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## 'BancoSol' case study materials

Pancho Otero

Otero, P., (1997) Annex 1 'An overview of BancoSol', Annex 2 'Goals and objectives of microenterprise lending institutions and lending methodologies', Annex 3 'Institutional transformation', Annex 4 'Controlling fraud', Presentation by Pancho Otero to Workshop in Zimbabwe, USAID Conference Report, January, pp. 52-64

# 'BancoSol' case study materials

Pancho Otero

## Annex I: An overview of BancoSol

Good afternoon. I am of course, very pleased to be here. It is an exceptional opportunity for me, it is my first time in Zimbabwe and I would like to thank DAL, USAID, SEEP, and everyone involved for sending me this airplane ticket in economy class and allowing me to visit the country. Actually, I am very happy to be here and of course, as you realize by now, English is not the language of Bolivia. I hope you understand me well and I hope I don't make any major mistakes. I, myself, have been able to understand those from Zimbabwe, but you know people from India I don't understand well, now the British, the British are impossible to understand, when they talk English its like when the French talk English, so you don't understand. Oh, I am afraid there is someone from England here! We will have plenty of time for questions and answers, so if there is something I do or say that you do not understand, not to worry. Actually what I would like to do is a short presentation on the Bank. Instead of dwelling on any one subject, I would rather let you pose questions and that way I will have much more relevance.

Let me begin by saying that even though I have found in our two countries many similarities, I don't mean to say that anything we do there will apply here. It is your job to decide what things in fact do apply and what things can be adapted. But we do have some similarities – we are very close in size, we are 7 million and I understand Zimbabwe is about 10 million. Of this 7 million we are 50/50 men and women, I mean urban and rural. Bolivia has two major language groups almost evenly divided, then we have a European language as the main language. Almost everyone in the country speaks Spanish besides their native language, so we also have this to contend with. What is most interesting – we are like you – a country of about 1 million self employed and most of these employed under conditions of what we heard this morning. It could have been an explanation of Bolivia, we are a country of microentrepreneurs. In almost every family there is a small business, depending on the region it is a different type of business. In that respect the economies are very similar, we rely on one or two products of export and the rest is just cottage industries and microenterprise. So even though there are all these similarities I don't think everything I say will automatically apply to Zimbabwe. You will have to be the judge of that.

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BancoSol is a nickname for Banco Solidario which means solidarity bank. I think that is important for you to note because this was of major importance during our history as an institution. Next week we will have been working for 10 years and those 10 years have been a fantastic adventure for some of us who have been involved in this institution. It has been something that has absorbed us completely and just to give you an idea – very soon we will have 100,000 borrowers. In addition to this number, we are very close to having 25,000 savers and close to having 60 million dollars in assets. We are also very close to reaching 1000 staff. And by the way, when we talk in dollars I mean American, not Canadian or Zimbabwean. I know it is very easy you just add a zero, so you add the zero and I will talk in US terms! We also have 70 branches – is today Tuesday or Monday? So it is 69 branches – we open one tomorrow. In 1996 we made one million dollars profit. In banking terms that means about 20% earnings over equity and this is very good for banking in Bolivia. Other banks don't get that good of return.

However, there are other businesses that make more money on investment than 20% but this is very good for banking. This is what our bank managed to do. There are other things I could tell you about like impact on the clients and impact on the industry that I will have a chance to talk about tomorrow. How did these people manage to do this in 10 years? I have to tell you a little bit of history to tell you of that part and I have to go into some anecdotes at this point.

Ten years ago, like some said here this morning, we started very small, we just were four or five people and we rented a 2nd floor apartment to start our operation. We were all people who had worked in rotating funds of one type or another but in Bolivia there were very few of these, none of us had any idea of banking or finances or supervision of banking systems. We had no idea of this but what we did have, as a common characteristic, is that we were all aware of what the clients were like.

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A couple of social workers, a couple of renegade communists, a couple of ex-priests – that was the group. No finances, no calculators, none of this but we all had a nice feel for the clients. We all worked together; it was a group of people, in which no one was older or more experienced. We had a \$150,000 rotating fund from the U.S. government. We had a promise of a couple of million from the Canadian government. So this is how we got started, let me say that this was a very small operation, we never even dreamed that one day we would be talking about the numbers that I have just mentioned. Nevertheless, we always did talk about the long term. We were always building very solid foundations – let's not do something very quick just for the quick gain, let's work for the long term strength. Somehow this was in the back of our mind, so I think this was very important for the Institution.

I think what was very important is that for some reasons some of these things came about by luck, other things were well thought out. We said no arrears, we must collect everything, no write offs, we had very little money. A couple of us had already managed very small rotating funds, maybe for a Parish co-operative or maybe somewhere else, but we knew this was possible, we wanted to make sure we avoided somebody owing us money.

So we said we had to find ways to get all this money back and actually to this day we haven't written anything off, we have zero arrears. Occasionally we write something off but it's a small amount, maybe \$10 or \$50. A couple of months ago we wrote off \$800 or \$1000 dollars but in the context of a \$60 million portfolio, 60 million assets, this almost goes unnoticed. So we do write some stuff off but you can't even calculate how much percent it is as it is so small.

By Friday night everything gets collected. Our system? We didn't have systems, the way we operated we were always thinking about this and then later I can answer how we did it. We were very lucky and also we had a very good location, we were right in the middle of the market, we were not downtown. Later I found out that bankers say for some reason when they talk about the success of the bank there are three conditions for the success of a branch, location, location and location! We didn't even know this but it was something we did very well, we put the branch in the right spot. One of the board members asked why don't you bring it down town? Floor No. 15 of our building is empty! Fortunately we didn't do that because I can imagine all these peasants in the elevator going up and down. In addition, a small philosophy we had, we called it the 4f's – fast, friendly, focused and flexible. We always tried to keep this in mind. So fast meant let's solve this problem very fast, don't try to be perfect, try to think in the long term but try to get it done very fast, don't create a big solution to a small problem. This allowed us to become a group of people who decided very fast on things and we all had the right to decide. Our small group that was beginning this pilot project – we wouldn't wait till the evening for the GM to decide, maybe the GM was doing teller work or maybe he was doing accounts, we all did everything so we all had the right to decide, this got us into a lot of trouble later on but at the beginning it was very helpful. We didn't incubate problems, keep them on and on. By the end of the day everything had to be decided, even if we had to stay to 8, 9 or 10 which we did a lot of in the beginning.

Friendly was more complex because fast was relatively easy to get, friendly meant that we were not going to be any of the extremes to the client, we were not going to be paternalistic and we were not going to be stonfaced as personal bankers, because Bolivia up until then they had only those two things. Up 'til then they were called beneficiaries or participants. There were all these names for them which were all completely degrading, basket cases, the poor and vendor women. Of course the bankers were calling them riff raff, so we came up with a great invention we called them clients, we called peasant women customers and they was extremely important. So friendly meant something other than just smiling. Behind this word there was a lot of respect for the client. Later on I will tell you about one particular philosophy that was important. So this was the key to our success.

And of course focus was central to the success because as soon as we started working then the Norwegians said, you know you have a lot of women clients, can we vaccinate the children! Then somebody else came and said we would like to teach them accounting. Everybody had an idea for our clients.

Some of the staff were angry with me. They said let's get all these things for our clients. Free seeds, training on how to raise children, vaccination, baptism, sign up for elections, all these ideas. Why don't you do day care for the children! We were only small working on loans, period! I made a lot of enemies from this. Because everyone saw how the line was growing. You can imagine – we got to about 3800 clients. So imagine how full this 2nd floor apartment could get! Everyone started coming in and saying you have all the vendor women and we have been trying to teach them to read. We made sure nobody did any thing else in the office but small loans. So focus is very important and to this day it is very important to the bank. Some shareholder will say, why don't you do checking account, why don't you do sending money to Brazil? No, we only do small loans and pass book, this was very important. You must remain focused, if you start doing everything else you start to lose your identity and eventually you become another failed development project.

Of course flexible is relative easy because flexible meant use common sense. We had some basic rules but if for some reason the rule didn't work don't become like the bankers, completely stubborn and stupid. Because bankers in Bolivia, you know in order to get a loan you must be able to sign, everyone knows in Bolivia nobody knows how to sign, you can't get a loan unless you have an ID card, I need the loan to get an ID card. Well, you can't get a loan without an ID card, so then we go back and forth. So use a lot of common sense with the rules. This has got us into a lot of trouble later on, because common sense is not that easy to apply. So these were the basic rules we worked with and these were the basic conditions we created. Tomorrow I will have a chance to talk about our transition from a pilot project to NGO to bank, this is a complex process that took us a long time to carry out.

Now I would like to talk some more about underlying principles we use. We had to look for staff in the right places, and by the way in each city we hire from a different background because it took us a long time to find out which were the most likely people to understand the work and to commit themselves. Let me tell you it is not easy to get commitment from staff, it goes by example, somebody said the hardest thing to put down is a good example, you know you can't ignore it. It is very tough to ignore good examples, so the management have to be very committed so the field staff become very committed so that the tellers become committed, the guards have to become committed ... So it had to start from the top. It was very hard to get going, as they say you can't teach an old dog new tricks, in Bolivia we say, you can't teach an old parrot to talk. So sometimes higher level staff will be a little older and it was very hard for them to get some good habits. I can talk on this forever, because I really learned a lot during the last 10 years.

The best way to explain it is the story of the cow and the chicken. The cow and the chicken walked out of the farm talking and chatting and got very far from the farm, so finally they arrived at a place, finally the chicken said we have been walking, let's stop and have breakfast here. Look, steak and eggs, so the cow said no no no look at the menu. From you they are going to ask for a donation, from me they are going to ask for commitment! So this is the

p. 54 difference. We say you are not committed 'til it hurts, if it doesn't hurt then you haven't been giving of yourself, then we have to get people to understand that this sacrifice is what makes them worthwhile, so it is a complex situation of how to get people to commit themselves. But once you do it, success is practically guaranteed. We had many staff who had 1000 clients who knew them all by name and had zero arrears, now the average in the bank was about 400 which is about the level you need to reach to resolve the problem here of profitability. If you don't get that productivity it is going to get very tough to get profitability and of course the ideal is to get that productivity to get everybody happy and to have everyone convinced that what they are doing is the most important thing, so commitment of staff is a very important thing. I am sorry if you want to go into more detail you will have to invite me again, it takes several days to do this issue!

I think the other important underlying principle that we brought to the industry, that I heard perfectly well explained today by Dr. Getu, I am surprised that someone in a University can be so intelligent, because frankly he had a very clear picture of this issue of the needs of the client to be well regarded and respected. I am absolutely with you professor. If you just do the financial part it is not going to be successful, our clients are marginalized and are mistreated everywhere they go, in the bus, at the police station, at the grocery store, everywhere they are looked down upon. So if you have an institution that has a lot of respect for them, but not paternalistic, then you will have success. At home we saw development as not the big road from Bulawayo to Limpopo or something, not the big electrical dam; development is when in every household everyone is working and everyone is productive, so we put development into the back yard of the houses. If everyone is working and they have the basic needs and they are together, then absolutely the country will develop automatically, these other things, electrical grids, hydro dams, roads, they are not prerequisite for development, they are just infrastructure. You have countries like this, very poor and very backwards. Some of those examples are Arab countries, they have fabulous airports better than Europe but nobody knows how to read and write and nobody's happy. So we made this distinction early on and we convinced our staff that this was development and of course our staff were interested in the development of the country and the development of the people.

From there it was just one step to say no matter how small the project is – someone comes in to say they want 50 Pesos to sell lemons – you must respect that project. Development is when everyone is doing what they want. Everyone's in an economic activity that fulfils the needs of the community. The way you earn a living is by satisfying someone else's need, so if there is a need to sell lemons on the corner, then you must finance that, you must never look down on that, even if it is some peasant woman who is poorly dressed, does not speak Spanish maybe has no shoes, etc. Our staff understand this. Having people fulfil their economic dream was the road to development in Bolivia, not the big airport or the big airline or what we call the white elephant that is the big project that doesn't pay its way. So self esteem for the clients through esteem from the staff was actually the key to success for us. I think it is also important because it flowed right from this idea we charged



real interest rates. We were the first company that charged real rates, up until then everyone had handled rotating funds with 1% a month, 5 % a year ... We came in at 3.5% a month which was 40% a year in local currency.

After the first year we were paying our salaries, we were covering our costs, we were buying furniture, etc. The Americans and Canadians were very distressed because we didn't need them anymore! Of course I also mentioned at some point the no write off and the zero arrears philosophy, and later I can refer to it. I think it was extremely important to us, finally, that we used the solidarity group scheme. No matter how backward you were when you walked into the bank you were worth a guarantee, clients liked this very much. They said, at least I can guarantee somebody. The other reason was we could go to their houses when there was non-payment. Whenever there was a big debt we could talk to the group and the group would go and collect and the group of course was much more successful than one field worker by himself trying to collect. So this worked very well for us.

Finally I should say aside from the solidarity group methodology, the subsequent loan system was critical. If we got people to understand if they paid punctually they could get another larger loan, this was absolutely central to the whole idea. Someone once said, what is the good of the drugstore that will only sell drugs to you once, last week you already got ampicillin, penicillin, you cannot get any more here, not even aspirin! This would be an equivalent to an institution that only lent once! They find your name on the register, no no sorry! This was the way it was in Bolivia until we came with our sequential system. Our sequential system was that not only did you get a larger loan but you got it automatically, 24 hours after your last payment. This was part of the fast principle. Someone said let's go back to their houses, count the bananas again, see how many they sell, look at their sales. No no no! If they pay punctually we don't go and start looking at the furniture, see if they had painted the roof. This was also part of the respect for the client, so sequential loans were critical.

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I think if we combine all these events and if you look at this one coherent whole – we call this institutional culture. All of these things were very coherent and they fed into each other – the solidarity group fed the self esteem, the self esteem fed the no arrears, no arrears fed the good portfolio and good returns and no paternalistic rates fed the self esteem of the clients, so everything had to flow. It was critical that the staff understood everything, because it was critical that the staff understood that this was a whole coherent view of development and of people and of individuals and we also had to be consistent between what we were saying what they were doing with the clients and what we were doing with them. So for instance, credit committees were only made up of field staff, no managers in the credit committees, no accountants, none of these people, no back office, only field staff approved the loan. Of course we had credit regulations that we kept very simple, so we had to live by what we said and this made it difficult, but it also made management feel good once the returns started to come in and the results. Someone once said BancoSol management don't age because they are constantly out in the street and feeling good about their company and so

forth. This is even why I remain very young these last 10 years! My idea was to give you a very broad view of what the bank was like, especially of the principles and philosophy behind it. Now I can take some of your questions. If you would like to know how each particular thing was practised, I realise I did an overview of everything. Mr. Chairman, thank you very much.

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## **Annex 2: Goals and objectives of microenterprise lending institutions and lending methodologies**

I will start by telling about the Wheel Tapper who I asked, what is the reason you were knocking? "I don't know why I was knocking, I was just supposed to do it when the train arrived, I wasn't supposed to know the reason, I was just supposed to hammer the wheels of the locomotive." This story illustrates something that is very common among people, which is that they don't know exactly why they are doing a particular job. The purpose of this brief presentation is to tell you about goals and objectives, I will not give you recipes for the goals that should be established, I will only tell you briefly about what this means. Then during questions and answers, we can go into all the details if you want. Or we can act like the devil's advocate and see if in fact these comments are worthwhile and if they apply to the situation here.

Perhaps the key job of management is to make sure that at the beginning, very early on in the finance program when the task is clearly enunciated, the questions of what are we doing here and what is the company for, must be very clear known by everybody. It must be very clearly defined so that everybody understands what the company is doing. In some other businesses it is obvious and maybe you don't have to do it but in our business, because it is a new field, it is absolutely essential to do it. I think this was very important for us at the BancoSol. Very early on we managed to develop a focus that said what we were going to do. We said "small working capital loans for microentrepreneurs." Once we had defined this clearly we defined each word, what did we mean by small, what was the amount or what was the ceiling on the amount, and what did we mean by working capital? We had to clearly define each one of these terms, what we meant by microentrepreneurs and what we meant by rural and urban, etc. It is something that can be in the charter of the institution or in the statutes, or in the internal regulations? But it has to land somewhere to be considered official and everybody had to agree to it. This is sometimes called the objectives of the institution. I believe the objectives are absolutely essential. Once this is clearly enunciated then you don't have to worry if someone comes and offers to vaccinate the clients or the client's children – no, no, no, this is what we are doing, small working capital loans, not vaccination, not literacy, not training.

I am not saying these things aren't important, they are important but we are not the ones who have to do them. It is a fact that some institutions have been doing other development work and then start to do loans and then it will become confusing, it would probably be better to spin off the loan department into a company by itself because this is very particular work. I



don't believe a company can do urbanization or drinking water and small loans or technical assistance and credit, or some other task that may be very necessary for the community. Please note that I am not saying these things are secondary or not important, but you must choose your focus early on and you must do it in such a way that everyone is clear on this. This to me is the key job of management and it takes a lot of energy and effort to maintain the ship on course. I remember very early at the beginning, someone came in a few weeks after we started working, this person had drawn a whole book, almost 20 or 30 pages of cartoons, explaining something about literacy, he had been working for us only for about two months and he had been doing that during his spare time. It was a very nice book – the pictures were wonderful, the colours and everything, it was very important to sit with him and ask him, "Say look, are you interested in this or the other thing"? and it was very clear if he wasn't interested in what we were doing then he must leave because you get a lot of insistence to do other things, especially early in the beginning, especially before institutional or corporate culture is clearly established.

(p. 57) I think there is a second answer that has to be established clearly which is of course, why are we doing this? I think the answer has two parts: the first part, and some people call it the "mission" of the institution, talks about justification, in other words it explains what the problem is with the world and consequently the reason why we are doing this.

Microentrepreneurs say that they have no access to funds, therefore, we will provide them with funds! Then there is the second part which is sometimes called the "vision" which is the way we are going – so that there will be a better world, or so that this community will improve. So one explains the justification and the other is the expected result and I think this is just as important as resolving the what. It is key to have each person enunciate and think and express and write down, why they are doing this job. Then after everybody has had a chance to do this it is important to work together to end up with only one main reason why are we doing this job. This may sound a bit autocratic or dictatorial but it is necessary to get all these kids to think in the same way or to row in the same direction – to make them committed. I think it is an essential part of the job of the management or the leadership to establish the mission of the institution and the best way is to get each person to enunciate their personal mission. I understand many companies do this now, even though it is absolutely clear what their work is they will have everybody talk about why they are in the company and why they would like to remain there, their personal interest and their personal mission is compatible with the Company Mission.

These key questions must be answered and they are not something you do at the beginning and then forget about it. It is something that has to be occasionally repeated. We used to have a session where everyone wrote down their missions once a year, we took one morning every year and did it. We would arrive at some branch and say, "why don't we write?" of course it is extremely important to get the commitment of the people. The famous answer one woman answered, she said, my objective in life is to move to the

United States and live in Miami, well what are you doing here? "Well, I am saving money until I can go." This person will confuse the rest, she will not be entirely committed, she is just passing through and we don't necessarily need these people. We need people who understand our mission and objectives and are committed to it and can convince others that come in.

I would like to add that there is another question that has to be answered, I believe this question is perhaps just as important as the rest, even though it is much more technical. Once it is entirely clear what we are doing why we are doing it, then it is very nice to answer the question, "How much are we going to do, what are the goals?" This may sound strange but I think a budget and a yearly plan are very important, this exercise will allow everyone in the company to know what is expected of them. We got very sophisticated in this and in October spend a week and then later another week. Each person said how many groups they were going to do and how much they were going to disburse and then we added all this together for each branch and had an idea of how much money we had to get, so yearly plans and budgets are very important. These are simple to do. Now this is very delicate because this cannot be a tool for repression or it cannot be used exclusively to run the company, you cannot just simply go by numbers. The idea of the exercise is for management to know certain key things, but it should not become something that later the staff are sorry they did, as a matter of fact once this is done it is very important to revise it, this is why we have the June meeting, we would dig it back out and we said we were going to do 300 new clients in this branch, it's halfway through the year and we have only done 200. Maybe we can improve this figure, or lower it or adjust it in some way or maybe we can study the reason why we didn't meet the expectations, or the reason we are above expectations for the back office.

This is extremely important because management will be raising the funds and they have to know how many people to hire and they have to know what resources the front office will need in order to operate. But it is also a very good exercise just to get everyone in focus. I believe it is critical to do it every year. In the beginning I have to confess we didn't do it, in the beginning we said we had \$150000 to lend, let's just start working. It is hard to do it at the beginning because you don't know how things are going to go. Of course you try to live by the budget but you must not let it run the company, if you simply use it as an immovable tool, then the budget runs the company instead of it being a tool for sound management.

Finally I think there is a last question that has to be answered, how are we going to do it? I heard recently the definition of "technology" is how you work – the methodology of the program. Are we going to do groups, are we doing individuals, what day are we going to disburse, what form has to be filled out etc., etc.?

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All these steps I would call the methodology or the operation plan. I think doing this particular exercise every year in the company is very valuable. All of this should be done in a very particular manner making sure that everyone gives input including tellers, field officers, everybody. By no means can this be done by the GM and the President or only with the Board of Directors. It

is much more work but it is much better from the bottom up. Now we are very clear to clarify that we are not going to do what everyone wants, for some people we will select what has to be done that year, some people will say let's open a new branch in such and such an area, maybe we will maybe we will not. But they know we will have listened to them and they will know we will have taken into account what they said.

Not too long ago a French man was interviewing Japanese industrialists. At some point he said, what was the secret of the success of Japan? I am sure they had been asked that before, they were certainly the right people to ask – there was one person who invented the transistor radio, the person who ran the Toyota Motor Co., another person from Panasonic. These key Japanese industrialists, all men, said automatically the key was always to involve everyone in the planning. We always ask what they think is the best and of course that made them feel they were participating.

So I think the planning process has to be very participative. Once it is written down and once it is agreed to it has to be taken seriously, but this does not mean you are inflexible about it. If one of the goals established was no write-offs, then if someone doesn't want to go and collect when they are supposed to, you can confront them with it, didn't you agree to no write-offs? Of course the person is put on the spot and is forced to rethink his attitude, it is very important for people's attitude to be very serious about the plan. At the same time, I have to say and this can be very tricky, you have to be flexible enough so if there is some reason why something can't be carried out or there was a mistake in the planning or budget or something happened in some area you couldn't live up to your commitment, management has to be flexible enough to understand the reason and be able to change it. Now this doesn't mean that at the end of the year there is a long list of excuses. We used to have a president in the bank who said there are only two kinds of people, there are the ones who are very good at excuses and there are the ones who say it is too hard, it cannot be done. So you have got to find a very rational point in-between, applying with all seriousness your plans, your objectives, your mission and budget and also flexible enough to be able to accept what everybody considers to be a good reason or a very valid reason.

Finally I think one of the big questions we had about the bank was always why is there such a large human resources department? Indeed, there were many people working in this department in the bank. Most banks in Bolivia had only one or two people and they were in charge of checking vacations, occasionally seeing who came to work and who didn't. Well, the reason we had a large human resources department was because they were in charge of managing these sets of goals and objectives of the bank. They were in charge of getting everyone involved in the decisions of the bank. When we realised we needed someone to do all this we hired a psychologist. This person was working in the University. He was so interested in finding out about us that he brought a couple of his colleagues, so soon after the whole psychology department of the University were working in the Bank, about seven people, and the University didn't have any psychologists left! Later on we laughed about this as we didn't plan it that way and eventually we would get a lot of

applications from the Psychology Department. I think we will stop here and perhaps ask for questions.

### **Lending methodologies**

There isn't much I can say about lending methodologies, I think it is very basic and simple. The institution makes a decision about what lending methodologies it is going to use. It is very important to come to an agreement, after you have decided what you are going to do and after you decide why you are doing it, in other words, the mission and vision of the institution. Simultaneous to this you have to decide how you are going to do it, this operational plan involves probably the most important point, which methodology are you going to use? I assume most institutions have gone through this, sometimes institutions will just imitate successful methodology in the country or whatever methodology has worked best.

It is very important to research, in the regions where it is successful, how you can apply it, what particular difficulties there are, or how it has worked. Once you have chosen a methodology, it is important to have all the rules clear with the staff. How is it exactly going to work? You can have a small period where you do a pilot project. Once you finally decide you should write it down and here again it becomes very delicate and tricky. You must be flexible about it but at the same time you must know what you are not flexible on, then stick with this once the methodology is working.

You have to monitor very closely what could go wrong. After we decide to do solidarity groups we started to have some problems, we started to have arrears. Monday night came and each Monday night there was one more problem. We were managing to collect by Friday of each week, but then one week came and on Friday when we closed we still had someone owe us some money. Someone said why don't we just compare and see what is common among the people who are having problems? It was incredible, something started to come out of it, the groups that were relatives were having problems paying, the groups where there were a house owner and tenant were having problems, consistently where there was a spouse where the other spouse didn't know they had a loan, they were having problems. So after about four or five months of working we did a major adjustment to the rules – no relatives, no householders and tenants in the groups, no groups of women and one man. This is how we discovered that this system didn't work, so then we made an adjustment to our methodology.

p. 59 After a while some clients are going to need something else, so even though you focus in your market in what exactly is your product, even though this focus has to be very clear and very well enunciated in your methodology, as time goes by and you become more confident I think you can become more flexible. Right now BancoSol does all three methodologies: it does cluster groups of 10 or 20 people, it does solidarity groups which are more focused smaller groups of 4 or 5 people, and it does individual loans, especially with older clients. So I think it is important in the beginning to focus on one methodology, it is like trying to keep three telephone numbers in your mind. I don't believe there is one methodology

that is best for everywhere. It depends on the region and on the type of clients, it probably depends a lot on the institution. I am sure most people understand this already if you have been lending for a few months. We were very lucky, we started with only one methodology. We had clients who insisted they only wanted an individual loan, we thought it would be better to just go slow and to become very professional in one methodology. When we became confident then we started to mix methods and to do other things and to experiment a little bit.

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### **Annex 3: Institutional transformation**

Thank you very much. I hope you are not tired of hearing about BancoSol. This particular topic, transforming an institution from an NGO, is interesting for me as you can imagine. We didn't call it transforming, we called it transition. We began this process in 1989 and it was fabulously interesting to us and quite an adventure as you can imagine, going from a small NGO pilot project to becoming a commercial multi-service bank. By 1989 we had already been working two or three years and had overcome many problems. We had not written off a single loan and we had about 6000 clients but it was becoming increasingly clear that there was one major obstacle facing us. In those days we didn't have guards or tellers, just field officers. Banks disbursed for us and for these banks it was becoming increasingly a problem. All of a sudden on Tuesday mornings there were hundreds of our clients at the banks. The banks were making our clients stand outside in a line, some had to wait until about 10am, they could only come in one at a time, they said these are riff raff. Our clients had to stand outside, even if it rained. Above all we were short of funds. Even though operationally we were covering our costs with the interest, we were having a lot of difficulty accessing funds.

We were beginning to use large amounts of funds on a monthly basis and donors were becoming scared of us. As I told you yesterday, we had \$150000 from the U.S. and \$2 million from the Canadians. When they came and looked at our program they were very surprised because we were collecting our loans. Our Portfolio was rotating 3 times a year. There must be a mistake here ... whoever heard of a portfolio of \$2 million and disbursing \$6 million in a year. They couldn't understand how we were tracking people and then they were scared of the interest rate. You are charging the poor too much, if you get caught we will be associated with you. As a result of very visionary people who by chance happened to meet the solution was found. They said let's adopt a commercial approach and become incorporated as a bank. I believe it was the most earthshaking idea that microfinance had had until that moment. Microfinance had always been either state run or non-profit, it had never adopted the commercial approach. I remember this decision was made on June 6th, 1989. I remember I went home, and didn't sleep that night, I had a fever.

Someone said if we cannot make this commercial approach with the poor work, then there is no hope for this world. If working with poor people cannot become mainstream banking, cannot attract private money, if it cannot

be profitable there will always be poor people. But if it works then investors, fund managers, stock markets will all want to work with the poor. It is better if we try even if we go broke than not to try this at all. So it was tremendous challenge and if you think about it, it makes a lot of sense. If poverty has to rely on the goodwill of some donors, it cannot become part of everyday business activity, then this world will become just a few very rich people and a large mass of poor people. So this is what shook all my understanding of development, it made me have a fever, and I had to rethink everything that I had thought. This was earth shattering, this was truly a major milestone for me personally and a major milestone for the Institution. So after the fever went down and after we thought about this for a few days we sat with the major staff and talked about this. Little by little it started to make sense, if we make work with the poor profitable so that investors want to come in, then commercial money would come in and then it would be like any other economic process and there would be a chance to resolve it. By then we knew that the amount of money that was going to be necessary in order to have our portfolio was going to be a staggering amount. So we embarked on this adventure.

We created a small committee who did a feasibility study. Actually they did a pre-feasibility study and then a feasibility and then a final feasibility. There was a famous president in Bolivia who one time went to a remote region, he was well known for being hands on. He arrived at this village and asked what the locals needed. They said they needed a bridge because when the rains come, the water goes up and we can't cross. The president ordered a bridge to be built. A few months went by and he asked if the bridge had been built, they said no, we are doing the feasibility study. So he said, first make the bridge and then do the feasibility study. That was my attitude till then, let's do things, let's get going. But this time I had put up with this, because we really truly wanted to see what this bank would look like.

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From June/July 1989 to July 1991, for two years, we studied and wrote up this document and negotiated with share holders. We tried to convince people, it was a major task. We had first to get the legal part resolved, we paid a particular lawyer over \$100000 to do this and of course we picked the best one. Then a group of us including the Committee went to find people to put in money, we needed about \$3 million to start a bank in Bolivia according to the law. We also had to adapt all the systems, adapt the whole back office, to meet the requirements of the authorities.

In 1990 there was an election in Bolivia. We had to talk to the three other parties who could win the election. One party would be going out one door and in the other was coming in their worst enemies! It was very interesting because the group that won that election and went to power said if these people are talking to us they are on our side, so they were very friendly to us. These people in 1994 had been thrown out of power, two of them had invested in microfinance companies, so we had more than convinced these people. We did a lot of lobbying and a lot of work.

The legal transition was not difficult. If you have the money you can create a bank. I think this is the case anywhere; the law is relatively clear – how many



founding members you need, how much they need to put in, how much of this, that, and the other. A good lawyer can ... incorporate a bank but there was one small trick, we were going to have the NGO as the major shareholder so the NGO was going to transfer to the bank all of its portfolio – the 9000 clients. In exchange for this, the NGO was going to get shares, which is just plain paper as you know. So it was very tricky to get the authorities to accept this kind of investment. Then we had to convince the people who had donated the money to the NGO. We were very lucky because USAID people and Canadian people picked up the idea right away, they said fine, that will be great. Even though they had given this money for NGOs it was going to be passed onto the Bank but they understood immediately that this was path breaking. It was innovative and they understood that this was the way to go. Once they were satisfied that this Bank was only for entrepreneurs we had them on board and they supported us and they ended up doing a lot of the lobbying. So this was the only hitch in the legal part.

The second aspect was the shareholder structure. As I told you the NGO was going to be the largest shareholder, because its assets at that point were about \$2 million and the law wanted about \$3 million. The remaining money was very difficult to raise. We searched for a long time for someone who would put in the bulk of the \$1.5 million we needed. We needed someone who would put in at least 50% of that because of the other 50% we got from Bolivian companies. We managed to put together about \$0.5 million but the other million was very tough. Our first idea was to go to the World Bank, big mistake! The World Bank has an institution called International Finance Corporation which is the private sector arm of the World Bank. To this day they haven't put the money in and they always keep saying we are restructuring. We have hosted more dinners with these people! They were never able to decide, it went from one bureaucrat to another. They were never able to make up their minds. They would say, Capital Markets is studying this, Latin American Regional Department is studying this, Banking is studying this, everyone was studying this and reading! During the two years our feasibility study was going on I would call them, say have you made up your mind, do you think you will come in, we are waiting or we will leave it open, by then we had already lost hope that they would come in. The worst part is they would never say no, they never said no.

In Washington there is another institution called the Inter American Development Bank. I understand you have a very similar institution in Africa, in Abidjan, called the African Development Bank. The day we went and made a presentation, they threw us out. They said, what, get out of here, small loans \$50! Out! Just to show you how upside down things are, they are actually are the one who came through with money! The established a rule, I think it is very fair, they said at the 5th year someone in this group buys all our shares, they actually put in \$1.2 million dollars, with a very clear and specific buy option. Now I don't understand them! I don't believe they are happy with the project because they never invested again in something like this even though a lot of opportunities came up. We had a lot of difficulties with them. They would send a different person every time to the board

p. 62 meetings and we would start from zero. They never really became interested; I believe it was an administrative mistake that they put money in this. I believe they didn't mean to but they were stuck with it! However, what it did was to assure everyone else. They said, oh if the I.C.F. is investing then this is good. The money the IADB put in was useful but at the same time they never became convinced – they never put in enough time, enough energy, enough effort, to become convinced.

Let me say, in parenthesis, in 1991 a group of shareholders, with BancoSol shares, created an equity fund for Solidarity Banks in Latin America. One of the shareholders also works in Africa and is creating an equity fund for microfinance banks in Africa. This is very important in order to adopt a commercial approach because it will be a speciality shareholder. This equity fund in Latin America is called a Prodem Fund which is based in Costa Rica. Now this equity fund in Costa Rica has supported about five institutions to become commercial banks. These NGO's didn't have to go through this hell that we went through. The Fund looks at your books and in 3 weeks they decide. If they like the NGO, then they support it with a lot of technical assistance and help them become banks. This fund hasn't been established in Africa yet but they are working very hard on it.

The other big change for the NGO to become a bank was in the reporting required. This was a major difficulty for us. The banks in Bolivia require a balance every 24 hours. We were doing the Dan Norell system, we were doing a balance at the end of each month and we were reporting this to our Board. We had to change, we had to do practically everything all over again. The back office suffered the most changes and some banking people were hired to work in the office. We also had to adopt banking system balance sheets and accounting systems. We had to change the whole accounting system and this was particularly difficult. It also resulted in not being able to open rural branches. We couldn't open branches that were far away from the city, because we had to get all the figures by 6pm each evening at 9am we had to turn them into the Central Bank.

For this reason we kept the NGO alive and we told the NGO to concern itself with the rural branches. So the NGO started to work in the countryside. When I speak of 100,000 clients, 20,000 of these belong to the NGO and 80,000 are in urban areas and belong to the Bank.

In urban areas you can send data through a modem or in some way to the home office, and staff will work in the evening to get these numbers consolidated, but from rural branches there is no way to call, there is no telephone system, no modem. We have a couple of branches that are a little way from the Bank and someone goes with the Diskette on a bicycle and by bus. The authorities don't want to change this rule on reporting. They must know the next morning everything that happened in the Bank the day before. We never get fined for late reporting, the fine is very high. As a matter of fact we never get fined for anything, the other banks are always getting fined, big fines. They are constantly doing things that the authorities do not permit. Maybe we get fined a small amount like \$400 if the signature of the accountant doesn't match the card.

I would like to talk about the most important thing that we had to go through which was the attitude of the staff, the staff didn't like the idea of a bank! Back then, hardly anyone said "good idea", they didn't like the fact that we were going to take poor people's money and pay dividends to rich people. Banks have a terrible reputation in Bolivia. They say that when one big banker died, they started to look for him in heaven, they looked down the list but he wasn't there, so they started to look for him in hell and he wasn't there, either. So they said, how come he is not in heaven or hell? Well, don't you know bankers have no soul. So of course when they die they just die. So this is the reputation bankers have in Bolivia, nobody wanted us to become a bank.

We had about 100 staff and we had to work very hard to convince them that this was going to allow us to grow. We had no future the way we were, we would not be able to go beyond 9000 clients, we were not going to be able to access funds. We already had problems, we had waiting lists, we can't give you \$500, we will give you \$400. We spent all this time managing the money we had and were very strict with the amounts. The field workers knew all this, so we managed to show them this carrot, look we will have all the money we need but at the same time some of the interest is going to the big people who are putting money into the bank. We held very important transition sessions where all 100 of us would go somewhere and discuss the whole thing.

They were worried about the perception of clients, that we were going to change the clientele, that we would go to middle class clients, they were worried that we were going to change the procedure of making the loans. They were very involved in decision making and they were afraid they were going to lose their participation rights in the new bank. Finally, most of them were convinced though some of them went into the bank unsure. Management had a lot of credibility with staff because we had studied very clearly what had to change and what did not have to change. In spite of this it was traumatic. The back office grew immensely, we had to buy insurance, we had to comply with security laws, we had to comply with reporting.

In spite of all these efforts and difficulties, I would say it was a good move for one reason and one reason only, once we became a bank we were allowed to take in savings. Any effort is worth this. Clients had been saying for years, can I leave my money here? Will you keep my money for me? They had become desperate, they would never save in the banking system, nor would they save in the State Banks because they were notorious for having a short life expectancy.

Now if we get all the loan applications for next week, by Thursday we find out how much we are going to disburse on Tuesday. Then we find out how much is going to come in on Monday and let's say we are short \$1 million. We get that in 24 hours by calling another Bank and they send it to you! We also issue certificates – time certificates, negotiable certificates. We just signed a deal with FMO which is the Dutch Government Finance Institute for \$5 million for five years. We never had five year funds before! We always had 200 days, 100 days, we had very little one year money. This is very precarious

when you get to a \$60 million portfolio. You don't want to be re negotiating all these deposits every three months. The day we did that with the Dutch, it was a loan not a deposit, I say boy everything has changed! Because I remember how happy I would be to have money for three months! If only for this reason, it was worth becoming a bank! In late 1991, we got our charter as a full service commercial bank. We managed to keep all the clients, they never felt the change, except when we moved the premises. We bought a new house in a nice big square, we are still not downtown. The day we were inaugurated, in February 1992, first we had a party for the staff and their families. We hired a band and since we didn't have furniture yet we could dance everywhere. Then we had a party for all our supporters, donors, shareholders and authorities. Then we had a party for the clients. Then we had a party for the children with clowns and everything. Finally, the first day that we were going to actually work I was in this plaza, I was very happy and I was starting to get my shoes shined, I said, oh look, there is a new building, do you know what is in there? He said yes, I think it is a discotheque, they have just opened!

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#### **Annex 4: Controlling fraud**

I am afraid I have resisted very much this subject of controlling fraud. It's very controversial. I know many people like it very much and can talk about it better than I can. I will, in fact, be talking about something a little more complex which I will call avoiding fraud. Because it is very controversial and difficult, we need a long time to discuss it and therefore lunch today will be cancelled – no, no, we will have lunch but maybe we will be a little late!

I know many of you, especially some of my NGO colleagues, were very sceptical of no arrears and no write-offs, or I believe they call it 'default' here. I understand you would be surprised at this and it would create a lot of controversy. At the same time it sounds very pretentious on my part to talk about this. I believe in one of the materials that was handed out there is one page where there is a summary of a book and in this summary there are many institutions with two or three million clients. In this summary it said that BancoSol had 0.6% arrears, which is about 1/2 of 1%. This is probably 30 days arrears, because arrears the day after the payment is due in the bank is about 3%. 30 days arrears is about 6% and of course 60, 90, 120 day arrears we just don't have. Getting to 1/2 of 1% up to 30 days was very hard for us. The only way you can understand this, the only way you can understand this happening is under a very particular environment and I would like to talk about the environment in the bank and how it came about. At this point we are beginning to get into a subject which I think is very hard to explain, it is really something that you should see, so if you are really interested in this part you must come to Bolivia.

I was listening a couple weeks ago to some people talking about microfinance. I think the expression used is collateral driven. I had to think about this because it wasn't entirely clear to me but it may be to you. Collateral driven is the way banking works. Then he said microfinance is information driven, then I thought this is probably true. You can imagine that

the four or five people who make up a group had a lot of information about each other before they would guarantee each other. When our field workers go to a neighbourhood, even though they don't complete a lot of forms and questionnaires, they do pick up a lot of information. They try to find out if the person is very reliable, if someone is sick in the house, does he raise chickens or pigs, does he have a bean patch, etc., etc. So he gets all this information even though he doesn't write it down. But then, so I think this person was correct in saying that we are information intensive in microfinance. But the more I thought about this, the more I thought that in fact at BancoSol, rather than being collateral intensive or information intensive, BancoSol is trust based. I think this was the singular most important corner stone of the institution, it was an institution based on trust. I believe this was the environment that it was necessary for us to have, on the one hand, no write offs or arrears, and on the other hand no fraud, because we only had a few cases of fraud. I have two cases to tell you about and I will explain how it happened and how it took place.

But first I am trying to paint you a picture of what was going on in the institution. We began to see that clients were paying their loans, and they were being punctual even though they had signed no paper and no collateral, so even this was starting to be amazing to us, this was astounding. Why we were getting this response from them? It is true our scheme was very high quality, we never failed to disburse what we promised to disburse and we always opened exactly on time. I know for you English this is common but in Latin America this is very rare. We always lived by our word, there was quality service, but above all we began to understand that the reason people were being so careful with us with their repayment was that we trusted them and we began to feel that people deep down basically treat people as trustworthy. If you trust them, they live up to that. There are exceptions but they are very rare. These are the principles that we began to operate internally – also I believe that if you mis-trust people they end up living up to this expectation. I don't know how many of you are staying in this hotel, there is a sign in the room that says "thou will not tempt" did you see this?  
p. 65 Maybe they just left it in my room!

The Spanish also have a saying that says "in an open box even a saint will steal" now of course when the Spanish talk about saints it is a saint from the 10th Century because that's the last time they had any saints in Spain.

It was against common wisdom what we were doing, we started with this trust, we trusted the clients because we were naive maybe, but they started to respond to it. We realised that whenever there was a problem and we had to collect, we didn't demand the money, we didn't go and say you owe \$160 and you must pay this back. When we went to collect it we went to demand they live up to the trust we had in them. So you see that is what I was saying that the microfinance institute in Bolivia, BancoSol, was trust based. So we bowed to this thinking, we said everyone is trustworthy – only very few are not – and it's not fair to mistrust everyone just because of these few. This was the first principle that we carried out, and then we said the ones that plan to fraud and cheat, no matter how many controls we put, they will

fraud and cheat anyway, and no matter how much we trust them they will cheat. This is only one or two of a hundred anyway. These are very rare, there are the Colombians we call them, so you see this was the environment we created in BancoSol. This evolved little by little, this was not something we decreed in one day. In Bolivia if you go to someone's house, even if they are very poor, they will try to serve you food. This was automatic, especially in the country, so we said from the clients not even a glass of water we will take! We had this rule which evolved because we went to visit a client one time and this was a vendor woman and when we finished visiting her with a foreign journalist, the woman gave us a big bag of tomatoes. I said wait a minute, if the people feel they have to give us something this is not going to work, this is not going to be a relationship among equals. So I said from the clients not even a glass of water! So I thought if that's all they take then that's fine.

So you see within an environment of trust we began to talk about fraud, and we began to talk about cheating and what you could and couldn't do. You see, in the banks this subject is under the rugs, there are 50 auditors for every employee but nobody talks about it. Actually that is the way it is in most companies, we were entirely clear about this with new staff. We said from the clients do not take anything, by no means do not take their money, if they try to pay you for an instalment for a loan refuse to take the money. They must come to the office to pay. And we never had these surprise audits of tellers, we never had these, we never went by surprise to the tellers and said stand back, put your hands in your pockets, turn on the lights, shut the door, we never did this. The little spot where the teller worked, we never had a key for this, we never locked this in BancoSol. If the teller went to the back for a smoke, we never locked this. This was the environment and the guard used to look at the box, the "thou shall not tempt" rule, we didn't believe in this. We were very clear, the clients are our clients, they are our clients, we are not their clients. Don't buy anything from them, even if they are carpenters, and you need some furniture, go to another company on the other side of town but don't become their clients. We were not allowed to buy anything from them or to accept any service from them. This was very rare, most bank people use their contacts with the clients in order to get favours, so this was a very important decision. It was called "not one glass of water".

We are the only company in Bolivia, and as far as I know we are still the only one, where you don't have to sign your card when you arrive and when you leave. What kind of system is this? This is ridiculous, if you don't trust your employees to come in on time. Because we had no cards to sign and we trusted them implicitly everyone was punctual. This is an incredible turn of events, people said people would come in at 10 a.m. in the morning and maybe there was someone who did and I will tell you later how we handled this, but normally everyone was extraordinarily punctual. In Bolivia five minutes before 8 a.m. the streets look like cattle, everyone is running everywhere because everyone has to punch their card by 8 o'clock. They have these strict rules in the companies, 1 minute late – \$5 , 2 minutes late –



\$10, 15 minutes late – a whole day’s pay. Did this make Bolivians punctual? No it didn’t but we made them punctual! Our Company, with this system made everyone punctual, not only did they come in early, but they stayed late. There was no time card, this is usually the most biggest investment companies make in Bolivia, the punch clock.

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So you see little by little trust started to infiltrate everything in the Company, everybody started to go on first name basis, you think you are the only ones to call me Pancho, everyone calls me Pancho. This is very rare in Bolivia – everyone is a Doctor, everybody is Mr. Manager, Mr. Supervisor, Chief Accountant, Chief of this and that. At BancoSol, everybody was on a first name basis. This guy from Argentina came to study the Bank and did a case study and his case study said the secret of the success of this company is that everyone is on a first name basis. So you see this implied a lot of trust. For our guard to come up to the General Manager and say, Pancho, I am closing early today because of this, that, the other, this was very rare. As I told you the other day, the fact that we did not establish quotas for lending the field workers was because of a trust basis relationship, do what you can but do it well. We treated people like adults, we treated staff like adults, which the clients taught us, we don’t just pick this out of the sky. We began to be astounded at the way clients paid back, and we figured out that the way they paid back was not only because the service was high quality but it was so because in the service there was a great deal of trust. I think this is a big stumbling block in development, as a matter of fact I will tell you something that I can’t believe myself. Some thinkers have begun to associate directly the level of under development with the level of mis-trust in a society. For instance, there is a direct correlation between the prosperity of the country and the number of lawyers, isn’t that amazing. I hope there are no lawyers here as I think that is the only profession I haven’t touched on! We began to see that you can create a circle of virtuosity, when you start trusting somebody then they trust somebody else, they trust somebody else, and little by little you have a different relationship. So you see in this context now I am sure you are starting to understand the issue of no write offs and no arrears. Most management in Bolivia believe their job is to mistrust, to supervise, to audit, to suspect, this was what they believe their job is. We got our management to believe that their job is to serve their employers because we wanted our employees to serve the clients. It wasn’t easy, but the field workers became completely committed with the clients because they saw that management was completely committed to them. Relations among equals developed and the relationship was much more than how many groups did you do today? Where were you at 5.00? Rather it was how did it go today? So it was a different relationship which got established and I believe this was the key to success of the institution.

Now that I have touched on the general idea, let me talk of some of the exceptions. What happened if someone started to come in late, they came in persistently at 08.15 or 08.10, or were beginning to leave early? In some branch since nobody was saying anything, let’s say they would slip out at

4.45 one day, two days, three days? Well the same thing happened that happened when the clients didn't pay, peer group pressure. The ones that were punctual, they began to say, what is wrong with him? Everybody became everybody's supervisor, or more than that, everybody's support person. So the whole staff would start looking at this person, they wanted to become transparent, so they would hide themselves, they would become ashamed. If they left early, if they went to see clients but instead they had a sandwich, we didn't have to worry about this. It was like the groups. So you think under this environment anybody would take money out of the box or from the client and put it in their pockets? Of course, in terms of the portfolio we had good tracking, so the couple of times it did happen we immediately identified the incident. So the principle was trust, everybody from the beginning, but be absolutely categorical with anybody who violates that trust, and if somebody did there was no ifs and buts, peer group pressure worked tremendously well for us with the clients and with the staff. The staff take care of themselves, if somebody starts to loaf around we would say to them and we have many of these principles in the bank, nobody wins if everybody doesn't win. We don't judge people's individual performance, we didn't have employee of the week, employee of the month, everything was team work, everything was related to the whole group so that whole group worried about the individual. I am sure several people stole money from the cash register, some people took home supplies, I am sure it happened because we had up to 1000 staff but even if we had a bunch of supervisors this would not have been avoidable, because whoever plans to steal will steal anyway independent of how many controls there are.

p. 67 In this context let me tell you of two fraud incidence, of the larger ones, because I am sure people steal little by little; one was a city branch which worked wonderful.

In this branch there were two tellers, one of them was brand new, a girl, she was just a few weeks in post, she had been going through the training, one day they were leaving at 12 o'clock, they closed the place down, and as they were leaving she said – oh I forgot something ..., the guard opened the door, she went inside, she came back a few minutes later and everyone went home. In the afternoon when they came back there was \$8000 missing from her cashiers box, besides the drawer with the key they had a box which went into the vault. The Branch Manager, who was also a woman, became very concerned and very worried because she could not figure out what had happened, everyone was suspecting the other teller because who would take money from her own box. So around 4 p.m. the Manager did completely unusual things. The first thing she did is to close down the branch, she closed the door, this is completely against the law, fortunately the Supervisor of banks never found out that we closed the bank two hours early. She closed down the branch and sat the whole group down and she said let's find who has the money. Of course, it is completely illegal to search people and to go through their drawers, etc. The girl wasn't counting on this and she wasn't counting on the Branch Manager breaking the rules, she had worked in a

bank before. I think this Branch Manager was very smart. This happened recently, the Auditor of the Bank hated this, he wanted to fire the Branch Manager because she broke all these rules, you were not supposed to search peoples pockets. Later we found this girl was related to a big shot in the police. I would not be surprised if he said to her, you go ahead and steal and we'll go ahead and cover for you. This was one incident of fraud, the woman left the bank, we could not fire her, we had to get her to resign and give her severance but it was a lesson for everybody in the bank.

Another one that was very interesting, happened in a branch, also recently, and it was that everybody came in early at 8 a.m. and the teller came in and went straight to the Manager and said you know so and so who has been owing us money for a month, I saw her this morning; because whenever there were people who did not pay everybody knew who they were and everybody knew what they looked like; collection was everybody's business, it was not just the field worker. So the Manager said where did you see her? Let's go, so they rushed out of the bank to look for this person who owed some large sum. They left a little briefcase with a large sum of US\$15,000, it disappeared and to this day we don't know who stole it. We never knew what happened, it just disappeared. Usually when there was fraud in the bank or when something like this happened the staff would go to the Human Resources staff, you would not send the security and the Auditors. They looked all over and they could not figure out who stole this briefcase, but you see, normally the Bank Manager should not have gone out with the tellers, but the teller knew where he had seen this woman, exactly, and so they went together. So that was two recent cases. I guess we have had three or four of these cases of fraud. I will tell you about a complicated and much larger fraud case briefly.

This branch was lending very well, it was working very well. A strange woman became friends with the Manager of the branch, who was also a woman, and friendly with some of the staff and she figured out a system. Whenever clients would come in for the second or third loan this woman would say look, the third loan in the bank is normally \$1000 or \$1500. She would tell them to ask for a little more, ask for \$1800 or \$2000 and I will get you a used car for this money. So this started to happen to a lot of people, a lot of people started to ask for an extra \$1000 or \$800. As soon as they went out of the bank they would hand the money to this woman who ran a small sting operation. She would take the money from the clients and of course there was no car. So it was very well done by an experienced person. Later we found out that she was also paying the police and she had this whole set up very well done. I think about 100 clients were taken in because it was about \$1000 each on average. Of course the clients could not pay us back. Later she was arrested and when she was arrested we discovered she had been working with the police, paying them part of the money and even when she went to jail she would be let out in the day or night, she had this whole arrangement with them.

When all these clients said they could not pay and we started getting into difficulties then we started investigating but that branch for some reason had

got it into its head that they had to make their portfolio grow, that they had to lend more and this happened exactly at the time when we became a bank  
p. 68 so we had extra money.

Remember, I told you yesterday that when we became a bank we were not as rigorous as we were before so this was a big problem. We lost about \$86,000 for the first time in 10 years we have to write something off and we have to take a loss. So that is my story about this issue. I resisted very much talking about it and it is very complex and you have to understand the context of the  
p. 69 institution. I can answer questions or clarify some point.