

FEATURE ARTICLES

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The term “microcredit” is often associated with small working capital loans for microentrepreneurs. However, the reality of Latin American microcredit is far more diverse than meets the eye. Some microfinance institutions (MFIs) that traditionally provided loans to microentrepreneurs are now moving into the consumer, mortgage and low-end commercial loan segments. Meanwhile, some larger, consumer focused lenders are competing for microenterprise business. This article presents a first look at the Latin American microfinance market by four distinct types of credit: microenterprise, consumer, mortgage and commercial. It begins with a market overview analyzing the distribution of credit types regionally, by country and by institution scale and type. The article concludes with an in depth look at some of the trends and motivations behind product diversification in the microfinance industry.

Latin American Market Overview

At the end of 2006, the 231 Latin American MFIs reporting to MIX managed over US\$ 11.1 billion in over 11 million outstanding loans. Microenterprise and consumer credit played the most significant roles

in the composition of the regional portfolio. In fact, the relatively large number of active consumer loans compared to the regional consumer credit portfolio meant that consumer loans were actually smaller on average than microenterprise loans (US\$ 751 vs. US\$ 898). Mortgage and commercial credits were considerably larger (9 and 12 times the consumer average, respectively).

Yet, Figure 1 shows that the vast majority of Latin American MFIs specialized in microenterprise credit (making up 50% or more of loan portfolios), while only 128 offered consumer products. Of the MFIs that made consumer loans, consumer credit composed more than half of loan portfolios in relatively few. This lopsided distribution and the large consumer credit component in the region as a whole attest to the large size of some consumer credit focused institutions.

By Country

Mexico is home to some of the largest MFIs in the region, including giants like Caja Popular Mexicana, Caja Libertad and Financiera Independencia that offer mainly consumer credit. As a result, the Mexican market showed a high concentration of consumer credit in loans (55.8%) and portfolio (71.7%). However,

Figure 1: Types of Credit: Latin America Loan and Portfolio Composition 2006

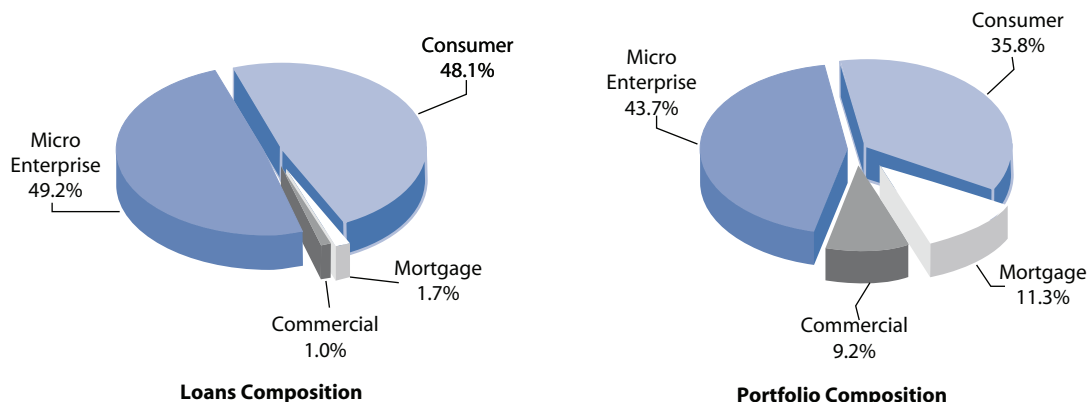


Figure 2: Percentage of Microenterprise Credit

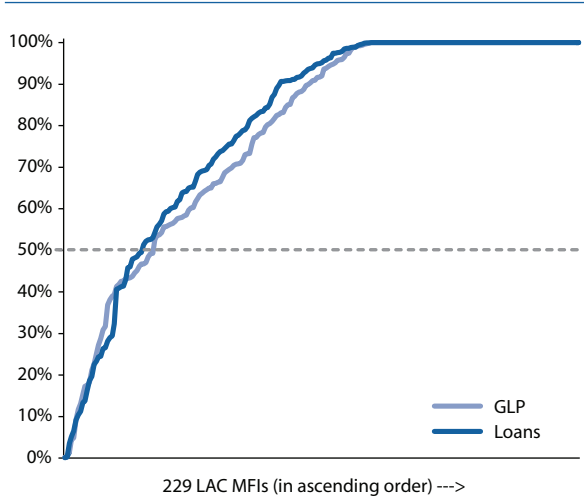
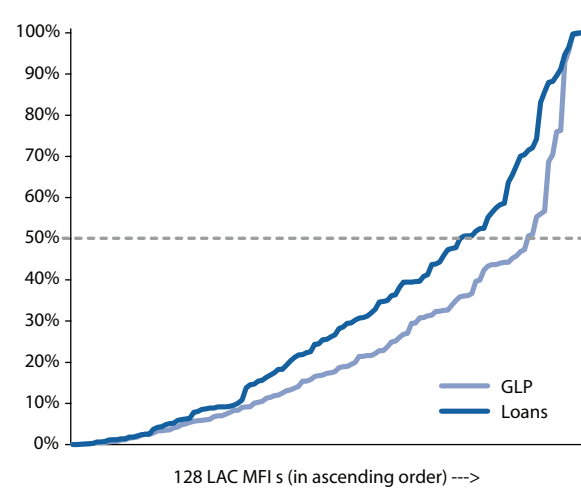


Figure 3: Percentage of Consumer Credit



Compartamos stood out as the largest MFI in Latin America that specializes almost exclusively in microenterprise products.

The Peruvian and Colombian markets displayed similar structures to the region as a whole: While MFIs in both countries disbursed slightly more microenterprise than consumer loans, microenterprise products composed an even larger proportion of their aggregate loan portfolios. However, Banco Caja Social, one of the three largest MFIs in Latin America, had a strong influence on the totals in the Colombian market due to its diverse portfolio in all four types of credit. The majority of the other Colombian microfinance institutions are specialized in microenterprise credit.

In other parts of the region, MFIs in Brazil and Chile showed a greater concentration in consumer loans, influenced in the former by the large outreach of institutions like Banco Popular do Brasil and in the later by BanEfe's large consumer credit portfolio. In smaller countries like Nicaragua and especially Bolivia, microenterprise credit was dominant in both loans and overall portfolio. Even though the sample in both cases was heavily populated with microenterprise focused institutions, they each were home to MFIs with significant portions of their loan portfolios dedicated to other credit types.

The lowest average outstanding balance consumer loans were found in Brazil (US\$ 60) and Nicaragua (US\$ 411), whereas the smallest microenterprise credits were in Mexico (US\$ 483) and Brazil (US\$ 609).

Figure 4: Types of Credit: Distribution by Country 2006

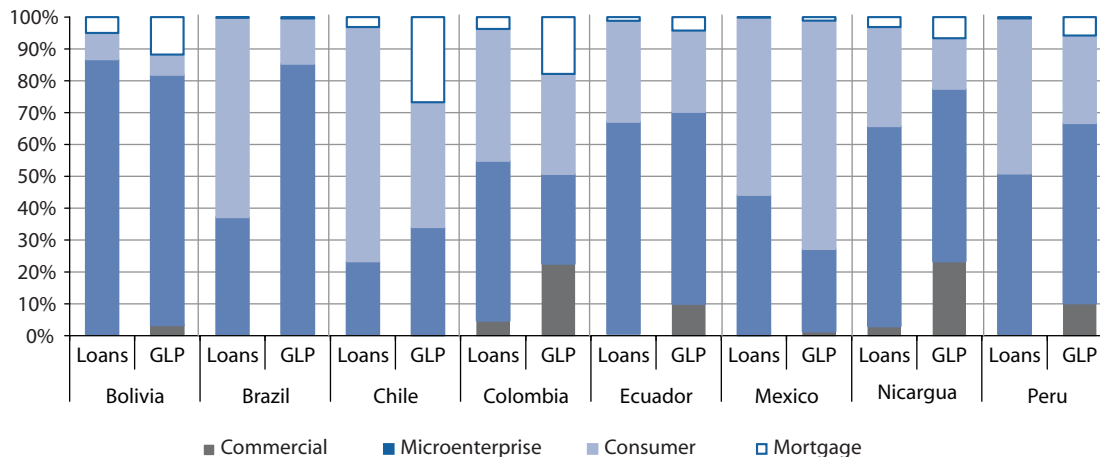


Figure 5: Average Outstanding Balance by Type of Credit and Countries 2006 (US\$)

	Bolivia	Brazil	Chile	Colombia	Ecuador	Mexico	Nicaragua	Peru	LAC
Number of MFIs	18	7	5	14	33	30	20	38	231
Commercial	13,419	17,521	123,682	6,788	25,986	15,710	6,455	20,169	9,062
Microenterprise	1,160	609	2,328	798	1,344	483	691	1,036	898
Consumer	986	60	853	1,075	1,200	1,059	411	521	751
Mortgage	3,035	639	13,615	6,913	5,359	17,229	1,731	13,976	6,658
Total	1,277	267	1,600	1,419	1,486	824	804	924	1,010

By Scale

An examination of MFIs by size in Latin America finds that large MFIs tended to focus less on microenterprise credits and held more diverse loan portfolios. Small MFIs held the greatest proportion of microenterprise loans, composing more than 90% of loans and portfolio. The composition diminishes in medium size MFIs which held 85.7% in microenterprise loans and 77.1% in portfolio. Large MFI were more balanced with a greater percentage of active consumer loans (53.5%) but more portfolio allocated to microenterprise clients (41.5%).

Looking at average outstanding loan balances, while the size of microenterprise credits increased with the size of the MFI, consumer loans tended to be smallest with medium-sized MFIs. Average mortgage balances also kept a positive correspondence with the MFI's size, while in commercial credit there was no direct relation.

By Institution Type

Banks in Latin America held the most diverse portfolios, with a greater concentration in consumer

loans (55.6%) but more of their loan portfolios allocated to microenterprise clients (38.2%). Non-bank Financial Institutions (NBFIs) and Non-Government Organizations (NGOs) focused heavily on microenterprise products, which composed more than 90% of loans and 80% of portfolio for the later. Not surprisingly, cooperatives tended to concentrate on consumer credit.

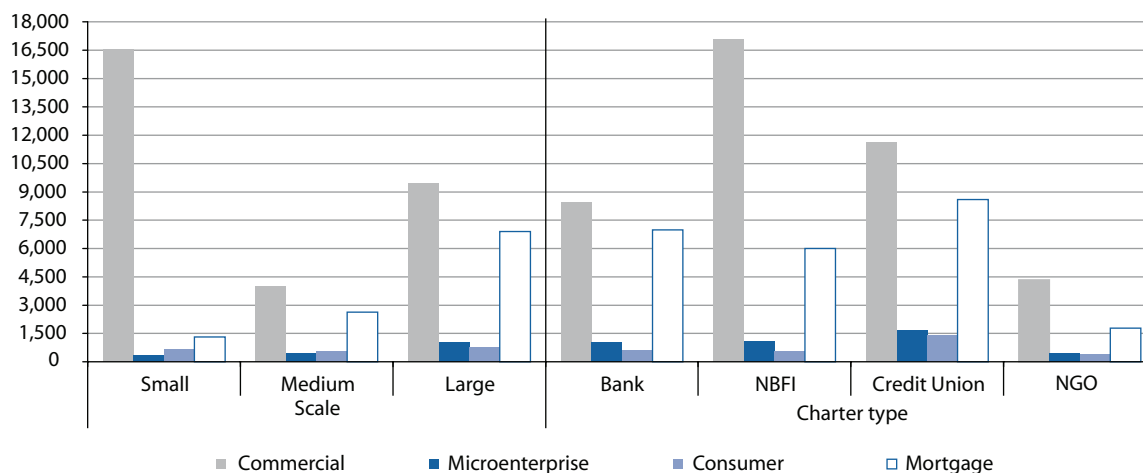
In regard to average loan balance, cooperatives disbursed the largest consumer and microenterprise loans. NBFIs presented greater average outstanding balances in commercial credit, while NGOs showed lower average outstanding balances in all types of credit.

Some Initial Conclusions

As Latin American microfinance continues to grow and diversify, several conclusions can be drawn concerning the shape of this rapidly evolving market:

- In 2006, Latin American MFIs offered a balanced supply of microenterprise and

Figure 6: Average Outstanding Balance by Scale and Charter Type 2006 (US\$)





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consumer products. Interestingly, consumer loans were actually more “micro” than microenterprise loans.

- Individual countries vary greatly with respect to the diversity of microfinance products available. The large, higher GNI per capita countries in the region like Brazil and Mexico all housed larger MFIs focusing on consumer credit. MFIs in many of the region’s smaller countries such as Bolivia, Ecuador and Nicaragua focused on microenterprise credit, though these countries also had MFIs with significant portions of loan portfolios dedicated to other credit types.
- Larger MFIs offered a wider array of financial services than more focused smaller institutions. Consumer lenders tended to be significantly larger than microenterprise focused MFIs, with some notable exceptions.
- Banks held the most diverse loan portfolios, with a bias towards consumer credit. NBFIs and especially NGOs focused on the

microenterprise markets. Cooperatives offered larger, consumer loans.

Towards a More Diverse Microfinance Market

To better grasp current trends towards product diversification in Latin America’s microfinance markets, it is important to explore some of the motivations and market forces pushing microfinance institutions to make these changes. For many institutions, diversification depends on their characteristics and the market environment in which they operate. In some of the smaller yet highly penetrated microfinance markets like Bolivia and Nicaragua some microfinance institutions are diversifying their offerings to reduce risk, capture market share and build monogamous lending relationships with their clients. In larger, more geographically segmented markets like Peru, some banks are diversifying their portfolios with innovative consumer products and microenterprise loans. Developing microfinance markets such as Mexico, demonstrate the potential for microenterprise products, even for traditionally consumer focused institutions.

The Path to Credit Type Data

To uncover what types of credit are being offered in the Latin American microfinance market first we had to determine how to define each type of credit. To do so we surveyed the credit type definitions already set by banking authorities in many Latin American countries. It should be noted that many countries have different definitions of what constitutes each type of credit, and how each puts limits on the size of loans considered “micro”. Since all data was self-reported, these differences may have influenced some of the data, such as fluctuations in the average loans balances shown in each country. The following are our “Credit Type” definitions:

- Commercial: Given to persons or enterprises to finance the production or trade of goods and services in their different stages. Usually directly to corporations, large and medium enterprises.
- Microenterprise: Similar to the previous definition except that activities are on the small or micro scale and often use group lending methodologies.
- Consumer: Given to persons to finance the purchase of consumer goods and services that have no commercial or enterprise purposes.
- Mortgage: Given to persons for the purchase, construction, and/or improvement of their dwelling with the condition that the loans are supported by mortgage guaranties recorded in the public registry.

Next, we asked all MFIs reporting to MIX’s Latin American and Caribbean benchmarking efforts and the annual “Championship League” ranking to provide us with a breakout of their loan portfolio as of December 31st, 2006 by credit type. Overall the response was tremendous, with 228 MFIs reporting from the MIX benchmarks and an additional 3 MFIs from the ranking. Finally, to formulate the numbers presented in this article, we aggregated the unadjusted data based on the number of MFIs offering different types of credit: 229 Microenterprise, 128 Consumer, and 62 Commercial and Mortgage.

Figure 7: Top 10 Latin American MFIs by Microenterprise Credit 2006

n°	MFI Name	Country	Number of Loans Outstanding	Gross Loan Portfolio (US\$)
1	Compartamos	Mexico	651,826	268,817,204
2	CrediAmigo	Brasil	235,740	88,712,808
3	MiBanco	Peru	184,305	223,587,116
4	WWB Cali	Colombia	174,000	147,072,197
5	FMM Popayán	Colombia	140,819	69,197,305
6	BancoEstado	Chile	130,953	389,649,867
7	Banco Caja Social	Colombia	111,568	152,581,352
8	FMM Bucaramanga	Colombia	104,010	71,007,633
9	CMAC Arequipa	Peru	99,434	105,181,068
10	EDPYME Edyficar	Peru	96,241	74,191,571
Other 219 MFIs			3,479,504	3,265,994,882
Total 229 MFIs			5,408,400	4,855,993,002

Product diversification in small, competitive markets

Microfinance institutions in several of Latin America's small yet penetrated markets have looked to product diversification to further their position in highly competitive national and local markets. This practice allows MFIs to retain clients by cross-selling other loan products; to continue expanding in competitive markets by cross-selling to existing clients and attracting new ones; and to reduce risk and increase operating efficiency by establishing monogamous lending relationships with their clients. Nicaragua's FINDESA now offers a variety of financial services to its clients including its core microenterprise products and newer consumer products. FINDESA recently announced the introduction of its first mortgage product: local

currency home loans starting at US\$ 2,000 with a 15-year term. Another Nicaraguan institution, PRODESA, offers consumer and home improvement loan products to low-income clients in addition to its microenterprise loans in the rural southwestern part of the country. In Bolivia, a microfinance market with characteristics similar to Nicaragua, BancoSol offers SolVivienda, a market-leading home improvement product that now comprises 30% of its loan portfolio.

Peru's geographically segmented market and opportunities for downscaling banks

The microfinance market in Peru presents special challenges for players in the national market. Its

Figure 8: Top 10 Latin American MFIs by Consumer Credit 2006

n°	MFI Name	Country	Number of Loans Outstanding	Gross Loan Portfolio (US\$)
1	BanEfe	Chile	695,092	631,885,190
2	Caja Popular Mexicana	Mexico	609,495	867,604,141
3	Banco Caja Social	Colombia	603,530	663,179,676
4	Banco Popular	Brasil	552,860	31,905,943
5	Banco del Trabajo	Brasil	514,720	151,092,616
6	Financiera Independencia	Mexico	499,195	198,191,986
7	Caja Libertad	Mexico	241,233	369,710,993
8	BanRural	Guatemala	198,686	87,178,933
9	Financiera Familiar	Paraguay	111,455	23,372,940
10	Cooperativa Universitaria	Paraguay	105,038	80,243,704
Other 118 MFIs			1,158,749	867,942,581
Total 128 MFIs			5,290,053	3,972,308,702

traditionally geographically segmented competitive environment is currently being tested as large banks, EDPYMEs (the small business and microenterprise development agencies) and CMACs (rural savings and loan banks) spread their wings in search of growth opportunities both in the country's major metropolitan areas and smaller regional centers. One of Peru's largest microlenders, Banco del Trabajo, is attracting new customers and building relationships with current ones throughout the country with their wide variety of financial services such as savings, microinsurance, remittances, and credit cards. They are making strategic alliances with some of Peru's largest retailers, including construction supply companies, offering specialized credit products to finance the purchase of building materials for home and business use. Meanwhile, they are moving into the microenterprise market with small, working capital loans targeted specifically at female microentrepreneurs.

New products in Mexico's developing microfinance market

Mexico's developing microfinance market provides an important counterpoint. While consumer microcredit is widely available from giant cooperatives and non-bank financial institutions, demand remains strong for microenterprise credit as exhibited by microenterprise lender Compartamos' runaway success. In an environment with limited access to financial services, microfinance clients will sometimes take advantage of the fungible nature of money to use a loan product in ways not originally intended. In fact, Caja Libertad, a large cooperative focused on consumer lending, estimates that up to 25% of its consumer loans are used for productive purposes. In response, it is preparing to launch its first microenterprise targeted product.

Conclusion

The diversification of loan portfolios will continue to play an important role in the development of Latin America's MFIs into the future. For some institutions, offering new products and services can have several advantages, including the ability to cross-sell other financial products; new growth opportunities in competitive markets; and the reduction of risk by establishing monogamous lending relationships with clients. Several MFIs state that clients' use of credit for purchases other than the purpose of the loan is one of their biggest sources of default. Because money is ultimately fungible, greater product diversity can help ensure that credit will be used as intended. As Latin American markets grow increasingly competitive, microfinance institutions will continue to expand product offerings to capture market share and better serve their clients.

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