



Microfinance in Latin America and the Caribbean -2008 Data Update-

April 5, 2008

This note summarizes the results of a recently completed IDB survey of microfinance in the region. The survey includes information on microfinance activities in 25 countries¹ as well as an initial review of effective interest rates charged to microfinance clients:

- Estimates for 2007 indicate that over 600 institutions are serving over 8 million clients and providing more than US\$8.6 billion in credit. This is an impressive accomplishment, considering that in 2001, the estimated number of microfinance borrowers was less than two million clients and total portfolio barely surpassed US\$1 billion (Graph 1). However, the potential demand is immense and still largely unsatisfied.

- Regulated financial institutions continue to have the lion's share of the sector. Almost 70 percent of total volume and more than half of borrowers are served by these institutions (Table 1). Nonetheless, nonregulated institutions, lend an average of US\$748, about half the average loan provided by regulated institutions (US\$1,337).

- The business environment for microfinance presents considerable disparity. According to *The Microscope*, a tool developed by the *Economist Intelligence Unit (EIU)*, small countries such as Bolivia, Peru, Ecuador and El Salvador present a relatively favorable environment for microfinance. Larger countries (Argentina, Brazil or Mexico) lag behind in this category (Graph 2).

- An analysis of financial revenues as a percentage of average gross loan portfolio (a proxy for effective interest rates), shows a regional average close to 30 percent, with important disparities. A few countries have rates of less than 25 percent (Bolivia and El Salvador) while only two countries have rates of over 40 percent (Mexico and Paraguay). Interest rates are heavily influenced by several factors, including country-specific economic characteristics, competitive environment, regulatory environment, and institutional efficiency. It is interesting to note that, on average, microfinance interest rates charge a premium of about six percentage points over commercial bank rates (Table 2).

Looking forward

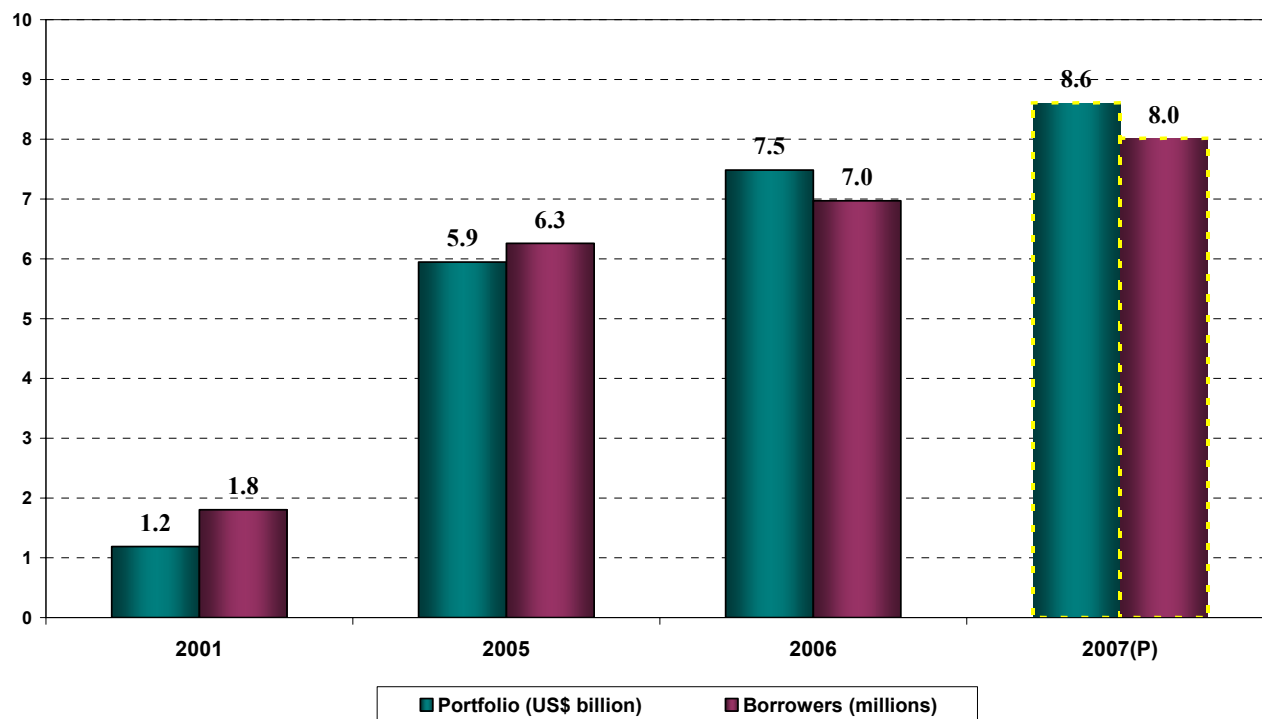
These initial findings show that there is substantial and rapid growth in the sector but with enormous variation among countries. This initial data collection effort will be continuously refined and updated to provide a useful instrument for policymakers, practitioners and others.

¹ Argentina, Barbados, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Paraguay, Panama, Peru, Saint Lucia, Suriname, Trinidad and Tobago, Uruguay, and Venezuela.



Microfinance in Latin America and the Caribbean -Size-

Graph 1
Microfinance Portfolio and Borrowers, 2001-2007



Notes: -The IDB/MIF survey includes data from national and international microfinance networks and associations, The Mix Market (www.themixmarket.org), IDB project information as well as primary data collection.
-It is estimated that there is close to 70 million microenterprises in the region (Navajas and Tejerina (IDB), 2006. *Microfinance in Latin America and the Caribbean (LAC): How Large is the Market?*).

Sources: 2001- Survey by Glen Westley (IDB) and Bob Christen (then of CGAP)-17 countries;
2005- Navajas and Tejerina (IDB), 2006. *Microfinance in LAC: How Large is the Market?*-23 countries
2006 and 2007 – Ongoing IDB/MIF survey in 25 countries. Preliminary results for 2007.



Microfinance in Latin America and the Caribbean -Structure-

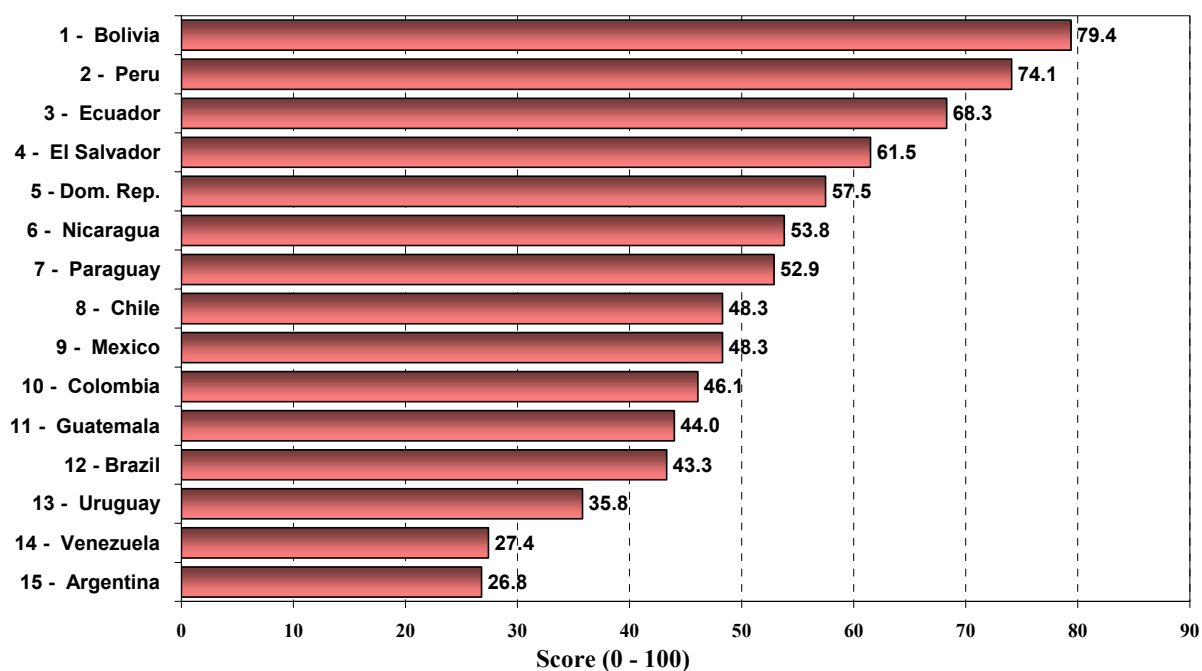
Table 1
Microfinance Portfolio and Borrowers – by Type of Institution, 2001-2007

Type of Institution	Number of Institutions	Outstanding Portfolio (US\$ Millions)	Borrowers	Average Outstanding Loan (US\$)
Estimated for 2007		8,607	8,016,230	
Data from 2006 (25 countries)				
Regulated⁽¹⁾	217	5,152 (69% of total portfolio)	3,854,704 (55% of all borrowers)	1,337
<i>Downscales⁽²⁾</i>	58	1,734	1,225,711	1,415
<i>Greenfield⁽³⁾</i>	57	1,018	644,030	1,580
<i>Upgrades⁽⁴⁾</i>	33	1,795	1,710,545	1,050
<i>Credit Unions⁽⁵⁾</i>	69	605	274,418	2,204
Nonregulated	449	2,332 (31% of total portfolio)	3,115,931 (45% of all borrowers)	748
<i>NGOs</i>	391	1,457	2,627,484	554
<i>Credit Unions⁽⁵⁾</i>	58	875	488,447	1,792
All Institutions–2006	666	7,484	6,970,635	1,074
All Institutions 2005 (23 countries)	393	5,945	6,261,231	949
All Institutions 2001 (17 countries)	178	1,189	1,806,445	659
Notes: ⁽¹⁾ Regulated institutions are those regulated and supervised by a superintendency or equivalent financial authority. ⁽²⁾ <i>Downscales</i> : regulated financial institutions that added microcredit as new line of business. ⁽³⁾ <i>Greenfields</i> : regulated financial institutions that started with microcredit as main line of business from their inception. ⁽⁴⁾ <i>Upgrades</i> : NGOs that have transformed themselves into regulated financial institutions. ⁽⁵⁾ Only credit unions with reported a microcredit portfolio and clients were included. Sources: Ibid., Graph 1.				



Microfinance in Latin America and the Caribbean -Business Environment –

Graph 2
Microscope on the Microfinance Business Environment -
2007 Country Ranking



Notes: The “Microscope” scores thirteen variables groups in three major categories: regulatory framework (40%), institutional development (40%) and investment climate (20%). The tool was developed by the Economist Intelligence Unit (EIU) with support from IDB/MIF and the *Corporación Andina de Fomento* (CAF). See <http://www.iadb.org/mif/microscope> for complete report, including the model and detailed country-by-county data.



Microfinance in Latin America and the Caribbean -Interest Rates -

Table 2
Annual Interest Rates (%)
in Selected Countries – 2006

Country	Microfinance		Banks		Microfinance Premium (a)-(b)
	Number of Institutions	Interest Rates (a)	Number of Banks	Interest Rates (b)	
Ecuador	58	15.5	24	26.5	-11.0
Bolivia	17	21.0	12	11.5	9.5
El Salvador	11	22.7	13	14.9	7.8
Guatemala	27	23.4	23	17.8	5.6
Panama	3	25.4	41	10.3	15.1
Colombia	14	27.9	17	17.7	10.2
Argentina	5	28.0	71	22.0	6.0
Nicaragua	20	31.8	7	23.5	8.3
Peru	38	32.2	12	16.2	16.0
Dominican Republic	3	34.7	12	21.3	13.4
Honduras	11	36.6	16	15.9	20.7
Paraguay	7	40.5	12	80.4	-39.9
Mexico	44	64.9	16	31.0	33.9
– Selected Countries ⁽¹⁾	258	30.0	276	24.00	6.00
– All Countries ⁽²⁾	303	30.4			

Notes: Interest rates are computed as Financial Revenues from Loan Portfolio/ Average Gross Loan Portfolio. For microfinance, country averages are weighted by microcredit loan portfolio. For banks, country averages are weighted by total loan portfolio.

⁽¹⁾ Only institutions with available information from the 13 selected countries were included in this calculation (258 out of 666).

⁽²⁾ All institutions with available information were included in this calculation (303 out of 666).

Sources: For microfinance data, ongoing IDB/MIF survey.

For banks data, Federación Latinoamericana de Bancos (FELABAN) *Boletín Financiero Mensual* December 2005 and December 2006).



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