

Microfinance in the Arab World: Shaping the Industry's Future

First Annual Conference of SANABEL, Microfinance Network of Arab Countries

Microfinance in Latin America – Lessons for the Middle East?

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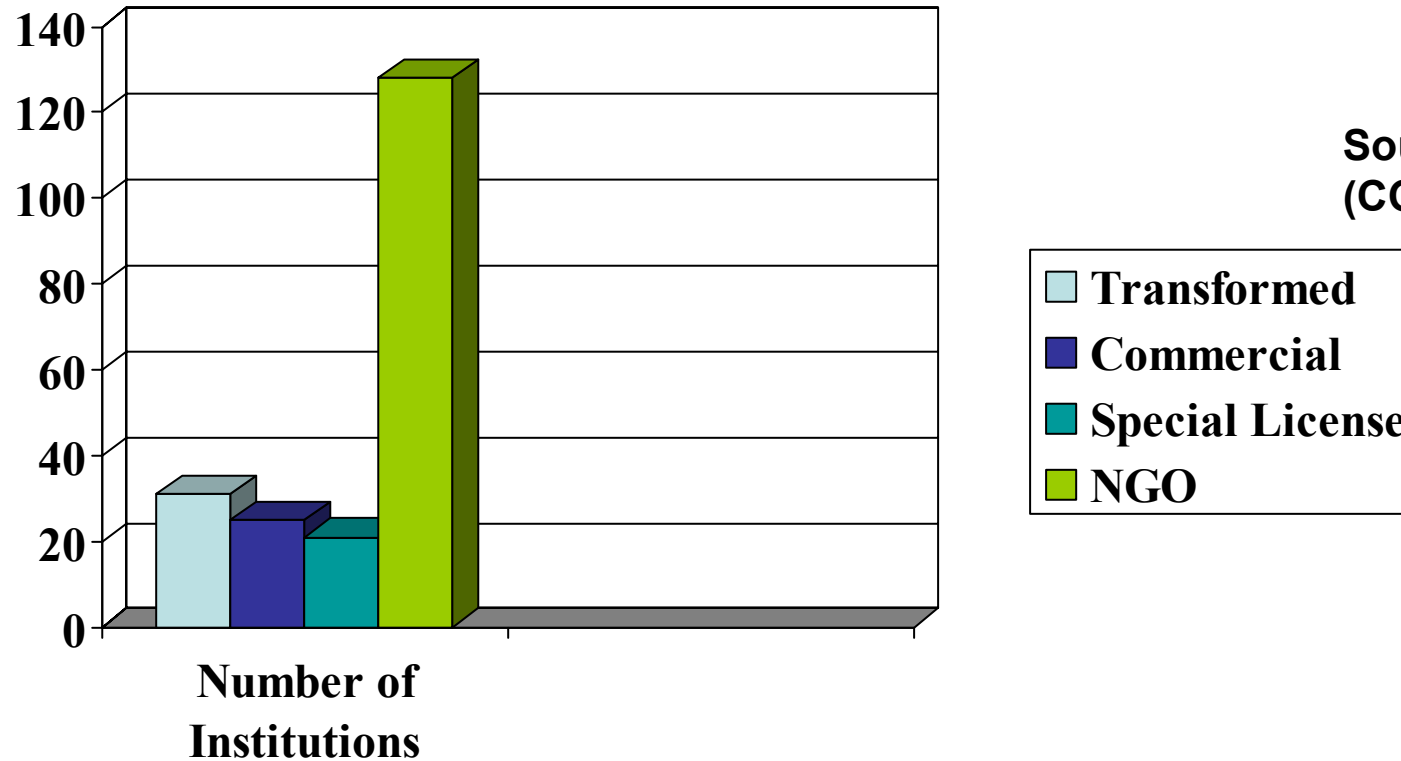
The Fourfold Path to Microfinance in Latin America



Four main types of providers of microfinance services:

- NGOs – the pioneers (Pro Mujer, Bolivia)
- Specially-licensed
 - Credit unions
 - Cajas Municipales (Peru)
- Transformed NGOs (BancoSol, Bolivia)
- Commercial institutions
 - Boutique banks (Banco Solidario, Ecuador)
 - Downscaling private banks (Credife/Banco de Pichincha, Ecuador)
 - Public banks (Banco do Nordeste, Brazil)

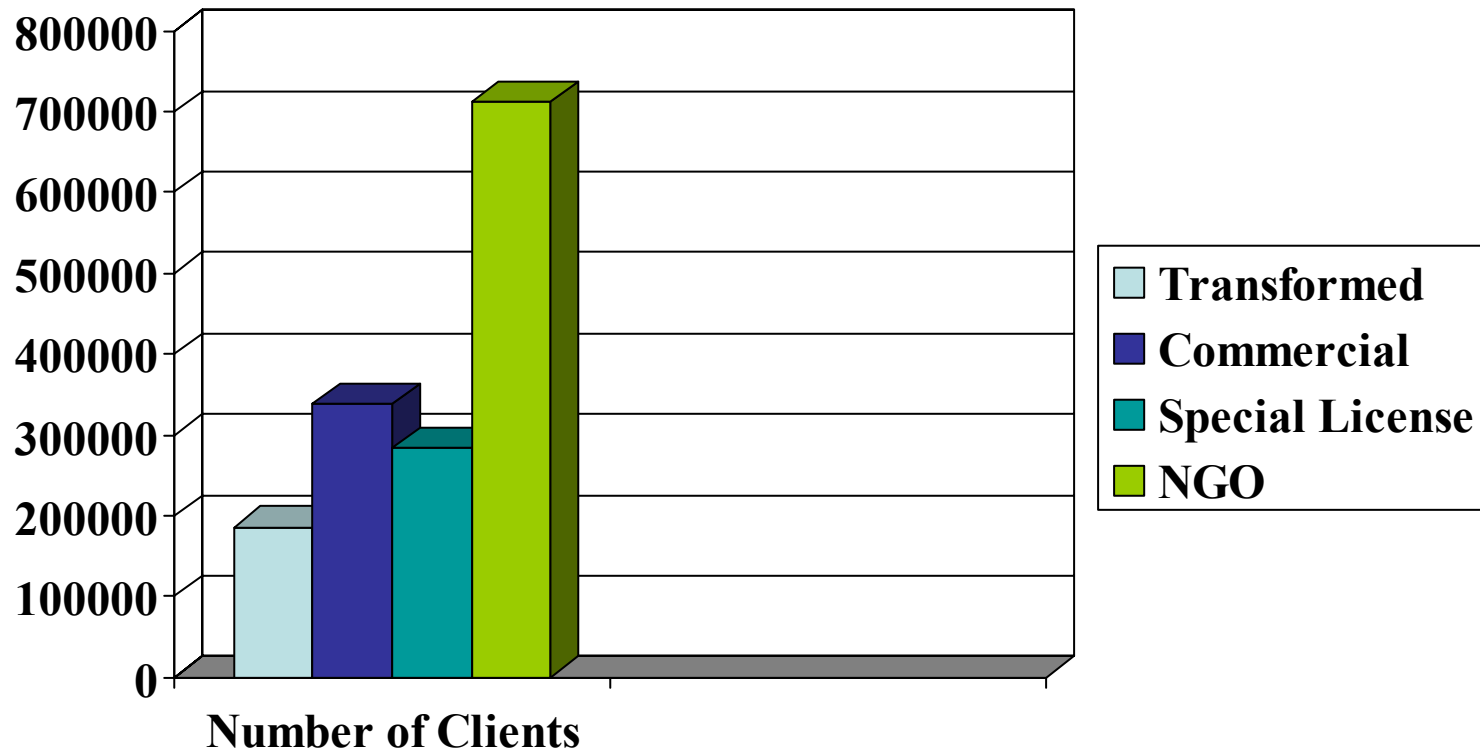
Institutional Composition of Microfinance in Latin America, 1999



Source: Christen,
(CGAP, 2000)

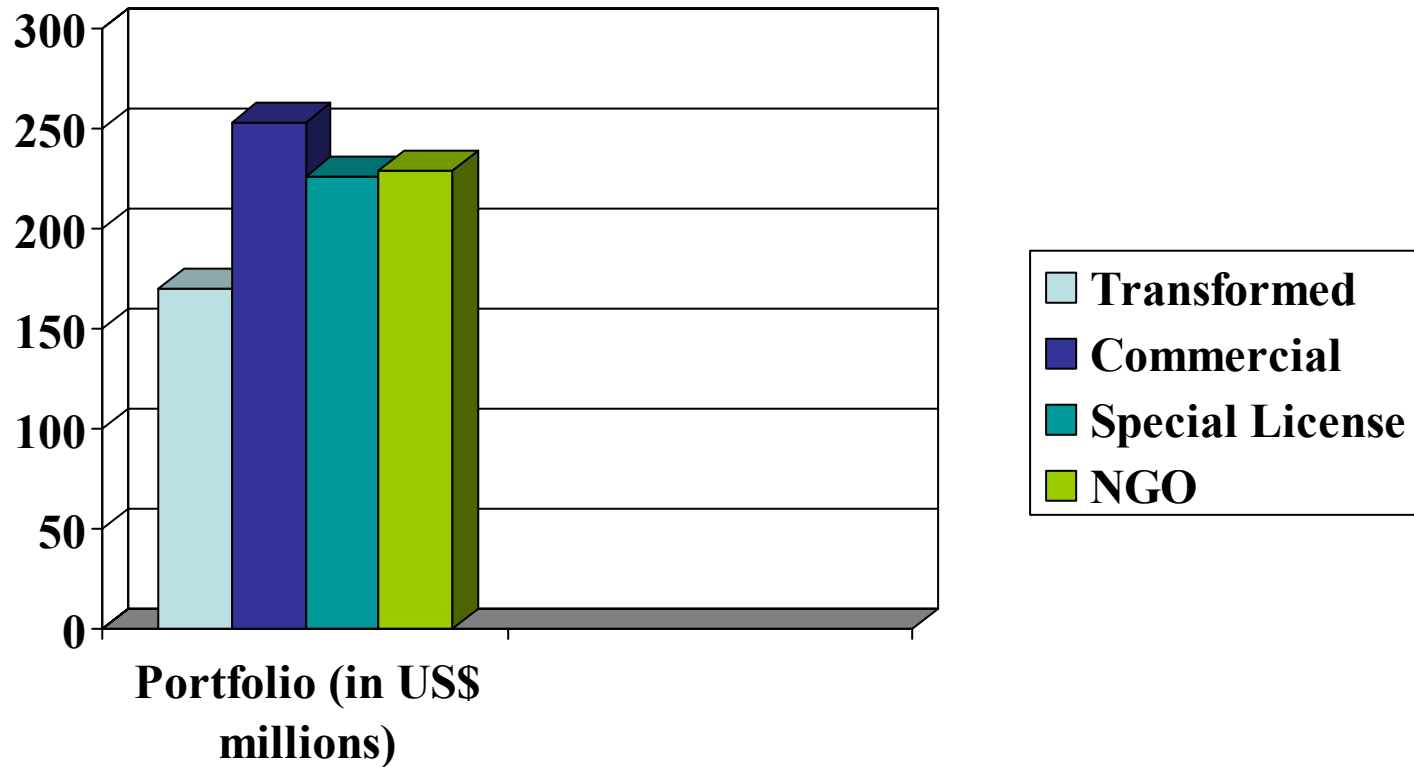
NGOs make up two thirds of the MFIs identified (excludes credit unions).

Institutional Composition of Microfinance in Latin America: Client Distribution



Regulated institutions serve 53 percent of the clients; NGOs 47 percent. Clients distributed across type.

Institutional Composition of Microfinance in Latin America: Portfolio Distribution



Regulated institutions hold $\frac{3}{4}$ of the total loan portfolio.

Transformed MFIs (mid-2003)

Name/Country	Borrowers (thousands)	Portfolio (\$ millions)	Return on Assets	Average Loan Size
BancoSol, Bolivia	41	83	1.4	2,011
Los Andes, Bolivia	53	70	3.0	1,451
FIE, Boliva	29	36	2.1	1,318
Compartamos, Mexico	167	50	20.3	299
Finamerica, Colombia	18	15	-1.8	831
Mibanco, Peru	111	107	6.8	966
Calpia, El Salvador	47	53	2.8	1,122
Confia, Nicaragua	24	19	5.9	890

In 2003, these 8 institutions serve nearly 3 times as many clients as the 31 transformed institutions in the 1999 study.

Special Institutions: Credit Unions and Cajas



▶ Cajas Municipales, Peru

7 CMACs serve 338,000 clients; while 21 served 224,000 in 1999

▶ Credit Unions

Dominican Republic, Guatemala, Ecuador, Bolivia have all undergone major credit union revivals. Millions of members in the region

Downscaling Banks



- ▶ **Banco do Nordeste, Brazil (123,000)**
- ▶ **Banco de Pichincha, Ecuador (18,000)**
- ▶ **Sogebank, Haiti (7,000)**
- ▶ **Banco de Desarrollo, Chile**
- ▶ **Banco de Estado, Chile**
- ▶ **Solution, Peru**
- ▶ **Banco Caja Social, Colombia**
- ▶ **Banco de Credito, Colombia**

Challenge is finding a model that provides for the bank's long term institutional commitment.

Non-Governmental Organizations



- ▶ Some institutions choose to remain NGOs – even though many have high scale and sustainability
 - ▼ FAMA, Nicaragua – public sector funding plentiful
 - ▼ Pro Mujer and other village banking NGOs choose to remain because poverty mission is paramount
- ▶ Continuing outreach to less easily served clients – free to experiment and take risks
- ▶ NGO markets somewhat protected from competition
- ▶ High level of performance influenced by transformed institutions

Competition Brings Interest Rates Down

Monthly Interest Rates on Microfinance Loans

	93	94	95	96	99	00	01
Bolivia	6.5		6.5	6.5	2.7	2.3	2.1
Guatemala	2.1		2.5		3.0	2.4	2.3
Mexico					8.4	8.4	5.1
Nicaragua		7.0	6.0	7.0	3.5	3.9	3.1
Peru		10.0		7.4			4.1

Significant efficiency gains: BancoSol 12.6%; FIE 11.4%; CLA 3.7%

How Regulation Has Helped

- ▶ **Strong microfinance countries:** responsive to evolution of market (Bolivia, Peru); regulators developed expertise in microfinance; allowed both cooperative and shareholder-owned institutions; free interest rates
- ▶ **Slow microfinance countries:** inappropriate or stifling regulatory categories (Brazil, Mexico); interest rate restrictions (e.g. new Brazilian policy)



Uses of Public Subsidies



- **Transformed MFIs:** No longer use grants or concessional funds. Source funds commercially – deposits, bond issues, interbank market. Equity from socially responsible investors.
- **Cajas and Credit Unions:** financed by savings; some grants for technical upgrading
- **Downscaling Banks:** self-financed; subsidies for TA – far smaller than for institutional start-up
- **NGOs:** many at operational sustainability, but still used grants and public loans; some commercial funding
- **Main Grants:** innovation and penetration of new (poorer or more remote) markets