



Microfinance Index of Market Outreach and Saturation

Nicaragua

May 2018

Special thanks to CONAMI, ASOMIF and FUNIDES who provided key data for this report.

Copyright 2018 by Association MIMOSA-Microfinance.

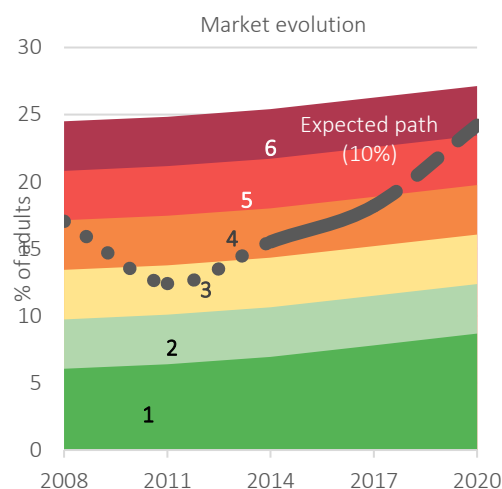
Should you be reading this report? Read the disclaimer!

The MIMOSA project is market-funded and relies mainly on commissions and subscriptions. However, we also believe in sharing information. For this reason, this report is being made available free of charge for CONAMI and SIBOIF and all financial institutions under their supervision, as well as to ASOMIF, and students and researchers based in Nicaragua.

If you don't belong to any of the above and are not a subscriber, **you are undermining the sustainability of this project**. Close this window. Put down this paper. And then give us a call – we'll send you a sample. Otherwise live with the guilt... Yes, we understand your organization has limited funding. But so do we, and without subscribers this report would not exist. So do the right thing, won't you?

To subscribe or request permission to cite this report in any publication, please contact us:
info@mimosaindex.org.

	2014	2017	2020
HDI	0.642	0.645	0.648
Population density per km ²	51.5	52.6	53.3
Credit Bureau Score	86.7	118.6	150.8
Loan capacity	10.6	11.5	12.4
Borrowers per adult	15.5	18.2	24.2
Microfinance loans per adult	8.6	9.4	12.5
MIMOSA Score	4	4/5	5/6
GDP per capita (current \$)	1,975	2,201	2,579
CAGR GDP, past 3 years (constant LCU)	5.4%	4.7%	4.4%



The MIMOSA score for Nicaragua is **4/5**. We could not give a more precise score due to limitations of the data currently available for formal credit. The existence of two credit bureaus and one credit registry that all only have a part of the picture¹ and the absence of data on the outreach of credit cooperatives are the two major factors that limited our analysis. The MIMOSA score for Nicaragua is based on an estimated **credit penetration of 18-20%**.² The lower limit of our score is based on the compilation of the number of loans reported by financial institutions to either ASOMIF, CONAMI or SIBOIF, which we converted to a number of borrowers thanks to a methodology developed by MIMOSA that allows realistic estimations of the number of borrowers, even when data on multiple borrowing is limited or non-existing.³ The upper limit is generated by estimating the number of persons who borrow from cooperatives.⁴

Three main types of institutions contribute to that credit penetration, each having an almost equal share of the market: 1) traditional MFIs⁵, 2) banks and 3) other IFIM⁶ (dominated by casas comerciales) – see chart on the following page. Historical data, even if they do not include Casas comerciales and IFIM/MFIs that are not members of ASOMIF, point to an interesting trend: the volume of loans from banks and MFIs alike, measured in loans per adult, decreased following the 2008-2009 crisis and started increasing again in 2012, but the penetration of bank loans in 2017 is 40% higher than it was in 2008 (8.7% vs. 5.8%) with a 20% CAGR over 2014-2017, whereas loans from MFIs to-date are still below their 2008 level (9% of loans per adult today vs 11% in

¹ Banks only have to report to the public registry managed by SIBOIF, and partially report to the private credit bureaus. IFIM and MFI are not allowed to report to the public registry and have to report to all of the private credit bureaus (currently two operating: TransUnion and SinRiesgos).

² We have excluded credit cards and loans to legal (e.g. non-person) entities from our calculations.

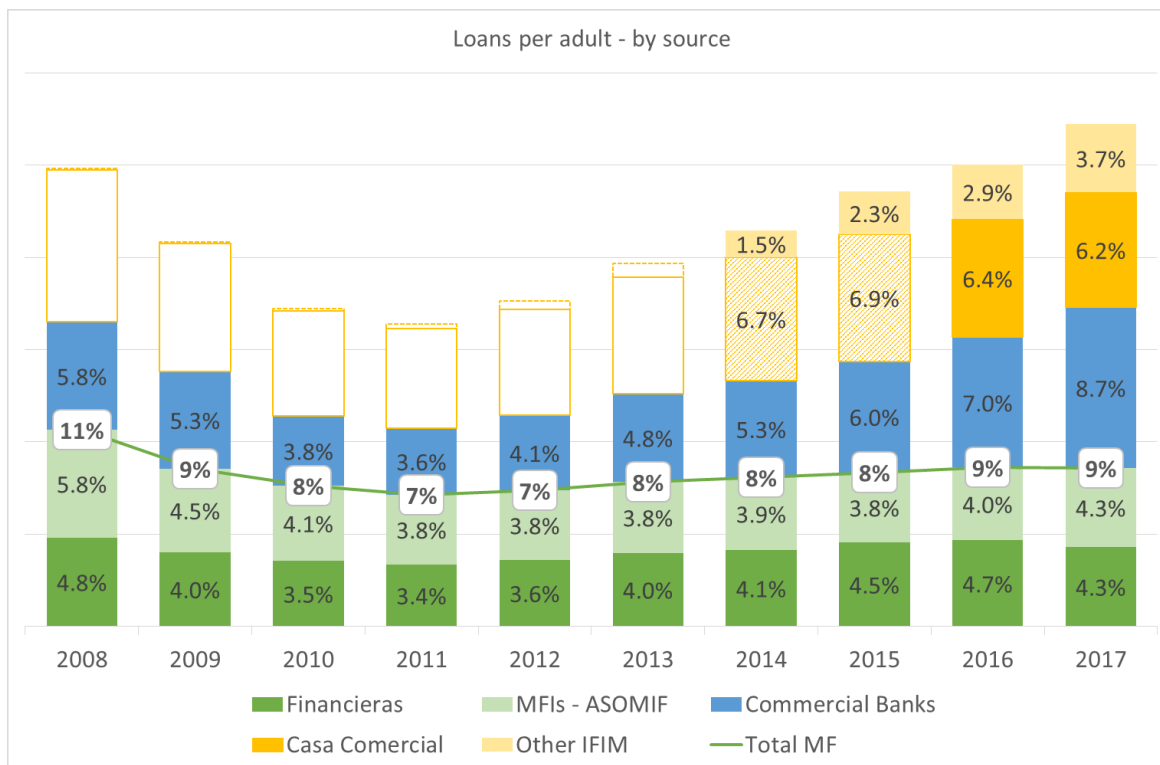
³ For each financial institution we used the best data (ASOMIF, when available, and then either CONAMI or SIBOIF depending on the regulatory status). For a description of the methodology applied to estimate number of unique borrowers, see “MIMOSA 2.0: Mapping the (micro)credit cycle” (available on mimosaindex.org), pp. 27-28. For Nicaragua, we used Peru and Bolivia as reference markets to compute the borrower estimation formula.

⁴ The recently issued “Encuesta de Inclusion Financiera”, from the Banco Central de Nicaragua, indicates that at the national level, 8.9% of the persons who declared having borrowed from a financial institution during the last 12 months did so through a Cooperative. This survey also provides three “regional” datapoints (Managua: 3.7%; other Urban areas: 7.1%; Rural areas: 17.1%) which we used to calculate the regional scores.

⁵ We define Traditional MFIs as current and historical members of ASOMIF, including the 4 financieras that are supervised by SIBOIF (FAMA, FDL, FINCA, FUNDESER), but excluding casas comerciales and recently registered IFIMs (Gente mas Gente, Gallo mas Gallo servicios, Unicoservi).

⁶ IFIM: Instituciones Financieras Intermediarias de Microfinanzas. Broader category than MFI (that should have at least 50% of their GLP in microcredit and have minimum capital of 210k USD)

2008) and MFI loans actually decreased in number during 2017. Our expected path for credit penetration growth in 2020 is based on this dual trend: dynamic growth of the banks (in the ~20% per year range), flat growth for MFIs (0%). Historical data on casas comerciales and other IFIMs is not available and recent trends are unclear. We thus assumed that their future growth would be the average of the two other segments. Following this 10% growth would lead to a score of **5/6** in 2020.



The retail credit market in Nicaragua is thus significantly saturated, though it remains well below the saturation level of Peru and Cambodia. However, some of the characteristics of the microfinance market make it particularly vulnerable to the risk of over-indebtedness.

With 52 active registered Financial Institutions (FIs)⁷ in 2017 (not counting cooperatives), Nicaragua is an extremely competitive market. Its HHI competition index for the microfinance⁸ segment stands at 949, which is comparable to Peru, and more competitive than Cambodia. Many FIs in Nicaragua struggle to reach a critical size with only half exceeding a loan portfolio of 10m USD and only 4 exceeding 50m USD. Given a market of just 4.3m adults, this level of market fragmentation and competition poses particularly high risks. Perhaps unsurprisingly, Nicaragua features aggressive sales techniques. Several of the persons interviewed during our surveys indicated that they can receive as much as 10 to 20 loans offers per month.

This high level of competition coupled with credit bureaus with only partial coverage, logically comes with a high percentage of cross lending. Even if we do not have a precise figure for the share of all borrowers who have 3+

⁷ 8 banks and 5 Financieras registered with SIBOIF. 39 MFIs and other IFIM registered with CONAMI. Other (relatively small) FIs might be operating in the market that have not yet registered with CONAMI.

⁸ This HHI only takes into account the market shares of non-Banks (Financieras, MFI, other IFIM). It is probably underestimating the actual competition in the microcredit segment given that, out of the 8 banks, two (BAC, Banco FICOHSA) are active in the middle to lower end of the market as shown by an average loan size for their retail loan portfolio of 3,000-4,000 USD and some offers directed to independent workers. These two banks account for 50% of the bank loans.

loans, we know that it stands at 12.9% in the SinRiesgos database – a substantial undercount, considering the lack of reporting by certain credit cooperatives and by some of the banks. In the survey commissioned by ASOMIF and which final results should be made available in the coming months, the figure for borrowers with 2+ loans was reported as 44%, vs. 34% in the SinRiesgos database, which gives an idea of the order of magnitude of the undercount. MFIs themselves report rates of “clientes exclusivos” (without exposure to other FIs) that are often relatively low. Multiple borrowing and cross indebtedness in Nicaragua is by any measure in the high range of our observations in other countries.

The characteristics of the loans offered to clients also create an additional source of risk: loans are mostly long term⁹, bear interest rates that are often above 50%¹⁰ and are usually labelled in Cordoba con Mantenimiento de Valor, which means that the borrowers are exposed to foreign exchange risk (albeit in a context of a currency that has managed to have a controlled 5% annual devaluation for close to 30 years now). Several FIs advertise loans that can be approved in a matter of a few hours and disbursed within one day, as well as loans that can be topped up or refinanced at any time.¹¹ All this in a context where credit cards are widely available with commercial banks reporting 3 times more credit card accounts than personal loan accounts.¹²

Category	Rating	Indicator	2017
Saturation		Loan penetration over capacity	6.6%- 8.0%
Regulation		Overall quality of regulation	55
		Supervision of Over-Indebtedness	2
		Appropriate collections	2
		Quality of credit bureau & credit reporting	67
		Level of competition (HHI)	927
Competition /overheating		% Borrowers with 3+ loans	12.9%
		Loan portfolio CAGR in value past 3 years vs. GDP growth	24% vs. 12%
		Loan portfolio growth in value expected next 12 months vs. Expected GDP growth	25% vs. 12%
Maturity of microfinance institutions		% clients at MFIs <10y or >20y old	>65% by FIs >20y
		Experienced crisis in past 15 years	2008-2009
Transparency / Data availability		Composite transparency score	4.0
		% MFIs with ratings in past 2 years	25%
Other risks		FX exposure	100%
		Interest rate level	40%

⁹ 43% of the Gross Loan Portfolio of ASOMIF affiliates has an initial maturity above 24months, and this proportion reaches 80%+ for “casas comerciales”

¹⁰ As notably indicated by an average portfolio yield for IFIMs of 50% for 2016 – source CONAMI

¹¹ See examples in screen shots at the end of this report

¹² Credit cards accounts are not taken into account in the credit penetration used for the MIMOSA score.

Finally, despite the healthy performance of the Tier 1 and Tier 2 traditional MFIs¹³ that account for 50% of the number of active microfinance loans (PAR30 and write-offs both below 2.5%, portfolio yields between 30% and 50% depending on the loan sizes and ROAs of 3-5%), other institutions (Tier 3 MFIs, Casas Comerciales, other “IFIM”¹⁴) post very concerning figures: average PAR30 of 12% (15% for Casas Comerciales), loan loss provision expenses in similar ranges indicating high rates of write-offs on these late loans and portfolio yields averaging 65%. These figures point to a large, albeit not yet precisely known, number of borrowers having difficulties meeting their contractual obligations and thus likely being over-indebted. In this context, traditional MFIs seem to be doing a good job at selecting clients that have the capacity to repay and four of them¹⁵ actually received a Smart Certification that indicates that they take the prevention of over-indebtedness seriously. However, in an environment of high competition and limited data, one cannot exclude the possibility that clients who struggle to repay their MFI loans may take a loan from another IFIM, and then potentially default on their non-MFI loans. In such a liquid and fluid credit market, simple indicators such as PAR do not provide enough information to judge on the level of credit risk in the loan portfolio.

The current regulation, even if it has been constantly improving since 2011, is not sufficient given the risks present in the market. The norms that apply to the microfinance sector (developed by CONAMI) include a series of very positive requirements on pricing and contractual transparency towards clients, responsible collections, requirements on credit bureau checks for all loans, options to receive a social performance certification, but does not include a minimum capital adequacy ratio and only a very low minimum capital (6.3m NIO, i.e. 210k USD). This makes it possible for weak institutions to continue operating, contributing to a highly fragmented and competitive market. This high number of small and weak FIs also creates a high workload for the relatively recently created CONAMI and makes it difficult to guarantee that all players are in compliance with client protection practices or apply good underwriting standards. It is not anecdotal that Procredit decided in 2017 to fully sell its Nicaraguan subsidiary, based on the consideration that “the operating environment [had] become increasingly difficult in recent years and that the potential for growth with target SMEs was limited”¹⁶.

The current market conditions would require much stronger measures to foster more prudent underwriting standards and healthier competition and to get a clear picture of the credit risk and solvency of the different FIs. Such as:

- ensuring that credit bureaus and/or the public credit registry provide a full market coverage¹⁷
- making sure that the risk of over-indebtedness is taken into account when building provisions for credit risk (additional provisioning for loans to clients that have more than 3 or 4 loan accounts in the financial system);
- taking into account contagion risk when building provisions (additional provisioning for loans to clients that are late with another FI)
- requiring that MFIs/IFIMs comply with a minimum Capital Adequacy ratio;
- putting meaningful limits on aggressive sales practices.

Such measures would need to apply to FIs supervised by CONAMI (IFIMs and MFIs) and by SIBOIF (Banks and Financieras) to be efficient, especially in the current context where the growth of the number of borrowers essentially comes from Commercial Banks and Casas Comerciales, IFIM, and not so much from traditional MFIs.

¹³ Traditional MFIs as defined above, with a gross loan portfolio above 10m USD in 2016.

¹⁴ Such as Gente Mas Gente, Instacredit

¹⁵ FINCA, FAMA, FUNDENUSE, PROMUJER

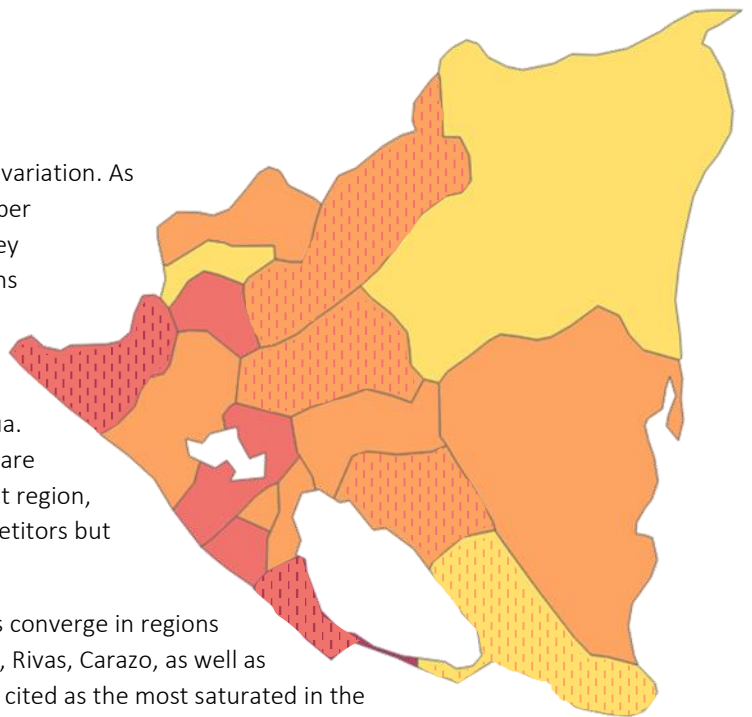
¹⁶ Procredit Holding annual report, 2017

¹⁷ By either ensuring that data reported to one of the two bureaus gets transferred to the other or to the public credit registry, or by centralizing the reporting to only one.

MIMOSA Scores by Region

At the regional level, competition shows significant variation. As expected, Banks and Casas Comerciales have a deeper penetration in urban areas like Managua, where they represent 80% of the loans¹⁸. In the northern regions (Jinotega, Nueva Segovia, Madriz) as well as in Río San Juan, traditional MFIs still dominate the market with more than 50% market share, illustrating the rural focus of many MFIs in Nicaragua. In Jinotega, this figure reaches 67%. That market share might however be over-estimated given that, in that region, Coffee Producers Cooperatives are also likely competitors but are not included in our dataset.

The expansion strategy for all three types of players converge in regions of the Pacific coast including Managua, Chinandega, Rivas, Carazo, as well as in Estelí that receive scores of 5 or 6, and were also cited as the most saturated in the survey of MFIs. These regions also record the lowest HHI scores (indicating a higher level of competition). Regions of the Atlantic coast such as Río San Juan and RACCN, with low HDI and population density are logically less served than other regions.



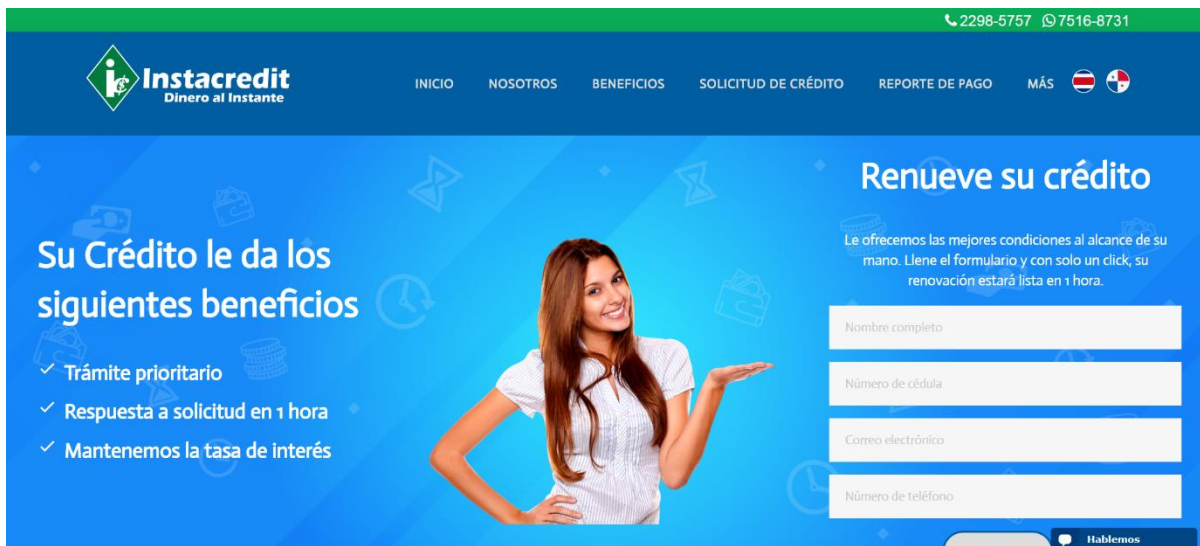
Year	Region	Pop. (000s)	HDI	Pop. density (per km2)	MIMOSA Score	Borrowing capacity (%)	Borrowers per adult (%)	Penetration over capacity	HHI
2017	National	6,328	0.645	53	4/5	11.5	18.2	6.7	949
2017	Managua	1,497	0.774	432	5	16.4	23.7	7.3	1,303
2017	Matagalpa	568	0.542	83	4/5	9.7	15.6	5.8	841
2017	RACCN	490	0.465	15	3	7.8	8.2	0.4	1,837
2017	Jinotega	446	0.471	48	4/5	8.2	14.9	6.7	1,071
2017	Chinandega	432	0.607	90	5/6	11.0	20.6	9.6	994
2017	León	413	0.647	80	4	11.7	16.7	5.0	1,120
2017	RACCS	391	0.474	14	4	8.0	12.3	4.3	2,012
2017	Masaya	370	0.670	600	4	15.5	19.3	3.8	1,083
2017	Nueva Segovia	257	0.536	74	4	9.6	14.0	4.4	1,726
2017	Estelí	225	0.657	101	5	12.0	20.4	8.4	876
2017	Granada	208	0.646	200	4	12.5	17.2	4.8	1,456
2017	Carazo	192	0.659	178	5	12.6	20.4	7.8	1,185
2017	Chontales	187	0.585	29	4/5	10.2	17.2	7.0	1,294
2017	Boaco	180	0.533	43	4	9.3	13.9	4.6	890
2017	Rivas	179	0.614	83	5/6	11.1	24.1	13.0	1,556
2017	Madriz	166	0.543	97	3	9.8	11.8	2.0	1,710
2017	Río San Juan	129	0.494	17	3/4	8.4	11.2	2.8	2,633

¹⁸ Our regional data for banks is based on the distribution of branches. For other FIs it is based on the regional split of loans reported to either ASOMIF or CONAMI. Our estimate of number of bank loans for a small region like Rivas is potentially overestimated.

Appendices: Examples of “Fast loans”



The screenshot shows the homepage of 'PEPE te presta'. At the top, there are navigation links: 'Comunicate con PEPE' (with a WhatsApp icon), 'Solicita Aquí tu préstamo' (with a calculator icon), and 'Mi Pepe' (with a laptop icon). Below these, a banner states: 'Te aprobamos hasta C\$200,000 en 5 minutos, te llevamos tu cheque a tu casa o trabajo en 24 horas y no te pedimos fiador. Desliza la barra para calcular la cantidad que puedes llevarte según la cuota mensual que puedes afrontar.' Below the banner is a loan calculator with a slider for 'Cuánta Plata Necesitas?' ranging from 0 to 'C\$ 7,500.00'. A 'Tú Cuota Mensual Mínima' of 'C\$680.00' is displayed. At the bottom, there are two buttons: 'Aplica aquí a tu Préstamo' and 'Pepe te Re-presta'. A badge on the right says 'EN 24 HORAS 100% GARANTIZADO'.



The screenshot shows the homepage of 'Instacredit'. The header includes the logo 'i Instacredit Dinero al Instante' and navigation links: 'INICIO', 'NOSOTROS', 'BENEFICIOS', 'SOLICITUD DE CRÉDITO', 'REPORTE DE PAGO', 'MÁS', and flags for Nicaragua and Costa Rica. The main banner features a woman and the text 'Su Crédito le da los siguientes beneficios':
 ✓ Trámite prioritario
 ✓ Respuesta a solicitud en 1 hora
 ✓ Mantenemos la tasa de interés
 To the right, under 'Renueve su crédito', it says: 'Le ofrecemos las mejores condiciones al alcance de su mano. Llene el formulario y con solo un click, su renovación estará lista en 1 hora.' Below this is a form with fields for 'Nombre completo', 'Número de cédula', 'Correo electrónico', and 'Número de teléfono'. A 'Hablemos' button is at the bottom right.



This screenshot shows a different section of the 'Instacredit' website. It features a man with his arms raised in a celebratory gesture. To the right, a large graphic says 'RENUEVE SU CRÉDITO' with a circular arrow icon. Below this, it says 'Préstamos para lo que NECESITES'. A 'Hablemos' button is at the bottom right.

User Guide

This is an abbreviated guide. For explanation of the methodology behind the penetration and capacity values, please consult the MIMOSA whitepaper.

The MIMOSA index consists of several measures. The primary score evaluates the degree to which the level of penetration exceeds estimated market capacity. The score levels and their interpretation is shown in the below table.

MIMOSA Score	Penetration over/ under capacity		
	Percentage points	Standard Deviations	Market status
6	>11.1%	3+	Saturated
5	7.4-11.1%	2 to 3	
4	3.7-7.4%	1 to 2	
3	0-3.7%	0 to 1	Normal
2	-3.7 - 0%	-1 to 0	
1	< -3.7%	< -1	Underserved

In addition to the score, we include the component metrics underlying the capacity and penetration calculations:

Human Development Index (HDI): developed by UNDP to assess the level of development, comprising GNI per capita, life expectancy, and education metrics. The scale ranges from 0-1.

Population density per km²: standard measure retrieved from country statistical bureaus.

Credit Bureau Score: derived from the Getting Credit measures in the World Bank Doing Business report. We include the level of coverage, and amount of information (both repayment history and debt outstanding) provided. The scale ranges from 0-400.

Borrowing Capacity: % of adults expected to be active borrowers, based on the MIMOSA model.

Borrowers per adult: derived from multiple sources, including the World Bank Findex survey, central bank reports, credit bureaus, and MIMOSA field surveys.

Microfinance borrowers (% of loans): number of active loans of microfinance institutions. Usually defined either by institutional registration with the regulator or membership in the microfinance association. Multiple loans held with the same institution are counted once.

Credit card borrowers (% of adults): number of adults with an outstanding credit card balance. Figure from Global Findex.

Credit card score: level of penetration vs. capacity. Graded on a three-point scale, indicating a market whose credit card demand is under-served, appropriately served, or over-saturated.

GDP 3-year CAGR (current \$): three year cumulative growth rate of GDP. Figure from IMF WEO.

GDP per capita (constant LCU): figure from IMF WEO.

In addition, we include a list of indicators that serve as additional risks or mitigants that in aggregate may increase or reduce the country's ability to manage increased levels of penetration:

Category	Indicator	Indicator	Mitigant 	Neutral 	Risk 
Regulation	Overall quality of regulation	Overall microscope score (0-100)	≥ 75	50-75	< 50
	Consumer protection (OID)	Microscope score 4.2.1	3	2	0 or 1
	Consumer protection (Collections)	Microscope score 11.3.2	2	1	0
	Credit bureau, credit reporting	Microscope score 10	≥ 75	50-75	< 50
Competition / overheating	Level of competition	Herfindahl-Hirschman Index	$HHI > 3,000$	$1,500 < HHI < 3,000$	$HHI < 1,500$
	Multiple borrowing	% borrowers with 3+ loans	$< 5\%$	5-15%	$> 15\%$
	Prior growth	Loan portfolio 3-year CAGR	$< 2x$ GDP growth	2-3x GDP growth	$\geq 3x$ GDP growth
	Future growth	Loan portfolio 12-mth growth expectations	$< 2x$ GDP growth forecast	2-3x GDP growth forecast	$\geq 3x$ GDP growth forecast
Maturity of microfinance institutions	Age of FIs	% clients of MFIs $> 20y$ or $< 10y$ old	$> 65\%$ of the borrowers are clients of MFIs > 20 years old	Other	$> 65\%$ of the borrowers clients of MFIs < 10 years old
	Prior crisis experience	Date of previous crisis	Market experienced crisis in past 15 years	no crisis experience	
Transparency	Composite score	See Transparency worksheet	≥ 3		< 1.5
	Ratings	% leading MFIs rated in past 2 years	≥ 75	50-75	< 50
Other risks	FX exposure	% of loans in foreign currency	< 10	10-25	≥ 25
	Interest rate level	Average Full APR, weighed by number of borrowers	$< 30\%$	30-60%	$> 60\%$