



The Profile of Microfinance in Latin America in Ten Years: Vision & Characteristics

by Beatriz Marulanda & María Otero

Executive Summary

Full Text of the Study Available at [www.accion.org/more about microfinance](http://www.accion.org/more_about_microfinance)

Methodology: The purpose of this document is to demonstrate where microfinance stands in Latin America today, and to explore its characteristics in the coming decade. The authors surveyed a group of experts and microfinance institutions, using a qualitative questionnaire to which 28 individuals responded. Additionally, the authors distributed an extensive quantitative survey, completed by 47 microfinance entities. Statistics compiled by the most important microfinance entities in the region and from a number of publications on the subject complemented the questionnaires. The authors express their sincere thanks to all the people and institutions that collaborated over the course of the study as well as to Liz Fajury in Colombia and Robin Ratcliffe at ACCION International for their contributions to this study.

Primary Conclusions of the Study:

- Two approaches to the provision of financial services to the region's low-income people have consolidated in the last years. They both have commercial criteria, which we think will prevail as a model in Latin America in the next ten years. Firstly, the microfinance institutions, as yet primarily operating as NGOs, will undergo "upscaling," or transformation into regulated entities, while at the same time commercial banks entering the microenterprise sector will adopt "downscaling" to provide a range of financial services to the poor. This reality creates important opportunities in the region and implies the mobilization of enough financial resources on a self-sustaining basis to reach what is still an enormous unmet demand.
- The development to date of the microfinance "industry" and the body of knowledge acquired about the financial needs of microentrepreneurs make clear that the target market should be both the businesses and the families of the microenterprise sector. In addition, the target market is expanding to reach poorer segments of the population as well as low-income salaried workers. At the same time it is clear that the industry agrees on the importance of offering a wide range of integrated financial services, including: ATMs and other aids to transactional efficiency, savings accounts, other types of credit products such as consumer and housing loans, and insurance policies that would allow families to protect themselves against any potential misfortune.
- Going forward, the most important role for NGOs is to continue innovating in the field to support the development of systems and procedures to extend credit to population sectors as yet not adequately served, including those in the poorest levels of society, people in rural areas, and those involved in small animal husbandry or agricultural operations. The very fact of not being regulated and not having to administer savings collected from the public actually gives these NGOs the operational flexibility to take on these challenges. In countries where regulated entities have significant market penetration, we see a crucial role for NGOs in the provision of other services—training and business advisory services for microentrepreneurs—that will help them develop their businesses in the most successful and profitable way possible.

- Technology—both software and hardware—will be fundamental to improving the quality of the financial services offered to low-income people in the region because they will allow microfinance institutions to improve their efficiency and expand their services to unserved markets, with both costs and risks that are reasonable.
- The provision of financial services to the poorest people does not have to be contradictory to the focus on “commercialization” that has been a hallmark of the microfinance industry in Latin America. However, it is quite clear that microcredit can only be provided to those people (or population segments) that have an established minimum capacity to repay a loan. It is also clear that the provision of credits should not be used as a substitute for the provision of social services that are the responsibility of governments. In the next ten years, a focus on providing the poorest people with financial services, accompanied by more competition spurred by the entrance of commercial banks into the industry, ought to result in the deepening of efforts to effectively reach unserved markets.
- The study suggests that NGOs are the best option for the provision of very small loans, followed by regulated microfinance institutions and then by commercial banks. However, average loan size is not necessarily a good indicator of the actual poverty level of the low-income people being served. It is clear that we need to find other ways to assess the poverty level of those being served and those being targeted. It is also quite evident from published poverty statistics for Latin America that the majority of the poor live in urban areas while at the same time the poorest people live in rural areas. This situation must be taken into account when making comparisons between the microfinance industry in Latin America, and its attention to the poor, and the situation in Asia or Africa, where the majority of the poor live in rural settlements.
- Success in meeting the challenge of providing access to financial services on a massive scale will depend largely on the support given by governments of countries in the region to the adoption of a prudent regulatory framework. There is today widespread consensus on the key elements of a regulatory framework that is designed specifically for microfinance. In addition, however, we also need systemic conditions that permit the growth of a thriving microfinance industry, an environment where there are no legal constraints on interest rates, and where the competitive framework is not distorted by the presence of state-run financial entities offering subsidized interest rates and/or laxity in the recovery of loans outstanding.
- Furthermore, it is fundamental to move forward to reform regulatory norms that complicate, impede or add to the cost of providing other financial services (funds transfers, insurance, savings deposits, among others) to the poorest households and informal businesses, including those located in remote areas as yet unserved. We need to insist that the regulatory framework supports our industry in its desire to offer this range of financial services throughout the region by the end of the next decade.
- Donors should concentrate their efforts on 1) technical support to overcome bottlenecks to their growth for MFIs with proven records of accomplishment, 2) supporting outreach to poorer, more remote populations, 3) developing products and services before they are financially viable.
- The ability of some of the leading microfinance institutions in the region to sell bonds successfully on their local capital markets is leading the way to the ever-increasing availability of private capital funding. With such funding, microfinance in the region will see the elimination of what in past years was the key constraint to the growth of the industry, that of access to sufficient capital.

Some Particularly Interesting Findings:

ON THE TYPE OF INSTITUTIONS PROVIDING MICROFINANCE IN LATIN AMERICA

TABLE 1 – P. 6

Data as of December 2004

Type of Institution	No.	Outstanding Microloans (US\$000)	Clients	Average Loan US\$**
Commercial Banks	17	1,175,232	847,498	1,387
Microfinance Institutions (Reg.)	47	1,790,373	1,540,920	1,162
NGOs	56	384,045	868,544	442
Total	120	3,349,650	3,256,962	1,028

*For regulated institutions (both banks and microfinance), the statistics are through Dec. 2004. For the NGOs, 19 include data as of Dec. 2003 and 10 data from Dec. 2002; the remaining NGOs reported data as of Dec. 2004. See Annex 1 for more details.

**Average loan size is calculated by dividing the outstanding portfolio by the number of active clients per institution.

Source: Survey for Microfinance in 10 years, other secondary public sources such as CGAP, Mix Market, Microrate, MIF, IDB, and information published by networks such as IMI, ACCION International, FINCA..

ON WHERE ARE THE COMMERCIAL PLAYERS IN THE REGION

TABLE 2 – P. 7

Country	Commercial Banks		Reg. Microfinance Institutions	
	No	Outstanding Loans US\$000	No	Outstanding Loans US\$000
Brazil	2	41,760		
Bolivia			7	414,813
Chile	3	337,278		
Colombia	1	228,499	1	27,882
Ecuador	3	222,262	1	43,600
El Salvador			1	90,300
Haiti	1	5,160	1	6,800
Honduras			1	11,274
Mexico			2	117,150
Nicaragua			2	74,296
Panama	1	599		
Paraguay	3	41,366		
Peru	2	285,718	30	935,401
Dom. Republic			1	68,857
Venezuela	1	12,590		
Total	17	1,175,232	47	1,790,373

ON WHO ARE THE KEY PLAYERS – REGULATED INSTITUTIONS

The most prevalent group today, the one with the most experience, is undoubtedly made up of NGOs that have transformed into regulated institutions, the form of which is dictated by the regulatory environment of their particular country or as their size dictated, a process that we are calling “upscaling.”

TABLE 5 – P. 10

Institution	Country	Outstanding Microloans (\$000)	Clients	Average Loan US\$ *
Compartamos	Mexico	102,034	309,637	330
Mibanco *	Peru	111,966	92,236	1,214
BancoSol *	Bolivia	103,888	91,805	1,132
Banco Procredit/Caja Los Andes	Bolivia	116,579	84,887	1,373
Calpia/Banco Procredit	El Salvador	128,277	81,229	1,579
Banco Solidario	Ecuador	114,342	60,385**	959
Prodem	Bolivia	108,560	67,933	1,598
CMAC Piura	Peru	113,699	64,698	1,757
CMAC Arequipa *	Peru	90,300	63,368	1,425
Confia / Banco Procredit	Nicaragua	86,495	56,618	1,528
Edpyme Edificar *	Peru	60,537	54,858	1,104

* The average loan is estimated as the outstanding loans divided by number of clients.

**Reflects Banco Solidario's microloan clients & portfolio;total clients all financial products:119,390

Source: Survey by the Authors, ACCION International, MixMarket, CGAP, IMI, Web

ON THE GROWTH OF MICROFINANCE IN THE REGION-AVERAGE ANNUAL RATE BY TYPE OF INSTITUTION

TABLE 3 – P. 8

	Clients			Outstanding Loans		
	1994-1999	1999-2002	2002-2004	1994-1999	1999-2002	2002-2004
Commercial Banks	n.d.	50%	27%	n.d.	38%	72%
Microfinance Institutions¹	41%	48%	34%	79%	78%	41%
NGOs	79%	24%	30%	23%	22%	36%

1. Reflects institutions that were regulated as of Dec. 2004.

Note: Period 1994 -1999 includes 7 microfinance institutions and 14 NGOs

Period 1999-2002 includes 9 commercial banks, 15 microfinance institutions and 18 NGOs

Period 2002-2004 includes 10 commercial banks, 16 microfinance institutions and 21 NGOs

Source : Survey for Microfinance in 10 years, CGAP, Mix Market, Microrate, ACCION International, Profund.

ON MARKET COVERAGE – AND MARKET POTENTIAL
TABLE 10 – P. 14

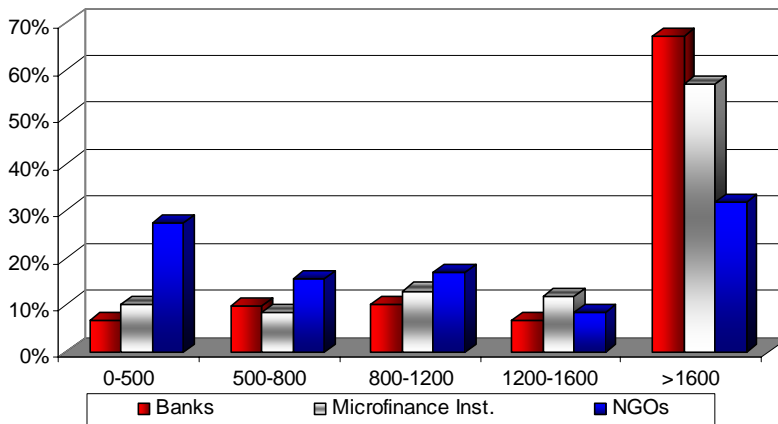
Country	Estimated size of the market (1)	Market being covered 2004 (2)	(%) Coverage
Bolivia	681,160	379,713	55.7%
Chile	603,590	168,799	28.0%
El Salvador	333,590	89,427	26.8%
Paraguay	493,660	82,658	16.7%
Peru	3,433,095	899,196	26.2%
Colombia	3,250,900	442,109	13.6%
Mexico	5,136,950	347,874	6.8%
Dom. Republic	696,090	70,602	10.1%
Honduras	445,590	17,356	3.9%
Venezuela	1,623,635	13,368	0.8%
Guatemala	710,855	42,491	6.0%
Total	17,409,115	2,553,593	14.7%

Source:

1. Westley, 2001.
2. Study by the Authors, ACCION International, MixMarket, CGAP, IMI

ON THE SIZE OF LOANS IN LATIN AMERICAN MICROFINANCE
GRAPH 3 – P. 28

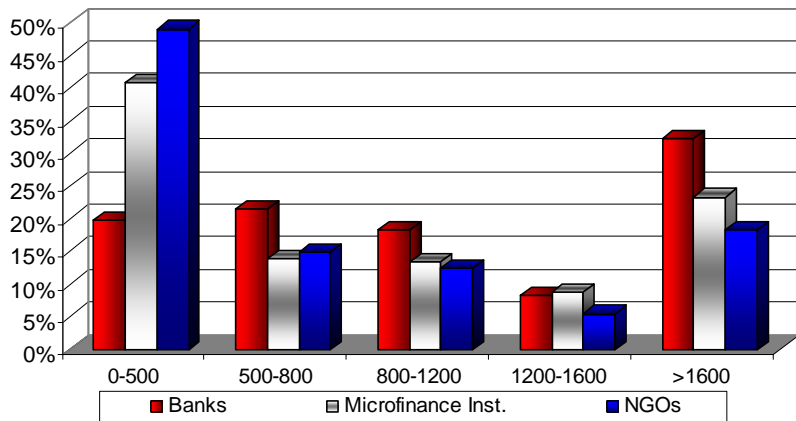
Distribution of the Amount Disbursed in 2004 by Range of Loan Size



If one looks at the data from the perspective of the type of institution disbursing the loan, as shown in Graph 3 above, one concludes that there is clear evidence that the banks concentrate their loans in amounts above US\$1,600, followed by the regulated microfinance institutions. This is not the case for NGOs, which make about 30% of their loans at this level, and maintain significant activity in loans around US\$500.

However, when one conducts the same comparison using the number of loans in each category, as appears in Graph 4 below, one notes that while the NGOs continue to disburse the largest percentage of their loans in the US\$500 and below range, there is much more equilibrium among the various ranks than might have been thought.

Distribution of the Number of Credits Disbursed in 2004 by Size of Loan
Graph 4 – P. 28



Utilizing the data outlined in Graph 4, the conclusions one draws differ from those of Table 14. Interestingly, banks conduct 38% of their loans in operations below US\$800, while this figure stands at 52% for regulated microfinance institutions, and just over 60% for NGOs. From the perspective of the impact on the poorer segments, the volume of loans disbursed by the regulated institutions is so high that it shows that they are playing a significant role in reaching these poorer segments, even though they do not necessarily specialize in these, as is the case of the NGOs.

The question that arises from this analysis is if the average loan size is a good indicator for determining which segments of the population any one institution reaches. Apparently it is not. Various factors influence average loan size: the type of credit methodology used by the institutions (solidarity group loans, individual loans, village bank loans), the term of the loans, the range of products offered by each institution, and the degree of retention of its clients, among others. Good payment experience has led institutions to extend the terms of the loans, make larger loans with fewer payments, while they are still reaching the same type of borrower. The consolidation of a client base with a credit history also increases the average loan size.

ON THE RELATIONSHIP OF MICROFINANCE TO POVERTY

TABLE 14 – P. 27

Relationship between Average Loan Size and GDP per Capita by Type of Institution

	GDP Per capita	Commercial Banks	Microfinance Institutions	NGOs
Brazil	2,830	12.8%		
Bolivia	900		287.4%	53.5%
Chile	4,240	44.8%		11.2%
Colombia	1,820	157.0%	62.7%	24.3%
Costa Rica	4,070			80.9%
Ecuador	1,490	75.9%	143.7%	41.5%
El Salvador	2,080		68.5%	19.0%
Guatemala	1,760			34.5%
Haiti	440	142.9%	291.3%	80.5%
Honduras	930		78.7%	8.1%
Mexico	5,920		9.0%	3.2%
Nicaragua	710		166.6%	76.7%
Peru	2,020	111.9%	69.7%	20.3%
Paraguay	1,170	26.5%		35.1%
Venezuela	4,080	23.1%		
Dom. Republic	2,310		116.4%	19.1%
Average		74.4%	129.4%	50.8%

Source: Statistics from World Bank 2002 and database for Table 1

TABLE 17- P. 33

Distribution of Poverty & Population in Latin America

A. Region	1990		2000		2002	
	B. Poverty	C. Extreme Poverty	B. Poverty	C. Extreme Poverty	B. Poverty	C. Extreme Poverty
Urban	41.4	15.3	35.9	11.7	38.4	13.5
Rural	65.4	40.4	62.5	37.8	61.8	37.9
National	48.3	22.5	42.5	18.1	44	19.4
% Urban Population	71.3%		75.2%		76.1%	
% Rural Population	28.8%		24.8%		23.9%	

A. Estimates based on 19 economies: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Venezuela, Dominican Republic & Uruguay.

B. Represents percentage of total households below the poverty line. The poverty line is the level of income below which it is impossible to cover the cost of adequate daily nutritional intake and to cover other basic non-food essentials.

C. Represents percentage of total households under the line of extreme poverty or “indigence,” without the income necessary to obtain even minimal daily nutritional intake, or the so-called “basic basket of foodstuffs.”

Source: Economic Commission for Latin America & the Caribbean (CEPAL)

TABLE 16- P. 32

**Distribution of Microfinance Clients According to Poverty Levels-
From Studies Conducted by ACCION International with its Affiliates
BancoSol/Bolivia; Mibanco/Peru & SogeSol/Haiti**

Level of Poverty	Relation w/National Poverty Line (NPL)	% Clients per Institution		
		BancoSol	Mibanco	SogeSol
Level 1	0-50% of NPL	15%	7%	3%
Level 2	50-75% of NPL	16%	21%	13%
Level 3	75-100% of NPL	18%	21%	21%
Level 4	100-120% of NPL.	9%	13%	16%
Level 5	More than 120% NPL	42%	38%	47%
Average Loan / GDP per capita		267%	54%	327%
Country		Bolivia	Peru	Haiti
National Poverty Line			755	\$ 279
Rural Poverty Line		\$ 360		
Urban Poverty Line		\$ 480	\$ 1,029	
Extreme Poverty Line		n.a.		\$ 210
Poverty Line US\$ 1/day		\$ 144	\$ 446	\$ 491
Poverty Line US\$ 2/day		\$ 288	\$ 890	\$ 982

Source: ACCION InSight #5, 8 & 13, 2003 y 2004 (www.accion.org/publications)

This analysis illustrates the complexity that surrounds this topic, and emphasizes the importance of continuing to deepen our understanding of it as microfinance evolves, especially given the differences between this region and Africa and Asia, where rural populations predominate. The experience in Latin America has demonstrated that there is a sustainable model for reaching poor populations in urban areas. The effort in the future should concentrate on promoting initiatives that can reach even lower income segments without sacrificing sustainability, returns and the growth of the existing model. It is in this area that NGOs can forge new ground.

The focus on urban areas has not been happenstance. As Table 17 shows, the urban phenomenon in Latin America has intensified, with ECLA studies of 19 countries showing that 76% of the population resides in urban areas. The difference in poverty levels in urban and rural areas also highlights an important characteristic of microfinance in this region. While 38% of the population in urban areas is below the Poverty Line, 62% of the rural population is in this difficult situation. The concentration of microfinance in urban areas in Latin America has enabled it to reach a higher volume of poor clients, but at the same time, it has distanced microfinance from reaching the poorest - who are found in rural areas.

No doubt we need a much greater analytical effort to help us understand better the impact of microfinance on the poverty level of each country. Variations in the level of penetration into these poorer market segments in relation to finding a sustainable model for microfinance in the region are not conclusive, because most of the discussion has been framed by average loan size, which as argued above and shown in the three cases presented, is not a good indicator.

**ANNEX 4: THE MEMBERS OF THE ACCION NETWORK IN LATIN AMERICA
1.36 MILLION ACTIVE BORROWERS AS OF DEC. 31, 2004 – P. 48**



COUNTRY	INSTITUTION
BOLIVIA	BANCOSOL
BRAZIL	CREDIAMIGO (BANCO DO NORDESTE) REAL MICROCRÉDITO (ABN-AMRO BANCO REAL)
COLOMBIA	COOPERATIVA EMPRENDER FINAMERICA FUNDACIÓN MARIA SANTO DOMINGO
ECUADOR	BANCO SOLIDARIO FED
EL SALVADOR	APOYO INTEGRAL
GUATEMELA	GÉNESIS EMPRESARIAL
HAITI	SOGESOL (SOGE BANK)
HONDURAS	FINSOL
MEXICO	ADMIC FINANCIERA COMPARTAMOS
NICARAGUA	FAMA
PARAGUAY	FUNDACIÓN PARAGUAYA EL COMERCIO FINANCIERA
PERU	MIBANCO
VENEZUELA	BANGENTE

OTHER ACCION PARTNERS IN LATIN AMERICA: ACCION International also works with the following institutions in the region:

COLOMBIA: BANCO CAJA SOCIAL

ECUADOR: CREDIFE (BANCO DE PICHINCHA)

**ANNEX 3: THE REACH OF THE MAJOR NETWORKS IN LATIN AMERICA
& THE CARIBBEAN AS OF 31 DECEMBER 2004 – P. 47**

Organization	Active Clients	Active Portfolio
ACCION International	1.36 million	\$863 million
FINCA	141,600	\$32.6 million
Freedom from Hunger	102,841	\$18.1 million
Katalysis Partnership	135,000	\$54.1 million
Opportunity International	68,700	\$10.2 million
Pro Mujer	96,580	\$11.2 million
Women's World Banking	260,160	\$92.8 million

Source: Data provided to the authors by the networks listed above.

ANNEX 2: RESPONDENTS TO THE QUALITATIVE QUESTIONNAIRE – P. 46

NAME	AFFILIATION	COUNTRY
Clara de Akerman	WWB Cali	Colombia
Eulalia Arboleda de Montes	Banco Caja Social	Colombia
Sergio Alberto Arenas Díaz	Bancolombia	Colombia
Pedro Arriola	Caja los Andes	Bolivia
Pierre-Marie Boisson	SogeSol/Sogebank	Haiti
Mónica Brand	ACCION International	USA
Carlos Castello	ACCION International	USA
Héctor Chamorro Peyresblanques	Banco Santander Banefe	Chile
Alex Counts	Grameen Foundation USA	USA
Robert Christen	CGAP	USA
Wilo de León	FUNDAP	Guatemala
Jean-Philippe de Schreval	Blue Orchard Finance	Switzerland
Deborah Foy	Opportunity International	USA/UK
Erik Peter Geurts	Triodos Bank	Netherlands
Stelio Gama Lyra Júnior	CrediAmigo (Banco do Nordeste)	Brazil
Carlos Labarthe	Compartamos	Mexico
Rafael Llosa	Mibanco	Peru
Tómas Miller	BID/FOMIN	USA
Diego Moncayo	Credife (Banco de Pichincha)	Ecuador
Jaime Pizarro	Bancostado Microempresa	Chile
Beth Porter	Freedom from Hunger	USA
Álvaro Ramírez	BID	USA
Álvaro Retamales	Bandesarrollo	Chile
Alex Silva	ProFund Internacional	Costa Rica
Alejandro Soriano S.	Corporación Andina de Fomento (CAF)	Venezuela
Víctor Tellería	FAMA	Nicaragua
Flavio José Weizenmann	Real Microcrédito (ABN-Amro Banco Real)	Brazil
Lawrence Yanovitch	FINCA International	USA
Carmen Velasco y los Gerentes Generales	ProMujer	Bolivia-Nicaragua-Peru-Mexico

PARTIAL LIST OF RESPONDENTS TO THE QUANTITATIVE STUDY:

Argentina: WWB; **Bolivia:** BancoSol, Prodem, FIE, Agrocapital; **Brazil:** Banco do Nordeste/CrediAmigo, CEAPE/PE; **Chile:** Banco del Desarrollo, Banco Santander Banefe, Banco Estado Microempresa, Corporación WWB Finam; **Colombia:** Banco Caja Social, Finamerica, Actuar Tolima, Actuar Quindío, WWB Bogotá, Contactar, Microempresas de Antioquia, FMM Bucaramanga, WWB Popoyán, WWB Cali, CMM Medellín, Finame Rica; **Dominican Republic:** Banco Ademi, FDD, Adopem; **Ecuador:** Banco Solidario, Banco Pichincha, Banco Centro Mundo, INSOTEC; **El Salvador:** Integral; **Haiti:** SogeSol; **Mexico:** Compartamos, Fincomun; **Nicaragua:** FAMA; **Paraguay:** Financiera El Comercio, Visión; **Peru:** Banco del Trabajo, Mibanco, Edpyme Edyfycar, Edpyme Crear Tacna; **Venezuela:** BanGente, plus affiliates of IMI and ACCION International that are not included in the list above.

Note: A full list with statistical data on active clients and portfolio is available on pp. 43-45 of the study.

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