

# Case Study Brief

ELLA Area: Economic Development

ELLA Theme: Microfinance



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Evidence and lessons  
from Latin America

The experience of Peru's *Cajas Municipales* illustrates a potential growth path for microfinance firms and points to key lessons for sector development overall.

## PERUVIAN MICROFINANCE'S CAJA MUNICIPAL MODEL

### SUMMARY



One of the more successful and influential initiatives in Peru's microfinance story is the system of *Cajas Municipales*, or 'cash shops'. Of the many independent *Cajas* that grew to be successful, *Caja Trujillo* is an illustrative case where business experimentation combined with effective regulation by sector authorities produced a successful story of sound microfinance growth. *Caja Trujillo* was created with the city government to build an institution that would bring credit to people of reduced means whilst supporting decentralisation of economic development in Peru. With a strong customer-centred approach to credit evaluation, *Caja Trujillo* achieved a leading position in the Peruvian microfinance industry. This MFI and sister *Cajas* in other regions of the country have grown consistently since the early 1980s, weathering domestic and international economic crises. Risk-management flexibility combined with prudential measures were key to their success. The cash-flow assessment of customer credit and the graduated approach to MFIs' operational upgrading were eventually embedded into the industry through regulation. In-the-field assessment methods, building competent and loyal staff, and developed systems for information-technology and operational organisation were key contributors to *Caja Trujillo's* good performance and continuing promise. This Brief tells the story of the *Caja Municipales* system, focusing on the *Caja Trujillo* example to offer lessons learned for other regions. It provides background to the Peruvian context, describes the emergence of the *Caja* model and its current prospects, and assesses some of the key enabling factors underpinning its success.



## MICROFINANCE IN PERU: THE NETWORK OF *CAJAS MUNICIPALES*

The Peruvian microfinance industry rates as one of the strongest in the world today.<sup>1</sup> It has thrived throughout the last two decades, successfully surmounting two international economic crises in the period. The sector also survived domestic hardship in the late 1980s, including the combination of severe economic crisis, astronomical hyperinflation and recession, and domestic terrorism and armed conflict. Its story is one of achievement and promise, and of synergy, mutual feedback and encouragement between microfinance practice and institution-building, each through their own independent paths of development and learning.<sup>2</sup> One particularly interesting feature of the Peruvian microfinance story is the *Cajas Municipales* - 'cash shops' would be a close translation – MFIs that form an official sector of the Peruvian microfinance system.

### Introduction to *Caja Municipales*

The savings-and-credit Municipal Cash Shop System,<sup>3</sup> or *Cajas Municipales*, are MFIs owned by a municipal government, though without majority control with decisions made by a diverse board that includes civil society representation. *Cajas Municipales* are one of five institutional modalities for microfinance subjected to official regulation by the Peruvian banking authority (Superintendence of Banking, Insurance and Private Pension Funds - SBS). The entire microfinance system includes 42 regulated and 76 unregulated MFIs.

There are 13 *Cajas* in Peru today, with 91% of lending and 73% of savings being held outside of the capital, Lima. The *Cajas Municipales* hold a 40.6% share of the microfinance industry. Between 1982 and 1986, six *Cajas Municipales* were founded in five different departments (now called regions) across Peru. Today there are twelve, with 514 offices spread through every one of Peru's 25 regions. Initially *Cajas* only offered pawn-secured loans and were restricted to operations in

their own city and region. Now they provide loans to micro- and small enterprises, offer savings accounts and other saving instruments and, since 2002, supply a diverse range of banking services.

Key to the *Caja* approach is the openness of the risk-management methodology, with business procedures re-centred on the customer. *Cajas* were eligible for graduated expansion, with more complex operations legally authorised after a given time frame if the *Caja* had proved able to conduct simpler operations and fulfil certain capital and risk-provision requirements. Another major *Caja* feature is the credit evaluation methodology, which moved away from formal guarantees or collaterals to a cash-flow analysis of customers' repayment capacity.

### The Significance of the *Cajas Municipales* System

The strategic insight and determination that sustained the early *Caja Municipal* actors was their aim to widen access to credit and banking services to people with limited economic means in their own hometowns of Piura and Trujillo, outside of the capital, Lima. Peru continues to struggle with an overly centralised economic and political system, orientated to Lima. The *Caja Municipal* model was essentially a thrust for decentralisation, which entailed creating opportunities for individual self-help and local economic development as well as strengthening local power and, in turn, greater independence from Lima. It proved to be a successful effort. The *Caja Municipal* model, and its association with supporting the disadvantaged rather than the elite, mirrored transitions in wider Peruvian society: a society in which the informal sector, self-employment and entrepreneurship would become paramount, and in which the areas of Peru beyond the capital, Lima, would play an increasingly important role.

Overall, the development of the *Caja Municipal* system played a crucial role in the evolution and success of microfinance in Peru. Its contribution to the design, performance and growth of Peruvian microfinance has been significant,

<sup>1</sup> As the Economist Intelligence Unit writes (p. 6), in 2011 "Peru finishes atop the Global Microscope for a third straight year, buoyed by an excellent legal framework, sophisticated regulators and a government commitment to use microfinance to expand financial access to the poor". Quoted in: Economist Intelligence Unit. 2011. [Global Microscope on the Microfinance Business Environment](#). IABD, CAF, IFC, Washington, DC.

<sup>2</sup> Research for this Brief draws on: Conger, L., Inga, P., Webb, R. 2009. [The Mustard Tree. A History of Microfinance in Peru](#). Instituto del Perú-Universidad San Martín de Porres, Lima. Other sources included data and reports from the [Superintendencia de Banca, Seguros y AFP](#) (Superintendence of Banking, Insurance and Private Administrators of Pension Funds - SBS), and annual reports from the Trujillo, Piura and Arequipa *Cajas Municipales*. Finally, an in-depth interview was held with Boris Itzkovich, member of the first board of directors of *Caja Trujillo* and more recently its president (2008-9).

<sup>3</sup> Also known by its official name in Spanish, the *Caja Municipal de Ahorro y Crédito* or CMAC.



particularly given the economic, social and political difficulties the country faced over more than two decades. The *Caja Municipal* system laid the foundations for the style of microfinance that ultimately took hold in Peru.

Two rather early features of the *Caja* model were incorporated into legislation in the 1990s, and were thus institutionalised in Peruvian microfinance: risk-management flexibility and graduated expansion. Another important element pioneered by *Caja Trujillo* and other *Cajas Municipales* was a greater emphasis on client-centred operations, with in-situ visits that included appraisals of prospective and actual client's home, family setting and overall environment. This approach to customer relations has become an integral part of the business culture of the stronger microfinance performers in Peru.

## THE EMERGENCE OF THE CAJA MUNICIPAL MODEL

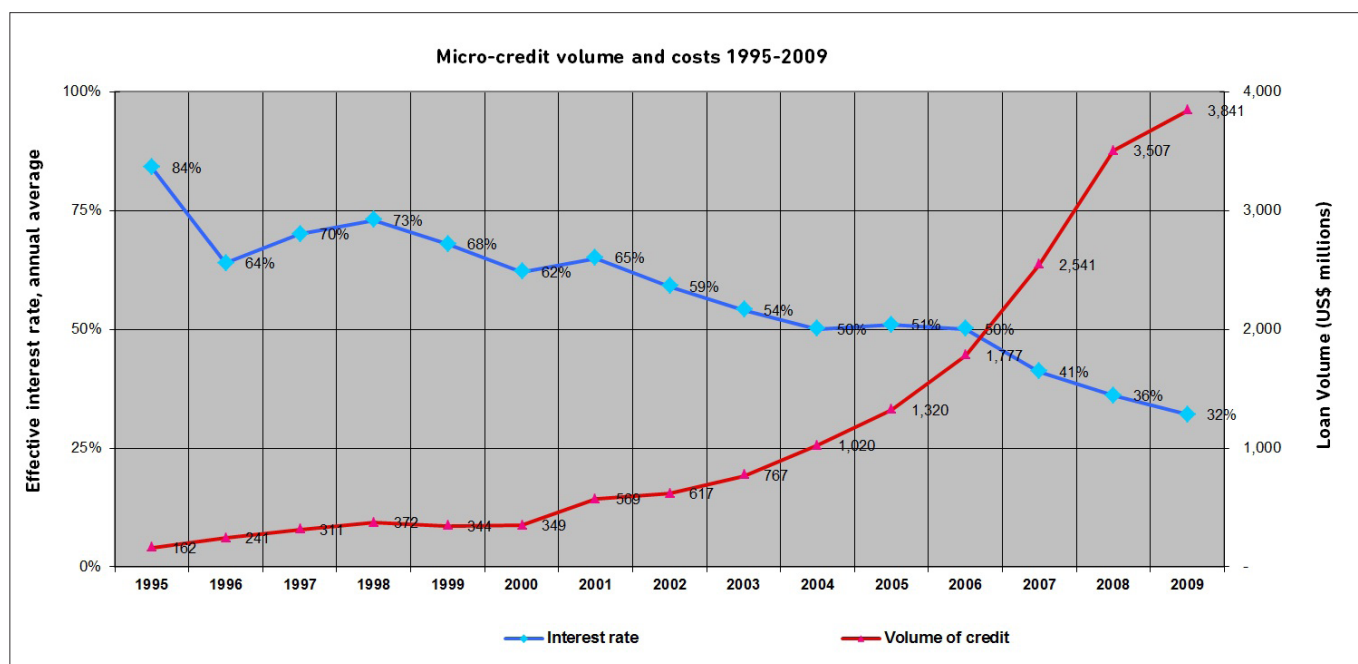
### Institutional and Economic Context of Peru

*Cajas* date to the early 1980s. Prior experience in Peru with small loans for low and middle socioeconomic groups had been varied and included loan programmes and collective lending in both cities and rural areas. Support came mostly from NGOs, international aid organisations and government

agencies. Some earlier experiments included credit unions and housing savings-and-loan (S&L) initiatives, spanning from the mid-1950s to the mid-1970s. Other later NGOs initiatives fed into the growth of microfinance. The NGO [Finca](#) introduced the revolving-credit model in 1975, and would introduce the village-bank model later, in 1990.

Until the 1980s, microfinance tended to be highly subsidised, with interest rates kept low, and little focus on financial self-sustainability. After 12 years of military government, the first half of which had been left-leaning and interventionist, a democratic regime was reinstated in Peru 1980. The financial system then became quite restrictive. With a legal and institutional tradition that was overly bureaucratic, access to credit became limited, due both to income requirements and high interest rates, as well as due to the need for formal, documented guarantees. In 1983, economic crisis struck Peru; the financial system collapsed, finally bringing down the credit unions, Saving and Loan initiatives, a number of programmes for small enterprises, almost all programmes for small farmers and several government development banks. The first *Caja Municipal* had just opened in Piura a year before, in 1982.

The 1990s brought deep changes, with a structural adjustment programme of economic, financial and trade liberalisation



Source: Conger, L., Inga, P., Webb, R. 2009. *The Mustard Tree. A History of Microfinance in Peru*. Instituto del Perú-Universidad San Martín de Porres, Lima.



that eventually gave way to recovery by 1993. Later in the decade, new laws and regulations were passed that governed the banking system and other institutional aspects relevant to microfinance.<sup>4</sup> This was the context in which the industry at large experienced its first burst of growth. The revisions to microfinance regulation passed in the mid-1990s established conditions to expand the industry and created room for more players to begin competing in the sector. In particular, the year 1998 marks the beginning of a new phase for the microfinance sector in Peru: commercial microfinance.

### The Inception of the *Caja Municipal*

The seminal idea of a ‘cash shop’ run by the municipal government to offer pawn loan services to the public came from an undergraduate business student, Gabriel Gallo, who had heard of a similar product offered by a local-government bank in Argentina. Gallo turned the idea into a proposal in his undergraduate thesis, and presented it to the mayor of his home city, Piura, on the northern coast of Peru, who championed the idea. They recruited the city council’s endorsement and embarked on pursuing legal approval for the initiative from the central government. Research and advocacy efforts made Gallo ultimately drop the ‘bank’ aspects of the model after discovering an alternative already in place in Lima: the *Caja*. His intense efforts paid off, helped along by fortunate circumstances such as the fact that a few of the high-ranking Lima-based contacts were also from Piura, including the Finance minister.

After information requests and advocacy *vis-à-vis* international cooperation agencies, eventually, the Peruvian government signed an agreement with the German Agency for Technical Cooperation (then called GTZ), to provide technical assistance for the design and implementation of the *Caja Municipal*, broadening the original phase devoted solely to *Caja Piura*. The idea was to build a system of municipal loans accessible to low-income people, while at the same time helping to strengthen local governments. German consultant Peter Zeitinger led the team, which engaged the support and participation of other municipal governments, most notably that of Trujillo. The authorisation and related regulation for *Cajas* in general, and then for *Caja Piura* in particular, were

passed within a couple of years.<sup>5</sup> Zeitinger remained in Peru in the capacity of advisor to the *Cajas* system until 1995. He influenced the model and its evolution greatly, in a process of cross-fertilisation with lessons coming out of the day-to-day implementation of the *Cajas*. For example, the team set up a training school for managers and loan officers from all *Cajas* nationwide in which they could exchange experiences.

The management model, greatly influenced by the German model through GTZ, involved joint decision-making by three different managerial lines (administration, finance and credit). Each line had its own jurisdiction and functions, but major decisions are made upon agreement of the three.

One important innovation established was an ad-hoc body for the development and internal regulation for the entire *Caja* system, called FEPCMAC (Peruvian Federation of Savings and Credit *Cajas Municipales*). The FEPCMAC board is elected jointly by all *Cajas*. FEPCMAC’s role is to oversee and advise all *Cajas Municipales* to help promote their development and growth, along with setting standards and regulations internal to the *Caja* system. The GTZ advisory team suggested setting up an umbrella body that would bring all the *Cajas* together and see that their growth is relatively uniform and that competition between them is kept under check. Each *Caja* was allotted a specific geographic area to carry out its operations, under a rationale of complementarity, with FEPCMAC regulating and supervising the system to guarantee it functioned properly.

The *Caja Municipal* model today retains the main original features: a graduated system of progression into further and more complex operations; savings promotion; strict organisational and managerial professionalism; customer credit assessment based on direct, close interaction with them in the field; and self-regulation and promotion of standardised *Caja*-development through a system-wide regulatory body.

### The *Caja Trujillo* Example

Focusing on the *Caja Trujillo* case helps illuminate some of the more successful features of Peru’s *Caja Municipal* model and of the story of the initiative grew to have such an important impact on the microfinance sector in the country. Trujillo, a city

<sup>4</sup> To learn more about the types of regulatory changes for microfinance put in place across Latin America, see the [ELLA Brief: Latin America’s Institutional and Regulatory Innovations for Microfinance Growth](#).

<sup>5</sup> Each *Caja* must go through an individual process to be formally created and, afterwards, begin operations.



in the northern coastal region of La Libertad, was home to the second *Caja Municipal* created in Peru. It has progressively grown to become the first ranked and most trusted MFI in its own region,<sup>6</sup> ranking third amongst all *Cajas Municipales* nationwide and eighth in terms of micro- and small-enterprise loan portfolio in the entire financial system.<sup>7</sup> *Caja Trujillo*, like her sister institutions, grew out of earlier experiences and alongside other microfinance initiatives in Peru.

*Caja Trujillo* first emerged in 1982 when the mayor of Trujillo - the third largest city in Peru - took up the initiative brought in by GTZ. The mayor, Jorge Torres Vallejo, and the municipal council embraced the project energetically. José Murgia, then-deputy mayor and later five-term mayor of Trujillo, was deeply engaged in the process of both the initial design of the system and its progressive evolution through the years. These leaders' main motivation was to bring lending to people that conventional banks could not reach. In October 1983, the *Caja Municipal de Ahorro y Préstamo de Trujillo*, as it was then called, came officially into existence. Its doors were finally opened in 1984.

Like other *Cajas*, Trujillo's *Caja* operated at first only as a pawnbroker, offering loans secured by pledges of mainly gold and silver jewellery. Only later, in the 1990s, did the *Caja* begin loaning to microenterprises without the pledges and receiving savings and fixed-term deposits. Their aim in lending to microenterprises was to reach out to smaller, independent businesses, mainly those who worked in the industrial park of the *El Porvenir* district, which housed a number of small shoe factories. The municipal government strongly supported the initiative along the way, keeping resolute in its efforts to strengthen the *Caja*.

*Caja Piura* was the vanguard and has been a long-term leader in Peru's microfinance industry, though *Caja Trujillo* has been a close contender for the top position. Both of them demonstrate successful experiences in launching (1983), consolidating (1988-1992) and expanding (1998-2009) their microfinance operations, even in contexts of economic crisis. The institutional setting has provided good conditions for *Cajas Municipales*, responding to their innovations and

flexibility. It has done so by absorbing some of their key features into the regulatory framework that was applied to the whole system and by strengthening both risk protection mechanisms and the endogenous forces that have helped them enhance their financial health.

Key elements of the *Caja Trujillo* model include illustrates the ingenuity brought on to produce business achievement by refashioning what today are common MFI tenets heeding to specific circumstances: most notably, tackling risk by building up mutual trust, . Some of its measures were advice on how to organise their business developmentes, and covering for risk of loss through interest rates, third-party backing or cross-warranties. In addition, credit was offered based on detailed credit-worthiness assessments includingly adding assurances to the perception of a given client as a good payer. This included direct contact with the customer in his or her home or business. *Cajas* reached out to the client, not the other way round, something that traditional banks did not do.

By 2000, *Caja Trujillo* had built a sound foundation for further growth, enjoying financial solidity, vast experience and strong microfinance know-how. Competition was increasing as well. The Board thus took the initiative to push the business forward. The economy had been recovering from the recent downturn stemming from the international crisis; the market was changed and expanded. This moved the Board toward more aggressive measures, expanding into new products and geographical areas. There was, however, a territorial strategy to the expansion of *Cajas*: they would not compete with each other, avoiding expanding into areas where another *Caja* already operated.

## THE SITUATION TODAY AND BEYOND

Today the microfinance market has been opened up widely. Since 2002, a change in the regulations removing the previous prohibition on operating where other *Cajas* already have offices means *Cajas* can now conduct business anywhere. *Caja Trujillo* was the first to take advantage of the new

<sup>6</sup> For ratings for Trujillo and the La Libertad region, see: Amorós; E. 2007. *Determinantes del Microcredito y Perfil de los Microempresarios Urbanos en las Ciudades de Chiclayo y Trujillo-Perú (Determinants of Microcredit and the Profile of Urban Micro Entrepreneurs in the Cities of Chiclayo and Trujillo – Peru)*. CIES, Lima. Trust refers to customer views on reliability, trustworthiness and good reputation of the MFI (captured through a survey), while the top ranking relates to loan portfolio volume and number of customers. Later data from SBS confirm the *Caja's* position in the nationwide rankings, as do *Caja Trujillo* annual reports from 2010 and 2009.

<sup>7</sup> Data from *Caja Trujillo* annual reports from 2010 and 2009. Rankings for the system-wide micro- and small enterprise portfolio comes from: *Triodos-Facet* and *Instituto Cuánto*. 2012. Edyficar Project Evaluation - Primer Informe de Progreso – Fase de Línea de Base (First Progress Report – Baseline Phase). Preliminary, unpublished document.



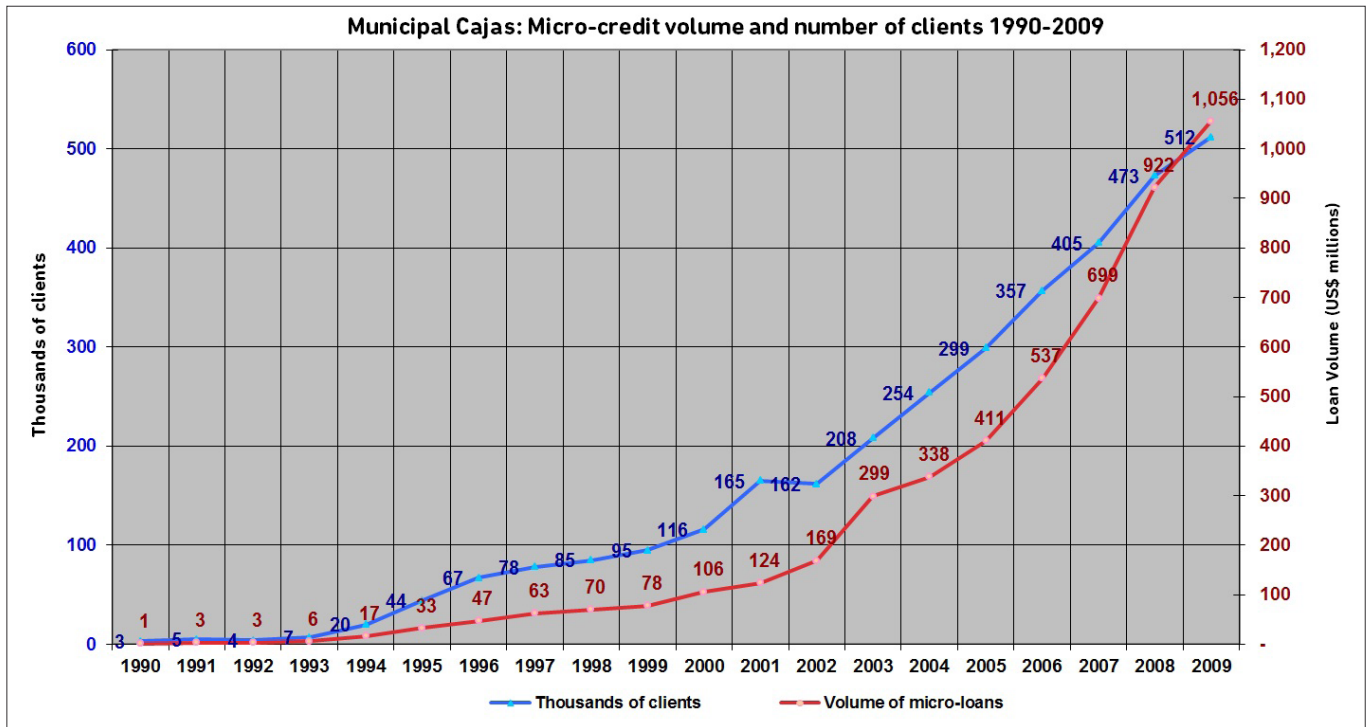


Development of the <i>Caja Municipal</i> System: Institutional and Operational Milestones	
1980	The creation of <i>Cajas Municipales</i> is authorised; The first <i>Caja Municipal</i> (Piura) is granted permission to operate
1982	<i>Caja Piura</i> opens its doors
1983	<i>Caja Trujillo</i> is granted permission to operate; it opens the following year
1986	<i>Caja Municipal</i> Law updated: political and economic autonomy, rules on cost coverage, financial technology, regional orientation and development strategy
1988	<i>Cajas</i> begin lending to small enterprises
1990	<i>Cajas</i> authorised to lend without pledges; graduated upgrading for <i>Cajas</i> engaging in increasingly complex transactions: From year 1 with pawn loans, to savings/time deposits and trust-fund administration. A second year of good performance allowed them to move to loans for micro- and small enterprises and other lending; self-regulation by FEPCMAC sanctioned for small scale lending
1991	Economic and financial reforms and new banking law with financial deregulation and granting the Peruvian Banking Authority (SBS) ample supervisory power
1992	Ruling that Central Bank cannot lend to government or state development banks; <i>Cajas'</i> main activities include savings promotion, credit methodology with in-situ assessment, and incremental lending incentives
1994	<i>Cajas</i> adopt staff incentives
1996	Financial System and Insurance Law passed: Blanket term 'financial enterprises' places MFIs on equal footing with commercial banks; Risk assessment: to be based on borrower's repayment capacity: cash-flow analysis, plus income and after-debt asset value; graduated model (inspired by <i>Cajas'</i> experience) for authorising types and groups of transactions
1997	Rules for micro-enterprise lending passed: <i>MES</i> borrower category is established, for borrowers with US\$20,000-indebtedness. Later regulation raises that figure to US\$30,000 (after 2003); new risk classification based on number of days in late payment simplifies procedures and assessments and, therefore, lending (no documents or guarantees necessary)
1997	<i>Cajas Municipales</i> authorised to become share companies
2002	<i>Caja Trujillo</i> is first to open an office outside its region (in Chiclayo)
2002	MFIs (and <i>Cajas</i> ) allowed to operate in Lima
2005	MFIs (and <i>Cajas</i> ) authorised to provide a variety of services nationwide
2006	Correspondent banks (services provided through, for example, shops and grocery stores) introduced in the financial system
2007	Microinsurance introduced
2005-2007	Consumer protection and transparency enhanced
2008	Changes in the financial system law allow <i>Cajas</i> to take on new operations: leasing, foreign trade, discounting on promissory notes
2010	<i>Cajas Municipales</i> competitiveness law gives <i>Cajas</i> equal conditions as other financial enterprises in terms of budget and contracting; loan ceiling and credit-risk classification expanded for micro-enterprise lending
2011	<i>Caja</i> system-wide technological network, <i>Cajared</i> , is launched that includes on-line operations in over 30% of offices across the country and a 1,800-unit ATM network; FEPCMAC opens a back-office leasing unit to support <i>Cajas</i>
2012	Specialised products launched or prepared by <i>Cajas Municipales</i> : foreign trade, factoring, youth savings, mobile-phone banking

Own elaboration.

Sources: Economist Intelligence Unit. 2011. [Global Microscope on the Microfinance Business Environment](#). IABD, CAF, IFC, Washington, DC.





Source: Conger, L., Inga, P., Webb, R. 2009. *The Mustard Tree. A History of Microfinance in Peru*. Instituto del Perú-Universidad San Martín de Porres, Lima.

regulation and open an office outside its region, when it established operations in the neighbouring region of Chiclayo. Since the change, the ensuing competition has been stiff. In retrospect, however, this move seems timely, as business has thrived across all *Cajas*.

The increased competition they face also comes from conventional banks. Originally *Cajas* were purposely orientated to a segment of the market that was outside the interest of the mainstream, and never sought to compete with commercial banks. When commercial banks took notice of the *Cajas'* profitability in a market niche they had previously disregarded, they began offering microfinance products, eventually opening specialised departments to handle the new business.

This situation of increased competition calls for enhanced organisation and better marketing performance. The prospects look interesting. One case that highlights this development potential is *Caja Arequipa*. It has risen to first place in microfinance rankings in Peru, though for years the leading position oscillated between the Piura and Trujillo

*Cajas*, with Arequipa consistently ranking third.<sup>8</sup> *Caja Arequipa* conducted an aggressive strategy to increase its offices throughout the country, market new products in addition to micro-lending, and scale-up loans to target middle-size enterprises.

*Caja Trujillo* has undertaken similar moves as have other *Cajas* as well, and to compete, *Caja Trujillo* will have to draw on its own comparative advantages. *Caja Trujillo* is well-positioned in its home city and in the surrounding region of La Libertad. Its strong position is also linked to how clients identify with the *Caja* and their loyalty. In regular banks, the client is just another number fed into the computer; in the *Caja*, the client is the priority.

*Caja Trujillo* has also diversified in terms of its lines of products. The largest share of lending today relates to consumption, with loans offered to micro- or medium enterprises that produce or trade consumption goods, and housing credit, which is quite new. With Peru in the midst of a construction boom, *Caja Trujillo* has also launched a new type of loan, aimed at building commercial facilities; still innovating

<sup>8</sup> Data available at [SBS website](#). Figures on rankings in market participation found in: SBS. 2012. *Ranking de Créditos, Depósitos y Patrimonio de las Cajas Municipales (Ranking of Loans, Deposits and Capital of Cajas Municipales)*. SBS, Lima.; For information for other years, see: SBS. 2012. *Boletín Estadístico de Cajas Municipales (Statistical Bulletin of Cajas Municipales)*. SBS, Lima.; and FECPMAC Federation. 2012. *CMAC en Cifras (The Caja Municipal System in Numbers)*. FECPCMAC, Lima.



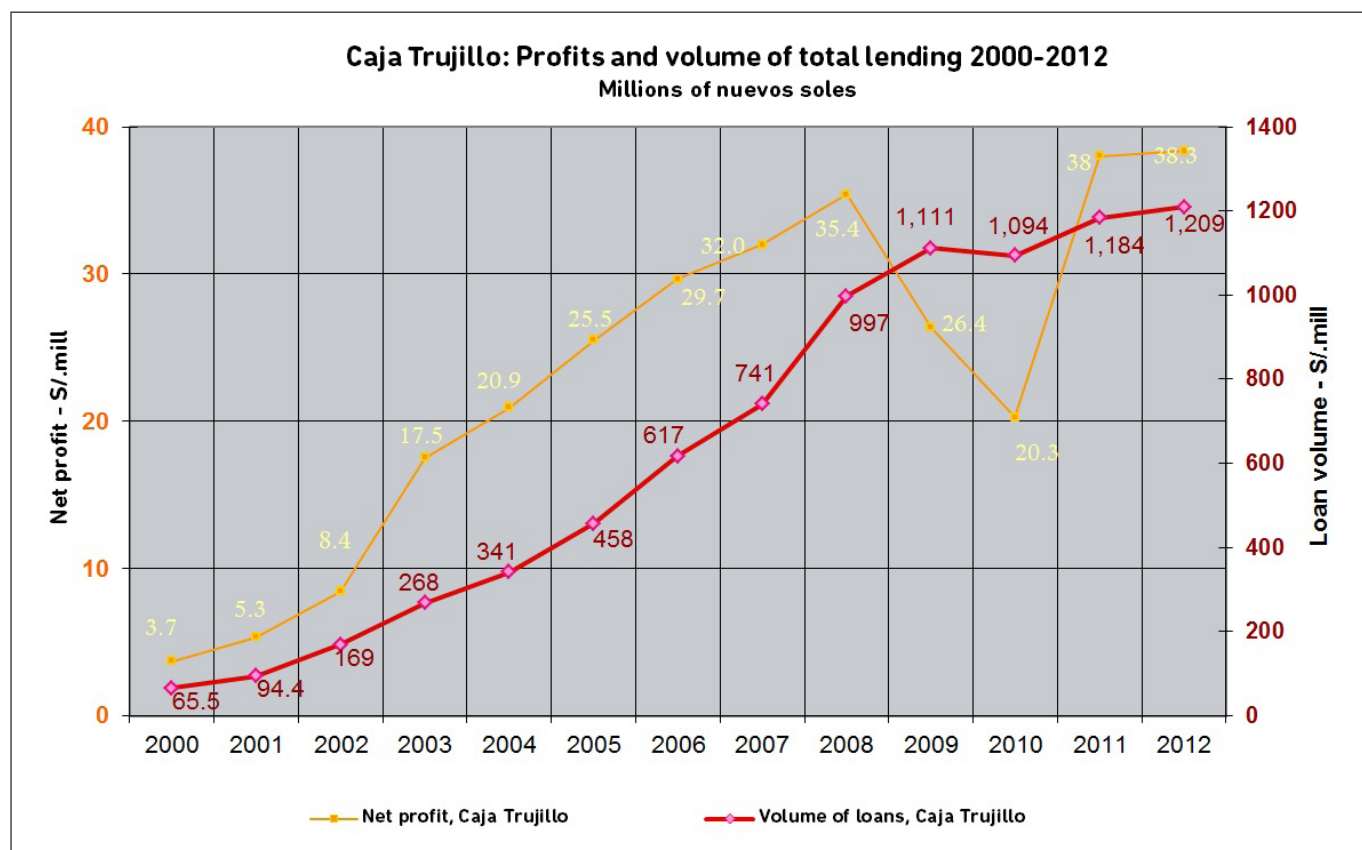
in the methods applied, these loans are linked to purchasing contracts for those facilities.

Though the 2009 world financial crisis impacted the Peruvian economy, the slowdown was moderate and rather short. That being said, the banking system and microfinance sector were hit, including the *Cajas*; with some clients unable to make repayments, profitability fell. *Caja Trujillo* took measures to restore health in its business included selling part of the bad portfolio and taking further steps to backstop profitability. It also began to look inwards, reinforcing the organisation by keeping operational costs in check through interest rates on savings and deposits which had been much higher than those offered by conventional banks. In this context, all *Cajas* had to adjust to more competitive levels of operations.

In the face of continuing or even increasing competition, a significant risk facing *Cajas Municipales* is the potential for political manipulation due to their link with the municipal government, which presently governs the board. A promising

avenue to tackle this challenge is a shift to public stockholding. Earlier moves to sell shares were prevented, precisely because of political interests. In a related vein, the current management organizational structure harbours risks. For instance, having three management heads with no unified top can have efficiency and efficacy drawbacks. In addition, the selection procedure for board of directors is subject to political factors or favours, and to have more professional boards would require changing those procedures.

Still, the *Cajas Municipales*, and indeed the entire microfinance sector, seem to have good development prospects. As former *Caja Trujillo* Board president Itzkovich describes, there will always be people who create their own businesses, and there will always be potential businesses to be created. As the country grows, its population grows, with new segments of micro-entrepreneurs and new sorts of micro-enterprises emerging. This growth path can potentially be sustained into the future, as long as the Peruvian economy remains stable.



Sources: Caja Municipal de Trujillo. 2012. [Memoria Annual 2011 \(Annual Report 2011\)](#). CMAC Trujillo, Trujillo.; Caja Municipal de Trujillo. 2011. [Memoria Annual 2010 \(Annual Report 2010\)](#). CMAC Trujillo, Trujillo.; Caja Municipal de Trujillo. 2012. [Caja en Cifras \(Cash Shop in Numbers\)](#). CMAC Trujillo, Trujillo.



# CONTEXTUAL FACTORS

## ENABLING THE SUCCESS OF THE CAJA MODEL



It was strategic thinking and the goal of institutional development that made the birth of the *Caja Municipal* system possible. First it was Gallo and the Piura city government. Then national-level government officials had the insight and determination to push the project forward, and to uphold the technical-aid agreement with GTZ that would so vitally shape the system.

*Caja Trujillo* arose when another effort at the municipal level joined in, adding significantly to the design and operationalisation of the system. Technical assistance from GTZ was instrumental in the early stages of making *Caja Trujillo* operational for service. But Boris Itzkovich, member of the first Board and Board president from 2007 to 2008, recounts how, further along, the development and growth of *Caja Trujillo* were buttressed by the Board's decisions to expand or adapt systems and software, in line with the progress of operations.

Another key factor in the growth of *Caja Trujillo*, and all *Cajas* generally, was the existence and strength of FEPCMAC, who played a key role in driving the *Cajas'* business forward.

Adaptive technology and organisational responsiveness were also key factors. The main operational changes sustaining the *Cajas'* expansion were adaptation of internal business organisation, including recruitment of specialised managers, and a strong focus on training. The attitude of

the Board was a key factor. They were keen to promote management training as a strategy to retain and develop staff capacity, drawing on the specialised know-how that had been accumulated. They trained the managerial cadre from the bottom to top levels, and gave them hands-on field experience that would put them in direct contact with microentrepreneurs and their daily reality. They adopted other staff incentives, such as a bonus system assigning different weights to various factors according to strategic priorities. They also funded graduate studies for the best performing staff. To be eligible to have their Master's degree studies funded, employees signed a contract agreeing to remain in the *Caja* for a given number of years or else repay 50% of the grant.

An additional factor of great importance was the development of information technology. *Caja Trujillo* developed and progressively enhanced its own IT software package. The core of client oversight lies in this software package, which has incorporated the accumulated business know-how and mirrored its client appraisal techniques as these evolved, with software capturing factors related to cash-flow analysis and weighing in composite fashion other more qualitative client characteristics as well as regulatory shifts. Overall, *Caja Trujillo's* expansion has been gradual, mirroring the evolution of its information system.

### LESSONS LEARNED

**1** The track record of accomplishments by *Caja Trujillo* and other *Cajas* showcases their successful appropriation of typical MFI practice geared to diverse client profiles and external conditions. They shaped strategy, organisation and methods so as to reach out. Trust became a risk-management tool, with hands-on and flexible customer credit evaluation in lieu of formal guarantees.

**2** A good credit assessment approach needs an appropriate support system to make the method efficient and routine. The operational and organisational infrastructure was critical in the case of *Caja Trujillo* to support the credit methodology and evolve along with it, and its information technology system was crucial in this respect.

**3** Building competent and loyal managerial cadre and staff that are trained in the field proved essential to the *Caja Municipal* achievements. Successful strategies included staff training, graduate school scholarships and performance incentives.

**4** Developing and enhancing risk management entailed several dimensions. Organisational design and internal strengthening have been tools to respond to client realities, the evolution of the MFI business and of the industry, and the ups-and-downs in the (domestic and international) economic conditions. Product diversification, product refinement, marketing and territorial expansion

are some additional tools. Success in microfinance thus comes from adaptation.

**5** From the perspective of institution-building, the *Caja Municipal* story underscores the highly positive role that responsive, flexible and attentive supervisory and other relevant authorities can play. Authorities were open and learned together with the *Cajas*, incorporating this learning to make the microfinance industry and the entire financial system stronger, and added prudential and timely accompanying mechanisms, as well as external funding options. The encouragement of credit bureaus and risk assessment information services was essential, for example.

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