# The Profile of Microfinance in Latin America in 10 Years: Vision & Characteristics

**Beatriz Marulanda y María Otero**

**Published April 2005**
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**Economist & Consultant**

Since 1992, Beatriz Marulanda has worked as a consultant specializing in areas related to microfinance including the analysis of financial systems and institutions as they relate to the development of financial services for low-income people. She has completed projects for, among others, the Government of Colombia, the World Bank, the Inter-American Development Bank, the Andean Development Fund, and GTZ GMbH of Germany. Before her work as a consultant, Ms. Marulanda spent 12 years with the Banco de la República, which is the Central Bank of Colombia. She presently serves as President of the Board of Directors of Fundación Social, the owner of Banco Caja Social, a pioneering institution in the provision of financial services to Colombia's poor. Ms. Marulanda received her undergraduate degree in Economics from the University of the Andes in Bogotá, Colombia, and earned a postgraduate diploma with distinction in economic development from Oxford University.

### María Otero

**President & CEO, ACCION International**

Recognized worldwide as an important voice in microfinance, María Otero was named President & CEO of ACCION International in January 2000. She directs ACCION's work in 22 countries in Latin America, the Caribbean and Africa. At the end of 2004, the ACCION Network was serving 1.5 million clients with an active portfolio of US$931 million. Ms. Otero also serves as President of the Board of Directors of ACCION Investments in Microfinance, and is Chair of the MicroFinance Network, a global network of 32 of the world's most respected microfinance institutions. She sits on the boards of directors of BancoSol (Bolivia), Mibanco (Peru), and Compartamos (Mexico) as well as the Calvert Foundation (USA) and the U.S. Institute of Peace. Ms. Otero joined ACCION in 1986 to direct its microcredit program in Honduras, where she lived for three years. She is the author of a number of monographs about microfinance and was the co-editor of the book The New World of Microfinance, published by Kumarian Press.

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# The Profile of Microfinance in Latin America in 10 Years: Vision & Characteristics

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## *Primary Conclusions*

The purpose of this document is to show where microfinance stands in Latin America today and to explore the principal tendencies that characterize its development in the coming decade. With this purpose in mind, 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[1] that was completed by 47 microfinance entities. The information extracted from the surveys was complemented by statistics compiled by the most important microfinance entities in the region and with a review of a number of publications on the subject as indicated in the footnotes in the study. The authors express their sincere thanks to all the people and institutions that collaborated with them over the course of the study.

Our primary conclusions are as follows:

- 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.

[1]For the purposes of this paper, we will refer to the quantitative study as "Study by the Authors." The authors also wish to acknowledge the important help of Lizbeth Fajury in Colombia and Robin Ratcliffe of ACCION International in the preparation of this study, particularly in the gathering of the qualitative and quantitative data.

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- 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.

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- 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 specifically designed 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 track records, 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 successfully sell bonds 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.

# The Profile of Microfinance in Latin America in 10 Years: Vision & Characteristics

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## The Setting

In Latin America during the last two decades there has been a fundamental change in the view of the best model to facilitate the access to financial services by very low income people. Access to an integrated portfolio of financial services provides poor households with a cushion against the ups and downs of their income stream, while also improving the potential for income generation from business which are often informal in nature and usually referred to as "microenterprises." Initially nonprofit organizations (NGOs) developed methods to provide credit to this sector on a sustainable basis and with the potential for large scale outreach. They did this taking into account the lack of information and traditional guarantees within this population sector, developing instead a methodology that used personal information and one-on-one contact to provide credit. By the beginning of the 1990s these NGOs had formulated microcredit methodology that was disseminated as "best practice" to a variety of organizations throughout the region. The two primary objectives of these early pioneers were to reach scale (that is, serve a massive number of low-income microentrepreneurs) and to achieve organizational sustainability. By the end of the 1990s a growing number of countries within the region had at least one microfinance entity that had demonstrated its capacity to reach large numbers of poor people with credit and also achieve financial viability while specializing in the microenterprise sector.

With the growth of these entities and the expansion of credit services, these early actors quickly encountered limits on funding for lending. They had rapidly exhausted the donor resources and, in addition, other financing options were insufficient to meet the potential demand of this market. These circumstances created an awareness of the importance of the formalization of these NGOs in terms of their incorporation into the formal financial sector. Entities such as BancoSol in Bolivia, followed by Finansol (now Finamerica) in Colombia, Caja Los Andes in Bolivia, and Financiera Calpiá in El Salvador were the pioneers in this phenomenon of the 1990s, generally termed "upscaling."[2] Entities considered today to be some of the best in the region, aside from the ones mentioned above—Compartamos in Mexico, Mibanco in Peru, FIE and PRODEM in Bolivia, and Procredit in Nicaragua—share their roots as NGOs that transformed themselves into financial entities.

[2] ACCION International and IPC GMBH are the organizations that were most active in bringing investment capital to these nonprofit organizations as they transformed, or later as they were created as boutique banks.

This "upscaling" model, propagated throughout the region, explains the process of transformation and consolidation of the microfinance industry in Latin America by the end of the 1990s. Institutions had succeeded in demonstrating that MFIs could be profitable, financially self-sustaining entities, and that it was possible to successfully channel resources from the formal financial sector to serve the low-income microenterprise sector. These regulated microfinance institutions are joined by a group of entities that maintain their NGO status yet still are achieving a high level of financial sustainability and scale in their reach.

At the end of the 1990s and the beginning of the new century, the whole microfinance panorama in Latin America has been enriched by the entrance of some commercial banks, attracted to serve this market specifically by the success achieved by formalized microfinance institutions.

We see that two models will prevail in Latin America in the next ten years: 1) microcredit institutions, largely established as NGOs, now converted into regulated microfinance entities, and 2) commercial banks entering into the microfinance sector by offering a range of financial services to the low income population.

## What are the key characteristics of microfinance in Latin America today?

The microfinance industry in Latin America is comprised of a multitude of institutions that we have grouped in three large categories for the purposes of this work. The first group is that of non-governmental organizations (NGOs) that provide financing to microentrepreneurs. These NGOs are specialized in financial activities but may also offer business development services, training or consultancy services. It is NGOs that represent the largest number of institutions in the region.

The second group includes those institutions that were originally NGOs and that have transformed or "upscaled." From the outset, these institutions were committed to serving this market niche. These entities are regulated by the banking authorities of their country, and for purposes of this study we are calling them "microfinance institutions."

Finally, in recent years, commercial banks have joined the arena, by incorporating low-income segments into their clientele. Some have entered the market by creating a special division for microfinance within the bank itself while others have created an affiliated company that conducts all interactions with the microfinance clientele. In some other cases—BanGente/Venezuela, Banco Solidario/Ecuador and Financiera Ecuatorial of IPC, for example—specialized microfinance "boutique banks" have been created with support from both local and international investors. In other cases (Brazil, Chile and Colombia), large public banks have entered the field with both a social and a political mission. It is interesting to note that in both Brazil and Chile these public banks are the largest suppliers of microcredit in their respective countries.

The last two groups – microfinance institutions and banks - represent the institutionalization of what in recent years we have come to call the phenomenon of the "commercialization" of microfinance in Latin America.

## Types of Institutions

As shown in Table 1 below, according to information gathered from 120 institutions for this study (and as of December 2004[3]), access to credit is being offered to 3 million clients in the region, with a portfolio that exceeds approximately US$3.35 billion.

**Table 1**

**What Does the Microfinance Industry in Latin America look like?**

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..

If we compare these figures with those gathered by CGAP in 1999,[4] despite the fact that there were 80 fewer institutions included, the estimated total for December 2004 represents an annual increase of 72% in terms of portfolio and 29% in number of clients. This figure is quite striking particularly when taking into account that the 2004 estimate is a conservative one given the fact that it includes some intuitional statistics from December 2002 and 2003. Furthermore, the figures are impressive overall given that during the period there was a contraction of the financial system in all countries in Latin America as a result of several financial crises that affected the region.

Upon analyzing the composition of these groups, we find that there are now 17 commercial banks serving the microenterprise market, representing 35% of the total outstanding portfolio.
If we add in all the regulated microfinance institutions, we find that in Latin America today, 88% of the funds disbursed in the region come from regulated institutions that are serving 73% of total clients.

This phenomenon, however, is still concentrated in countries like those that appear in Table 2, where the largest regulated institutions are included that make their statistical information public as well as those that responded to our survey.

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[3] Although the authors made a significant effort to obtain financial information directly from all the institutions, it was necessary to use other secondary sources for many of them, sources such as CGAP, MixMarket, Microrate, IDB/MIF, along with public information available from various of the networks such IMI and ACCION and from institutional presentations in various regional fora. In some cases our findings include information from NGOs for 2002 or 2003 because it was not possible to acquire more up-to-date statistics. A list of all the institutions included in this study, annotated with those that provided the authors with quantitative data specially prepared for this study, can be found in Annex 1.

[4] Christen, R. "Commercialization and Mission Drift: The Transformation of Microfinance in Latin America." Occasional Paper No. 5. CGAP. Jan. 2001.

**Table 2**
**Regulated Institutions by Country as of Dec. 2004**

| Country | Commercial Banks | | Reg. Microfinance Institutions | |
|---|---|---|---|---|
| | No | Outstanding Loans US$000 | No | Outstanding Loans US$000 |
| Brasil | 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 |
| Rep Dominicana | | | 1 | 68,857 |
| Venezuela | 1 | 12,590 | | |
| **Total** | **17** | **1,175,232** | **47** | **1,790,373** |

**Source: Extract from Table 1**

Comparing the portfolios by type of institutions over time, it is evident that those that have become regulated, or that were always regulated, reveal very high rates of growth, much higher than the NGOs, and also, that the commercial banks surpass the rates of growth of microfinance institutions in the last period. This is illustrated in Table 3, which shows that in just the last three years, regulated microfinance institutions, which for the most part have been established for more than five years, grew at an average annual rate of 41% and commercial banks grew at a rate of 72% while the NGOs grew an average of 36% per year in this period. With respect to the growth in the number of clients, the percentages are 27% (banks), 34% (MFIs) and 30% (NGOs).

The differing rates of growth by period (e.g. 1999-2002 vs. 2002-2004) in part have to do with the normal business cycle experienced by these entities. In the early years of an institution's history, growth rates increase exponentially due to the large number of new clients and the ever-increasing loan amounts as credits are repaid and renewed. As the business consolidates, institutional growth stabilizes and the yearly growth rates are smaller. It is interesting to note, however, that even the lower growth rates experienced by maturing microfinance institutions are higher than those found within the traditional banking system in their respective countries.

The differing rates also confirm the potential that commercial banks have to enter this market, in part because they have a previously established branch network where it is relatively simple to rapidly incorporate microfinance. In addition, these banks do not face difficulties in financing even very rapid growth and within the bank structure, the microfinance portfolio is in most cases marginal compared to their portfolio of loans to other segments of the population.

**Table 3**
**Growth by Type of Institution**
**Annual Average Rate for each Period**

| | 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 institucions 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.

Commercial banks that have entered this arena tend to be large national banks that are looking for new markets for a variety of reasons, including 1) intensified competition caused by reforms that opened the financial systems in most countries, and 2) the decline of inflation and the subsequent reduction of margins in the traditional segments of the market. As they sought new markets, these banks have found the "informal" or microenterprise sector to be a very interesting one where both NGOs and MFIs have shown that microfinance can be a profitable business without necessarily increasing their level of risk.

**Table 4**
**Principal Commercial Banks in Microfinance as of Dec. 2004**

| Institution | Country | Total Outstanding Loans (US$000) | Outstanding Microloans ($US000) | Clients | Average Loan US$ * |
|---|---|---|---|---|---|
| Banco do Nordeste (Crediamigo) | Brazil | 40,210 | 40,210 | 162,868 | 247 |
| Banco Solidario* | Ecuador | 177,266 | 148,837 | 135,855 | 1,096 |
| Banco del Trabajo * | Peru | 276,378 | 115,885 | 82,571 | 1,403 |
| Banco Caja Social* | Colombia | 484,913 | 228,499 | 79,970 | 2,857 |
| Banco Estado Microempresa * | Chile | 212,438 | 212,438 | 65,210 | 3,258 |
| Banco de Credito | Peru | 2,950,065 | 169,833 | 54,495 | 3,116 |
| Vision S.A. de Finanzas * | Paraguay | 31,601 | 25,432 | 53,909 | 472 |
| Banco Santander Banefe* | Chile | 85,542 | 85,542 | 51,534 | 1,660 |
| Banco del Desarrollo * | Chile | 39,298 | 39,298 | 50,273 | 782 |
| Credife /Banco Pichincha | Ecuador | 45,051 | 45,051 | 34,477 | 1,307 |

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

**Source:** Survey by the authors, ACCION International, MixMarket, CGAP, IMI, web

The entrance of commercial banks has produced a variety of operational models that have been described in various studies.[5] It is worth mentioning that for some banks, it has been very useful to utilize the "Service Company Model" developed by ACCION International with several of its partners, specifically Banco de Pichincha/Credife in Ecuador and Sogebank/SogeSol in Haiti. Banco Microempresa of Banco del Estado in Chile has also adopted a similar strategy.

In other cases, specialized divisions or sections have been established within the bank to focus on microfinance, some resulting from the absorption of an affiliate focused on consumer credit and with which there is already a predisposition towards microcredit. Examples of the first group include Banco Caja Social and Bancolombia of Colombia, both of which turned their attention to the microenterprise segment beginning in 2004. Since 2000, Banco del Trabajo in Peru has also offered microenterprise credits and other products for this market, also coming to serve this niche from its experience with consumer credit, which is similar to the case of Banco Santander with its division Banefe in Chile. In the case of Banco de Credito del Peru, in 2004 it fully incorporated microfinance into its operations by absorbing its own microfinance company, Financiera Solución, originally launched as a separate entity to attend to this market.

The majority of these banks have recognized that a special model is necessary to attract and serve this market as well as being the best way to keep both costs and delinquency under control. Most of them have contracted for the consulting services of specialists in microcredit technologies as in the case of ACCION International.[6] However, other institutions have implemented their own model for serving this market without outside consultants. They have, however, adopted the specialized way of working with the microenterprise sector that incorporates the best practices of the industry, like direct contact with the clients via loan officers in the field, and "stepped lending" whereby initial credits are small and, based on a successful repayment record, subsequent credits are larger. Today we recognize several of these independent actors as among the most innovative institutions in the field, such as the case of Banco del Estado in Chile with its microfinance affiliate.[7]

Less common are institutions that neither sprang from the transformation of an NGO nor the decision of a large commercial bank to enter a new niche, but instead are born as specialized microfinance entities. Both Banco Solidario of Ecuador and Ecuatorial Financial Society, or Procredit Ecuador Bank, as it is known today, are examples. The first was founded by local investors with a social motivation with support from international investors; the second is an affiliate of IMI of Germany.[8]

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[5] Look for example at: Lopez, C & Rhyne, E. "The Service Company Model: A New Strategy for Commercial Banks in Microfinance" ACCION InSight No. 6, Aug. 2003; Chowdri, Siddhartha H., "Downscaling Institutions & Competitive Microfinance Markets: Reflections & Case Studies from Latin America." Aug. 2004. Edited by Alex Silva, Omtrix, Inc. commissioned by Calmeadow; Marulanda, B. "Downscaling Microfinance Models in Latin America," in *The Latin American Model of Microfinance*, edited by Marguerite Berger, Lara Goldmark & Tomas Miller. In editorial process; to be published in 2005.

[6] ACCION International has worked with ABN/AMRO Banco Real and Banco do Nordeste in Brazil; Banco de Pichincha in Ecuador; Sogebank in Haiti; and with Banco Caja Social in Colombia, to implement microcredit methodologies into their operations.

[7] The entrance into microfinance by various entities such as Banco Estado in Chile and Banco do Nordeste in Brazil was augmented with help from CGAP at the World Bank.

[8] IMI Group, today called Procredit Holdings, is led by the German consulting firm IPC. Its investors include: multilaterals such as IFC, national development banks such as FMO, BIO, KfW, plus the DOEN Foundation and Andromeda Fund.

**Table 5**
**Principal Microfinance Institutions in Latin America as of Dec. 2004**

| 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 clietns & portfolio. Total clients all financial products: 119,230
**Source** : Survey for Microfinance in 10 years, CGAP, Mix Market, Microrate, ACCION International, Profund.

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, a process that we are calling “upscaling.” The best known cases of such transformations can be found in Bolivia: BancoSol, Caja los Andes (today Banco Los Andes Procredit), FIE and Prodem. They are accompanied by entities such as Mibanco in Peru, Financiera Calpiá and Banco Procredit in El Salvador, and Compartamos in Mexico. These institutions have not only made a successful transformation but they also continue to innovate, adding a large number of financial products designed to meet the needs of low-income families, including products not related to credit such as savings as we shall see going forward in the study. Some of these microfinance institutions have converted into regulated entities that operate on special regulatory norms, such as the case of Caja los Andes, Calpiá and 14 EPYMES in Peru. During the last two years, both Caja los Andes and Calpiá have further converted into commercial banks to give them both a competitive edge and to provide even better service to their market niche.

Those organizations that remain as NGOs continue to make up the majority of microfinance providers in Latin America, with a number of them now reaching more than 30,000 clients, and some even maintaining a larger portfolio than some regulated institutions in the region. The most important NGOs are shown in Table 6.

In the majority of these cases, the decision to remain as nonprofit institutions has been made because of the desire to provide not just financial services to their clients but also to complement those services with training and capacity building, among others. In some other cases, particularly in the case of the Colombian affiliates of Women’s World Banking, they have not transformed out of fear of the negative effects of operating under the regulatory regime in their country, which does not have any special treatment for microfinance entities, restricts their operational flexibility, and creates an additional cost structure and risks that they do not want to assume.

Additionally the WWB affiliates in Colombia have found sufficient financing for their growth among both second tier and commercial banks in their country. The WWB affiliates have such excellent financials that the largest of them, WWB Cali, has just placed the first round of a US$52 million bond issue in the Colombian bond market, having received a risk rating of AA from Duff and Phelps.

**Table 6**
**Principal NGO Microfinance Institutions in the Region as of Dec. 2004**

| Institution | Country | Outstanding Microloans (US$) | Clients | Average Loan US$ * |
|---|---|---|---|---|
| Fund. WWB Colombia / Cali * | Colombia | 66,122 | 92,533 | 715 |
| Fund. Mundo Mujer / Popayan | Colombia | 29,849 | 86,816 | 344 |
| FMM Bucaramanga | Colombia | 19,785 | 49,014 | 404 |
| Crecer | Bolivia | 12,271 | 46,565 | 264 |
| Génesis | Guatemala | 25,798 | 42,491 | 607 |
| Adopem * | Dominican Rep. | 18,385 | 39,933 | 460 |
| Promujer (1) | Bolivia | 5,587 | 38,587 | 145 |
| Corp. Mundial de la Mujer/ Bogotá * | Colombia | 14,466 | 34,918 | 414 |
| Fund. Mario Santo Domingo | Colombia | 10,596 | 34,585 | 306 |
| FAMA | Nicaragua | 16,225 | 31,672 | 512 |

* The average loan is estimated as the outstanding loans divided by number of clients.
**Source:** Survey by the Authors, ACCION International, MixMarket, CGAP, Microrate, Web

One of the greatest challenges that the region's microfinance industry took on was that of proving that microcredit could actually be a profitable financial product and that the institutions offering microcredit also could operate in a profitable way. Industry players accepted this challenge precisely because they wanted to create a replicable model to provide an effective regional response to the enormous demand by microentrepreneurs for financial services. It is important, therefore, to look at the results of this effort up until now.

**Table 7**
**Indicators of Profitability & Efficiency**

| Type of Institution | 2002 | | | 2003 | | | 2004 | | |
|---|---|---|---|---|---|---|---|---|---|
| | ROA | ROE | Efficiency* | ROA | ROE | Efficiency* | ROA | ROE | Efficiency* |
| Commercial Banks | 0.5% | 6.8% | 29.1% | 3.5% | 26.6% | 23.2% | 4.2% | 31.2% | 22.6% |
| Microfinance Institutions (Reg.) | 4.7% | 13.9% | 23.3% | 3.5% | 17.9% | 21.9% | 3.5% | 19.5% | 20.9% |
| NGOs | 6.0% | 10.8% | 24.3% | 6.1% | 14.7% | 26.3% | 5.6% | 13.2% | 25.8% |

*Efficiency: Operating Expenses/Average Portfolio
**Source:** Study by the Authors

We can see how profitability as a percentage of equity has been growing, especially for banking institutions that have entered this market and which are demonstrating quite interesting levels of profitability over the last several years. Additionally we see that in all cases, including that of the NGOs, we are seeing positive returns. Apparently this has a lot to do with the general rebound that most all institutions have experienced since the difficulties suffered by many at the end of the 1990s during a general economic downturn throughout the region. Reviewing some cases of microfinance affiliates of banks that report their results apart from the bank itself, we also see the gains made by achieving the economies of scale necessary to reach the desired profitability. This is particularly interesting taking into account that as we have mentioned previously, these are the entities that have just entered the business of microfinance within the last five years.

**Table 8**
**The Profitability Stars as of Dec. 2004**

| Institution | Type | Country | Average ROE 2002-2004 |
|---|---|---|---|
| **BancoSol** | RU | Bolivia | 26.3% |
| **Credife (Banco de Pichincha)** | RD | Ecuador | 50.9% |
| **Compartamos** | RU | Mexico | 52.2% |
| **Confía Banco Procredit** | RU | Nicaragua | 39.3% |
| **Banco del Trabajo** | RD | Peru | 33.8% |
| **Findesa** | RU | Nicaragua | 32.0% |
| **Fundación WWB / Cali** | NGO | Colombia | 31.5% |
| **Edpyme Crear Arequipa** | RU | Peru | 29.7% |
| **BanGente** | RD | Venezuela | 29.0% |
| **Banco Solidario** | RD | Ecuador | 25.2% |
| **FIE** | RU | Bolivia | 25.2% |
| **SogeSol** | RD | Haiti | 23.4% |

RU: Regulated "Upgrading"
RD: Regulated "Downscaling"
NGO: Non Govermental Organization
**Source:** Survey by the Authors, ACCION International, MixMarket, IMI, CGAP, Web

It is important to highlight that the majority of the most profitable institutions are regulated entities, although it is also important to note that among all the NGOs analyzed for this study, not one reported losses during the period from 2002 to 2004.

Special attention should also be paid to the accomplishment of a number of these entities in reaching an operating efficiency of 25% or less, both due to economies of scale that the majority of these institutions have been able to realize as they have grown, and to a conscious effort to improve the efficiency of their operations and processes. These efforts at increasing efficiency have been made to both provide better service to clients, but also to be able to survive institutionally with interest rates considerably lower than those that predominated in the decade of the 1990s, a decline resulting from growing competition in a number of microfinance markets.

In the case of commercial banks, it is more difficult to clarify the contribution made by the microfinance division to the banks' overall financial results. The information included in this study was taken from the work of Chowdri in which he cites an estimate from Credife/Banco de Pichincha showing the income emanating from the microfinance operation as representing 16% of the bank's net income in 2003.[9] The total income the bank received from Credife included its return as an investor as well as commissions paid by Credife for services rendered by the bank.

The other case mentioned is that of SogeSol, affiliated with Sogebank, the largest commercial bank in Haiti, where although the microfinance operation represented only 4% of the total portfolio of the bank, the actual contribution by SogeSol to the bank's overall net income is estimated between 27% and 36%.

[9] Chowdri, op.cit.

Another determining factor in the sustainability of microfinance institutions in Latin America is control of credit risk, usually measured by a portfolio's delinquency indicators

**Table 9**
**Levels of Delinquency among the Most Representative Institutions**

| | 2002 | | | 2003 | | | 2004 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Commercial Banks | MFIs | NGOs | Commercial Banks | MFIs | NGOs | Commercial Banks | MFIs | NGOs |
| **Overdue Loans** | | | | | | | | | |
| 1-30 days | 9.5% | 6.6% | 4.7% | 8.6% | 3.6% | 4.2% | 7.6% | 2.9% | 4.5% |
| 31-60 days | 3.4% | 1.4% | 1.3% | 2.2% | 0.7% | 1.0% | 2.0% | 0.5% | 1.1% |
| 61-90 days | 1.9% | 0.9% | 0.6% | 1.1% | 0.4% | 0.5% | 1.1% | 0.3% | 0.5% |
| 91 -180 days | 3.2% | 2.1% | 0.9% | 1.9% | 1.1% | 1.2% | 2.3% | 1.0% | 0.9% |
| More than 180 days | 3.0% | 4.5% | 1.3% | 2.9% | 3.2% | 0.7% | 2.7% | 2.2% | 0.7% |
| Total | 9.0% | 8.8% | 3.7% | 6.7% | 4.7% | 3.0% | 6.9% | 3.4% | 3.0% |
| Overdue > 1 day | 18.1% | 14.4% | 8.4% | 14.1% | 8.3% | 7.2% | 13.9% | 6.0% | 7.5% |
| Overdue < 30 days | 9.0% | 8.8% | 3.7% | 6.7% | 4.7% | 3.0% | 6.9% | 3.4% | 3.0% |
| **Provisions/Past Due Loans** | 91.8% | 106.3% | 89.8% | 117.5% | 134.9% | 90.7% | 151.2% | 163.0% | 118.8% |

**Source:** Study by the Authors
Information on overdue loans for 11 banks, 10 microfinance institutions and 13 NGOs.
Information on provisions for 11 banks, 11 microfinance institutions and 15 NGOs.

Table 9 shows the delinquency rate[10] experienced by these institutions. Surprisingly, the average delinquency levels of institutions that specialize in microcredit (both regulated and non-regulated) exhibit better indicators than those of commercial banks. This could be due to several factors. First, due to the financial margin with which the majority of banks operate, they can withstand a higher level of provisioning and therefore of delinquency, without threatening the overall profitability of the operation, primarily due to their lower cost of funds. In fact, the cost of funds for the banks is significantly less than that of their microfinance counterparts, in part due to their access to a larger savings pool. Second, very few banks have fully adopted the methodologies of microfinance institutions that ensure very strict control of delinquency to some degree because the banks are unwilling to combine the commercial and risk management functions.

In either case, the delinquency levels recorded clearly confirm that using proper procedures and offering the right products permit the microfinance industry to maintain low and controllable delinquency levels. The region's strong microfinance portfolio demonstrates that over time microfinance entities have learned to manage risk quite successfully, even through challenging periods of economic recession and financial and political crises.

## Market Coverage

Now let us turn to another important question – to determine what the growth in both number of institutions and actual clients being served have meant in terms of coverage of the potential market. In response, we turn to the work of Westley[11] in which he estimated the microenterprise market in the diverse countries of the region to include those businesses with fewer than three employees. We estimate the potential demand at approximately 50% of those businesses. We also recognize that since this number does not account for lower income families operating outside the microenterprise sector, we are likely underestimating the total size of the market.

[10] The chart registers the delinquency levels in terms of the balance of the portfolio compromised by late payments.
[11] Westley, G. "Can Financial Market Policy Reduce Income Inequality?" Technical Paper Series, Inter-American Development Bank. 2001

Looking at the numbers below without accounting for additional growth, a very conservative estimate would show the institutions included in Table 1 as serving approximately 14.7% of the potential market in the region. This situation clearly differs by country, as illustrated below where the case of Bolivia shows 56% market coverage and countries like Mexico and Venezuela show levels as low as 0.8%.

**Table 10**
**Coverage of the Potential Market by Country**[12]

| 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%** |

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

The low coverage observed in countries like Brazil and Mexico does not seem to have been studied in sufficient depth. In Brazil's case, the lack of access to financial entities has produced an explosion of non-traditional credit mechanisms such as credit offered through large commercial purveyors or through a network of credit and savings cooperatives.[13] The problem with these non-traditional purveyors is that they are strictly limited to credit services and thus they do not serve the rest of the population's needs for financial services.

Turning to the case of Mexico, beyond financing schemes through retail chains that sell home electronics such as Electra and its recently created Banco Azteca, there is a broad network of institutions that offer other financial services. There are regulated financial intermediaries: Savings and Loan Societies (Sociedades de Ahorro y Préstamos/SAP) and credit unions.

[12] The Nicaraguan market is excluded since using the Westley data, along with that compiled for this study, would show market coverage of 98%, which, according to people familiar with the market, is far from true. Therefore, a better definition of the market potential in that country is required to get a more accurate idea of the real coverage achieved by microfinance institutions.
[13] Kumar, A. et.al. "Brazil: Access to Financial Services." Report No. 27773-BR, Brazil Country Management Unit, Finance Private Sector and Infrastructure Department, World Bank. Feb. 2004.

There are also unsupervised entities such as popular banks, savings and loan cooperatives, solidarity banks, and NGOs, the most prevalent of which are the Popular Credit & Savings Associations. The huge number of these largely unregulated institutions led to the passage in 2001 of the Law for Popular Credit and Savings, intended to strengthen the institutions themselves, the regulatory framework, and enhance their ability to merge or consolidate operations.[14]

To understand the impact of this group of intermediaries in Mexico, it should be mentioned that in 2002 there were more than 630 such institutions that offered savings and credit services to approximately 2.3 million people, a figure equal to 7% of Mexico's economically active population that year. These institutions had the peso equivalent of US$1.4 billion in assets and enjoyed a presence in all 31 Mexican states through 400 offices and 500,000 affiliates.

According to a study of savings and credit cooperatives completed in 2001 by the Inter-American Development Bank and CGAP in 17 countries, it is estimated that these entities were serving approximately 1.5 million microentrepreneurs with an average loan of $US1, 044.
These general statistics as well as the specific examples in Mexico noted above illustrate the need to more thoroughly study the role that cooperatives and other kinds of intermediaries can play in various countries. There is an enormous diversity of financial entities that can be players in developing other models for the delivery of financial services to the poor within the particular institutional framework of their particular country. Such models can be equally effective in meeting the financial services needs of low-income people throughout the region.

All of these financial institutions with their excellent results and broad experience have been able to form a network of entities that can proudly demonstrate how the provision of financial services to microentrepreneurs and their families can be both profitable and self-sustaining. It is also important to recognize that there are market niches that are as yet unserved, and that the level of competition in some markets requires a shift in focus from urban areas with the intent of having the greatest possible impact on the unserved segments of the population.

In the commercial focus of microfinance in Latin America, the roles of the institutions' boards and employees have been crucial. In the majority of the cases mentioned, these successful, regulated microfinance institutions have relied upon the strong support and firm conviction of two technical assistance firms, ACCION International and IPC Gmbh, both of which mobilized other investors to secure the minimal capital and the adequate governance structure that has proven essential to institutional success.

## How do we proceed into the future?

The questions arising from the foregoing analysis are: 1) whether all of these types of institutions can coexist in one market, 2) if this would be efficient, and 3) or if it would be better to move towards consolidation or specialization in different products or segments of the market.

Given the many institutions that exist there, the case of Peru is highly illustrative of the variety of institutions that can successfully serve the microenterprise sector with financial services. The environment, though very competitive, still has unserved sectors as shown in the data below.

[14] Taber, L. & Cuevas, C. "Integrating the Poor into the Mainstream Financial System: The BANSEFI and SAGARPA programs in Mexico." Scaling up Poverty Reduction: Analytical Case Study. World Bank, March 2004.

**Table 11**
**The Peruvian Microcredit Market**

| | 2000 | | 2004 | | Growth 2000-2004 | |
|---|---|---|---|---|---|---|
| | Portfolio (US$000) | Number of Loans | Portfolio (US$000) | Number of Loans | Annual Percentage Growth | Annual Percentage Growth |
| Banks (3) | 103,381 | 76,389 | 413,995 | 218,295 | 83% | 46% |
| CMACs* (14) | 158,793 | 97,705 | 665,867 | 543,813 | 84% | 129% |
| Edpymes** (14) | 25,281 | 18,982 | 88,670 | 100,283 | 66% | 107% |
| Total | 287,454 | 193,076 | 1,168,532 | 862,391 | 77% | 87% |

Notes: In 2000, figures include the portfolio of Financiera Solución as part of that of Banco Credito. The total value of the portfolios fo the CMACs and the EDPYMES are included in the above figures.
*CMACs: Cajas Municipales de Ahorro y Crédito
**Edpymes: Private non-bank financial intermediaries that provide microfinance.

Despite having been a market dominated by NGOs, regulated microfinance institutions such as Mibanco, and the municipal credit and savings banks (Cajas Municipales de Ahorro y Crédito/CMAC)[15], the two largest institutions in the Peruvian microcredit market in December 2004 were Banco del Trabajo and Banco de Credito, when measured both in terms of portfolio size and number of clients served. These banks showed a greater versatility although working with clients with a higher average loan size than that of Mibanco, the CMACs or other microfinance institutions under the *Edpyme* regulations.

According to representatives from these institutions as well as various studies on the topic, a highly competitive environment is being created in the Peruvian market. Today, for example, the Cajas Municipales that previously were required to concentrate their activities in their respective geographic territories have been authorized to open offices in other zones. This situation has escalated on a massive scale in the Lima market where the Cajas are obviously competing with established Edpymes, commercial banks and Mibanco. Congress also approved a law creating a new public bank, Agrobanco, after having liquidated its predecessor at the beginning of the 1990s. The new bank was established in response to a study of rural communities—especially those with a strong agricultural component—which indicated that they continue to be unserved by either commercial banks or by other existing financial institutions.

It is evident not just in the case of Peru that important advances have been made in terms of coverage but that there are still many unserved or under-served markets. It is also clear from the data from commercial banks found in Table 11. Commercial banks are still concentrated by country but regional trends are indicating a move towards consolidation. This perception was confirmed in the interviews conducted among several organizations that provide microcredit, donors, multilateral organizations, and experts in the field of microfinance[16].

We found that in response to the question about what type of institution will dominate the next ten years in Latin America the majority responded with a combination of commercial banks and regulated microfinance institutions. Nevertheless, there is skepticism about what role the commercial banks will play in this industry when one considers that there is a strong feeling that

[15] Portocarrero, F. "The Cajas Municipales of Savings and Credit: Their Experiences in Rural Microcredit in Peru." Serie Documentos de Trabajo I-33JP. Indes Joint Project: Japan Program. 2000.
[16] See Addendum 2 for list of survey respondents.

because of a lack of social conviction banks would likely abandon this niche in the face of even small challenges.

**WHAT TYPE OF INSTITUTION(S) WILL PREVAIL?**

*"I believe that the majority of clients will be served by regulated financial institutions; either banks or specialized financial entities."* Carlos Labarthe, Compartamos, Mexico

*"The entities that will prevail are the ones that successfully grow their client bases, provide products and services that meet market demands and reach high levels of efficiency, independent of the legal context."* Pro Mujer, Bolivia, Nicaragua, Peru & Mexico

*"In 10 years I see that large commercial banks will be making a very strong incursion into the industry, maintaining a strong market penetration and offering new products and new services."* Rafael Llosa, Mibanco, Peru

"*They will be regulated MFIs – specialized entities or commercial banks – and a few banks like BancoSol that specialize in microfinance. In some larger countries we will see that sales and distribution chains will widen, offering financial products to low-income workers."* Carlos Castello, ACCION International

*"The institutions that will prevail in 2015 will be those that are regulated microfinance institutions and commercial banks, as well as regulated cooperatives."* Álvaro Retamales, Bandesarrollo, Chile

*"There will continue to be a wide range of institutions. Right now there are NGOs, cooperatives, regulated institutions, commercial banks. I don't see any of the players who are in the mix now disappearing."* Beth Porter, Freedom from Hunger, USA

*"The banks that go down-market to the microenterprises will augment their presence in this market, especially in more populated, urban areas."* Erik Peter Geurts, Triodos Bank, Netherlands

*"Regulated microfinance institutions will be those that prevail… due simply to their growth capabilities and access to available financing sources."* Alejandro Soriano, Corporación Andina de Fomento

In the next ten years the "boutique" and specialized microfinance institutions will face increasing competition in which their financial margins will be dropping. Thus their ability to access less costly funds such as those coming from savings accounts will define whether or not they can be profitable, even within this market niche. The increased variety of products demanded by the market will give microfinance institutions more opportunities to offer a diverse range of products, which through cross selling to existing clients, will reduce the costs of direct contract with the microenterprise household, which to date has been the most important factor in controlling risk in the portfolio.

Looking to the future, we see a consolidation of commercial bank operations in this niche, resulting in a rush of proposed mergers, alliances or absorptions with other players, resulting in consolidated microfinance institutions within each country. Therefore it is necessary for microfinance institutions to begin discussing decisions they may face, particularly those whose majority stock ownership is held by the NGOs that created them in the first place. The decisions will be necessary not only to maximize the value of the assets accumulated through services provided and monies collected from the poorest sectors of the population, but also to determine the future use of these resources in the event there is a decision to sell.

More important still is the manner in which current shareholders can assure themselves that the bank entity that carries on lending and providing other financial services maintains the MFIs irrevocable commitment to serving the households and families of limited resources.

With consolidation within the microfinance industry, doubt has been expressed as to whether or not there will be a role in microfinance for NGOs. There was a clear consensus from those responding to our questionnaire (see following page) that microfinance NGOs have a crucial role in the upcoming years to initiate and/or continue innovations that permit them to sustainably reach poorer clients in more remote locations, particularly in rural, agricultural areas.

The respondents also mentioned that once banks assume their responsibility serving the poor and low-income populations, NGOs will still be very useful in providing training, consulting services and business development skills, again most particularly with a goal of developing sustainable models for offering these services.

**WHAT WILL BE THE ROLE OF NGOs?**

*"I think NGOs as we know them will have a minimal role in 2015. NGOs were a temporary vehicle for the times. Most microfinance will be done through the formal financial sector."* Lawrence Yanovitch, FINCA International

*"NGOs will have an important role in the provision of non-financial services. They may also provide an appropriate legal personality to channel grants for purposes other than financial intermediation such as training, marketing, experimentation, research and testing of new products and services to the microenterprise sector."* Tomás Miller, BID/FOMIN, USA

*"NGOs should have the principal objective in the future of reaching the distant geographic regions, where larger numbers of individuals will still be unable to access credit."* Stelio Gama Lyra Júnior, CrediAmigo (Banco do Nordeste), Brazil

*"We believe that the role of the NGO in the future should be to reach out to and care for the most vulnerable microenterprises; those that provide subsistence and survival."* Hector Chamorro P., Banco Santander Banefe, Chile

*"NGOs that demonstrate efficiency, knowledge of the market and are capable of adapting will be highly needed in specific niches where commercial banks will be reticent to go.*" Alex Silva, ProFund, Costa Rica

*"The good ones will survive and be well positioned to serve certain market niches throughout the world. The weak ones that have not been able to reach efficiency and profitability will die."* Carmen Velasco, Pro Mujer

*"The role of these entities should be to serve the populations that regulated institutions cannot reach. This should be done through strategic alliances with the regulated institutions. "* Sergio Alberto Arenas Diaz, Bancolombia, Colombia

*"The key roles as we see them are: as a direct delivery mechanism, as a broker of partnerships with large banks, as pushing the frontier of what can be delivered on the microfinance platform, and as advocates for regulatory reform in markets that are not yet pro-microfinance*." Alex Counts, Grameen Foundation USA

*"They will all prevail but regulated microfinance institutions will have greater preponderance, as there is a tendency to seek out bank alternatives by multilateral organizations like the IDB and the World Bank."* Wilo de León, FUNDAP, Guatemala

## What role will new products and technology play in the future of microfinance in Latin America?

Microfinance in Latin America today not only refers to facilitating access to credit but also to serving all the financial needs of low-income families. This means providing access to basic services such as secure, low-cost transfers of funds (remittances) on both a domestic (typically between rural and urban areas) and international basis, and to offering savings and insurance products that can help stabilize the income of families working in the informal sector.

It is clear that competition in several Latin American markets such as Bolivia, Peru and Ecuador, has led to institutions feeling the need to innovate and increase the range of service and product offerings. It is precisely these competitive pressures that have shown that the financial needs of low-income families are quite varied, not just those of microentrepreneurs but also when the source of income is in the form of a salary. Access to consumer, housing and/or educational loans is unquestionably important, and the financial system should provide these kinds of credit products if it is to achieve greater penetration into poorer sectors of the economy.

The competitive necessity of getting to know other segments of the market has also contributed to microfinance institutions discarding the idea of "graduating" their clients to banks. Instead they are embracing the challenge of offering products to clients who may eventually evolve from being microenterprises to successful small enterprises.

### *A portfolio of products is a necessity*

The first product innovations were in the credit area, most particularly rotating lines of credit, consumer credit for microenterprise households and low-income salaried individuals, and supplier credit, whether through credit cards or lines of credit with selected suppliers. Looking to meet the most pressing needs of this segment of the population, some MFIs have also begun providing loans at fixed rates to finance home construction, renovation or expansion with tenors ranging from three to seven years. These loans normally have the longest tenor of any credit offered by the institution and are usually only available to long-time clients.

Table 12 shows the percentage of each type of credit or savings product that banks, regulated microfinance institutions and NGOs are providing, according to the survey. The survey highlights the fact that banks are not the only institutions providing consumer credit. Regulated microfinance institutions (78% of those surveyed) as well as NGOs (38% of those surveyed) reported consumer credit as one of their product offerings. At the same time, 60% of banks as well as 44% of regulated microfinance institutions and 25% of NGOs are already offering what could be called mortgage loans, in the broader sense of the word already discussed.

**Table 12**
**Product Offerings of the Institutions Included in this Study**

| | Commercial Banks | | MFIs | | NGOs | |
|---|---|---|---|---|---|---|
| | Directly | Alliances | Directly | Alliances | Directly | Alliances |
| **LOANS** | | | | | | |
| **Consumer** | 90% | | 78% | | 38% | |
| **Commercial** | 70% | | 67% | | 31% | |
| **Mortgage** | 60% | | 44% | | 25% | |
| **Microcredit** | 90% | | 100% | | 100% | 13% |
| **Rural** | 50% | | 33% | | 44% | 6% |
| **SAVINGS** | | | | | | |
| **Accounts** | 70% | | 44% | | 6% | |
| **ATMs** | 60% | 10% | 44% | 11% | 6% | |
| **Internet** | 20% | | | | | |
| **Remittances - Nat'l** | 50% | | 22% | 22% | | |
| **Remittances - Internat'l** | 30% | 20% | | 33% | | 6% |
| **OTHER SERVICES** | | | | | | |
| **Insurance** | 50% | 10% | 11% | 11% | 6% | 25% |
| **Training** | | 20% | 11% | | 38% | 19% |

**Note:** These statistics collected from 10 banks, 9 MFIs and 16 NGOs.
**Source:** Study by the authors.

Where there still has been very little development is in rural credit and more specifically, agricultural credit. Banks and regulated microfinance institutions reported low percentages of credit to the rural sector, while 44% of NGOs reported rural credit in their product offering. These findings confirm the urban focus that has traditionally characterized the regulated microfinance institutions in the region.

Village (or community) banking has perhaps the most experience in rural areas and has developed a special credit technology that has permitted it to attend to the needs of widely dispersed communities that may require small loans. A recent study analyzing four of the Latin American institutions operating with the village bank model concludes that overall the way village banks operate is well-suited to rural zones, even when institutions differ with respect to the level of services to rural clients—from 2% in Compartamos/Mexico to 67% in Crecer/Bolivia. Borrowers residing in rural areas make up a greater percentage of the clients of village banks (29%) than the clients of solidarity groups (17%) or clients with individual credit (8%)[17]

As greater numbers of regulated institutions have started serving the microfinance sector, savings products have been introduced. Of the regulated entities surveyed for this study, approximately 70% of commercial banks and 44% of regulated microfinance institutions offer passbook savings. NGOs are prohibited from offering savings but one NGO did report savings for the survey because it is being acquired by a financial institution.

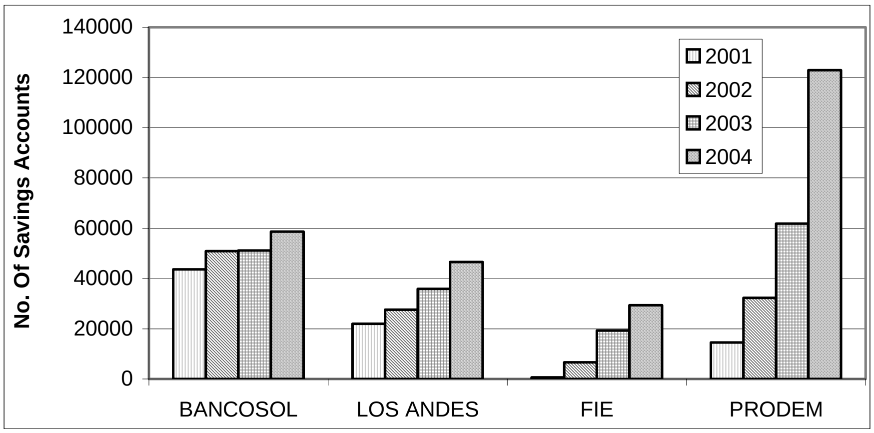
The Bolivian market can best illustrate the evolution of savings within the context of microfinance. Originally, loans from banks and international organizations provided the bulk of funding to microfinance institutions, followed by time deposits/certificates of deposits to

[17] Westley, G. "Story of Four Village Banking Programs: Best Practices in Latin America", Best Practice Series, Department of Sustainable Development, Inter-American Development Bank, August 2003.

corporate and other non-microfinance customers.  Today savings accounts held by the microfinance clients themselves are increasingly playing an important funding role.

As Graph 1 illustrates, all microfinance institutions in Bolivia have made an effort to increase the number of savings account holders.  Prodem's efforts are particularly notable.  As of Dec. 2004, Prodem reports 120,000 savings account customers, some 217% more than the number of its credit clients.  BancoSol follows with 71,000 savings accounts, which represents 82% of its credit clients.  Finally, Banco Los Andes and FIE have 65,000 and 42,000 accounts and a relationship of savings accounts to credit clients of 72% and 70%, respectively.

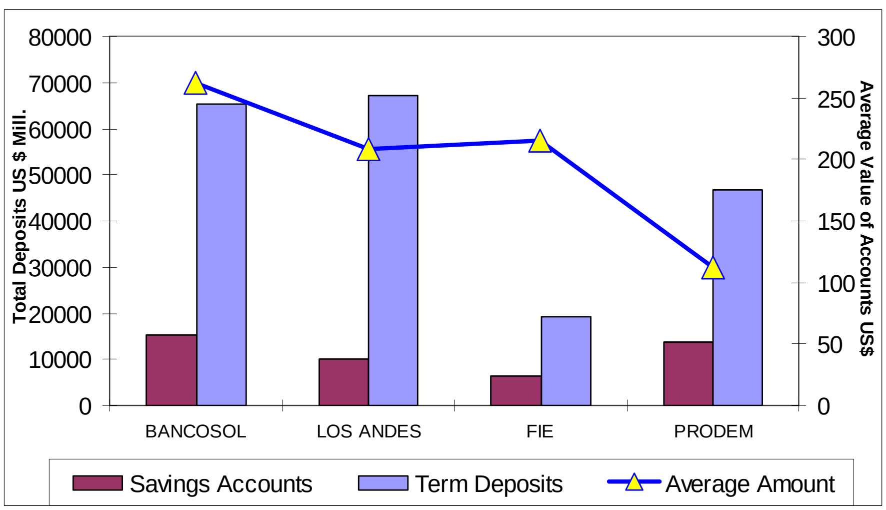
**Graph 1**
**Evolution of Savings Accounts in Bolivian Microfinance**




**Source:** Association of Bolivian Microfinance Institutions

The total volume of savings accounts is still far less than time deposits in terms of funding (see Graph 2) but the average balance of those accounts demonstrate the need by low-income people for a liquid vehicle by which to manage their savings.

**Graph 2**
**Amount & Average Size of Savings Accounts of Bolivian MFIs**
**As of Dec. 2004**




**Source:** Association of Bolivian Microfinance Institutions

With the exception of NGOs that are prohibited from taking savings, most institutions interviewed for the study continue to mobilize resources via time deposits.

Table 13 shows that only the banks are funding more than 70% of their portfolio with money from the public. This gives them more independence in their growth strategy and in developing products to meet the needs of their clients. The regulated microfinance institutions are making efforts to diversify their funding sources and are achieving some success. NGOs, on the other hand, remain dependent on their equity and on loans from local and international financial institutions to fund their growth. This characteristic may make the NGOs more vulnerable. At the same time it allows them to be more innovative and to assume a greater level of risk since they are not putting deposits of the public at risk.

**Table 13**
**Structure of Savings Accounts**

| | 2002 | | | 2003 | | | 2004 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Savings | Term Deposits | Loans | Savings | Term Deposits | Loans | Savings | Term Deposits | Loans |
| **Commercial Banks** | 30% | 71% | 16% | 30% | 66% | 24% | 37% | 53% | 16% |
| **MFIs** | 8% | 27% | 51% | 10% | 26% | 46% | 11% | 27% | 49% |
| **NGOs** | - | - | 62% | - | - | 55% | - | - | 54% |

**Source:** Study by the Authors

Today there is a clear understanding that the role of microfinance must extend beyond credit to include savings and other products such as insurance. In that process, institutions are finding that clients greatly appreciate other services. Funds transfer and credit card payment of public utilities represent important cost savings in terms of transportation and time away from work for low-income families, savings that are significant in terms of overall family income.

**WHAT TYPES OF FINANCIAL PRODUCTS SHOULD MICROFINANCE INSTITUTIONS BE OFFERING to POORER SEGMENTS OF SOCIETY?**

*"The fundamental recommendation is to see this market as one with vast potential where financial services and products such as savings, insurance and transfers can all be linked."* Carlos Labarthe, Compartamos, Mexico

*"The design of products and delivery mechanisms should consider the strengths of the communities in which they are offered…not only in terms of accessing credit but accessing savings and other essential services like systems and infrastructure that will get their products to market...."* Carmen Velasco, ProMujer, Bolivia

*"Credit, savings, insurance."* Víctor Tellería, FAMA Nicaragua; Carlos Labarthe, Compartamos, Mexico; Clara de Akerman, WWB Cali, Colombia and others

*"Credit, savings and remittances."* Tomas Miller, Multilateral Investment Fund of the Inter-American Development Bank, USA

*"Credit, credit with education, savings, IT businesses for the poor, and possibly insurance."* Alex Counts, Grameen Foundation USA

*"There will be more products that permit the low income individual to efficiently manage risk and plan for the future. That means greater equilibrium between savings and credit products in the future; there will be more products directed towards asset accumulation for education, housing and retirement."* Mónica Brand, ACCION International

*"Any and all that stimulate productivity as opposed to those that stimulate consumption."* Erik Peter Geurts, Triodos Bank, Netherlands

*"Perhaps all that is connected to housing, as principally better housing improves the quality of life of the poor."* Rafael Llosa, Mibanco, Peru

One product that has been receiving particular attention is remittances—the sending, receipt and payment of money transfers. Agreements established between financial institutions in Europe, such as the Cajas Españolas, and Latin American entities, such as Banco Solidario in Ecuador or Banco Caja Social in Colombia, are showing significant numbers for both sides of the business—the sending and the receiving. For low-income families, the entry of regulated institutions into remittances has meant a substantial reduction in the fees that they were paying at the end of the 1990s. Nevertheless, the enormous flow of remittances should not result simply in a transfer of funds, but actually provides microfinance institutions a huge opportunity to develop other financial products that will help these families acquire assets with which they can improve their lives.

Insurance products that have traditionally been available are 1) credit insurance, which makes the loan payment during a period of crisis in the household (illness, accident etc.) and 2) life insurance, which generally covers funeral costs and some cash bequest to the insured family. Some institutions, especially commercial banks, have begun to offer insurance products that address other risks faced by their clients—such as other life insurance products, education insurance, disability and other types of insurance that protect the livelihood of the entrepreneur against an unexpected event such as a fire. It still is not enough; in the future it will be necessary to determine how to provide other instruments of social well-being such as health insurance and pension benefits to non-salaried families who have the same needs as salaried families.

In the coming years, to survive in a market ever more competitive and with profit margins continuing to fall sharply, MFIs will have to provide a range of products to meet the needs of low-income families.

## *Technology is the foundation of efficiency*

In general, the banking industry has benefited from technological developments in both hardware and software.  The microfinance field has not been isolated from these developments, especially in the light of its concern for overall efficiency and risk management of the loan portfolio.

The survey shows that most institutions see the highest utility of technology lies in controlling costs and increasing efficiency.  When asked what kind of technology MFIs are using, most mentioned not only “hard” technology such as smart cards, Palm Pilots, etc. but also outlined the important role of software programs and databases that allow them to work with projections models.  These models are not only facilitating credit risk management of new clients but also are enabling the institution to segment existing clients to determine specific niches for new products, analyze demand, and determine which markets offer new opportunities for the institution.

Technology is also being used by microfinance institutions as a delivery and communication channel to clients.  Automated teller machines (ATMs) are the most typical example, but Personal Data Assistants (PDAs) are also being used to improve response time, reach out of the way places and, generally speaking, to improve efficiency in the evaluation process.  The utilization of these technologies should result in lower costs and better coverage, particularly of those sectors that haven’t been reached due to high fixed costs and remote location.  Technology should enable microfinance institutions to reach the vast majority of the poor in a profitable way.

The investment required in these kinds of technological advancements is extremely high and in the case of some medium and smaller-sized institutions, it will be impossible for them to underwrite this significant expense. Going forward, it will be interesting to consider the creation of “holding companies,” given the ongoing regional economic integration, the existence of a number of microfinance institutions with a similar structure, or in the case of NGOs, belonging to the same network.  Such a structure has already been created by the affiliates of IMI, and is being developed by several ACCION affiliates.  Although the ACCION affiliates do not share the same ownership, they have developed joint projects to allow them to share knowledge and amortize the expense of technological innovations among a number of institutions.

**WHAT ROLE WILL TECHNOLOGY PLAY IN MICROFINANCE?**

*"I see technology as being a key element of bringing more products and larger volumes of funds at a lower price to the target market."* Jean-Philippe de Schrevel, Blue Orchard Finance, Switzerland

*"Opportunity International attaches huge importance to the role of technology in expanding outreach to the poor, and believes that it will continue to have a powerful impact across Latin America."* Deborah Foy, Opportunity International Network

*"Hand held technology (PDAs) is very much at the base of all advances. To the degree that technology can enable decision making at the credit officer level and to shorten processing time for loans…that's the degree at which MFIs can grow. Technology will also enable the gathering of huge amounts of data that will advance access to capital for growth. It can also foster greater transparency at the institutional level."* Lawrence Yanovitch, FINCA International, USA

*"Better levels of efficiency and productivity can be reached, which will extend microfinance services, lessen their cost and make them more prosperous."* Diego Moncayo, Credife (Banco de Pichincha), Ecuador

*"Technology will be especially important in reaching more remote, rural areas with instruments like Point of Sale devices, Smart Cards, PDAs, and cell phone technology in the hands of loan officers and installed at branches."* Carlos Castello, ACCION International

*"I don't think technology is a driver. I think it's been overrated for 20 years. I do think credit scoring will play an increasingly important role as we get improved credit bureaus and better MIS. CGAP holds a much more optimistic view of technology's impact."* Robert Christen, Former Senior Advisor CGAP, Boulder Microfinance Training

*"Software has improved and will continue to improve managing risk and portfolio quality through predictive modeling. Hardware such as PDAs will also have a direct impact on lowering costs in processing loan applications."* Jaime Pizarro, Manager, Bancostado Microempresa, Chile

*"Technology advancements are having an effect on microfinance; especially in the area of risk and credit evaluation. Credit Scoring is increasing the level of certainty and ease in this process."* Wilo de León, FUNDAP, Guatemala

*"There seems to be a lot of infatuation with innovation and technology. We might be seeing over-promise and under-delivery in the sense that some say that technology will create "huge" breakthroughs, whereas it might be more modest. I think technology will make a significant contribution but we need to keep on looking at ways to harness technology that are laid over sound business strategies and practice. Otherwise it won't be able to deliver. It's not a panacea."* Beth Porter, Freedom from Hunger

## Does the Commercial Approach That Prevails in Latin America Sacrifice Reaching the Poorest?

One of the key concerns that frames the discussion about what model will be employed by microfinance in Latin America is whether the current focus on the commercial model sacrifices reaching the poorest. This unease surges from observing the sustained increase in the average loan size, which is used as an indirect indicator to determine which low income segments of the population microfinance reaches.

A study conducted in 2001 by CGAP (using 1999 data) concluded that the average loan for regulated microfinance institutions in Latin America was US$817, while NGOs showed an average of US$322. As point of reference, the first number was equivalent to 47.2% of the GDP per capita, while the second one constituted 23.6% of GDP per capita for the region.

Table 14 below shows that the average size loan has increased, standing now at US$1,387 for commercial banks, US$1,162 for regulated microfinance institutions, and US$442 for NGOs. When we compare these figures to the GDP in the region we note that the average loan size for banks is 74% of GDP per capita for the countries in the region. That of regulated microfinance institutions stands at 129% of GDP while NGOs measure in at 51% (see Table 14). The considerable increase in relation to GDP should not surprise us, since during these years the region experienced one of its worse recessions ever, with GDP falling everywhere. The cases of Bolivia and Haiti are particularly significant, since these countries have among the lowest GDPs in the region, and the average loans for regulated institutions exceeds GDP by more than two times.

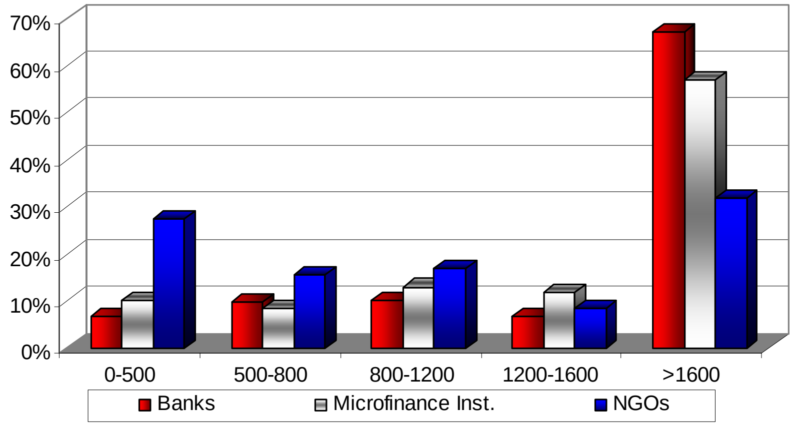
**Table 14**
**Relationship between Average Loan Size and GDP per Capita by Type of Institution**

| | 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

Making use of the 2004 data collected for this study, the charts that follow disaggregate loan disbursements by size of loan and the number of loans disbursed under each category, showing interesting results.

**Graph 3**
**Distribution of the Amount Disbursed in 2004 by Range of Loan Size**

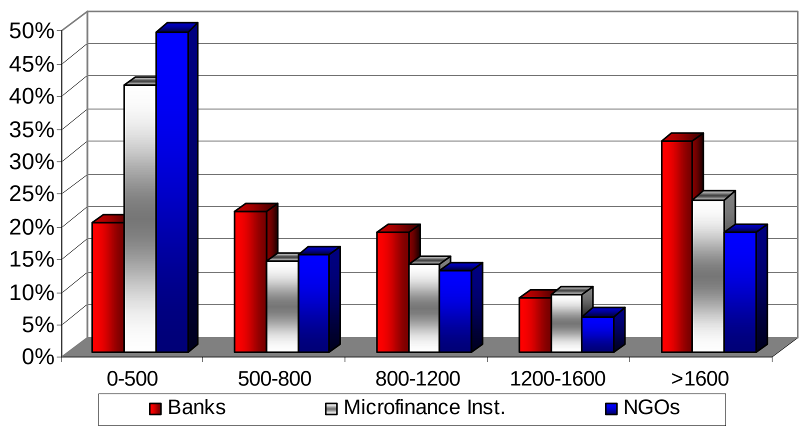



**Source for Graphs 3 & 4:** Research by authors for this study.

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.

**Graph 4**
**Distribution of the Number of Credits Disbursed in 2004 by Size of Loan**



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.

**WILL COMMERCIAL MICROFINANCE BE SERVING THE VERY POOR?**

*"It is clear that microfinance today is not reaching the poorest 10% of the population in Latin America. Commercial microfinance will only reach out to where there is an established client base, where NGOs have left their marks."* Flavio José Weizenmann, Real Microcrédito (ABN-AMRO Banco Real), Brazil

*"A complicated question…I think commercial microfinance will have a hard time directly attending to the needs of the poorest of the poor if it doesn't make it a direct and concrete goal."* Carlos Labarthe, Compartamos, Mexico

*"If we are talking about regulated profit motivated MFIs the answer is probably not, because the possibilities are limited by inflexibility in regards to risk and creative innovations. Institutions operating commercially in regards to management and access to funds but whose motivations are not driven by profit will have more open doors to experiment and search out the best avenues to serve this population."* Carmen Velasco, ProMujer, Bolivia

*"I don't believe that commercial microfinance is reaching the poorest segments. It is not for lack of desire, but the fact is that we reach out to those who are already involved in economic activities. The very poor have not yet developed a use for microfinance, whether from an NGO or a regulated commercial institution. The truly poor need more basic services like education, clean water, basic housing - and that is not the role of microfinance."* Pedro Arriola, Banco los Andes ProCredit, Bolivia

*"What does 'the very poor' really mean? All they really need is to have the capacity to pay back a debt. Although few commercial banks will truly reach the poorest, with technology and real intent some will be able to do so."* Álvaro Ramirez, Inter-American Development Bank, USA

*"Although some financial services are reaching this population, primarily through remittances, the commercial players will enter the field slowly, if at all. They will principally be detained by restrictions on profitability."* Alex Silva, ProFund, Costa Rica

*"That is the million dollar question! The 'very poor' require the collaboration of all professions of society, of the imagination of the thinkers, the strength of industry, the support and consistency of the developed nations, etc… Commercial microfinance serves those with the capacity to repay, not necessarily a specific economic group."* Clara de Akerman, WWB Cali, Colombia

The question that arises from this analysis is if the average loan size is a good indicator for determining which segments of the population are reached by any institution. Apparently it is not.

Various factors influence average loan size: the type of credit methodology used by the institutions (solidarity group loans, individual loans, and/or 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.

For example, the shift that evolved in Latin America—from the early 1990s when solidarity group methodology prevailed to the end of the decade when individual loans became the preferred product—led to an increase in average loan size, even in those institutions whose client profile remained unchanged. By the same token, at the beginning of the 1990s the average loan term was very short, with biweekly or monthly payments, mostly as a way of controlling late payments. This practice has undergone dramatic change. 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. Most credit methodologies incorporate the features of stepped-up or larger loans and longer terms to borrowers with good repayment records. Microfinance institutions have also recognized the diverse needs of poor households and have expanded their product offering to respond, including housing improvement loans, which have terms ranging from three to seven years, and are therefore much larger in size.

Additionally, a successful microentrepreneur can increase his/her sales to the point of becoming a small entrepreneur to whom microfinance institutions continue to lend rather than graduate them to commercial banks as was once originally considered. This expansion of the market segment clearly means that microfinance institutions are reaching higher income clients, but as the data shows, this does not mean they are abandoning the poorer segments.

To further address this issue, the authors made use of various recent studies that attempt to determine if microfinance institutions are reaching the poorer segments of the population in various countries. ACCION International started a series of such studies in 2003, with the objective of understanding with greater depth the profile of clients of members of the ACCION Network, while also designing an efficient method to measure periodically each institution's impact on poverty.[18] This information would also play a significant role in developing new products to reach this market. To date, the results from three studies have been published: BancoSol/ Bolivia, Mibanco/Peru and SogeSol/Haiti. [19]

The methodology for these studies begins by dividing the clients by income levels to compare them to the population of the given country. For this purpose, the studies used each country's National Poverty Level and Urban Poverty Level (where the latter was available), as well as the International Poverty Lines defined by the World Bank, such as those that represent daily consumption of US$1 or US$2 per capita, adjusted to the exchange rate in relation to the purchasing power (PPP).

[18] See Annex 4 for a complete list of the members of the ACCION Network.
[19] ACCION InSight # 5, 8 & 13, 2003 and 2004, available at www.accion.org/publications

**Table 15**
**Comparison of Population Sectors Reached by Microfinance Institutions Against National Averages**

| | Total Population | Urban Population | Institution´s Clients |
|---|---|---|---|
| **BancoSol** | | | |
| National Poverty Line | 58% | 51% | 49% |
| Poverty Line US$ 1/day | 13% | 4% | 3% |
| Poverty Line US$ 2/day | 39% | 23% | 19% |
| **Mibanco** | | | |
| National Poverty Line | 52% | 22% | 27% |
| Urban Poverty Line | 66% | 40% | 49% |
| Poverty Line US$ 1/day | 10% | 1% | 0% |
| Poverty Line US$ 2/day | 30% | 6% | 4% |
| **SogeSol** | | | |
| National Poverty Line | 48% | 34% | 37% |
| Extreme Poverty Line | 31% | 20% | 16% |
| Poverty Line US$ 1/day | n.a. | n.a. | 6% |
| Poverty Line US$ 2/day | n.a. | n.a. | 50% |

**Source:** ACCION International InSight # 5, 8 & 13 2003-2004

Table 16 shows the case of BancoSol, 49% of whose clients are below the National Poverty Line, compared to 58% of the total population. This is a microfinance institution who in 2004 had an average loan size of $2,088.

In the case of Mibanco, the findings are particularly interesting because they illustrate the difference between urban poverty, where this institution focuses its activity, and rural poverty, which is one of the important issues related to the impact of microfinance on poverty in Latin America. In the case of Mibanco, only 27% of its clients are below the National Poverty Line, but when compared to the Poverty Line for Lima, 49% of its clients are below it, while 40% of the population in Lima lives below the poverty line.

Finally, in the case of SogeSol, an entity that works in the country with the highest indices of poverty in the Western Hemisphere and which is part of a commercial bank, 37% of its clients fall below the National Poverty Line, a figure that stands at 34% for Port-au-Prince. Using the indicator of extreme poverty, one finds that 16% of SogeSol's clients are in this category, compared to the 20% that are in this category in the capital city, and 31% at the national level.

Table 16 provides a further disaggregation of these data, to enable one to determine the degree to which these institutions reach the poorest segments. The table shows the diversification of the market reached by each of these institutions. In the case of BancoSol, 15% of its clients fall in the category of those living 50% below the National Poverty Line, while 42% are in the highest income level shown in the table.

**Table 16**
**Distribution of Microfinance Clients According to Poverty Levels**

| 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.

In the case of Mibanco, the percentage in the lowest segment is smaller (7%) while in the other segments, the distribution is more even. SogeSol demonstrates a stronger presence in the upper reaches of the National Poverty Line, a factor that is not surprising for a bank entity that has entered microfinance only in the last five years.

This analysis provides a range of elements to help frame the discussion regarding the impact on poverty of the commercial model in Latin America. First, it illustrates the importance of defining poverty by country, and by urban and rural sectors within each country. The pattern of client income reached by these institutions resembles those of the poorest sectors of the urban population. This characteristic is evident in a region where the majority of microfinance institutions, regardless of the type of institution, have specialized in reaching urban populations.

**Table 17**
**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)

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.

The studies also support the observations made by various respondents to the questionnaire (in the box that follows on the next page), who emphasized how difficult it is to reach the poorest segment of the population, in part because it is most likely that these persons do not have the capacity to pay back a loan.  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.

**WHAT STRATEGIES WILL EXTEND MICROFINANCE TO THE MOST REMOTE AREAS?**

*"Commercial banking services can be provided to rural villages through 'mobile branches', whereby the vehicle itself is the bank."* Deborah Foy, Opportunity International Network

*"To extend microfinance in remote areas, I would recommend relying on NGOs and facilitate banks to finance them on a wholesale basis whenever possible. It would, of course, be highly desirable to use ATM and associated technologies to serve remote areas, especially with regard to channeling remittances, but this will continue to pose formidable challenges for banks."* Pierre-Marie Boisson, SogeSol (SOGEBANK), Haiti

*"Service Centers shared among various service providers would dilute the individual administrative costs. For example, 'technology kiosks' which provide multiple services such as computers, internet connections, phone access, money transfers, etc…"* Victor Tellería, FAMA, Nicaragua

*"The use of technology from ATM machine to Palm Pilots (PDAs), cell phones, etc. will help extend services to a larger, more remote client base as well as assist in repayment and client retention."* Héctor Chamorro Peyresblanques, Banco Santander Banefe, Chile

*"Loan products and services can be distributed through cheaper and more efficient channels than offices and branches in remote locations. For example, virtual channels or small service areas in rural centers or partnering with other non financial institutions that already operate networks within remote areas."* Eulalia Arboleda de Montes, Banco Caja Social, Colombia

*"CGAP is investing pretty heavily in technological solutions to this and to looking into broader distribution channels. Every time we use the words 'rural' and 'more remote' we have to actually define what we mean."* Robert Christen, Former Senior Advisor, CGAP, USA

*"MFIs should also be imparting microfinance technology (methodology with IT support) that serves the needs of rural and agricultural clients."* Clara de Akerman, WWB Cali, Colombia

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 magnitude and severity of poverty in the region underscores the commitment of microfinance to reach the lowest income segments. At the same time it also highlights that microfinance should not be utilized as a substitute for social policy, which remains the responsibility of governments.

## Role of Regulation and Supervision in Microfinance

One cannot address the characteristics of microfinance ten years from now without incorporating into the discussion the regulatory framework for microfinance. Even more important, any examination of the regulatory and supervisory framework must be done in the context of how overall financial sector reform will be shaped in the region in the coming decade.

Note: Three documents developed in the last two years provide the basis for the discussion and analysis in this section of the paper; they are recommended reading for anyone addressing regulation and supervision in Latin America in the next ten years.

1. Robert P. Christen, Timothy R. Lyman and Richard Rosenberg. "Guiding Principles on Regulation and Supervision of Microfinance: Microfinance Consensus Guidelines" CGAP, July 2003.
2. Jacques Trigo Loubiere, Patricia Lee Devaney and Elisabeth Rhyne. "Supervising and Regulating Microfinance in the Context of Financial Sector Liberalization: Lessons from Bolivia, Colombia and Mexico" ACCION International. Monograph Series No. 13. August 2004.
3. Tor Jannson, Ramon Rosales, and Glenn D. Westley. "Principles and Practices for Regulating and Supervising Microfinance" Inter-American Development Bank, Sustainable Development Department, Micro, Small and Medium Enterprise Division. 2004.

### *Background*

In the last decade, throughout Latin America microfinance has become an increasingly important part of the financial sector. The treatment regulators have given to microfinance in each country has had a direct impact on how the microfinance industry has evolved. In countries where regulators have taken the time to understand the particular dimensions of microfinance and have sought to incorporate it into the financial system, the microfinance industry has matured faster and been more effective in reaching larger numbers of low income and poor people with financial services. Countries in which regulators have either ignored microfinance or have channeled its operations in a restrictive manner display a smaller microfinance sector that is less formalized and less able to grow significantly. Where financial sector reform has advanced slowly, or regressed towards more repressive policies, it has had a deleterious impact on the growth of a formalized microfinance industry.

Several countries, particularly Bolivia, have emerged as important examples of how a responsive regulatory framework can help advance the evolution of a healthy, well functioning formalized microfinance industry. Bolivia's experience, as well as that of other countries in the region and beyond, has enabled us to define the characteristics of supportive regulatory frameworks for microfinance. These serve as the basis of what regulatory frameworks should strive to become in the next decade. Designers of new microfinance regulation in the coming years, and the international advisors who propose microfinance frameworks to them, can learn from important advances and incorporate them into the context of each country.

### *Preconditions for Supportive Regulatory Frameworks for Microfinance*

Before one can develop an effective regulatory framework, several factors related to the financial sector and the microfinance environment must be in place. [20]

[20] For a more detailed discussion of these items, see Jacques Trigo, et. al. Supervising and Regulating Microfinance in the Context of Financial Sector Liberalization. ACCION International. Monograph Series No.13 pp. 24-28, and

1. **Political Will**: Microenterprise plays a significant role in creating employment and income for the lower economic segments of the populations, especially in countries where economic growth has not led to increased formal sector employment. Providing access to capital to these microenterprises requires an environment in which microfinance institutions can operate effectively and grow. It is only when top-level officials, including presidents of the countries, play an active role in making microfinance a priority that other policymakers, such as central banks and relevant ministries, begin to take microfinance institutions seriously, and move to address regulatory issues.

   Knowledge about microfinance on the part of policymakers continues to be a challenge in nearly all Latin American countries. The degree to which effective supervision and regulation becomes the norm in a country depends in part on the interest in and commitment to effective microfinance assumed by policymakers in the region. Bolivia, as well as Colombia and Mexico emerge as examples. Nevertheless, one has to differentiate between genuine interest in creating thriving microfinance institutions, which is reflected in regulations and norms, and a passing, political interest, which may set in motion precisely the regulatory environment that will harm microfinance in the long term.

2. **Financial Policy Preconditions**

   For microfinance institutions to operate and grow, several financial sector policies must be in place. Without these, experience shows that microfinance, regardless of how effectively it is being delivered, will stagnate.

   - **Interest Rate Ceilings**: Although governments often name protecting the small borrower as a main reason for setting interest caps, experience shows that it is the elimination of interest rate controls that will enable microfinance institutions to develop in a sustainable manner, and to become part of the formal financial system. The high administrative cost of making small loans is a signature characteristic of microfinance, and it requires a higher interest rate to cover the costs of lending.

     Restrictive interest rate caps have surged once again in the last five years, creating great pressure on microfinance institutions in a growing number of countries. In Colombia, interest rate restrictions have hampered the efforts of microfinance institution to reach the smallest clients and to cover their costs. As important, they also have prevented key nonprofit microfinance institutions from becoming formalized and thereby growing even more effectively as part of the financial system of the country. While the best alternative for microfinance institutions is to operate with liberalized interest rates, in cases where governments insist on establishing interest rate caps, making allowance for microfinance lending in these caps can allow microfinance institutions to cover their costs.

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Tor Jansson et. al. Principles and Practices for Regulating and Supervising Microfinance. Inter-American Development Bank. 2004. pp13-15.

- **The Role of Public Banks**: Microfinance institutions run by the government using subsidized interest rates have created havoc in microfinance. They distort the market, reach the larger and more powerful clients, create a poor repayment culture, and make ineffective use of public funds. In the last decade we have seen examples of well-managed, commercially driven public institutions that make good use of existing infrastructure and become important microfinance players. Banco do Nordeste in Brazil is the best example in the region, and there are others, such as Banco Agrario in Colombia. Governments should not seek to create a new public bank, but if they choose to revive an existing one, there are enough examples, both in the region and globally, to enable them to turn these banks into high quality and significant microfinance providers.

- **Critical Mass of MFIs**: It is generally agreed that a country should have a number of well-run, sustainable microfinance institutions that merit becoming regulated before it designs and puts in place a microfinance regulatory framework. Establishing a new regulatory window before there is high quality practice in microfinance can be a costly exercise with potentially unintended consequences of attracting other types of institutions, such as consumer lenders, to microfinance. Further, the consultative process with well-performing MFIs that has been so useful in developing strong microfinance regulation will be missing.

## Getting the Work Done Today

The experience of the last decade has taught us a great deal about the design and practice of effective microfinance regulation and supervision. There is a surprising level of consensus to serve as the basis for future work. Consensus guidelines developed by CGAP in 2003 and principles and practice for supervision and regulation in Latin America, developed by the Inter-American Development Bank in 2004 serve as excellent summaries of the factors to be considered in the coming years for enacting the best regulatory frameworks for microfinance. Below appear highlights from this consensus that will frame future regulatory practice.

1. **Who should come under Prudential Regulation?**

   Because prudential regulation focuses on the solvency of the financial system and the protection of depositors, the current consensus is that it should be applied to microfinance institutions that are taking deposits from the public, particularly because most deposits will come from the poorest and most vulnerable sectors of the society. Although the total assets of microfinance institutions will most likely constitute a very small portion of the overall assets of the banking system, and therefore not endanger the stability of the financial system overall, preventing losses to small savers is a sufficient reason to apply prudential regulation.

2. **Regulations that are different for microfinance**

Microfinance regulation needs to be as effective and demanding as existing banking regulation, while at the same time recognizing areas in which microfinance requires different treatment. Experiences in the last decade define the following as those that need different regulatory treatment:

- **Percentage of unsecured lending**: Banking law generally permits banks to extend unsecured loans in a total amount no larger than 100% of the bank's equity, or requires a 100% provision at the time the loans are made. Since most microfinance loans are unsecured, these regulations would prevent microfinance institutions from operating at all. There are alternative ways to ensure that unsecured loans are effectively regulated, including close supervision of the institution's internal control system; conservative provisioning of loans past due one day; and a generic provisioning for microfinance. The best microfinance institutions provision their late portfolio by over 100%.

- **Loan documentation**: Microfinance loans extended to individuals who themselves lack accounting records or balance sheets cannot—and need not—provide all the documentation required for a traditional bank loan. A quality analysis of a microfinance loan rests on the institution's ability to measure repayment capacity of the client. This analysis, with supportive documentation, should constitute part of the client's file.

- **Minimum Capital Requirement**: A survey conducted by the Inter-American Development Bank of eight countries, including Mexico and Brazil, shows minimum capital requirements for the creation of a microfinance institution ranging from US$45,000 in Brazil to US$3 million in Panama. Three of the eight countries require above US$1million and three are below US$100,000. Of the eight countries surveyed, institutions in seven countries can accept deposits from the public. [21] One can consider this range very broad, and point to the disadvantages brought about by capital requirements that are too low whereby many institutions can enter the field, including some that will not have strong performance. However, if the capital requirements are too high, some well-performing institutions cannot raise the capital, and because their portfolios in relative terms remain relatively small, will not need so much capital to operate in microfinance.

- **Capital Adequacy**: Related to the above is the ratio of capital to risk-weighted assets of the microfinance institution. Here the consensus, brought forth from practice, has been to establish more stringent capital adequacy ratios for microfinance. While there is no empirical data that shows microfinance institutions to be riskier than multipurpose banks, and while in practice microfinance institutions generally have performed better than other financial institutions, there is still an agreed tendency to define capital adequacy ratios that fall between 10% and 15% (Basle calls for an 8% capital adequacy ratio).

[21] See Tor Jansson et al. Principles and Practices for Regulating and Supervising Microfinance. Inter-American Development Bank, 2004. pp. 62-63.

In looking to the future of supervision and regulation, one can draw a great deal from the existing best practice today, outlined above. One can also highlight particular challenges that have not been met or are partly resolved and need to be addressed. The lessons show that effective microfinance regulation and supervision is possible, that it is not enormously complex, that it does not compromise the integrity of regulatory principles, and that it requires engagement by government, regulators and supervisors. The following are areas that need particular attention for microfinance regulation and supervision to evolve as quickly as is required by the growing number of high performing MFIs and new entrants, such as banks, into microfinance.

1. **Financial Sector Reform –** Governments committed to enabling microfinance to grow must advance in liberalizing their financial sectors, particularly in the area of interest rates. Additionally, any effort to engage public institutions in microfinance should be based on reforming them so that they operate with sound business principles.

2. **Explaining High Interest Rates**: The need for higher interest rates in microfinance is not easily understood by the general public, which can create a public backlash against microfinance, as we have seen in various countries, particularly Bolivia. Public education regarding interest rates and microfinance in general is essential in all countries, and is one area that has not been effectively handled in any country. This education must also take place at the level of governments and multilateral organizations. The worrisome pattern of interest rate ceilings in more and more countries demonstrates an absolute lack of understanding of how these ceilings reduce access by the poor to financial services and perpetuate existing levels of poverty.

3. **Types of Microfinance Institutions**: Regulatory frameworks should ensure that different types of institutions, including commercial banks, can successfully operate in microfinance. A regulatory framework that straightjackets microfinance to one type of institution will diminish the capacity for strong growth in this industry, particularly as we envision a growing variety of institutions involved in microfinance in the next decade,

4. **Learn from Good Supervisors**: There are several supervisory entities, in particular Bolivia, that operate under established practices with rigor, transparency and effective reporting, practices that can serve as good models for those that are not as advanced.

5. **Capacity Building for Supervisors and Cost of Supervision**: Increased training for supervisors is needed everywhere to ensure that supervisors maintain the integrity of the regulatory framework and accommodate microfinance at the same time. The cost of training, in addition to the direct costs of supervising microfinance, continues to be an important barrier. Microfinance will continue to represent a small portion of the total assets of a banking system, and regulators will balk at allocating the considerable resources needed to regulate and supervise microfinance.

6. **Consumer Protection Guidelines:** Microfinance institutions are beginning to develop consumer protection statements that demonstrate their interest in the wellbeing of their clients. Principles related to transparency in lending, full disclosure of information about interest rates, proper collection mechanism, respectful treatment of clients and others related areas are emerging in the field. The ACCION Network members signed a Consumer Protection Pledge, as did the members of the Microfinance

Network. SEEP is also following the same process, which should be extended to all microfinance institutions.

## The Role of Donors

Donor agencies, private as well as bi- and multilateral, have been key players in the development of microfinance in the region. Their subsidies have permitted the enormous advances that have culminated in sustainable models for the provision of microfinancial services. This success means that we are at an evolutionary moment for donor agencies in which they should align themselves with the changes in the industry that will take place over the next ten years.

A quick review demonstrates the importance of donated funds and the way in which donor agencies have helped created new, low cost or commercial instruments that are better adapted to the needs of a sustainable microfinance model. However, there are also examples of the poor use of funds on the part of donors, a factor that has had a negative effect on the development of the microfinance industry. The next ten years will still require some adaptation among these agencies and the study will point toward the most important of these.

Given the necessity of continuing to penetrate new market niches, we are approaching a decision point as to what role international donors should continue playing in the region, a future role as crucial as that played in the past by the IDB, the MIF and USAID. Perhaps this is the moment that we concentrate all their efforts in areas that are not yet financially viable. The areas we recommend in which donors can remain as important players within a growing commercial industry are:

- Improve the technical capacity of existing institutions to help them achieve maximum growth. Even though there are banks and microfinance institutions that are considered the most advanced in the region, there are many others in a less elevated category of performance that still require technical assistance.
- Support the research and field testing of new products and technologies, particularly those that improve institutional efficiency and/or reach underserved markets.
- Give attention to successfully reaching new market niches, particularly those made up of poorer populations and/or those found in more remote areas.
- Motivate financial entities to enter into the markets mentioned above, particularly in sub regions where they are not as active, such as Central America, the Caribbean, Brazil and Mexico.
- Help governments develop regulatory frameworks suitable for microfinance and financial systems that overall take into account the microfinance industry.

## The Role of Private Capital

We are seeing a larger presence of private investors in Latin American microfinance, particularly investors from the United States and Europe with an interest in a social return that is as strong as their interest in a financial return. The experiences of the first investment funds in Latin America and the Caribbean—most particularly that of ProFund Internacional— demonstrate the very important role of investment in the growth of microfinance in the region. Along with their investment and their obligation to earn a good return, the funds play a key role as members of the boards of directors of microfinance institutions. Debt funds such as LACIF and Blue Orchard also have grown in number and in size, and they are now placing significant debt in microfinance institutions in the region.

In the coming years, we can anticipate that these sources of funds – both debt and equity - will continue to grow and become ever more involved with microfinance. Even so, there is no doubt that the most important private capital that will enter microfinance in the future will come via commercial banks as they enter the industry.

Of yet more interest is local private capital that have had and will have access to microfinance investment. Experiences to date, led by Compartamos in Mexico, Mibanco in Peru and as mentioned before in this study, that of WWB Cali, in placing bonds into their local capital markets is opening the way for other MFIs to look at their own financial markets to give them access to the funds necessary for their growth. Because of this, the role of the international rating agencies such as Standard & Poors and Duff & Phelps assume new importance. It is their ratings that will facilitate the further entrance of microfinance into local private capital markets.

As these sources of private capital funding increase, microfinance in the region will see the elimination of what in past years was the key bottleneck to the growth of the industry, that of access to sufficient, affordable capital to fund an ever-larger portfolio and achieve faster growth at a lower cost.

# Into the Future

Latin America has witnessed an incredible evolution in the last two decades—the evolution of microfinance and its capacity to reach millions of poor microentrepreneurs through sustainable and profitable institutions specifically dedicated to meeting their financial needs. In the coming years we will see another revolution—the full integration of microfinance into the financial systems of the countries in the region. An improved regulatory environment and greater involvement of local financial markets in microfinance, coupled with the entrance of the commercial banking sector, come together to provide the basis for this integration.

The variety of experiences of regional microfinance institutions and the wide diversity of low income populations reached by MFIs provide a strong platform for ongoing innovation in the field. Advances will continue in two directions—increasing sustainability while at the same time reaching poorer and poorer segments of the population. However, huge challenges for microfinance remain, most particularly in serving large numbers of people in rural or remote areas on a sustainable basis. Advancing technology could most certainly play a key role in the successful penetration of these areas.

The incorporation of commercial banks into the microfinance picture will continue and their activity will challenge microfinance institutions toward innovative new ways of working. We are likely to see regional or multi-national MFIs, already underway with the ProCredit Banks and, in the Andean region, with members of the ACCION Network. We may also see alliances between NGOs and banks. Many NGOs will need to once again operate as microfinance pioneers, playing a role in innovation or in deepening other non-financial services to their target population. Only those NGOs that think strategically now about how their institutions will evolve will remain important players.

In larger countries like Mexico, Brazil and Peru, we are seeing an emerging trend of non-traditional retailers as players in microfinance, perhaps in partnership with commercial banks. These retailers have a built-in client base, vast distribution network and in some cases, a consumer credit arm.

The development of microfinance over the past two decades has not been uniform across the entire Latin America/Caribbean region, and we will continue to see sub-regional differences. However, the goal within all regions is the same – to provide economic opportunity to millions by offering a full range of financial services delivered respectfully and professionally.

We have made many accomplishments and we have more work to do. It should be a most interesting next ten years!

## Annex 1: Microfinance Institutions in Latin America Included in This Study

| Institution | Country | Total Portfolio (US$000) | Microfinance Portfolio (US$000) | Clients | Average Loan (US$) |
|---|---|---|---|---|---|
| ***Commercial Banks (Microcredit Operations)*** | | | | | |
| Banco do Nordeste (Crediamigo) | Brazil | 40,210 | 40,210 | 162,868 | 247 |
| Real Microcredito ABN-AMRO | Brazil | 1,550 | 1,550 | 3,260 | 475 |
| Banco Estado Microempresa | Chile | 212,438 | 212,438 | 65,210 | 3,258 |
| Banco Santander Banefe | Chile | 85,542 | 85,542 | 51,534 | 1,660 |
| Banco del Desarrollo | Chile | 39,298 | 39,298 | 50,273 | 782 |
| Banco Caja Social | Colombia | 484,913 | 228,499 | 79,970 | 2,857 |
| Banco Solidario | Ecuador | 177,266 | 148,837 | 135,855 | 1,096 |
| Credife /Banco Pichincha | Ecuador | 45,051 | 45,051 | 34,477 | 1,307 |
| Banco Centro Mundo | Ecuador | 106,302 | 28,374 | 28,592 | 992 |
| SogeSol | Haiti | 337,065 | 5,160 | 8,208 | 629 |
| Multicredit Bank (2) | Panama | n.d. | 599 | 709 | 845 |
| Vision S.A. de Finanzas | Paraguay | 31,601 | 25,432 | 53,909 | 472 |
| Financiera El Comercio | Paraguay | 9,708 | 3,278 | 22,199 | 148 |
| Interfisa (2) | Paraguay | 12,656 | 12,656 | n.d. | n.d. |
| Banco del Trabajo | Peru | 276,378 | 115,885 | 82,571 | 1,403 |
| Banco de Credito | Peru | 2,950,065 | 169,833 | 54,495 | 3,116 |
| BanGente | Venezuela | 12,590 | 12,590 | 13,368 | 942 |
| ***Regulated Microfinance Institutions*** | | | | | |
| BancoSol | Bolivia | 108,560 | 108,560 | 67,933 | 1,598 |
| Prodem | Bolivia | 86,495 | 86,495 | 56,618 | 1,528 |
| FIE | Bolivia | 54,196 | 54,196 | 41,888 | 1,294 |
| Banco Los Andes ProCredit | Bolivia | 113,699 | 113,699 | 64,698 | 1,757 |
| Ecofuturo | Bolivia | 14,218 | 14,218 | 10,440 | 1,362 |
| Agrocapital | Bolivia | 13,601 | 13,601 | 4,826 | 2,818 |
| Fortaleza FFP | Bolivia | 24,045 | 24,045 | 3,103 | 7,749 |
| Finamerica | Colombia | 27,882 | 27,882 | 24,444 | 1,141 |
| SFE/Banco ProCredit | Ecuador | 43,600 | 43,600 | 20,361 | 2,141 |
| Banco ProCredit/Calpiá | El Salvador | 90,300 | 90,300 | 63,368 | 1,425 |
| Microcredit Nacional S.A. | Haiti | 6,800 | 6,800 | 5,305 | 1,282 |
| FINSOL | Honduras | 11,274 | 11,274 | 15,400 | 732 |
| Compartamos | Mexico | 102,034 | 102,034 | 309,637 | 330 |
| Fincomun | Mexico | 15,116 | 15,116 | 20,615 | 733 |
| Confia/Financiera ProCredit | Nicaragua | 43,600 | 43,600 | 45,074 | 967 |
| Findesa | Nicaragua | 30,696 | 30,696 | 21,946 | 1,399 |

| Institution | Country | Total Portfolio (US$000) | Microfinance Portfolio (US$000) | Clients | Average Loan (US$) |
|---|---|---|---|---|---|
| CMCP Lima | Peru | 36,254 | 36,254 | 32,804 | 1,105 |
| Mibanco | Peru | 128,277 | 128,277 | 81,229 | 1,579 |
| Edpyme Edyfycar | Peru | 41,640 | 41,640 | 44,863 | 928 |
| CMAC-Piura | Peru | 111,966 | 111,966 | 92,236 | 1,214 |
| CMAC-Trujillo | Peru | 103,888 | 103,888 | 91,805 | 1,132 |
| CMAC-Arequipa | Peru | 116,579 | 116,579 | 84,887 | 1,373 |
| CMAC-Sullana | Peru | 60,537 | 60,537 | 54,858 | 1,104 |
| CMAC Santa | Peru | 16,910 | 16,910 | 18,471 | 916 |
| CMAC Chincha | Peru | 4,570 | 4,570 | 5,174 | 883 |
| CMAC Huancayo | Peru | 49,910 | 49,910 | 39,112 | 1,276 |
| CMAC Maynas | Peru | 19,308 | 19,308 | 21,869 | 883 |
| CMAC Paita | Peru | 21,373 | 21,373 | 19,787 | 1,080 |
| CMAC-Cusco | Peru | 59,120 | 59,120 | 32,059 | 1,844 |
| CMAC Pisco | Peru | 4,429 | 4,429 | 6,443 | 687 |
| CMAC-Tacna | Peru | 33,823 | 33,823 | 22,952 | 1,474 |
| CMAC-Ica | Peru | 27,200 | 27,200 | 21,356 | 1,274 |
| EDPYME Pro Empresa | Peru | 9,974 | 9,974 | 9,199 | 1,084 |
| Edpyme Crear-Arequipa | Peru | 10,558 | 10,558 | 8,746 | 1,207 |
| EDPYME Confianza | Peru | 13,732 | 13,732 | 14,903 | 921 |
| Edpyme Alternativa | Peru | 1,191 | 1,191 | 2,403 | 496 |
| Edpyme Camco Piura | Peru | 1,122 | 1,122 | n.d. | n.d. |
| Edpyme Crear Cusco | Peru | 1,752 | 1,752 | 1,280 | 1,369 |
| Edpyme ProNegocios | Peru | 2,193 | 2,193 | 2,928 | 749 |
| Edpyme Raiz | Peru | 20,749 | 20,749 | 2,382 | 8,711 |
| Edpyme solidaridad | Peru | 1,113 | 1,113 | 687 | 1,620 |
| Caja Nor Peru | Peru | 23,192 | 23,192 | 14,325 | 1,619 |
| Edpyme Crear Tacna | Peru | 6,245 | 6,245 | 4,977 | 1,255 |
| Edpyme Crear Trujillo | Peru | 2,204 | 2,204 | 2,871 | 768 |
| Edpyme Nueva Vision | Peru | 3,799 | 3,799 | 2,350 | 1,617 |
| Edpyme Credivision | Peru | 1,793 | 1,793 | 2,694 | 666 |
| Banco Ademi | Dom. Rep. | 68,857 | 68,857 | 25,614 | 2,688 |
| ***NGOs*** | | | | | |
| Banco Mundial de la Mujer | Argentina | 453 | 453 | 2,909 | 156 |
| Crecer | Bolivia | 12,271 | *12,271* | *46,565* | 264 |
| Pro Mujer (1) | Bolivia | 5,587 | 5,587 | 38,587 | 145 |
| FADES (2) | Bolivia | 15,501 | 15,501 | 20,344 | 762 |
| FONDECO (2) | Bolivia | 5,101 | 5,101 | 6,894 | 740 |
| D-FRIF | Bolivia | 8,844 | 8,844 | 17,817 | 496 |
| CEAPE/PE | Brazil | 1,896 | 1,896 | 4,271 | 444 |
| CEAPE-Maranhao (2) | Brazil | 1,185 | 1,185 | 8,009 | 148 |
| ICC - Blusol (2) | Brazil | 1,128 | 1,128 | n.d. | n.d. |
| Corporacion WWB Finam | Chile | 848 | 848 | 1,782 | 476 |

| Institution | Country | Total Portfolio (US$000) | Microfinance Portfolio (US$000) | Clients | Average Loan (US$) |
|---|---|---|---|---|---|
| Actuar Tolima | Colombia | 1,877 | 1,877 | 4,801 | 391 |
| Actuar Quindio | Colombia | n.d. | n.d. | 1,850 | n.d. |
| Corporacion Mundial de la Mujer/ Bog | Colombia | 14,466 | 14,466 | 34,918 | 414 |
| Contactar | Colombia | 2,045 | 2,045 | 2,849 | 718 |
| Microempresas de Antioquia | Colombia | 1,683 | 1,683 | 8,861 | 190 |
| FMM Bucaramanga | Colombia | 19,785 | 19,785 | 49,014 | 404 |
| Fundacion Mundo Mujer /Popayan | Colombia | 29,849 | 29,849 | 86,816 | 344 |
| Fundacion WWB Colombia- Cali | Colombia | 66,122 | 66,122 | 92,533 | 715 |
| CMM-Medellin | Colombia | 10,740 | 10,740 | 21,468 | 500 |
| ADRI (1) | Costa Rica | 3,651 | 3,651 | 586 | 6,230 |
| Credimujer (1) | Costa Rica | 472 | 472 | 1,317 | 358 |
| FED | Ecuador | 6,655 | 6,655 | 10,892 | 611 |
| INSOTEC | Ecuador | 802 | 802 | 1,132 | 708 |
| D-MIRO | Ecuador | 4,496 | 4,496 | 9,295 | 484 |
| FINCA (2) | Ecuador | 3,659 | 3,659 | 14,958 | 245 |
| CCC (2) | Ecuador | 1,854 | 1,854 | 2,528 | 733 |
| Eclof -Ecu (1) | Ecuador | 728 | 728 | 416 | 1,750 |
| Fundacion Alternativa (1) | Ecuador | 215 | 215 | 1,008 | 213 |
| Fundación Espoir (1) | Ecuador | 1,883 | 1,883 | 9,424 | 200 |
| Integral / Fusai | El Salvador | 14,154 | 14,154 | 20,156 | 702 |
| ASEI (1) | El Salvador | 525 | 525 | 5,903 | 89 |
| Genesis | Guatemala | 25,798 | 25,798 | 42,491 | 607 |
| ACME | Haiti | 3,817 | 3,817 | 6,435 | 593 |
| Fonkose (1) | Haiti | 2,878 | 2,878 | 24,990 | 115 |
| Adelante (1) | Honduras | 147 | 147 | 1,956 | 75 |
| Promujer (2) | Mexico | 225 | 225 | 5,862 | 38 |
| ADMIC Nacional | Mexico | 4,007 | 4,007 | 11,760 | 341 |
| FACODEP (2) | Nicaragua | 7,209 | 7,209 | 17,874 | 403 |
| ACODEP (1) | Nicaragua | 8,281 | 8,281 | 22,913 | 361 |
| FAMA | Nicaragua | 16,225 | 16,225 | 31,672 | 512 |
| Promujer (1) | Nicaragua | 1,424 | 1,424 | 13,047 | 109 |
| Fundacion Nieborowski | Nicaragua | 8,989 | 8,989 | 12,774 | 704 |
| ADIM (1) | Nicaragua | 408 | 408 | 1,395 | 292 |
| Ceprodel (1) | Nicaragua | 3,391 | 3,391 | 3,592 | 944 |
| FDL (1) | Nicaragua | 16,545 | 16,545 | 25,106 | 659 |
| Fondem (1) | Nicaragua | 940 | 940 | 2,501 | 376 |
| Fundeser (1) | Nicaragua | 1,373 | 1,373 | 5,065 | 271 |
| Prestanic (1) | Nicaragua | 3,540 | 3,540 | 2,605 | 1,359 |
| Fundacion Paraguaya | Paraguay | 2,687 | 2,687 | 6,550 | 410 |
| Promujer (2) | Peru | 1,312 | 1,312 | 15,327 | 86 |
| FINCA (2) | Peru | 770 | 770 | 6,179 | 125 |
| Fondesurco (1) | Peru | 994 | 994 | 974 | 1,021 |
| FDD | Dom. Rep. | 2,144 | 2,144 | 5,055 | 424 |
| Adopem | Dom. Rep. | 18,385 | 18,385 | 39,933 | 460 |
| Fondesa (1) | Dom. Rep. | 3,485 | 3,485 | n.d. | n.d. |

(1) Statistics as of December 2003

(2) Statistics as of December 2004

## Annex 2: Respondents to the Questionnaire

| 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 | Banco los Andes ProCredit | 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 Junior | 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 |
| Victor 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 |

## ANNEX 3: THE REACH OF THE MAJOR NETWORKS IN LATIN AMERICA & THE CARIBBEAN AS OF 31 DECEMBER 2004

| 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 4: THE MEMBERS OF THE ACCION NETWORK IN LATIN AMERICA SERVING 1.36 MILLION ACTIVE BORROWERS AS OF DEC. 31, 2004

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

### OTHER ACCION PARTNERS IN LATIN AMERICA

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