

The scenario of microfinance in Latin America against the international financial crisis

Protikladný pohled na mikrofinance v období mezinárodní finanční krize

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Abstract: Latin America has very good conditions for microfinance; the macroeconomic growth which Latin America had shown in the recent years created favourable conditions for the microfinance institutions' favorable conditions and its development. Profitability of the microfinance sector presents an attractive market for the financial institutions which already have a strong position in the market. The purpose of this work is to focus on the current situation and performance of the microfinance sector while identifying some of the reasons that affect the microfinance institutions in this region. The work also provides a view on the microfinance industry development to get a better description of the sector. The microfinance institutions are earning an undeniable importance in the process of the regional development and represent an important factor in the alleviation of poverty and insecurity for large segments of the population. The work is based on information from relevant sources that allow us to identify the current status of microfinance in Latin America, especially in these times when the crisis affects also the region's economic dynamism.

Key words: Latin America, Mexico, economic deceleration, recession, crisis, poverty, microfinance institutions

Abstrakt: Latinská Amerika má velmi vhodné podmínky pro mikrofinancování; makroekonomický růst, který Latinská Amerika vykazuje v posledních letech, vytváří pro mikrofinanční instituce vhodné prostředí pro jejich rozvoj. Ziskovost mikrofinančního sektoru vytváří atraktivní trh pro finanční instituce s již silnou pozicí na trhu. Účelem této práce je pohled na současnou situaci a úlohu mikrofinančního sektoru identifikováním aspektů, které ovlivňují mikrofinanční instituce v tomto regionu. Dále tato práce podává pohled na rozvoj mikrofinančního průmyslu, čímž poskytuje lepší popis tohoto sektoru. Mikrofinanční instituce nabývají nesmírného významu v procesu regionálního rozvoje a představují důležitý faktor v procesu odstraňování chudoby a nejistoty širokých částí populace. Celá práce je postavena na informacích z relevantních zdrojů, které nám umožňují nastínit současný stav mikrofinancování v Latinské Americe, zvláště pak v této době, kdy světová krize postihuje ekonomickou dynamiku i v tomto regionu.

Klíčová slova: Latinská Amerika, Mexiko, ekonomicke zpomalování, recese; krize; chudoba; mikrofinanční instituce

The microfinance institutions (MFIs) provisioned products and financial services to the segments of the population with low incomes in Latin America. The microfinance sector has a long history in the region and was basically born in the 1980s with the advent of social non-governmental organizations (NGOs) promoting the loans to poor microentrepreneurs. The growth of these early institutions was largely

funded by the donations and loans from donors and governments in the region (Ramírez 2004). In recent years, the microfinance has made a significant progress in its development and thus became a very important phenomenon to promote social development throughout the region. In Latin America, thanks to very good conditions for microfinance, the MFIs have successfully developed. In the region, there are

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some of the microfinance institutions with more experiences, diversity and development in the world (MIX 2003). The Latin American market is a perfect place for the growth of the MFIs, in part because the most of the active population in the region belongs to the microenterprise sector. The MFIs which operate in the region are created primarily by commercial banks, finance companies, foundations, cooperatives and NGOs (Rivera and Caro 2009).

The great demand of financial services made the MFIs to expand to the areas where the population has a lack of access to financial services, resources and services because they do not have the conditions required by the conventional banks. The microfinance sector in Latin America supports the dynamism of the economy in the region, represents an important factor for implementing a mitigation process for the insecurity situation in large sectors of the population, creates opportunities and satisfies the demand of the financial inclusion in the poorest sectors of the region. The purpose of this work is to focus on the current situation and performance of the microfinance sector, while identifying some of the reasons that affect the MFIs in the region. It also provides a view on the microfinance industry development to get a better description of the sector.

MICROFINANCE ENVIRONMENT OF LATIN AMERICA

The microfinance sector in Latin America is composed by the diversity of institutions that offer a wide range of resources which have been successfully developed in the market. In Latin America, the microfinance are more developed in the terms of coverage, sizes, products and offered services. The market has

commercial properties and excellent conditions for microfinance. The good performance of many MFIs is attractive to many national and international investors (Navajas et al. 2006). The microfinance is not longer outside the formal financial system in Latin America; it is a useful instrument for cooperation, improving the access to financial services of the low income population.

The MFIs play an important role in the economic development of the region where millions of Latin Americans seek to overcome the exclusion through small productive activities. The industry did not extend efficiently to the most vulnerable ones who have a limited access to the traditional banking sector. In recent years, there has been an increase in demand of microcredit programs by the customers. The credits that the Latin American microfinance sector provides are mainly of the commercial, consumer; microenterprise and mortgage type (see Figure 1 and 2). 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 to the low income inhabitants. The services and programs developed by the MFIs effectively reach the poorest social sectors of the region.

While in Asia and Africa the microfinance sector is directed primarily to rural areas, most microfinance institutions in Latin America are operating in urban areas. Worldwide the microfinance institutions in Latin America have more assets, lever up the capital and attract more business investment than institutions in other regions. The average gross portfolio is almost by 75% higher than the average of the microfinance institutions in Asia (Figure 3). However, none of these institutions in Latin America has reached the scale in terms of the number of customers of the leading institutions in Asia. The large portfolio of

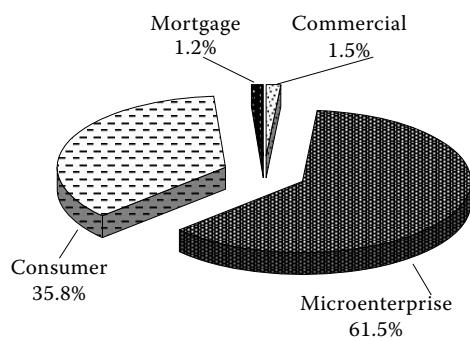


Figure 1. Credit types provided by the Latin American microfinance sector: Breakdown of loans (2008).

Source: MIX (2010)

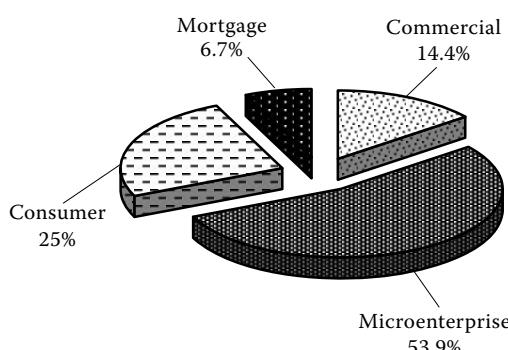


Figure 2. Credit types provided by the Latin American microfinance sector: Portfolio composition (2008)

Source: MIX (2010)

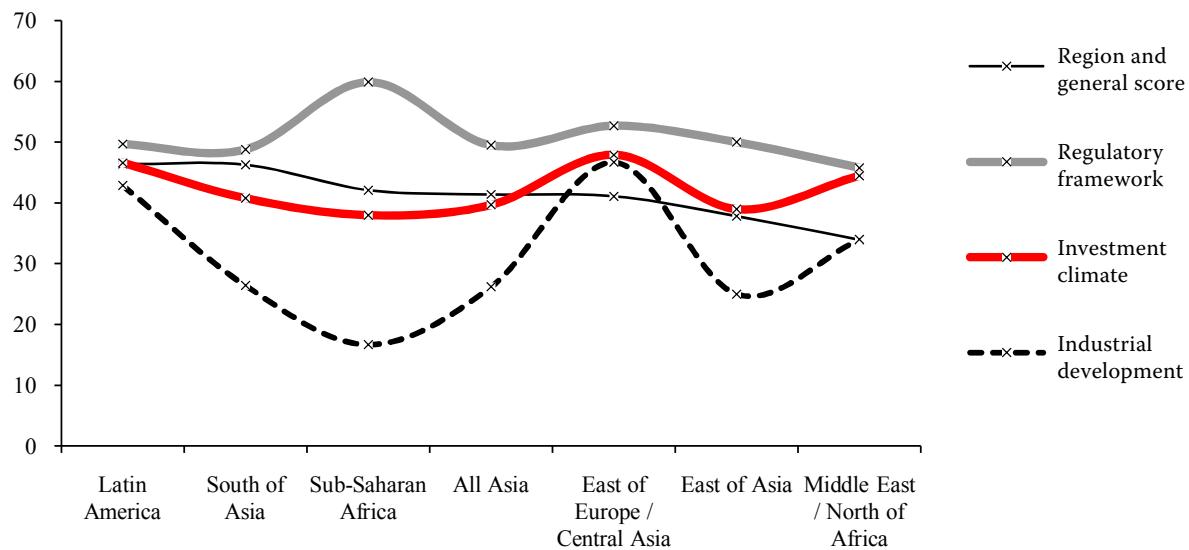


Figure 3. Ranking by region

Source: EIU (2009)

the Latin American MFIs reaches fewer customers because of the large average balance per one borrower that these institutions maintain in absolute terms (MIX 2003).

In Latin America, the leaders of microfinance are the small and medium sized countries from the Central American and Andean region (Ramirez 2004). Small countries in the region have a relatively favorable environment for the microfinance development in comparison with larger countries such as Argentina, Brazil and Mexico (Rivera and Caro 2009). Peru, Bolivia and Ecuador have more a favorable environment for the development of microfinance. The loan portfolios of the MFIs are financed increasingly by commercial sources and operational costs will decrease as many institutions become more efficient (MIX 2003). Within the structure of asset financing in Latin America, it were the public deposits who gathered a little more than one half of the financing, the growth of which slowed to 15.8%, while institutional deposits decreased their dynamics to 12.7% (MIX 2009).

In 2007, the microfinance institutions provided microcredits to more than 8 million of customers in the region with the total portfolio of USD 8.6 billion, which means a major breakthrough, considering that in 2001 the estimated number of microfinance customers did not reach 2 million and the total portfolio was just over USD 1 billion (Rivera and Caro 2009). In 2008, the microcredits were provided to 12.8 million active borrowers and counted to the total portfolio of USD 15.4 billion, which meant a major breakthrough in the microfinance sector. In 2009, even though the crisis also affected the microfinance

sector, the IMF showed a recovering aspect and it continues to achieve the development showed in the previous years. The influence of this effect was mainly known in its finance decline causing payment problems by the clients.

DEVELOPMENT OF MICROFINANCE IN FRONT OF THE CRISIS

Since late 2008, the financial crisis intensified in the major developed economies and spread to developing countries and economies in transition (UN 2009). The financial crisis inevitably affects and encourages the growth of poverty in Latin America (Table 1). This situation causes the micro-entrepreneurs need of the access to finance on appropriate terms. Despite the crisis, the MFIs continue to develop lending to small and micro enterprises, which in the times of crisis requires access to financing conditions appropriate to their circumstances and characteristics. The impact of the crisis is not homogeneous; although the microfinance institutions in Latin America are accustomed to living in a situation of survival, the economic crisis strongly affects the sector. The portfolio of credits let to micro-enterprises had an upward and homogeneous evolution throughout the region until 2008. The situation of insecurity makes the banks to take a more conservative position when granting a loan, but against economic uncertainty, the MFIs continue to maintain their level of service knowing that in the years to come the activity will have a lesser dynamic than that shown in the recent years. There is expected a slow and gradual recovery

Table 1. Poverty in Latin America (percentage of poor persons, by geographical area)

| REGION | 2004 | | 2005 | | 2006 | | 2007 | | 2008 | |
|---------------|------|------|------|------|------|------|------|------|------|------|
| | A | B | A | B | A | B | A | B | A | B |
| Latin America | 42.0 | 16.9 | 39.8 | 15.4 | 36.5 | 13.3 | 34.1 | 12.6 | 33.0 | 12.9 |
| Urban Area | 36.9 | 12.0 | 34.1 | 10.3 | 31.1 | 8.6 | 28.9 | 8.1 | 27.6 | 8.3 |
| Rural Area | 58.7 | 33.1 | 58.8 | 32.5 | 54.0 | 29.4 | 52.1 | 28.1 | 52.2 | 29.5 |

A = poverty (poor persons), B = extreme poverty (indigent persons)

Source: ECLAC (2009)

towards the pre-crisis growth levels by 2015 in some of the region's low income countries (UN 2009).

The microfinance acquired an undeniable importance in the development of Latin America. In the recent years, the region economies grew at a rate of 5% annually, but after this period of growth, the crisis and the recession hit the economy of the region hard. In 2008, the microfinance industry registered a slower growth rate. The cumulative lending portfolio was around USD 13 937 million, but despite that its growth slowed to 13.6%, after the season before the expansion it was 37.1%. The microfinance sector concentrates 12.8 million of active borrowers, which means a growth of 14.1%; but this increase was, however, lower than the 22% reported in the 2007. With regard to financing, the accumulated deposits were USD 9800 million, which were distributed throughout more than 13.4 million accounts.

The dynamic in the balance of deposits decreased to 15.8%, but the number of accounts increased by 34.5%. The dynamic of credit in the region fell by 5.5% regarding consumer credits, while the type of microcredits grew by around 22.5% in the number of loans and portfolio. The institutions focused on the micro-enterprise credits registered a further deterioration of the portfolio compared to the institutions with some diversification of loan products. The portfolio risk indicators showed significant increases in the region but their evolution has not been uniform and depended on the degree of product diversification from the credit institutions. The commercial credits gained a great importance in the portfolio of the microfinance institutions in Latin America, they showed an interesting dynamic, the largest credit average, what justifies the 15% share in the portfolio of the institutions. The MFIs which offer credits, besides the ones related to microenterprises, showed the deterioration in their portfolio at the risk levels higher than their peers who were focused only on microcredits (MIX 2009). The microfinance industry

is geared to a broad segment of the population, but not in a very important part of the financial system in the region. Microcredit itself is not enough to boost the economic development in the region but it would help to generate income segments of the population excluded from the labour market. The MFIs in Latin America diversify their portfolios in response to the market segments that are usually covered by the traditional banks. The MFIs which offer their diversified portfolio, commercial loans and mortgages, showed a higher stability than those institutions that offer only consumer credits.

The institutions focused only on the micro-enterprise credit show a further deterioration of the portfolio compared to the institutions with some diversification of loan products. The profitability and potential growth, which the microfinance sector has shown in recent years, becomes a very attractive market for many financial institutions, especially for the traditional banks which in the recent years increased their participation in the microfinance market. The region does not have a good regulatory framework and investment climate, but it has a good institutional development. The highest percentage of the total assets of the financial system in Latin America belongs to the banking companies and only a smaller percentage to the microfinance. Among the factors that have influenced the progress of the microfinance market in Latin America in recent years, we can include improvements in the regulatory framework, economic growth in some countries and the expansion of the concept of corporate responsibility (Rivera and Caro 2009).

ANALYSIS OF THE MICROFINANCE IN SOME COUNTRIES OF THE REGION

In the region, the Andean countries have a better and conducive environment for the microfinance development. At the regional level, Peru had located

in the first place in the category of institutional development; however, due to changes in the regulatory framework and investment climate, there is expected a slight decline. According to Mix (2010) in 2009, there were showed mixed results which influenced slowing down of the dynamics of the sector in Bolivia by 18% and in Peru by 25.3%, while Ecuador had a decrease of 7.8%. Also there was an increase in the number of active borrowers (14.5%), while in the deposits, there was an increase in the number of the depositors' assets (26.4%) and 30% in deposits. The growth of the total portfolio was by 20.1%, higher than the growth shown in 2008, which was 15.2%.

Between 2008 and 2009, the situation regarding the risk and profitability was more affected. Despite the efforts of the IMF to stop impairing their portfolio of risk, profitability was negative and the risk levels were increasing. The macroeconomic context of the region in 2009 showed signs of recovery in some of the economies, producing an increase in the microfinance activity, as in the advancement of loans and deposits. Currently, there are various situations underlining the need of a greater attention paid to the economic dynamism of the customers and the general economy, the prudence regarding the ability to repay them, the diversification of funding sources. The trading volume continued to progress but the growing level of the portfolio risk and lower margins and results show that the MFIs are still in a transition period. They must incorporate new elements of risk in time to renew their claims and to enter new markets not yet served.

Mexico

The Mexican banking system shows a high level of unbanking because it has very high shares of the population outside the formal banking circuit.

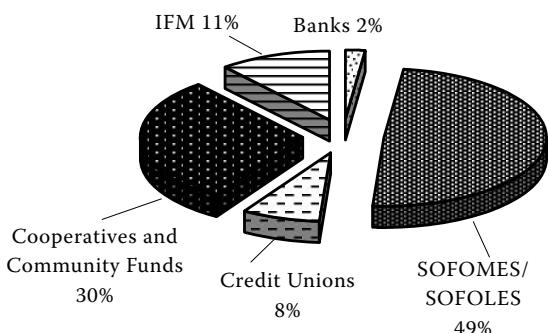


Figure 4. Principal financial institutions: Distribution by the institutions genre

Source: MIX (2009a)

According to the estimates, 74% of the population is unbanked. Among the causes of using restricted banking systems, there are high cost of the entry and stay, a too small banking network in relation to the territory size, low levels of income of the population and a high concentration of resources in a small number of banks (Figure 4), where the top 10 banks concentrate 99.6% of the accounts immediately available, 99.3% of the long-term deposits and 99.6% of credit cards (Cardero 2008).

Microfinance institutions in Mexico have shown a considerable growth in the recent years. There is a great variety of institutions serving different segments of the population with different services (Figure 5). This situation makes it difficult to have a clear map, especially in the case of microfinance.

The set of institutions that offer services to the population living in poverty are made up of cooperatives, private enterprises, civil society organizations with non-profit and community-based organizations (Figure 6). Microfinance institutions are aimed at people with an independent productive activity or owning a small business. A considerable part of the financial services offered to the poor people are consumer loans.

According to MIX (2009a), in Mexico, there are 49 institutions, which serve 1 780 157 customers through 422 branches. It should be stressed that 80% of the clients are women. In 2008, significant changes were reached in the trends of Mexican MFIs, because of the increased expenses related to the rapid increase in the NPLs. Despite the low returns, after the stagnation, the Mexican microfinance sector showed a growth recovery reaching 28.8%, but the growing in borrowing slowed down to 21.4%. Savings rates were the lowest in the region. The profits helped to finance the expansion of services, reducing the reliance on external funding sources. The effects of the crisis were shown in the paying ability of customers.

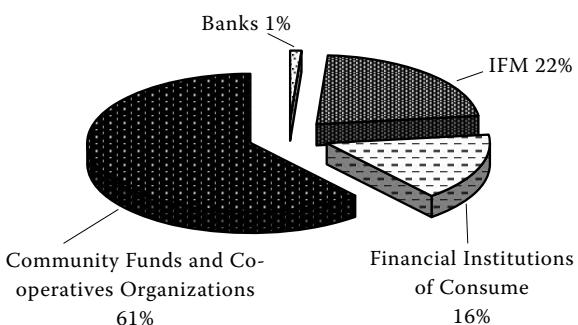


Figure 5. Distribution of the popular financial sector

Source: MIX (2009a)

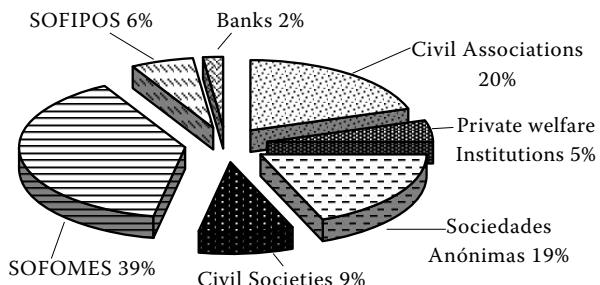


Figure 6. Diversity of organizations

Source: MIX (2009a)

Consumer products and microenterprises continued to justify the increased participation in the market representing 98% of the total loans and 94.9% of the total gross loan portfolio, which amounted to USD 2.126 million distributed in 4 097.951 credits. The Mexican microfinance market showed high growth rates in the number of borrowers. According to the MIX (2009a), at the end of 2008, 25% of the population of Mexico used microfinance services. The portfolio at risk ratio grew gradually. The economic slowdown, job losses and lower earnings from remittances influenced the significant increase in the portfolio risk.

Situation in South America

In South America, the pace of growth in remained total loans (25.7%) and deposits (30.4%) remained, while borrowing (14.4%) registered a slight increase compared with 2008, which was 13.9%. In remained microfinance markets of Bolivia, Ecuador and Peru, the credit to microenterprises has remained the main form provided by the IMFs. However, the proportion decreased to some extent due to the rise of consumer credits, particularly in Ecuador, it being the only mode which advanced by 31.3%. At the level of credits, Peru, Bolivia and Ecuador showed a homogeneous growth in the number of active borrowers, but in the portfolio of Peru, there was observed an accelerated growth in average by 33% annually. On the side of the deposits, Bolivia has developed a more wide access to this service and, therefore, the mobilization of these resources. The deposits funded approximately 60% of assets. In South America, the deposits were formed into the main resource to fund MFIs. Central America has shown a strong growth in 2009. Regarding the proportion of assets, with 65% in Peru and 45% in Ecuador, the deposits were formed as the main source of funding.

With regard to debits, in Ecuador, there was a decrease of -14%, while in Peru and Bolivia they grew by 22% and 1.7%, respectively. They had a setback due to the regional level of 0.8%, while the breakthrough in South America is by 9%. Peru increased the productivity of assets at the end of 2009 reaching the results in South America, compared to the regional level, and had a lower dispersion. In Bolivia, the MFI reduced significantly its portfolio risk level to just over 1%, while the MFIs in Ecuador had an increase in their risk levels just under 4%. In Peru, the MFIs had high risk levels in the period (2005–2009) which remained at 5%. Regarding the profitability, it presented a downward trend with different magnitudes over the whole period. In Ecuador, the profitability was positive, in Peru, it was steadily falling but remaining above the other countries, and in Bolivia it was more discreet. Chile has experienced the greatest positive change with an increase by 4.8 points in the overall index. Ecuador had the biggest drop in the region by almost ten points due to the deterioration of the regulatory environment, investment climate and institutional development. Other countries in the region, such as Argentina and Brazil, recorded an overall progress as a result of successful changes in the regulatory environment. Costa Rica has increased by 2.2 points due to its regulatory framework. Honduras and Panama improved by between 2 and 3.5 points, due to the improvements in the category of institutional development, while Paraguay and the Dominican Republic showed decreases by 2% points (EUI 2009).

Peru

In Peru, as in the rest of the Latin American region, the interest in the informal sector came from the seventies, just where they began to create small-scale enterprises whose characteristics differed markedly from the formal sector. At present, the microfinance sector shows a great development in Peru. The segment of the micro and small businesses is vital in the economic growth of the country. In 2008, the total credits of the financial system grew by 33.7% to USD 32 292 millions and the total deposits reached USD 36 775 million, by 25% more than in 2007 (MIX 2009b). This dynamic reflects the activity of a mature market. The aggregate portfolio credit of the MFIs in Peru amounted to USD 3965 million in 2008 and reached 2.9 million borrowers. The growth of the portfolio balance was 35%. In 2008, the number of loans for consumption descended but contrasted with the aggregate portfolio balance. The microfinance

institutions sought to compensate the fall in the consumer finance loans, financing the customers with better risk profiles with larger amounts. The commercial credit recorded the largest increase (74%) in the portfolio balance and 86% in the number of loans. At the end of 2008, the Peruvian microfinance sector obtained a real performance of 32.8% (MIX 2009b). The average loan balance per one borrower in 2008 was USD 1164. Peru continued to grow in the number of credits and portfolio investment and it also showed a slight tendency towards the reduction of the portfolio risk. The country had a financing structure based on the authorization of the deposits and resources from local sources. The yield was recovered by the increase of the financial income and the portfolio performance.

CONCLUSIONS

Latin America is a perfect place for the MFIs's growth, because the region has excellent conditions for microfinance. It is essential to advance the reform of the rules, that make the supply of financial services to the poorest segments and sectors of society excluded from the labor market difficult, more expensive or which even prevent it. Despite the multiplicity and performance of institutions, the microfinance in Latin America is more diverse than in other regions. The current situation in the microfinance sector in the region demonstrates that the institutions could maintain or gain a better participation in the financial market, or otherwise they will disappear and will be replaced by banks or other financial institutions. In Latin America, the level of poverty and inequalities in access to financial services is still high according to the proven data. Therefore, it is necessary that the countries in the region formalize and concentrate the effort between the governments and the private sector, based fundamentally on the development projects with the viable and sustainable strategy for the purpose of the acceleration of economic growth and reducing the levels of poverty. Governments in the region should strengthen their public policies in favor of the microfinance institutions; it is essential that the governments extend their economic base in the long term thus to not lose the social advances achieved in the last years. The promotion of credit in Latin America occupies a prominent position; the access to finance can increase the productivity, the volume of production and investment. It is necessary to find more ways which the microfinance sector can develop, more systems and procedures to expand the supply of credits.

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