

CASE STUDY: CAJA MUNICIPAL DE AHORRO Y CRÉDITO (CMAC) DE HUANCAYO (CAJA HUANCAYO)

How a state-owned microfinance institution in Peru puts good governance at the forefront of its growth strategy.



INTRODUCTION

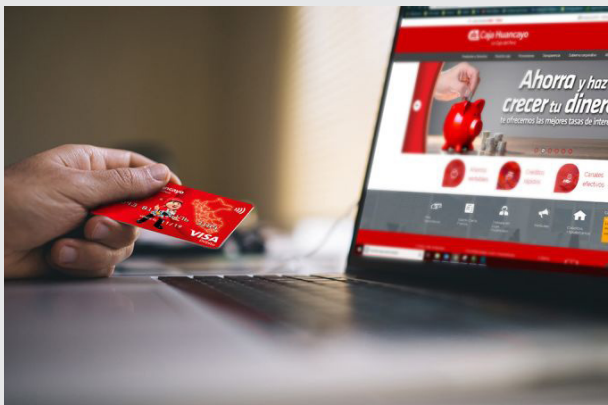
Caja Huancayo is a microfinance institution and a leading player in Peru’s Municipal Savings and Credit System, which is the country’s main source of financing for micro, small, and medium-sized enterprises (MSMEs). As one of the largest microfinance institutions in Peru, Caja Huancayo has a crucial role in development - by providing access to finance to MSMEs and low-income populations, Caja Huancayo helps to close an important financing gap that exists, especially in regions that are distant from urban centers. In 2022, Caja Huancayo was awarded the IFC’s Global SME Finance Award for its outstanding role in financing MSMEs.¹

Caja Huancayo’s role is not only limited to access to finance but also has a big focus on sustainability. According to Mr. Jorge Solis, Chairman of the Board of Caja Huancayo, *“For the last years, Caja Huancayo has been promoting projects focused on sustainable finance, such as solar water heaters, solar powered coffee roasteries and solar panels for different uses for urban and*

rural MSMEs. Caja Huancayo promotes financial education in schools and women’s organizations (...). The Caja is working on ESG criteria aligned with the Sustainable Development Objectives.”

Caja Huancayo is constantly looking for impact as *“it is the only microfinance institution in the system that has ventured into using the mechanism of “public works for taxes” by which companies can recover an important percentage of the expenditures made on public infrastructure projects from their taxes. This led, for example, to build the Center for Technological Innovation of Leather and Footwear, benefiting 1500 producers in the area. Another example is the project of modernizing Huancayo’s Firefighter Station, which will be the best equipped in the country,”* he adds.

When a change in Peruvian law opened the doors for private sector investments in state-owned microfinance institutions,² Caja Huancayo was enthusiastic to explore



➔ *“With the support of IDB Invest, the board was able to gradually challenge management to improve the quality of information received, which greatly enhanced the decision-making quality and timing.”*

Rosa Asca -
Caja Huancayo Board Observer

opportunities. The fact that Caja Huancayo is a state-owned enterprise (SOE) wholly owned by the Municipality of Huancayo, however, represented specific corporate governance challenges that could potentially discourage private investors. As is typical for SOEs, Caja Huancayo inherently faces the risk of undue political influence or capture by different interest groups, which can possibly be aggravated at each 4-year election cycle if there is high board and management turnover.

Even though the local legal framework governing Caja Huancayo's operations already established the grounds for good corporate governance, including administrative autonomy, a diversified Board of Directors, and independent supervision by regulatory authorities,³ Caja Huancayo understood the importance of scaling up its practices, adopting high-level, international corporate governance standards in order to attract private sector financing.

As expressed by Mr. Solis, ***“Good corporate governance strengthens companies because it promotes ethical, responsible, accountable, efficient and transparent decision-making. When discussing how to attract private investors, Caja Huancayo quickly realized the strategic importance of improving corporate governance and was keen to engage with IDB Invest on these matters.”***

Caja Huancayo and IDB Invest initiated discussions in 2018, eventually leading to a USD 16 million, seven-year subordinated

loan convertible into equity under pre-determined circumstances. In November 2023, IDB Invest approved the conversion of debt into equity and will likely become the first private sector investor in CMAC in Peru. This was one of the most innovative and developmental transactions in the microfinance sector in the region, aiming to establish the pathway for more private investments in the sector in the future.⁴

As part of the transaction with IDB Invest, Caja Huancayo received technical assistance to improve its corporate governance, aligning it with international standards, and agreed to include an Observer nominated by IDB Invest on its Board of Directors (who will become a full director upon the conversion of debt into equity). IDB Invest conducted a profound and holistic analysis of Caja Huancayo's corporate governance to understand its culture and values, as well as its processes, practices, and controls beyond the writings of its internal policies and regulations.

According to Mrs. Rosa Asca, the IDB Invest nominated Board Observer, the recommended improvements had a positive impact in many structural aspects: ***“clearly delineating roles and responsibilities of shareholders, Board of Directors, executive managers and control functions, improving Board dynamics and effectiveness, increasing transparency and promoting good relationships among all these distinct actors, elevating our practices progressively towards world-class standards.”***

The support provided by IDB Invest, extended to the implementation of a series of recommended improvements, was done in an organized manner, with clear priorities and implementation milestones. Rather than pushing for dramatic changes, IDB Invest worked closely with Caja Huancayo to have a step-by-step approach, focusing on capacity building and the commitment and accountability of key participants. According to Mrs. Asca, this approach was very effective in terms of building culture. She recalls, for example, that **“board evaluation was one of IDB Invest recommended practices that required some time and internal education to be effective. Today, the Board conducts periodic evaluations, and everyone understands the process and the overall objective of improving dynamics for better decision-making.”**

Another example was the work done with board committees, particularly the Corporate Governance and Social Responsibility Committee. A common challenge for any company is to ensure an adequate board composition, which requires that nominating shareholders understand what skills, experiences and backgrounds are needed in the boardroom at a given time. In addition to formalizing the criteria to become a board member and the requirements to be recognized as an independent director, IDB Invest supported strengthening the Corporate Governance and Social Responsibility Committee to design a skill matrix and propose suitable profiles for the Board's composition in collaboration with management.

It is also important to highlight Caja's extensive efforts to elevate ethics and integrity as a core organizational value at all corporate levels, reinforcing the Code of Ethics and compliance program and strengthening the effectiveness of its compliance unit.

One of the most remarkable achievements has been **“to strengthen the Compliance Unit, based on three fronts of action, leading it to develop focused and specialized activities in compliance, corporate governance, and social responsibility,”** explains Mr. Solis. In addition, **“the institutional compliance reports about Money Laundering, Market Conduct and regulatory compliance are presented and**

reviewed by the Corporate Governance and Social Responsibility Committee, which allows an adequate involvement of the Board of Directors in these issues.”

Mr. Solis also highlights improvements regarding ethics. Caja Huancayo's adoption **“of clear rules for collaborators in ethical matters and the implementation of whistleblower channels to ensure the effectiveness of these rules has been a step forward.”** Mr. Solis points out that these improvements **“are now supported by clear procedures for investigating and sanctioning cases of ethical transgressions.”**

The ability to clearly identify ethics violations and conflicts of interest, as well as to adequately conduct internal investigations and communicate transparently with key stakeholders, is essential for any SOE.

As stated by Mrs. Asca, **“Effective corporate governance is essential for companies to respond to crises efficiently, communicate with stakeholders and preserve their reputation. All improvements in Caja Huancayo's corporate governance, implemented as they were in a holistic way, serve as a deterrent against political capture and against any individual initiative that seeks to promote personal agendas rather than what is in the best interest of Caja Huancayo, its shareholders and stakeholders, including the Huancayo community at large.”** Mrs. Asca further added that **“the fact that a supranational governance expert such as IDB Invest was the one supporting Caja Huancayo helped key actors at Caja and the Municipality understand the importance of the topics and trust the implementation process.”**

Caja Huancayo continues with the journey of improving corporate governance and strengthening its reputation as one of Peru's most important microfinance institutions, with a crucial role in promoting impact, development, and long-term sustainability.

“The incorporation of IDB Invest as a shareholder of Caja Huancayo represents the first private sector investment in a CMAC in Peru. We are proud of this investment and hope that it provides enough demonstration effect to attract other investors in this sector, supporting good corporate governance and advancing sustainable financial inclusion in Peru,” concludes Gabriel Azevedo, Chief Strategy Officer at IDB Invest.

Examples of corporate governance actions that Caja has worked on with the support from IDB Invest



AT THE BOARD LEVEL:

- A** Clarifying Board roles and responsibilities, defining an ideal skill set for the Board as a collegiate body and the requirements needed to be considered an independent director.

- B** Defining specific operational measures to improve the efficiency of board meetings and decision-making processes.

- C** Strengthening the Corporate Governance and Social Responsibility Committee, defining a clearer and ambitious set of oversight responsibilities.

- D** Establish the practice and conduct annual Board evaluations.

- E** Structure succession planning for the senior management reporting directly to the Board.



AT THE ETHICS, COMPLIANCE AND CONFLICT OF INTERESTS LEVEL:

- A** Strengthening the role of the Compliance Unit and adopting a Compliance Program.

- B** Strengthening the rules for conflicts of interest and the Code of Ethics, particularly with regard to interactions with public officials.

- C** Formalizing a related parties transactions policy.



AT THE TRANSPARENCY AND DISCLOSURE LEVEL:

- A** Conducting periodic meetings with the Municipality with respect to the Caja's corporate governance framework.

- B** Strengthening the rules and channels for information disclosure to the Caja's group of interests.

ENDNOTES

¹ [Caja Huancayo es reconocida como la “mejor financiera en otorgamiento de créditos pyme” en América y El Caribe. \(2022, September 21\). La República Diario. Retrieved August 22, 2023](#)

² “Ley N° 30607 que Modifica y Fortalece el Funcionamiento de las CMAC (2017)” and “Ley N° 31711 de Fortalecimiento de las Cajas Municipales de Ahorro y Crédito para Promover la Competencia en Beneficio de los Consumidores (2023).”

³ The Superintendency of Banks, Insurance and Pension Fund Administrators and the Comptroller General of the Republic.

⁴ [IDB Invest and Caja Huancayo boost microfinance growth in Peru. \(2020, December 3\). IDB Invest. Retrieved August 22, 2023, and BID Invest apoya a Caja Huancayo con la primera inversión de capital en una caja municipal de ahorro y crédito en Perú. Retrieved November 15, 2023, from](#)

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