2023 CLA CASE COMPETITION

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Case Title:

CLA Enables Gender Transformative Change in Honduran Bank

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Organization:

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ACDI/VOCA

Summary:

In Honduras, traditional gender and social norms create significant financial and economic barriers for women. Women are more likely to report finance as a significant constraint than men, and only 13% of women-led SMEs are served by banks. LAFISE Bank, a Honduran financial institution, saw an opportunity to take a leadership role to innovate and close the gender financial gap by launching the Pyme Mujer program in collaboration with USAID, the IFC, and the DFC.

Through partnerships and building a culture of continuous learning and improvement, LAFISE Bank navigated the challenges of an organizational transformation to adapt its culture, processes, and systems to better serve women-owned SME clients. In its first year, LAFISE Bank has surpassed expectations by disbursing over $2.2 million in new loans to women-owned SMEs. Based on the success of this first phase, the bank is now expanding the model to all 19 branches in Honduras in 2023 and regionally in four new countries in Central America.

USAID/Honduras and ACDI/VOCA, through the Transforming Market Systems (TMS) Activity, have also undergone significant changes to create the necessary conditions for CLA with local partners. These changes include allocating more funding partner MEL systems, making spaces for Pause and Reflects, motivating client feedback, and facilitating strategic alliances. Together, we are continuously learning how to better engage and support local partner organizations to lead change in the systems in which we work.

1. **WHAT: What is the general context in which the case takes place? What organizational or development challenge(s) or opportunities prompted you to collaborate, learn, and/or adapt?**

In Honduras, traditional gender and social norms create significant financial and economic barriers for women. Women are more likely to report finance as a major constraint than men, and only 13% of women-led SMEs are served by banks. Limited access to finance undermines the growth of women-led enterprises and limits their opportunities. Research shows that women-led enterprises in Honduras are half the size of enterprises led by men.

Banks tend to take a "gender-neutral" approach that, by default, ignores women's financial needs and preferences. Moreover, bank compliance conditions and risk management processes tend to compound this gender gap, effectively excluding smaller-sized enterprises, many of which are led by women. The result is a reinforcing cycle where banks, explicitly or implicitly, reinforce societal constraints on women's financial and economic inclusion.

This context presented a considerable challenge to USAID/Honduras' goal of inspiring Hondurans, including women, to stay and invest in their future in Honduras. As a result, the USAID Honduras Transforming Market Systems (TMS) Activity partnered with the local financial institution, LAFISE Bank, to transform how the bank served the financial needs of women.

The case emphasizes the role of USAID programs like TMS in creating the conditions for CLA in local partner organizations. In the case of LAFISE Bank, this meant a collaborative approach to connect with new female clients. It also required LAFISE Bank to continuously learn and adapt its financial (and non-financial) services to better meet women's financial needs.

2. **What two CLA Sub-Components are most clearly reflected in your case?**

External Collaboration

Continuous Learning & Improvement

3. **HOW: What steps did you take to apply CLA approaches to address the challenge or opportunity described above?**

LAFISE Bank recognized that if banks did not take action to innovate and better serve women, this gender gap would not only persist but also reinforce trends like irregular migration, creating long-term risks to the Honduran banking system. LAFISE saw an opportunity to take a leadership role in partnership with USAID, IFC, and DFC and launched the Pyme Mujer program.

LAFISE Bank needed to listen to women to better understand their financial needs. Together with USAID and IFC, LAFISE conducted market research and focus groups with women discovering that many, despite having bankable businesses, were not qualifying under LAFISE banks' lending criteria. As a result, LAFISE recognized the need to develop a new client segment with adjusted requirements, such as a lower threshold of sales and collateral.

However, banking officials within the credit risk department had compliance and risk concerns with this client segment. To respond to this concern, USAID helped LAFISE Bank obtain a $7 million guarantee fund from the U.S. Development Finance Corporation (DFC) through the 2X Women's Initiative. In its first six months, this guarantee fund helped to move more than $1.2 million in new loans to 60 new women-led SMEs clients of LAFISE Bank.

While reflecting on the progress and results, LAFISE realized there were internal constraints to growing this portfolio. Notably, the bank wasn't collecting gender data and had limited analysis to understand how to improve. USAID supported LAFISE to develop a Gender MEL Framework, data collection systems, and strengthen client segmentation. As a result, LAFISE offered new unsecured loans, credit cards, and insurance offerings for female clients.

LAFISE Bank selected five strategic branch offices in Choluteca, Santa Fe, Puerto Cortés, and San Pedro Sula to pilot the financial products. These branches served as labs where LAFISE Bank could effectively innovate, learn, and adapt how to restructure its SME divisions and improve its client outreach, credit processes, and internal systems to serve women better.

LAFISE integrated several insights from these pilots into the Pyme Mujer program. The first was the need for the bank to have more proactive outreach to women through special events, like Entrepreneurship Week and Agritrade, where the bank could find new clients. LAFISE also allied with local organizations like Vital Voices Honduras to connect with new female clients.

Based on feedback, LAFISE Bank also recognized the need to adapt its offers to include non-financial services. Together with Fundación Zamora Terán, LAFISE Bank developed a business diagnostic tool called Dr. Pyme and introduced new financial education, business analysis, and e-commerce services to better serve need the needs and requirements of female clients.

With the success of the pilot phase, LAFISE recognized the need to institutionalize this new approach. LAFISE Bank formed a gender equality committee and hired an executive to coordinate the Pyme Mujer initiative across departments. With the support of USAID and the Financial Alliance for Women, LAFISE strengthened its leadership team and conducted gender training at all levels, from bank executives to security guards, to promote an inclusive and gender-equitable culture at the bank.

LAFISE Bank's transformation and gender-responsive financial and non-financial services have set it apart as a leader in inclusive finance for other Honduran financial institutions. Moreover, the LAFISE Financial Group's decision to expand Pyme Mujer to four other Central American countries promises broader impact across the region.

4. **RESULTS: Choose one of the following questions to answer.**

We know you may have answers in mind for both questions; However please choose one to highlight as part of this case story

B. ORGANIZATIONAL EFFECTIVENESS

By forming partnerships and building a culture of continuous learning and improvement, LAFISE Bank successfully navigated the organizational transformation required to adapt its culture, processes, and systems to serve women-owned SME clients better.

LAFISE Bank has surpassed expectations in its first year by disbursing over $2.2 million in new loans to women-owned SMEs. This performance is targeted to grow to $6 million for women-owned SMEs in the coming year. LAFISE bank's non-financial services reach about 300 women a month, many of whom have become banking clients with credit or savings accounts. Based on the success of this first phase, LAFISE is now expanding the model to all 19 branches in 2023.

LAFISE Bank as an organization has also changed. LAFISE Bank learned through market research to better customize financial services to client needs. LAFISE's capacity to systemically collect gender data on client preferences across branches and to aggregate, analyze and make decisions based on that data reflects significant changes in LAFISE Bank's learning processes.

LAFISE Bank has actively invested in its leadership and structures, such as the Gender Equity Committee, to support more effective collaboration across divisions to realize change. LAFISE Bank's newfound willingness to embrace calculated risks represents a shift in its culture and lending approach, which has been too narrowly focused on risk reduction and compliance.

The capacities learned through the PYME Mujer with USAID have also positioned LAFISE to respond to new challenges. An example is what LAFISE Bank is doing by venturing into green and renewable energy, showing its commitment to both environmental and social issues.

5. **ENABLING CONDITIONS: How have enabling conditions - resources (time/money/staff), organizational culture, or business/work processes - influenced your results? How would you advise others to navigate any challenges you may have faced?**

LAFISE Bank had to manage the risks associated with change. USAID, and strategic alliances with DFC and IFC, were critical to buying down the risk for LAFISE Bank to lend. Yet, the story of LAFISE Bank reflects a more profound change that goes beyond a few loan transactions. These more transformational changes in the bank's processes, culture, and resource investments required building trust with USAID.

A CLA assessment by Canopy Lab of USAID TMS partners and staff found that TMS co-creation processes, flexible IDIQ contracts, and the adequate resourcing of MEL and CLA helped to build this trust and alignment. Their effectiveness, however, depended on the culture of openness by USAID and TMS, which encouraged risk-taking and innovation fundamental to the success of partners like LAFISE.

For USAID and ACDI/VOCA, through TMS, this has required internal changes in how we operate to create the conditions for CLA in our local partners. By better funding partner MEL systems, making spaces for Pause and Reflects, motivating client feedback, and facilitating strategic alliances, we have learned how to better engage and support local partner organizations to lead change in the systems in which we work.