

An Inside View of Latin American Microfinance

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Evolution of Microfinance in Latin America and the Caribbean

- The story begins in 1972, Projecto Uno, Recife (Brazil).
- IDB Small Projects Program, no sovereign guarantee (1978).
- The focus in these early years was on providing working capital to urban microenterprises.
- Now the services provided are very diversified.
- The growth of early microfinance institutions was funded largely by grants and soft loans from donors.
- Today private commercial banks are entering the market and provide a growing share of the funding to the sector.



Comparison by region: institutional characteristics

Gross loan portfolio and average loan size are the largest among three continents

	# of reporting Microfinance Institutions (MFIs)	Average total assets (US\$ million)	Average gross loan portfolio (US\$ million)	Average # of clients (.000)	Average loan size (US\$)
LAC	228	54.3	42.4	43.1	1,148
Asia	194	54.6	35.9	189.1	371
Africa	119	20.2	11.5	34.0	516

Source: *The MicroBanking Bulletin*, 2006 Benchmarks.



Comparison by region: financing structure

Microfinance institutions in LAC are the most well-capitalized

	Leverage: Capital/Asset Ratio (%)	Commercial funding - liabilities ratio (%)
LAC	34.4	64.8
Asia	21.8	74.0
Africa	32.9	74.1

Source: *The MicroBanking Bulletin*, 2006 Benchmarks.



Market Penetration

Percentage of Microenterprises with Credit (CIRCA 2005) Selected Countries

High (> 25%)	Medium (10%-25%)	Low (< 10%)
Bolivia 37%	Dominican Rep. 10%	Brazil 2%
Guatemala 23%	Mexico 12%	Argentina 1%
Peru 24%	Honduras 14%	Venezuela 1%

Source: Navajas, S. and L.Tejerina. (IDB). 2006.
Microfinance in LAC: Connecting Supply and Demand.



Microlending Latin American markets compared

	Bolivia	Colombia	Ecuador	Nicaragua	Peru	Guatemala	Mexico
Microcredit portfolio (US\$ million)	790	2,110	708	382	2,509	146	1,801
GDP (US\$ million)	9,333	122,308	36,244	4,911	78,430	31,683	768,437
Per capita GDP (US\$)	1,010	2,290	2,630	958	2,610	2,400	7,310
MFIs loans as a % of total system's loans	21%	4%	7%	21%	14%	2%	1%
Average loan balance per borrower	1,874	1,711	1,549	774	458	783	485
Average loan balance per borrower/GDP per capita	186%	75%	59%	81%	18%	33%	6.6%
Real active interest rates (2005)	21.6%	30.1%	26.2%	32.2%	35.3%	31.3%	77.0%
Operating expenses/ Gross loan portfolio	15.4%	17.4%	16.3%	16.8%	18.8%	25.7%	26.0%

Source: Citigroup Investment Research (2007) and data from Microfinance Information eXchange (MIX).

Microfinance in LAC region is...

- the most profitable
- the fastest growing
- the least risky

among the world's financial systems.



Profitability of Microfinance and the Banking Sector 2001-2004

	MFIs		Banks	
	Number	Average ROA (%)	Number	Average ROA (%)
Latin America and the Caribbean	128	2.8	619	2.0
Eastern and Central Asia	46	2.8	110	1.3
East Asia and the Pacific	57	1.3	516	1.6
Middle East and North Africa	20	1.9	118	0.6
South Asia	29	5.0	189	1.3
Sub-Saharan Africa	62	0.9	244	1.2
Worldwide	342	2.8	1,796	1.6

Source: Gonzalez, A. and R. Rosenberg. 2006 (CGAP/The Mix). *The State of Microfinance: Outreach, Profitability and Poverty*.



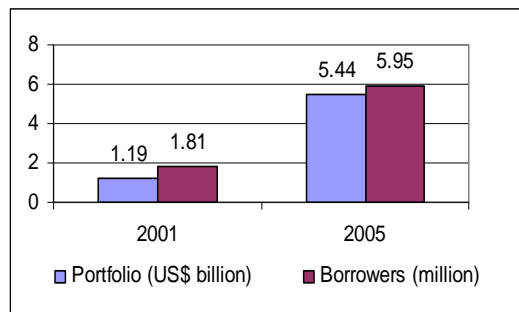
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Growth of Microfinance in Latin America and the Caribbean

Microfinance Institutions in LAC(2001-2005)



Average annual growth:

-Portfolio 46 %

-Borrowers 35 %

Source: Navajas, S. and L. Tejerina. (IDB). 2006.
Microfinance in LAC: Connecting Supply and Demand.



Where is the growth coming from?

Regulated MFIs are growing faster in terms of both assets and clients

Deposit-taking and rating is lowering their funding costs

	MFIs	Portfolio		Borrowers		Average loan (US\$)	
		#	US\$ Billion	%	Millions		%
	Regulated MFIs	60	0.901	76	0.963	51	962
2001	Non-regulated MFIs	124	0.288	24	0.869	49	332
	Total	184	1.189	100	1.806	100	659
	Regulated MFIs	98	4.407	81	3.851	64	1,144
2005	Non-regulated MFIs	238	1.030	19	2.101	36	490
	Total	336	5.437	100	5.952	100	913

Source: Navajas, S. and L. Tejerina. (IDB). 2006. *Microfinance in LAC: Connecting Supply and Demand*.



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Performance of MFIs versus country average (2005 data)

All the indicators show better performance than the country average

Country	Institution	Portfolio at Risk > 30 days (%)	ROA	ROE	Op. expense/ Avg. portfolio
Bolivia	Banco Los Andes ProCredit	1.95	0.60	8.00	12.50
	BancoSol	5.40	1.30	11.00	12.60
	Financial sector average	13.68	0.42	4.21	6.85
Colombia	Finamerica	4.20	1.90	11.30	16.30
	Financial sector average	3.15	2.66	24.50	9.35
El Salvador	Banco ProCredit El Salvador	2.07	1.30	10.00	12.50
	Financial sector average	2.16	1.05	9.64	4.62
Mexico	Compartamos	0.60	20.00	54.00	35.60
	Financial sector average	1.99	1.91	15.69	5.08
Nicaragua	Banco ProCredit Nicaragua	1.89	4.00	25.10	15.90
	Financial sector average	2.38	2.17	26.80	9.55
Peru	MiBanco	2.90	5.80	33.90	18.80
	Financial sector average	2.68	1.53	21.28	6.81

Source: Berger, M., et. al. *An Inside View of Latin American Microfinance*. Table 2.5.

Market potential of microfinance is huge

	Potential market size (potential # of borrowers)	Current # of microborrowers	Current total loan volume
Worldwide	1 billion	100 million	US\$25 billion
LAC	67 million	5.95 million	US\$5.44 billion

Estimated funding gap = US\$250 billion (worldwide)

Source) Worldwide data: Deutsche Bank Research (2007), *Microfinance: An Emerging Investment Opportunity*. LAC data: IDB (2006).



Future Trend

Latin American Federation of Banking Associations and IDB Surveys

“Microfinance and SME lending is moving from being about specialized institutions toward being about specialized products that can be offered by many types of Financial Institutions”



What is the next banking product in LAC region ?



Source: *América Economía*, October 29th, 2007.



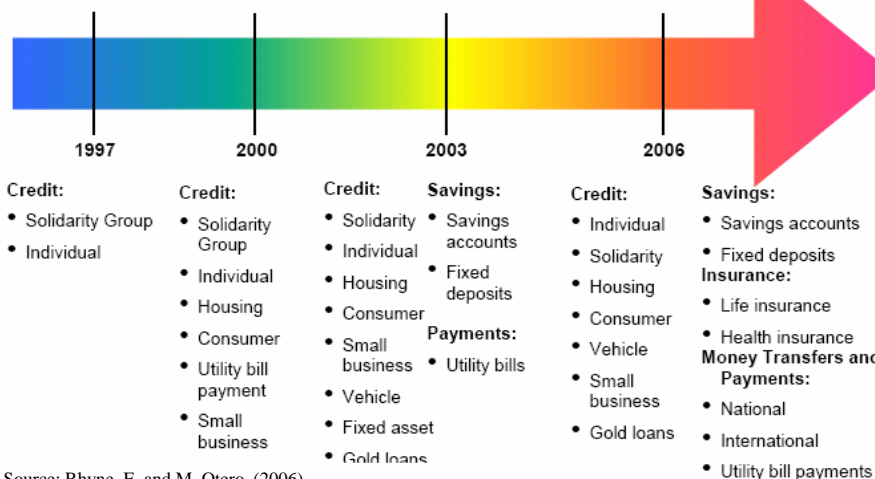
Positive Effects of Competition

- Lower interest rates and lower transaction costs
- Innovations
 - New products and services (“cross-selling”)
 - Use of technology and new delivery mechanisms
- Wider area coverage



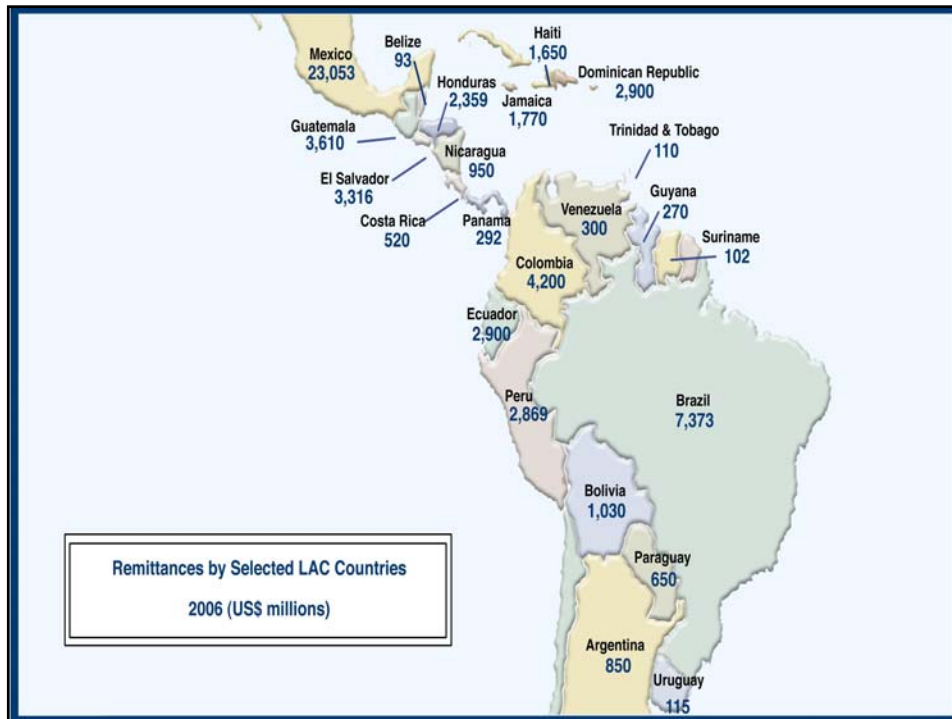
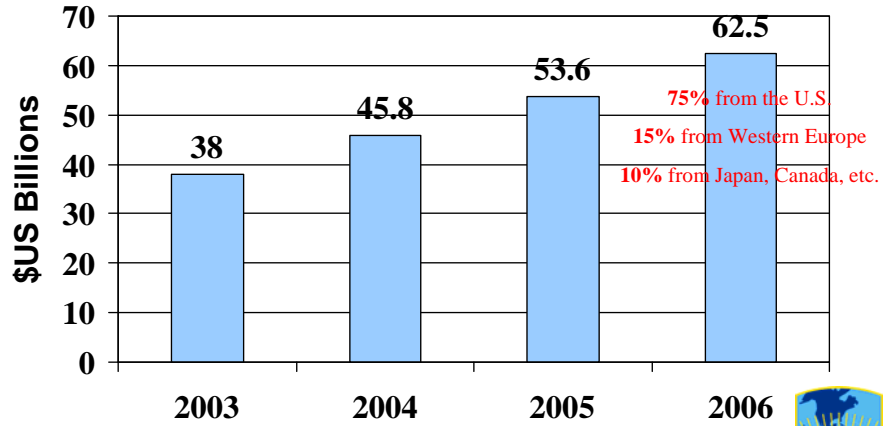
BancoSol: 2007 Winner of the Award for Excellence in Microfinance (Inter-American Forum on Microenterprise)

BancoSol (Bolivia): From Mono to Multi-product



Source: Rhyne, E. and M. Otero. (2006). *Microfinance through the Next Decade: Visioning the Who, What, Where, When and How.*

Remittances to LAC



Implications of remittances for microfinance institutions

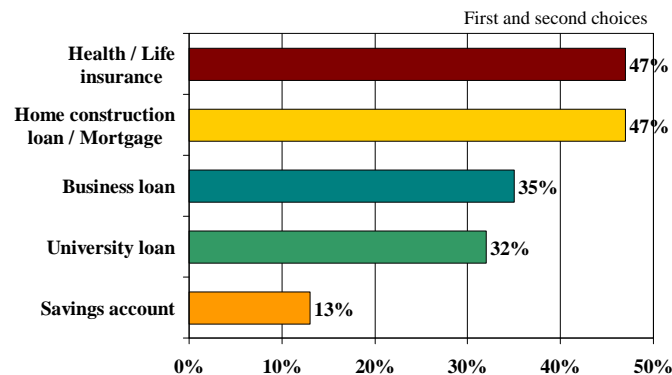
Major findings from MIF studies

- ✓ There is substantial evidence that the remittance process can help millions of Latin American and Caribbean families to have access to various and valuable financial services:
- ✓ Remittance receivers are (potential) clients of microfinance services as well.



Latin American Dream

In contrast to studies conducted in the early part of this decade, there is now a growing number of remittance senders that are considering investments in LAC.



Instruments offered by the Multilateral Investment Fund (MIF)

- Technical Assistance
 - Training and strengthening institutional capacity
- Loans, Lines of Credit, Credit enhancement, bonds, Subordinated loans
- Financial Infrastructure
 - Regulatory framework
 - Rating facilities
- Equity investments
 - Direct Investments in microfinance institutions, banks, insurance companies, leasing companies and mortgage companies
 - **Investment Funds**



Microfinance Investments funds

some examples of Innovation, partnership and sustainability

Solidus => Subordinated debt

<http://www.cyrano-management.com>

Locfund => Local currency lending

<http://www.locfund.com>

ELF => Emergency loans and crisis management

<http://www.emergencyliquidityfacility.com/>

Rating Fund => rating services

<http://www.ratingfund.org/>

Paralife => Microinsurance services

<http://www.paralife.com/>





The Multilateral Investment Fund
Promoting Inclusive Growth Through Private Sector Development

Thank you very much!

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