent required to receive proportional loan sizes.[22] Interestingly, savings mobilization is the primary financial service in some village banks while in others, it is obvious that savings is purely an implicit fee for acquiring loans. The preponderance of savings in some VBs is not a surprising phenomenon given the well documented demand for rural savings instruments.[23] Among other FINCA affiliates, the savings balance is approximately 60 percent of the external account. As savings increase, the relevant question is how to safeguard these deposits from the risks inherent in agricultural activities and idiosyncratic shocks (see Lesson 10).

GRADUATION IS POSSIBLE

At the International Village Banking conference in 1994, the goal of graduation was abandoned by most proponents of village banking. Not only did program managers note that VBs were reluctant to sever their ties with the intermediate institutions in favor of working alone or with commercial banks, but the village banking institution did not want the best VBs to graduate since they represented a low cost, secure client. The experience of FINCA Costa Rica has shown that graduation is not only possible, but it has occurred in a few banks.

The form of the graduated VBs varies dramatically. In some cases, such as the bank of Pacayitas, the VB operates independently using internally mobilized funds. In other cases, VBs have worked with other organizations and banks to secure funds, most notably FUNDEBASE. Currently, FINCA is operating with such a scarcity of resources that it

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[22] Gonzalez-Vega, C., Jimenez, R., and Quiros, R. Financing Rural Microenterprises: FINCA Costa Rica Academia de Centroamerica, San Jose, Costa Rica, 1996.

[23] For example, see USAID, "Mobilizing Savings and Rural Finance: The AID Experience" AID Science and Technology in Development Series, 1991.

has allowed these banks to operate independently with little or no FINCA intervention. Just because graduation is possible does not make it desirable. FINCA Costa Rica must determine the future path for the village banks, whether it be a continued relationship with FINCA, a channel for funds from various institutions, or an autonomous institution with internally mobilized funds.

THE FUTURE OF VILLAGE BANKING IS OPEN-ENDED

The number of changes that have occurred in village banking's short history is remarkable. FINCA Costa Rica has broken away from many of the negative stereotypes of village banking by offering heterogeneous loan products with a variety of terms, individual liability, flexible payments, and voluntary savings. The process of evolution certainly is far from complete.

Several difficult challenges lie ahead. One of the foremost considerations is how deposits will be incorporated into the village banking model. The clients of FINCA Costa Rica have demonstrated a pronounced demand for deposit instruments. Rather than solely focusing on lending, FINCA needs to keep better track of deposit activity so that it can monitor and perhaps tailor savings instruments that meet client demand. The average VB surveyed had on-lent an outstanding balance of nearly $6,000 from internally mobilized deposits. Rather than depositing savings into local commercial banks, VB members find it more profitable to on-lend the funds. These funds have no deposit insurance and are subject to systemic and idiosyncratic shocks that could lead to the downfall of an entire VB. In addition, mismanagement of the internal account is a factor that could destroy institutional viability. Liquidity management of a large volume of funds, pricing policies, and setting terms and conditions are difficult management decisions that remain in the hands of the executive committee in each bank. As the internal account grows, mismanagement of the internal account could become a problem.

Individual VBs are evolving into different types of organizations. On the one hand, some banks use internally mobilized savings as the primary funding source for lending. These banks resemble sophisticated ROSCAs (rotating savings and credit associations). Like ROSCAs, they have little protection to rebound from endogenous or exogenous shocks. If these VBs were to unite into a network capable of sharing risk and insuring deposits, the organization would resemble the credit union movement. The most frequent type of VB in the FINCA system is one that relies equally on internal and external funds. Originally, this option was viewed as a transient phase of village banking, the ultimate goal being complete internal mobilization of funds. However, more and more, it appears that this status is becoming an end in itself, turning the non-profit organization into a financial intermediary. If management favors this option, then issues related to client defection and retention become paramount as a lender-borrower relationship is established and maintained over time. FINCA Costa Rica's VBs range from completely autonomous institutions to those completely dependent on FINCA, with numerous variations. In the short-term, management seems content with these variations, each of

which provide insight into ideal structures, but in the long-run, a clearer direction needs to be established.

CONCLUSIONS

FINCA Costa Rica provides an extremely interesting and insightful example of village banking precisely because it has broken the mold of traditional village banking. The propensity of the program to alter its path and implement innovations speaks well of its dedicated staff in their pursuit to serve a rural market niche in Costa Rica and provides the rest of the microfinance world with a fascinating institutional history. One of the reasons why FINCA Costa Rica has been able to adopt many of its innovations and operate at a low cost is due in part to the context in which it operates. A long history of rural lending, an export market orientation, a high literacy rate, and a relatively advanced legal system in Costa Rica contribute to FINCA's ability to serve its predominantly male clients at a relatively low cost. One of the unexpected results of this village banking program has been the rapid increase in savings mobilization. While this trend clearly demonstrates the rural sector's enormous capacity for savings mobilization, issues of co-variant risk, regulation, legal status, and deposit insurance must be considered.

Increasingly, FINCA Costa Rica has gained the attention of the Costa Rican government which is interested in continuing and expanding the village banking methodology for agricultural lending. As FINCA Costa Rica contemplates the future of its institution, several issues become paramount. Currently, the VBs range from completely autonomous institutions operating with internally mobilized savings to institutions using a mix of funding sources to VBs operating with funds only from FINCA. Independent VBs have some of the same advantages and disadvantages of ROSCAs. Linking such VBs is similar in structure to the credit union movement. Allowing clients to graduate is no longer stated as a goal, although it has happened. The final alternative is for FINCA Costa Rica to remain a financial intermediary interested in maintaining a borrower-lender relationship. To date, no clear path has been elected, but each alternative presents a new set of issues.

Annex 1 - Institutional Data

FINCA COSTA RICA
Summary Table of Outreach and Performance Indicators

Year of data	1995
Outreach	
Number of branches/field offices	2 offices, 171 VBs
Clientele	
Number of members or active clients (percentage of women)	7,253 (26%)
Number of first time members 1995	1,848
Growth in number of members (av. 1991-1995)	16%
Deposits	
Deposits outstanding in US$ 1992	$61,548[24]
Average outstanding deposit in US$ 1992	$20
Average outstanding deposit as percentage of GDP per capita 1992	0.89%
Nominal interest rate on deposits	15-24%
Real effective interest rate on deposits	2-4%
Loans	
Number of loans outstanding	1,102
Loan portfolio outstanding in US$	$1,108,265
Average growth of outstanding portfolio over last four years (in real terms)	14%
Average outstanding loan size in US$	$1,006
Average outstanding loan size as percentage of GDP per capita	38%
Range of loan distribution (maximum - minimum)	$257- $2,565
Average loan term	24 months
Nominal interest rate on loans	32%
Real effective interest rate on loans	55%
Volume of deposits/ volume of loans outstanding	5%

[24] FINCA does not collect deposits. However, the village banks do mobilize savings to be deposited into local banks or to be used for internal on-lending.

Performance and sustainability[25]	
Repayment and loan losses	
Percentage of portfolio in arrears	7.59%
Percentage of portfolio at risk	18.31%
Reserves for loan losses / average loan portfolio (ALP)	na
Profitability	
Operating costs ratio (percentage of ALP)	25%
Loan loss provision ratio (percentage of ALP)	4.8%
Operational self-sufficiency	144%
Financial self-sufficiency	108%
Subsidy Dependence Index 1995	139%
% income from interest	95%
% income from grants	5%
Equity capital/total assets	11%
Productivity	
Number of outstanding loans per staff	92
Outstanding volume of loans per staff	$92,355

Definitions:

- **Percentage of arrears**: amount of delinquent principal payments that are at least one day late as a percent of outstanding principal portfolio
- **Percentage of portfolio at risk**: outstanding principal balance of loans with delinquent payments as a percentage of outstanding principal portfolio
- **Operating costs**: personnel expenses, other administrative expenses, including depreciation of fixed assets. Operating costs exclude financing costs and loan loss provisions.
- **Operating income**: interest and fee income from loans and from other finance-related services.
- **Operational self-sufficiency** = Operating income / sum of operating costs and loan loss provisions.
- **Financial self-sufficiency**: operating income / (operating costs + loan loss provisions + financing costs)
- **SDI**: See text.

[25] These data comes from FINCA Costa Rica Internal Accounting, however, FINCA International staff members doubt the accuracy of these figures due to problems related to financial transparency and MIS.