Public Policy on Microfinance in South America

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Central Bank of Argentina

1 June 2009

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Abstract

The purpose of this paper is to analyze the impact of public policies in various countries of South America on the development of microfinance (MF). A broad definition of public policy has been used in this work, as it covers specific legislation seeking to develop more inclusive financial systems; government participation in official bank programs; second-tier bank funds; the use of targeted funds and guarantee and intelligent subsidy schemes, etc. Particular attention is focused on financial system regulatory frameworks, as they tend to play a fundamental role in the success of such programs. An analysis is made of best practices recommended by international agencies, matching them against the existing framework for microfinance activities in the countries analyzed. The main conclusion that can be drawn is that despite the very varied nature of the initiatives pursued, one common element observed in all the countries surveyed is the role played by commercial banks in MF development. Nevertheless, note should be taken of the direct and indirect role played by the state in encouraging the involvement of the financial sector as the leading provider of MF, a role that is in general based on criteria of self-sustainability and commercial practices.

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Acronyms

ATM: Automatic Teller Machine
BCE: Banco Central del Ecuador
BCRA: Banco Central de la República Argentina
BEME: BancoEstado Microempresas (Chile)
BID: Banco Interamericano de Desarrollo
BM: Banco Mundial
BNA: Banco de la Nación Argentina
BNF: Banco Nacional de Fomento (Ecuador)
BNDES: Banco Nacional de Desenvolvimento Económico e Social (Brasil)
BCI: Banco de Crédito e Inversiones (Chile)
BCP: Banco de Crédito del Perú
BDP: Banco de Desarrollo Productivo (Bolivia)
BPB: Banco Popular do Brasil (Brasil)
CAC: Cooperativas de ahorro y crédito (Chile)
CAF: Corporación Andina de Fomento
CDM: CrediFe Desarrollo Microempresarial S.A. (Ecuador)
CFN: Corporación Financiera Nacional (Ecuador)
CMN: Consejo Monetario Nacional (Brasil)
CMAC: Caja Municipal de Ahorro y Crédito (Perú)
CGAP: Consultative Group to Assist the Poor
CODEMYPE: Consejo Nacional para el desarrollo de la MYPE (Perú)
COFIDE: Corporación Financiera de Desarrollo S.A. (Perú)
CONADI: Corporación Nacional de Desarrollo Indígena (Chile)
CRAC: Caja Rural de Ahorro y Crédito (Perú)
DEG: Derechos especiales de giro (Bolivia)
DIM: Depósitos interfinancieros vinculados a las operaciones de MF (Brasil)
EDPYME: Empresa de desarrollo de la pequeña y micro empresa (Perú)
FAT: Fondo de Asistencia al Trabajador (Brasil)
FFP: Fondos Financieros Privados (Bolivia)
FIE: Centro de Fomento a Iniciativas Económicas (Bolivia)
FMI: Fondo Monetario Internacional
FNG: Fondo Nacional de Garantías (Colombia)
FOGABA: Fondo de Garantías de Buenos Aires (Argentina)
FOGAPE: Fondo de Garantía para Pequeños Empresarios (Chile)
FOGAPI: Fondo de Garantía para Préstamos a la Pequeña Industria (Perú)
FOMICRO: Fondo Nacional para la Creación y Consolidación de Micro-emprendimientos (Argentina)
FONDEMI: Fondo de Desarrollo de la Microempresa (Perú)
FONDESIF: Fondo de Desarrollo del Sistema Financiero y de Apoyo al Sector Productivo (Bolivia)
FOSIS: Fondo de Solidaridad e Inversión Social (Chile)
GTZ: Deutshe Gesellschaft für Technische Zusammenarbeit
IADB: Inter-American Developement Bank
IFC: International Finance Corporation
IFD: Instituciones Financieras para el Desarrollo (Bolivia)
IFI: Institución Financiera Intermediaria (Perú)
IMF: Instituciones Microfinancieras
INC: Instituto Nordeste Cidadania (Brasil)

INDAP: Instituto Nacional de Desarrollo Agropecuario (Chile)
MCDS: Ministerio Coordinación de Desarrollo Social (Ecuador)
MIX: Microfinance Information Exchange
MF: Microfinanza / s
MTPE: Ministerio de Trabajo y Promoción del Empleo (Perú)
MYPE: Micro y pequeña empresa (Perú)
NAFIBO: Nacional Financiera Boliviana S.A.M. (Bolivia)
ONG: Organización No Gubernamental
PEA: Población económicamente activa
PNMPO: Programa Nacional de Microcrédito Productivo Orientado (Brasil)
PRODEM: Fundación para la Promoción y el Desarrollo de la Microempresa (Bolivia)
PYME: Pequeña y Mediana Empresa
RFR: Red Financiera Rural (Ecuador)
RPC: Responsabilidad Patrimonial Computable
RRHH: Recursos Humanos
SBEF: Superintendencia de Banca y Entidades Financieras (Bolivia)
SBS: Superintendencia de Bancos y Seguros (Ecuador)
SBS: Superintendencia de Banca y Seguros (Perú)
SEBRAE: Servicio Brasileño de Apoyo a las Micro y Pequeñas Empresas
SEFyC: Superintendencia de Entidades Financieras y Cambiarias (Argentina)
SERCOTEC: Servicio de Cooperación Técnica (Chile)
SFC: Solución Financiera de Crédito del Perú
SFC: Superintendencia Financiera de Colombia
SNM: Sistema Nacional de Microfinanzas (Ecuador)
USAID: United States Agency for International Development

1. Introduction

The term "microfinance" (MF) refers to the provision of banking services to lower-income people, especially the poor.[1] Such services include small loans for business or personal use, deposit services and money transfer, means of payment and insurance services, among others.

The purpose of this paper is to analyze the impact of public policies in various countries of South America on the development of microfinance (MF). A broad definition of public policy has been used in this work, as it covers specific legislation seeking to develop more inclusive financial systems, government participation in official bank programs, second-tier bank funds and the use of targeted funds, guarantee and intelligent subsidy schemes, etc.. These tools may be tied to certain conditions, such as interest rate restrictions or the need to apply a certain percentage of deposits to MF lending. At the same time, particular attention is focused on financial system regulatory frameworks, as they tend to play a fundamental role in the success of such programs.

In addition, developments in MF in each of the countries studied are analyzed, and an attempt is made to link them to the policies implemented and the existing regulatory frameworks. Identification of the extent to which the policies applied and the regulatory frameworks have contributed to greater MF service growth is of particular interest.

An interesting approach for the analysis of public policies is introduced in a recent working document of the World Bank (BM)[2]. The authors point that *"while most economists would agree that the government can play a significant role in fostering financial development, there is less consensus regarding the specific nature of its intervention. Opinions on this issue tend to be polarized in two highly contrasting but well-established views: the interventionist and the laissez-faire views."*

The interventionist view holds that the active intervention of the government is required in mobilizing and allocating financial resources, including the direct participation through public banks, so as to expand access to finance (this viewpoint was developed during the 50's and 60's). The tools chosen were the direct provision of loans through public banks, the allocation of a certain proportion of the loans to selected sectors and restrictions on the interest rates charged.

On the other hand the laissez-faire view holds that governments can do more harm than good by intervening directly, and that governments efforts should restrict themselves to improve the enabling environment for the development of financial services. This viewpoint emerged as a reaction to the mentioned problems of public banking and direct government intervention in the previous years, but also stems from an increasing awareness of the role played by institutions and market infrastructures in financial development. According to this view, although the existing market failures are not as extensive as to require the government intervention and could be addressed by private parties themselves (given well-defined property rights). Therefore, this view recommends that governments exit from bank ownership and lift restrictions on the determination of interest rates; instead government efforts should restrict itself towards providing a stable macroeconomic framework, enhancing creditor rights, upgrading prudential regulation, and promoting the expansion of reliable debtor information systems (e.g. through credit bureaus).

The authors[3] argue that a new intermediate viewpoint is emerging that favors direct well designed pro-market government interventions, to meet market failures and accelerate the passage to a developed financial market. This view argues that markets can and do broaden access to finance and therefore the adequate role of the government is to promote the development of deep and efficient financial markets, not to replace them. This view favors specific cost-effective government interventions, but argues that careful analyses to identify market failures and specify their causes should precede them. Interventions should designed so as to complement or facilitate market development through an adequate selection of instruments (e.g. subsidies or funding) and appropriate intervening institutions (e.g. NGO's or public banks).

The document is organized as follows: Chapter 2 analyzes the recommendations of multilateral organizations with regard to the application of public policies for the promotion of MF. Chapter 3 describes in detail the main initiatives developed by a representative group of South American countries (accounting for some 90% of MF loans granted) and conclusions are detailed in Chapter 4.

2. Best practices concerning public policies to broaden access to credit

Governments play an important role in the development of financial systems designed to offer services to the poor, which in turn has an impact on the activities of the commercial banks and MFIs that provide them. Experience demonstrates that this role can be constructive in some cases but counterproductive in others. All in all, the discussion is not focused on whether governments must intervene or not, but on what they should and should not do considering the country specific context. Subsequently we introduce the best practices suggested by the multilateral agencies on the subject:

2.1 United Nations

The United Nations General Assembly adopted 2005 as the International Year of Microcredit to "*address the constraints that exclude people from full participation in the financial sector*." Drawing on this mandate, the UN Department of Economic and Social Affairs and the UN Capital Development Fund undertook a project to analyse the obstacles to financial inclusion and to report on efforts to overcome them in a variety of countries[4].
As a result of this collective effort the United Nations published in 2006 a book called "Building Inclusive Financial Sectors for Development", also known as the "Blue Book"[5]. By describing the policy framework and public sector role in inclusive finance it discusses the roles expected of public sector and private sector stakeholders in bringing about an inclusive financial sector. The main points emphasized are the following[6]:

- *Existence of a coherent policy framework:*
The documents highlights the need of a clear articulation of how the social policy objective of outreach and the financial policy objective of stability should interact with and balance each other. Political focus on short-term expediency can undo years of development efforts, create significant frustration among various stakeholders and seriously impede long-term efforts toward financial inclusion.

- Interest rate liberalization:
It can be politically appealing and expedient to "protect the poor" by re-imposing interest rate caps, although these caps usually have negative consequences for market development. The difficulty is that interest rate ceilings, by making it impossible to cover costs, undermine the ability of many microfinance institutions to become sustainable, with the result of forcing many poor people to rely on much more expensive and limited informal alternatives. At the same time, legitimate concerns are expressed that high interest rates may reduce profitable business opportunities for the poor, and they may reduce their ability to accumulate assets. High interest rates may also lead inexperienced or financially unsophisticated poor or low-income borrowers into debt traps.

- Government involvement in financial intermediation:
A large body of evidence suggests that direct government lending to poor people has not always been effective or achieved stated governmental objectives, based on negative experiences in many countries and particularly due to a defective risk management of direct credit to small customers. Yet, there are also some examples of successful experiences (BRI in Indonesia, BancoEstado in Chile, or Financiera Rural of México) and emphasis is put in their potential to attend rural finance, which has renewed the interest on the subject. In general, state-owned financial institutions have been more successful in offering savings to poor people than in managing the risks associated with credit services. In any case, publicly owned banks and other state-owned financial institutions are the major providers of financial services to the poor people in developing countries. Governments sometimes mandate commercial financial institutions to allocate a percentage of their lending to certain economic sectors or to the less advantaged segments of society in an effort to broaden access. Directed lending programmes were applied in many countries in a way that distorted market signals and did not achieve intended purposes. Recently, some better-designed programmes have resulted in increased commercial bank involvement in finance for micro, small and medium enterprises.

- The role of subsidies and taxation:
Although some concerns exist regarding on how subsidies applied without the necessary transparency and care may distort the market, favouring the provision of inefficient services and without reaching the target population, subsidies can help to pursue social objectives and to correct for "market failures." There is a tendency towards "smart" subsidies reflecting the concept of maximizing social benefits and incentives for strong institutional performance while minimizing distortions and mistargeting[7]. Many countries expressed concerns about important differences in how tax regulations are applied to different financial institutions and the lack of appropriate fiscal incentives.

- Policies to broaden and strengthen financial infrastructure
Financial infrastructure covers the range of support mechanisms provided by the public and private sectors to promote financial market development, competition and access of the poor to financial services.The existence of a credit bureaux, an effective property registry and the functioning and adequacy of the legal and judicial system play a key role in reducing credit risk.Key issues to enhance financial sector transparency and accountability include proper consumer protection laws, accounting standards, and the provision of ratings performed by specialized, neutral and internationally recognized agencies. An important factor to reduce costs includes primarily clearing and

settlements systems able to process an increasing number of transactions. The parameters of these systems need to be such that smaller financial institutions can benefit directly or through linkages with larger financial institutions. Also the exchange of information between institutions should be promoted.

2.2 Consultative Group to Assist the Poor (CGAP)

CGAP is an independent policy and research centre, housed at the World Bank, dedicated to advancing financial access for the world's poor. It is supported by over 30 development agencies and private foundations[8] who share a common mission to alleviate poverty. CGAP is a necessary reference in issues concerning MF and during 2004 it developed the following principles that were endorsed by 31 member donors, the Group of Eight leaders and numerous emerging markets governments. Some of them are closely linked to suggestions of public policies and are therefore reproduced next[9]:

CGAP Principles

1. Poor people need a variety of financial services, not just loans. In addition to credit, they want savings, insurance, and money transfer services.
2. MF is a powerful tool to fight poverty. Poor households use financial services to raise income, build their assets, and cushion themselves against external shocks.
3. MF means building financial systems that serve the poor. MF will reach its full potential only if it is integrated into a country's mainstream financial system.
4. MF can pay for itself, and must do so if it is to reach very large numbers of poor people. Unless MF providers charge enough to cover their costs, they will always be limited by the scarce and uncertain supply of subsidies from governments and donors.
5. MF is about building permanent local financial institutions that can attract domestic deposits, recycle them into loans, and provide other financial services.
6. Microcredit is not always the answer. Other kinds of support may work better for people who are so destitute that they are without income or means of repayment.
7. Interest rate ceilings hurt poor people by making it harder for them to get credit. Making many small loans costs more than making a few large ones. Interest rate ceilings prevent MF institutions from covering their costs, and thereby choke off the supply of credit for poor people.
8. The job of government is to enable financial services, not to provide them directly. Governments can almost never do a good job of lending, but they can set a supporting policy environment.

During 2006 CGAP published a document called "Access for all"[10], reflecting the collective experience gathered during the last 10 years. Chapter 5 is devoted to the role of governments in the build-up of an inclusive financial system. It is stated that a consensus holds on the important role goverments play in ensuring favorable policy environments within which microfinance can flourish. A good policy environment allows a range of financial service providers to coexist and compete to offer higher-quality and lower-cost services to large numbers of poor clients. Although, this heightened interest by governments in microfinance brings opportunities and risks.

Governments typically get involved in the financial system in at least three ways:

- Delivering financial services directly and indirectly,
- by setting policies that affect the financial system,
- by proactively promoting inclusion.

- Direct and indirect financial services provision:
Financial services may be channelled directly through state-owned banks and other credit schemes operated by government entities, and indirectly through wholesale funds. Government credit schemes for the poor are usually heavily subsidized, so they are vulnerable to political patronage, and usually show high levels of non-performing loans. Low interest rates in government programs mean that lending institutions cannot cover their costs and thus require continuous government or donor subsidies to survive. Financial services may also be provided by state-banks, in which case full operational separation and autonomy from the rest of the bank operations, no political influence on lending policies and freedom to set loan interest rates are prerequisites for success. As in Government credit schemes, Governments often channel funding through wholesale-level funds that pass those resources along to retail financial institutions. These funds, sometimes called "second-tier" funds, are often subject to political pressures and are usually subsidized. Those funds that are more successful tend to be the ones in which governments play a less important role in governance and management, and in which funds are offered at market or near-market rates.

- Policy Environment
Governments have an important role to play in setting policies that allow sustainable financial services for the poor to flourish. There are at least three types of policies that governments need to get right[11]:

- macroeconomic stability,
- liberalized interest rates, and
- appropriate banking regulations and supervisory practices.

Regarding macroeconomic stability the document states that probably the most important single thing that governments can do to facilitate microfinance is to make sure inflation remains low. Inflation erodes the capital base of financial institutions; makes it difficult to mobilize resources, especially savings. Concerning maximum interest rates the documents repeats the ideas exposed in principle 7 of CGAP.
On the subject of appropriate banking regulations, as MF matures, it will likely migrate toward institutions that are licensed and supervised by the central bank and other financial authorities. For those financial institutions that capture deposits from the public some standard banking regulations need to be adjusted to accommodate microfinance, whereas non-deposit taking IMFs shouldn't be subject to prudential regulation.
In what refers supervisory practices the costliness and difficulty of effective prudential supervision, especially for smaller institutions, is a particularly thorny policy issue.
Another risk is that specialized microfinance laws, especially when they specify a particular institutional type, may end up marginalizing microfinance rather than integrating it within the financial system. Financial services for the poor stand a better chance of growing when larger financial institutions, including commercial banks, get involved.

- Proactive Government Promotion
Governments, especially in developed countries, have used incentives to proactively entice or force financial institutions to serve those excluded from accessing financial services. There appear to be at least four models of government promotion to consider:

- priority sector lending or mandated minimum banking services,
- regulatory incentives,
- payment of government benefits through bank accounts, and
- matching deposits[12].

The document concludes that the role of government in building inclusive financial systems is crucial but nuanced because there is a tension among the different roles that governments play. Some microfinance experts and many developing country officials increasingly concur that the government's best role is to offer a policy environment that allows competitive and diverse financial service providers to flourish. The key actions for governments are to maintain macroeconomic stability, to avoid interest rate caps, and to refrain from distorting the market with unsustainable, subsidized, high-delinquency loan programs. Governments can also adjust banking sector regulation and supervision to facilitate microfinance while also protecting poor people's deposits. understood. It also appears that governments might play a useful promotion role, by employing the proper incentives.

Regardless of the way governments engage in MF, it is well understood that its involvement has a positive role to play in building inclusive financial systems. The challenge ahead is to convince governments to take on this constructive and powerful responsibility and to avoid repeating approaches that have failed in the past.

3. Public policies for the development of MF in South America

In several countries where the activity of commercial banks in MF is significant, or has been on the increase in recent years, the State has been seen to take a role in the implementation of policies and regulations. Experiences registered range from regulatory frameworks favorable to the development of MFIs and concrete incentives, through to mandatory requirements for financial institutions to become involved in the MF business. Below is a summary of some of these experiences, with a description of legal and regulatory frameworks, public policies for the encouraging of MFIs, and the institutions carrying them out. Also included is a description of the development of the MF market, and its relationship to the legal and regulatory frameworks and the policies implemented.

3.1. Argentina

In Argentina financial intermediation institutions are regulated by the Central Bank of Argentina (BCRA). Although the regulatory framework does not contemplate a particular category for institutions dedicated exclusively to MF, there are regulations designed specifically to cover financial services for low-income individuals[13]. There are various mechanisms that enable institutions to carry out such operations, depending on the most structure they consider most suitable: they can grant microloans, finance MFIs or set up companies specifically dedicated to microfinance business. In addition credit cooperative unions (CCC) also have specific regulation to involve themselves in MF.

- Microloans

Under the category of *microloans,* banks can channel loans to microenterprises making use of origination and monitoring methodologies commonly used in the industry, which are information intensive and rely on in-situ monitoring of customers. These loans target low-income individuals seeking to finance their production, commercial and service activities. In addition, such loans may be granted for training and housing improvement. Microentrepreneurs can also receive loans for the purchase of goods or services for consumption. There is no cap on microloan interest rates, and the maximum amount that can be granted is $ 15,000 (approximately USD 4,300[14]). Repayment installments for these loans are determined on the basis of the business cycle of each individual entrepreneur. The financial institution can originate these loans directly, or via an MFI. The microloan portfolio can reach up to 30% of the regulatory capital.

- Financing of MFIs

Loans granted to MFIs are channeled through a system designed for such transactions, facilitating the role of financial institutions as "second tier banks". These loans are excluded from regulations limiting the amount of any loan to be granted to the capital of applicants, MFIs in this case, which makes sure that financial institutions can fund MFIs without major restrictions.

- Complementary service companies

Financial institutions can participate in the capital of subsidiaries created by them that have as their main activity the granting of loans to microentrepreneurs, based on the complementary activities allowed by regulations. Loans granted through such companies have the same features as those mentioned earlier. To grant loans, service companies may use own funds, loans, donations or other forms of contributions. Such companies can operate as loan originators on behalf of the shareholding financial institution, or for other institutions within the financial system.

- Credit cooperative unions (CCC)

MFIs can take part as CCC associates, with a larger share than that corresponding to other legal persons[15]. Each MFI can subscribe to between 3% and 10% of the capital of a CCC, depending on the level of banking use in the jurisdiction within which the head office is located. The aim is to encourage greater participation by MFIs in those zones with lower financial service coverage. Furthermore, CCCs can also grant loans to microentrepreneurs with the same features indicated previously, for a maximum amount of $ 10,000 (approximately USD 2,870[16]).

Other measures adopted by the BCRA oriented to develop an inclusive financial system, include the set up of special branches, exception to the mandatory reserve requirement on financing from abroad and savings accounts.

- Mobile branches

To provide customer attention points, regulations allow financial institutions to set up "temporary customer attention offices" in locations where there are no branches of financial institutions.[17] These bureaus can perform the same operations as traditional branches, enabling them to reach segments of the population that include potential microfinance customers who for either cultural or geographical reasons have been unable to approach traditional bank branches.

- *Exception to the mandatory reserve requirement on financing from abroad*

In 2005 the Executive Branch[18] established a requirement for a one-year unremunerated time deposit for 30% of certain types of capital inflow. As a result of this measure, financing from abroad intended for MFIs was obliged to comply with the requirement, increasing the cost of foreign funding. The Central Bank, which was empowered to regulate the measure, eliminated this restriction on funding intended for MFIs set up as foundations and civil associations[19]. This measure exempted not-for-profit MFIs, while those legally incorporated as commercial companies remained subject to the reserve requirement. In view of the difficulties encountered by the sector, in 2008 the Central Bank took further steps to expand the range of MFIs exempt from the 30% reserve requirement[20].

- *Basic savings account*

Argentine regulations also established facilities for the providing of savings services by means of a basic account[21]. The holders of these accounts should be individuals authorized to freely perform transactions, with funds generated by licit activities. This product can be offered by first-tier commercial banks, finance companies, cooperative credit associations and savings and housing loan associations. To open such an account it is necessary to provide proof of identity and confirmation of tax status[22]. These accounts, in local currency only, offer a series of transactions without charge to their holders, withdrawals from the ATMs of the account-holding institution, direct debit of store purchases, debits for funds transfers, etc.. Nevertheless, the rule does allow banks to make maintenance charges, and charges for movements in excess of those laid down.

Regarding public policies to promote MF, several initiatives can be mentioned, including second tier funding programs, public bank's involvement, and the existence of a Microloan Law.

- *Social capital Fund (FONCAP)*

State programs in support of MF included the creation in 1997 of the FONCAP, conceived as a corporation, which administers a fund originally consisting of a contribution from the federal government. Its mission consists in allocating money to fund microfinance institutions, so that it is a "second-tier" organization. In compliance with its objectives, it channels towards MFs public funds such as those from the Social Capital Trust Fund and funds from international cooperation agencies such as the one set up by the Government of Italy together with the United Nations Development Program (UNDP), which it manages in its capacity as trustee.

- *Guarantee Fund of Buenos Aires (FOGABA)*

FOGABA was set up as a private company with the Buenos Aires Goverment as its major shareholder. Created in 1994, as an initiative of the Buenos Aires goverment[23], it offers guarantees to facilitate credit access for different beneficiaries located in the province of Buenos Aires. Microentrepreneurs are possible targets of these guarantees, that are channeled under the scheme of "guaranties for the net of MF". They are offered to the microentrepreneurs through the interaction of FOGABA with IMFs.

- *Microloan Law*

The Law on the Promotion of Microcredit[24] introduced in 2006 created a program that has at its disposal a new fund to support MFI activities. The aim of the law is to promote and regulate microcredit to stimulate overall development of the population, low-income groups and the institutional strengthening of not-for-profit civil society institutions that collaborate in the carrying out of social policies. This law defined various MF-related concepts:

- Microloans: These are loans to finance the activity of undertakings by individuals or groups in the social economy for an amount not exceeding the equivalent to twelve minimum wages.
- Microloan beneficiaries: Low-income individuals or associations organized on a self-employment basis in the framework of the social economy that carry out manufactured goods production, provide jobs for the disabled, or sell goods and services, whether urban or rural, in productive units possessing total assets that do not exceed fifty basic total baskets for an adult in a standard household, a figure that is to be updated by the National Institute of Statistics and Census (INDEC), per job position.
- Microcredit Institutions: Not-for-profit associations (civil associations, cooperatives, mutual welfare entities, foundations, indigenous communities government and mixed participation organizations) granting microcredit and providing training and technical assistance to social economy undertakings.

As mentioned above, the law created the "Program for the Promotion of Microcredit for the Development of the Social Economy" within the sphere of the Ministry of Social Development. The objectives of this program include:

- Promotion of the development of microcredit and strengthening Institutions implementing it by means of the assigning of non-reimbursable resources, loans, guarantees, technical assistance and training.
- Organization of a Nation Register of Microcredit Institutions (responsible for procedures for registration and control of the member institutions for the purposes of the law).
- Administration of the National Fund for the Promotion of Microcredit created under this law, promoting the gaining of public and private sector resources.

The Fund, totaling $ 100 million (approximately USD 28.7 million[25]) will be used to capitalize microcredit institutions adhering to the scheme by means of the allocation of non-reimbursable allocations, loans and guarantees. Interest rates, operating costs and technical assistance costs incurred by microcredit institutions will be subsidized in part or in full. In addition, the law exempted microcredit operations channeled with funds from this program from income tax, minimum notional income tax and value-added tax.

Participation by the public sector also includes the providing of financial services through three public institutions:

- Banco de la Provincia de Buenos Aires

Banco de la Provincia de Buenos Aires (BAPRO) acts as a second-tier bank through the Fuerza Solidaria program. Fuerza Solidaria is an initiative of the Government of the Province of Buenos Aires, Banco Provincia and the National Lottery and Casino Institute *(Instituto Provincial de Lotería y Casinos)*, the main purpose of which is to provide financial and technical assistance to those sectors lacking access to the formal credit system. Through one of its financing programs it grants loans to microcredit institutions. Such institutions should have been in operation for at least two years and be active within the province of Buenos Aires. They can obtain amounts of up to $ 1.5 million (approximately USD 430,200) at a subsidized interest rate.

- Banco de la Ciudad de Buenos Aires

Banco de la Ciudad de Buenos Aires entered this market as a second-tier bank through the "Ciudad Microfinanzas" program, granting preferential financing to MFIs located in the city of Buenos Aires. Banco Ciudad makes available to MFIs a credit line for the granting of microloans for up to $ 3,000 (approximately USD 860) and terms of up to 18 months, to finance new or existing undertakings in the areas of manufacturing, services and commerce, targeting self-employed entrepreneurs of legal age, groups or work cooperatives and community organizations, the business of which take or will take place mainly within the sphere of the Autonomous City of Buenos Aires. Loans to MFIs can amount to up to $ 200,000 (approximately USD 57,000).

- Banco de la Nación Argentina (BNA)

BNA established the National Fund for the Creation and Consolidation of Microundertakings *(Fondo Nacional para la Creación y Consolidación de Microemprendimientos - FOMICRO)* in 2004, coordinated by the BNA with the SME Under-Secretariat. FOMICRO works with microcredit institutions, but these only participate in the selection, presentation and training for MF projects to be financed, the decision on whether to grant the loan being taken by the bank. The program operates on the basis of personal guarantees for the financing of productive (non-commerce) undertakings, interest rates being subsidized by the SME Under-Secretariat and the National Ministry of Economy and Production[26]. Subsequently, another trust was set up (FONDER) to provide financial and technical assistance on an intermediate scale for regional development purposes. Regarding public policies to promote MF, several initiatives can be mentioned, including second tier funding programs, public bank's involvement, and the existence of a Microloan Law.

The microfinance market in Argentina is at an incipient stage. Although in recent years the topic has gained increased relevance, and the offer of microfinance services has expanded, there is still a wide gap between supply and demand. According to an estimate made in 2006, the potential demand for microcredit in the Buenos Aires urban area alone would total 440,000 workers[27], whereas the sector provided financing to some 40,000 customers nationwide.

Table 1: Data on MF in Argentina – in USD

MFIs	Gross loan portfolio	Average loan balance	Active customers	Credit advisors
MFIs members of RADIM	21.731.962	676	32.138	205
Other MFIs	5.081.342	617	8.231	70

Source: Based on RADIM, UNDP Project (information at December 2008) and others. These totals are understated, as there is no data on smaller MFIs.

In Argentina most MFIs are incorporated as NGOs or unregulated corporations (SA); so far there are no financial institutions regulated by the Central Bank dedicated exclusively to MF. The universe of institutions and programs is varied, although there is heavy concentration around those entities gathered together in the Argentine Microfinance Network (*Red Argentina de Microfinanzas* - RADIM)[28]. Those in the form of *Sociedades Anónimas* (SA) hold the largest share of the market[29] (by number of customers and portfolio amount) although there is a larger number of NGOs.

As well as the activity by public banks, other commercial banks have made incursions into the market, or have plans to enter into the world of MF. In 2006 Banco Columbia established a strategic alliance with Acción Internacional to develop a microfinance service branch under the name of "Columbia Microcréditos SA". Banco Supervielle, with the advice of PlanetFinance, created a company called "Cordial Microfinanzas S.A." to serve the sector, and opened its first branch at the beginning of 2007. In 2006 Banco Hipotecario decided to channel its microfinance industry efforts through the Fundación Pro Mujer, operating in the region of Salta and Jujuy. In 2007 Banco Santander Río developed the first stage of its Microcredit Program, focusing on MFIs organized as NGOs. By means of soft loans it seeks to benefit those microentrepreneurs financed by such NGOs. These are just some of the projects that the private bank sector has made public recently.

3.2. Bolivia

The Bolivian MF market is nowadays considered as one of the most developed in the world, not only for the outreach and number of MFIs but also for its regulatory framework and institutional development.[30] However 25 years ago this market, which today is characterized by a high participation of regulated financial entities, was in its infancy.

During the 80's Bolivia, as well as other countries in Latin America, had worked under an economic model mainly characterized by governmental intervention and the presence of the public sector in the financial system. This situation changed dramatically in Bolivia since August 1985 when a series of reforms were implemented to start a New Economic Policy putting an end to direct governmental intervention in the economy. The liberalization process established in that year is the most important antecedent that paved the way for the development of MF in Bolivia.[31] The reforms included unifying the exchange rate, eliminating price controls, liberalizing the entire financial system, and imposing strict monetary and fiscal policies that drastically reduced inflation[32]. In 1987 more measures were adopted that could be considered as setting the stage for a robust microfinance industry:

- Liberalization of interest rates
- Closure of 4 state banks and subsequently weak private banks[33].
- Adoption of a universal banking system.
- Reduction of the legal reserves required on deposits.
- Authorization for financial institutions to accept deposits in foreign currency.
- Increased autonomy of the Superintendence of Banks and Financial Institutions (SBEF) from political pressure.

The closure of the state banks, until then the main credit providers for small-scale producers, resulted in the proliferation of private, non-profit institutions that offered credit to small-scale farmers and entrepreneurs unable to access the formal financial system. The international aid received during that time also contributed to the proliferation of NGOs that tried to fill the space left by public sector in the satisfaction of the basic needs of the population and poverty alleviation.[34] Before 1980 there were 100 NGOs in Bolivia, but during the 1980-1992 period this number increased to 530.[35]

Some of the currently most famous MFIs in Bolivia initiated their operations as NGOs during that period: PRODEM (Fundación para la Promoción y el Desarrollo de la Microempresa), FIE (Centro de Fomento a Iniciativas Económicas), Pro-Crédito (later Caja Los Andes-FFP), FADES (Fundación para Alternativas de Desarrollo) and AgroCapital.

Table 2: First MFIs in Bolivia

NGO	Year of incorporation	Other comments
FIE	1985	
FADES	1986	Its aim was to support and contribute to organizations, cooperatives, associations and small groups of rural and urban sectors through microcredit.
PRODEM	1987	In 1992 founded BancoSolidario SA, the first MF commercial bank.
PROCREDIT	1992	Nowadays Banco Los Andes Pro-credit
AgroCapital	1992	Created through the joint efforts of the Bolivian government and USAID.

- Private Financial Funds (FFP)

In 1983 Law No. 1,488 (called Law of Banks and Financial Entities) created the Superintendence of Banks and Financial Entities, replacing the previous one created in 1928 by the Banking Act.[36] Even though the word microfinance or microcredit was not mentioned in this new law it represented a turning point for the microfinance industry. *Non Banking Financial Institutions* were included under the scope of the law and these were taken to include Credit Unions, Mutual Societies and, under the category *Other Non Banking Financial Institutions,* FFP and Private Institutions for Social Development.

Although the FFP were mentioned as non-banking entities to be regulated, these funds did not exist at that time and the law did not define the rules for the regulation and supervision of those institutions. With the opening provided by the law, however, NGOs began to pressure the SBEF to create the regulatory framework for their incorporation into the formal financial system. Efforts toward incorporating microfinance activities within the formal financial framework had begun in 1991 when PRODEM approached the SBEF with a project for the creation of BancoSol, a bank intended to serve the microentrepreneur exclusively.[37]

In 1995 the Supreme Decree No. 24,000 authorized the creation of the FFPs as corporations (non-banking financial institutions) specialized in intermediating funds to small borrowers and microentrepreneurs, allowing the major NGOs targeting that segment to meet their objectives by setting up risk-capital corporations, authorized to attract deposits and subject to financial authority controls (by the SBEF). The initial capital requirement applicable for these non-banking institutions was approximately USD 940,000, whereas for banks it was USD 8.2 million. The acknowledgement of the solidarity guarantees, coupled with a strict prudential framework that stipulates lower limits to grant credits and for credit concentration (3% of its total capital to one creditor and 20% if it is a financial institution) than those set for the banks, and the ban on granting loans to shareholders and management, is a reasonable combination of equity backing and dispersion of credit risks.[38]

The first FFP created under the new law was Caja Los Andes S.A. FFP. Founded in 1995 it was the result of the complete transfer of all financial activities from the NGO Association Pro-Crédito created originally in 1992.[39] In 2005 Caja Los Andes FFP was transformed into a commercial bank 100% dedicated to MF (Banco Los Andes ProCredit), and is the best example of a complete upscaling process in the MF industry.

Others followed soon: FIE FFP was created by the NGO FIE, Bolivian private investors and the Swiss Agency for Cooperation and Development in early 1998. Also, the SBEF approved the incorporation of Eco-Futuro (in 1998) and PRODEM (in 2000) as FFP. Although the figure of FFP was originally conceived as the vehicle through which those successful microfinance NGOs could enter into the formal financial system, the SBEF approved the incorporation of FASSIL-FFP (1996) and ACCESO-FFP (1997) that were not previous NGOs but had been founded by private investors. The most recent incorporation is Fortaleza FFP, part of Grupo Fortaleza[40], which started operation in 2002.

The FFP market can be defined as a stable one based on the number of institutions that were founded since the FFP law's sanction and those still operating today. From the 8 FFP acting in Bolivia in 2002 (the highest number of active FFP ever seen) only two were transformed and ended their operations as FFPs: Caja Los Andes FFP changed its legal status and is now a commercial bank and ACCESO FFP changed its legal form to provide loan recovery services as a non regulated entity.

- Banking regulation of MF[41]

In recent years the SBEF has adjusted its regulations to market conditions and the characteristics of the MF sector. As a result, financial regulations set special rules for incorporation and operation of microfinance-oriented institutions, such as FFPs and Savings and Loan Cooperatives. In addition to including these two types of financial intermediation specifically targeting microfinance within the scope of its supervision, the SBEF contemplates the voluntary and unrestricted performance of microcredit activities by all the entities that it regulates.

Regulations define microcredits as all loans granted to borrowers, whether natural or legal persons, or a group of borrowers with joint or several guarantees, intended to finance small-scale manufacturing, commercial, service or other activities, the main sources of repayment being the product of the sales and revenue generated from such activities, which have been duly verified.[42]

In the case of portfolio classification rules and the provision requirements for loan losses, a special treatment exists for microcredits. The classification of microcredit debtors is made according to the days in arrears with obligations, and a specific provision must be ser up on the basis of that classification. The number of days in arrears considered is closely linked to the type of activity they finance: small undertakings with very short economic cycles.[43]

Table 3: Provisions for MF in Bolivia

Days in arrears - # Refinancing	Credit assesment	% of provisions
1 - 5	A	1
6 - 30	B	5
31 - 60	D	20
61 - 90	F	50
> than 90	H	100

Source: SBEF.

A second risk component covered by regulations makes it possible to measure credit risk on risk additional to delinquency, bearing in mind compliance with credit policy, the existence of adequate credit technology and the evaluation of the potential risk arising from riskier borrowing by customers from other institutions.

Therefore, notwithstanding the specific provision regime, regulations require generic provisions for microcredits based on evaluation of the policies, practices and procedures for the granting and administration of loans and control of credit risk, which should include the existence of adequate credit technology, policies for the handling of refinancing agreements and the existence of information technology systems and procedures for the monitoring of the rescheduled portfolio. If it should be determined that the policies and practices followed are not in line with minimum regulatory guidelines, the institution will be required to set up a generic provision for 3% of its total microcredit portfolio.

Based on a representative statistical sample of debtors and after a detailed review of its contents, the frequency of deviations from the established credit policies is determined.- Generic provisions of 1% for each 10% deviations are established. [44]

On the road to adoption of the Basel II standards, Bolivia's SBEF is temporarily implementing debtor classification based on the internal appraisal methods carried out by the institutions themselves, which must be approved by the regulatory authority. Until these standards are fully implemented (in 2010, according to the transition schedule[45]), banks will continue to classify risk using the days in arrears system mentioned previously.

A third provisioning component also applicable to microcredits was introduced in 2008: generic cyclical provisioning. This has been created to avoid underestimating risk at times when the economic cycle is on the rise, so that coverage is provided for unidentified losses on those loans where the deterioration has not yet materialized.[46] Institutions are required to set up an additional 1.6% provision on their microcredit portfolio classified as category A. This cyclical provision is in addition to any specific provision requirement.

To encourage the geographical spread of services, procedures for the opening of agencies and branches to provide MF services have been simplified, and include specific regulations covering the providing of mobile services, a tool allowing microfinance institutions to offer greater coverage, in view of the geographical dispersion that exists in the country.

In a similar manner, regulations were established for auxiliary financial service correspondent agreements, authorizing regulated financial intermediaries to enter into them among themselves, as well as with unregulated institutions in order for them to perform financial payment and transfer services, obviously except for the receipt of deposits and the placing of loans.[47]

In addition, specific regulations have been issued for the opening of Credit Information Bureaus[48], so that microfinance institutions supervised by the SBEF can gain access to credit information provided by unregulated microfinance institutions, which can in turn obtain information on consumer loans and microloans granted by the regulated financial system (this has endowed MFs in Bolivia with greater transparency and has provided more precise information on the over-borrowing that has affected this industry in recent years, which has arisen as one of the main lessons of the Bolivian experience).

Again as part of the drive towards market transparency, the Regulation on interest rates[49] sets the characteristics and minimum content for loan contracts, seeking to reduce the asymmetry in information that exists between financial institutions and small customers, generating greater transparency for lending activities.

Under the same regulations, in addition to the interest rates charged, institutions are also required to publicly post details of all the commissions and charges included in any loan transaction. This information must also be made available at the time loans are being proposed, so that customers are in a position to compare the various financing alternatives. This principally favors microentrepreneurs who have no experience in financial matters.

Another regulation of particular relevance to MFs is that for the Customer Complaints Attention Service[50] which provides financial service customers the possibility of making any type of complaint or consultation directly to the financial institutions, which are responsible for replying to their customers within set times, after which the complaints or consultations are transferred to the SBEF for appropriate handling. This mechanism enables the SBEF to take preventive and corrective measures, as well as to promote equity and transparency in relations between institutions, customers and users.

- New rules for the regulation of NGOs
During 2008 there have been a series of changes made to financial regulations intended to ensure that almost all financial institutions fall under the regulation of the SBEF[51]. They include closed cooperatives, know known as societies, and Financial Institutions for Development (IFDs)[52]. The latter are NGOs that will continue to be organized as foundations or not-for-profit associations or civil associations. Unlike FFPs, IFDs cover the microfinance market in the areas of greatest poverty, and in some cases where there are problems with access and communication.[53] These changes in regulation will have a significant impact on the national financial system in the medium term, as they will

enable IFDs to take deposits, which is something that they could only do by means of Financial Intermediation Mandates with regulated institutions.

One highly important feature of current regulations is that they do not prohibit non-financial activities, in other words, they do not consider that IFDs should be exclusively financial intermediation institutions, and consequently, they only lay down that activities not involving financial intermediation should be booked in memorandum accounts (this is of vital importance for IFDs carrying out a large number of training activities and warrants, leasing and other different forms of credit business).

The IFDs that will begin to form part of the regulated system belong to FINRURAL (Association for Financial Institutions for Rural Development) a civil not-for-profit association that has been working in Bolivia since 1993, grouping together not-for-profit MFIs and contributing to improvement in their institutional performance, the diversification and quality of their services, and the strengthening of their image.[54]

In the last 4 years these IFDs have been applying a self-regulation system that follows the same guidelines as those applied by the SBEF, in preparation for joining the regulated system (either with their own regulations adapted to their specific characteristics, or by incorporating them within one of the already existing structures). Since its beginnings, the Self-Regulation System was conceived as a transitory process for institutional preparation and strengthening that in the medium term (2004-2007) would allow the participating MFIs to become integrated within the state regulatory system, acting in national and international markets demonstrating stability, solvency and transparency.[55]

With a single exception, IFDs have the required minimum capital under the new regulations, and all of them plan to fully comply with the regulations to be able to take in deposits within 18 months[56]. According to a recent survey, they have pointed out the great help that self-regulation has meant; at present FINRURAL continues to provide training in matters of software purchases, technology and the flow of information to be submitted to the SBEF.[57]

- Government role in MF

Since the restructuring of the financial system described, including the closure of public banks after 1985, the Bolivian financial system has been mainly characterized by the existence of private owned banks. The MF market has followed this same pattern, so that the government is an indirect player in the MF industry.

Despite this passive role, the government has accompanied the development of the MF sector through the implementation of policies and regulations that contributed to the expansion of a healthy market. Furthermore, the international aid received by Bolivia under international cooperation agreements, always remarked on as one of the factors that contributed to the development of MF in Bolivia, on many occasions has been channeled through the government.

Currently there are two government programs that support MF markets, *Banco de Desarrollo Productivo,* a second tier bank, within the financial system, and FONDESIF, a development fund, outside the financial system.

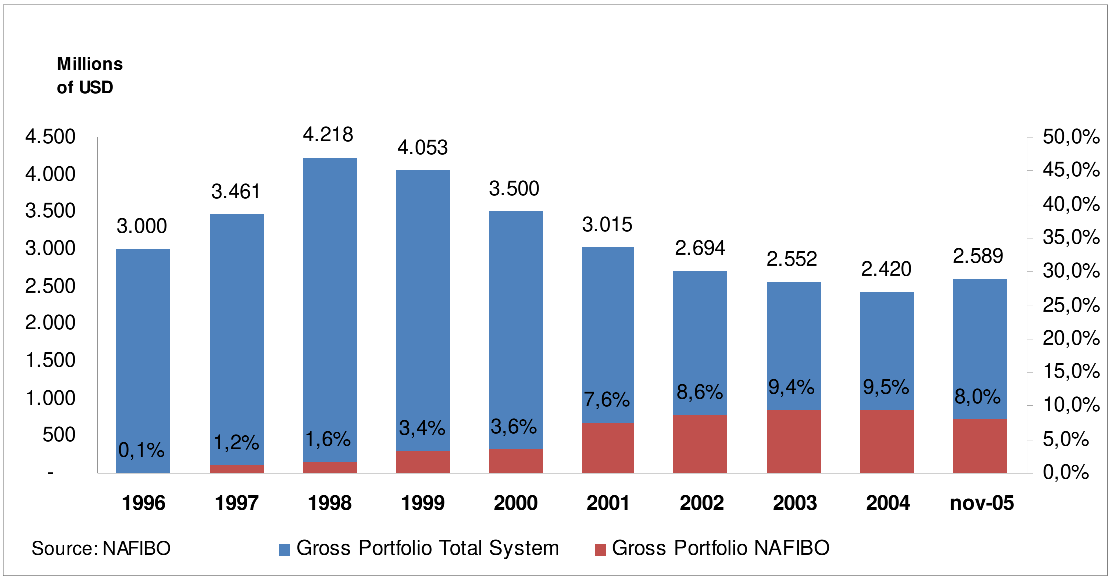
Additionally to those two already existing institutions there have been other governmental attempts to support the expansion of MF sector through development institutions providing financial and technical support to MFIs. In 1998 there were three public funds working in Bolivia with funds from international cooperation agencies and the national government: the *Rural Development Fund* (Fondo de Desarrollo Campesino), *Regional Development Fund* (Fondo Nacional de Desarrollo Regional) and *Santa Cruz Development Finance House* (Financiera de Desarrollo Santa Cruz S.A.M). The last two did not directly deal with MFIs; FDC was created in 1999 to encourage agricultural development through loans and grants to MFIs focusing on rural areas and regulated by the SBEF.[58] The three institutions discontinued operations between 2001 and 2002.

- Banco de Desarrollo Productivo (BDP)
This is a second tier bank conceived as a commercial corporation regulated by SBEF that promotes development activities through loan granting. The bank started its operations in 2007 with a total capital of USD 60 million, 80% from the Bolivian government and 20% from the Andean Development Corporation (*Corporación Andina de Fomento* - CAF). The new bank was created within the National Development Plan (*Plan Nacional de Desarrollo*)[59] framework for the creation of a development bank to promote national income redistribution through the financing of rural and urban productive sector that were traditionally excluded from other financing sources.[60] As of May 2008 (its first 12 months of operations) the bank had disbursed 7,200 loans for a total of approximately USD 80 million (using 2007-2008 average exchange rate).[61]

- Nacional Financiera Boliviana (NAFIBO)
BDP, created in 2007, is a transformation of another semi-public financial institution called Nacional Financiera Boliviana S.A.M (NAFIBO) that had operated in the country since 1996[62]. NAFIBO had the same equity structure as BDP and had financed MFIs regulated by the SBEF. During its 10 years of work it had received financial and technical support from several international organizations such as the IDB and KFW that has described the bank as a private institution that succeeded to work apart from governmental pressures and political interventions. [63]

NAFIBO showed good results in terms of loan disbursement, reaching a peak in 2004 when it managed 9.5% of total financial system active portfolio. At the end of 2006 it held USD 181 million in direct loans to financial institutions.[64]

Chart 1: Evolution of NAFIBO Portfolio Vs. Total System



NAFIBO discontinued its operations at the beginning of 2007 through the supreme Decree 28,999 that ruled its institutional adjustment in order to be transformed in a development bank.[65] BDP continued with NAFIBO operations adding new financing operations allowed by its new legal figure (for example act as a fiduciary body in the financing of infrastructure projects).

- *FONDESIF*

The Financial System Development and Support to Productive Sector Fund (*Fondo de Desarrollo del Sistema Financiero y de Apoyo al Sector Productivo* - FONDESIF) was created in 1995 as a nonprofit organization under the Ministry of Economy. Restructured in 1999 to act as a conduit for the Microcredit Fund[66], it evolved into a second tier institution to finance MFIs and today is under the control of Ministry of Development.[67]

FONDESIF is the arm of the government that provides financing and technical support to MFIs, whether or not regulated by the SBEF. As in the case of NAFIBO, FONDESIF channeled governmental resources as well as those from international cooperation agencies from countries such as Canada, Switzerland, Spain, Belgium, Germany and Denmark. As of December 2007, more than half of its portfolio was financed by international organizations. Its active loans amounted to USD 73.5 million (USD 35.8 million from international organizations), with a portfolio at risk of 6.33% and the technical assistance portfolio was USD 13.2 million with USD 8.4 million from international aid.[68]

FONDESIF selects sustainable MFIs and provides financing to expand its geographical outreach to those regions excluded from financial services, or to consolidate its presence in geographical areas with a high potential demand. Financial resources are provided to finance the opening of new branches or to support those already existing through loans and subordinated obligations. Additionally, it provides resources to promote the study and development of the sector through the execution of market research, technical papers, workshops and seminars.

The same Decree that established NAFIBO's conversion into a development bank (BDP) at the beginning of 2007 stated that FONDESIF will be gradually dissolved. The BDP will be the organization in charge of that dissolution having the obligation to perform an external audit as well as a technical and legal evaluation of FONDESI assets and resources in order to determine which of them will be transferred to BDP administration. In the meantime, FONDESIF cannot enter in new business similar to that performed by BDP and can only pursue those businesses that are essential to continue with its administration.[69]

By the end of 2008[70] there were 6 FFPs, 12 commercial banks (two of them specialized in MF: BancoSol and Banco Los Andes), 24 Savings and Loan Cooperatives and 8 Saving and Loan Mutual Companies active in the Bolivian regulated financial system. Among the institutions waiting for incorporation to SBEF regulation (under the new law) there were 46 Saving and Loan Cooperatives (Societarias) and 13 Development Financial Institutions.

The chart below shows the participation in total deposits and loans per group of institution as of August 2008. Under the label *Others* (not regulated) are included those commercial institutions that mainly grant consumer, housing and pledge-backed loans.

Table 4: Financial system snapshot (2008)

	Regulated				To be Regulated		Non Regulated	
	Banks	**FFP**	**Open Coop.**	**Mutuals**	**Coop. (Societarias)**	**IFDs**	**Others**	**Total System**
Total Loans (US$' 000)	3.611.680	580.395	308.982	260.332	194.315	268.204	22.596	**5.246.504**
Participation	68,8%	11,1%	5,9%	5,0%	3,7%	5,1%	0,4%	
Total Deposits (US$' 000)	5.335.589	500.045	318.021	404.052				**6.557.708**
Number of Clients	401.091	250.665	81.246	18.685	60.802	294.751	21.171	**1.128.411**
Participation	35,5%	22,2%	7,2%	1,7%	5,4%	26,1%	1,9%	

Source: PROFIN. As of August 2008.

Out of the total number of banking institution customers, 230,000 belong to BancoSol and Banco Los Andes, the two banks with the highest number of customers in the banking system. Taking into account the total customers of FFPs, the two MF banks and IFDs, we are close to determining the total number of customers in the Bolivian MF market: 775,416. Doing the same exercise, the MF market has a loan portfolio of USD 1.45 billion with an average loan of approximately USD 1,850 and total deposits for USD 1.02 billion. The mutual company sector has a higher average loan than the total system as it manages 5% of total loans with only 1.7% of the customers; on the contrary the IFDs have the lowest average loan, at USD 909.

Since their creation FFPs have shown a significant share of the MF sector in terms of loans and total deposits, also recording a good performance in terms of profitability and risk indicators. The negative results for the 1999-2000 period, shown in Table 5, were mainly caused by high administrative costs that FFPs were facing as they entered the market at that time[71].

Table 5: Private Financial Funds (FFP)

Figures in millions of USD as of December of each year

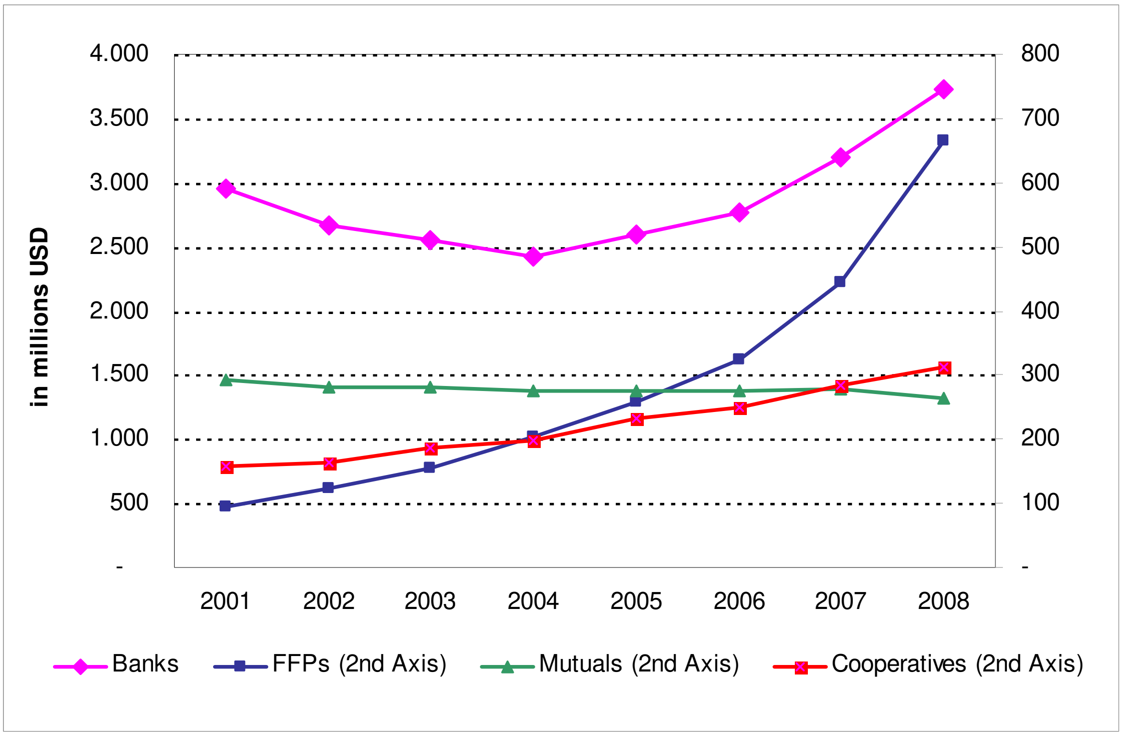
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Number of FFP	4	5 (a)	6(b)	7 (c)	7	8 (d)	8	7 (e)	6 (f)	6	6	6
Number of branches	NA	43	46	102	105	122	135	148	150	170	190	231
Total Assets	135,3	193,2	149,5	158,4	176,5	224,8	289,8	385,3	321,9	431,0	581,6	853,7
Total Loans	126,0	172,7	120,0	135,0	148,1	187,8	238,7	316,7	258,3	325,3	445,0	666,1
Total Public Deposits	97,8	132,1	86,3	72,1	88,2	127,6	167,5	215,3	179,8	249,7	364,9	543,6
Total Capital	18,1	29,1	27,2	29,8	27,0	31,2	35,0	40,9	33,7	42,5	57,8	87,9
ROA	3,75%	1,89%	-0,30%	-1,89%	-1,52%	0,26%	1,52%	1,63%	1,71%	1,56%	1,70%	1,20%
ROE	27,98%	12,52%	-1,66%	-10,08%	-9,04%	1,83%	11,94%	14,86%	16,61%	15,77%	17,44%	11,94%
Portfolio at Risk	14%	13%	15%	10%	8,5%	7,2%	4,2%	2,6%	2,1%	1,8%	1,0%	0,9%
Number of Employees	NA	NA	NA	NA	1.186	1.264	1.768	2.104	1.785	2.559	3.009	3.810

Notes:
Number of Branches includes Provincial and Urban Agencies and Branches. Total Loans include Active Loans, Past Due Loans and Non Performing Loans. Capital includes Reserves, Accumulated Results and Equity. Portfolio at Risk Ratio is calculated as Past Due Loans and Non Performing Loans over Total Loans. ROA and ROE for 1997 to 2000 were estimated from agregated financial statements, from 2001 to 2008 are those published by SBEF in Financial Indicators Evolution Bolletin.
(a) In 1998 ACCESO was incorporated as a FFP
(b) In 1999 is incorporated Eco Fondo FFP
(c) In 2000 PRODEM is incorporated as a FFP
(d) In 2002 Fortaleza is incorporated as a FFP
(e) FFP ACCESO changes its legal structure and was out of SBEF regulation in 2004.
(f) In 2005 Caja Los Andes FFP received its commercial bank license.
NA: data non available
Source: Own construction based on SBEF data.

The evolution of the loan portfolio during the last 8 years has not been homogeneous across all groups of financial institutions. The economic slowdown that has characterized the Bolivian economy since the end of the nineties to 2004 had mostly affected the banking system, which reduced its total loans by USD 2 billion between December 1998 and June 2004. Savings and Loan mutual companies had experienced a similar decline, while the MF industry loans (including those of BancoSol, FFPs and IFDs) grew from USD 191 million to USD 410 million in the same period.

As can be concluded from chart 2, the financial system as a whole experienced a change in its tendency in 2004. FFPs and cooperatives on the contrary have shown a positive trend for total loans for the entire period considered, despite the low growth by the Bolivian economy. The mutual company system showed a constant decline mainly explained by the decrease of the three biggest institutions (that could eventually end their operations).

Chart 2: Evolution of Total Gross Loan Portfolio per Group of Entities



Source: SBEF

3.3. Brazil

The Brazilian Financial System is organized under the authority of the National Monetary Council (CMN) as the regulatory organ, responsible for formulating monetary and credit policy with the aim of preserving monetary stability and the country's economic and social development. The Central Bank of Brazil (BCB) is responsible for the supervision of financial institutions and is the principal executor of the guidelines established by the CMN.

Following government policy directives, the CMN and the BCB have adopted various measures to facilitate access to the financial system by people with low incomes, mainly based on three pillars: credit cooperatives, microcredit, and non-bank correspondents.

- *Cooperatives*

Credit cooperatives have a lengthy history within the Brazilian economy. They began to operate in 1902, and since 1964[72] they have been regulated by the BCB. In 2002[73] the setting up of cooperatives by microentrepreneurs was authorized[74] carrying out industrial, commercial, rural or service activities, recording gross annual income for each association equal to or less than the limit established in current legislation for small companies. Subsequently, approval was given to the creation of credit cooperatives with unrestricted admission[75].

- *Microcredit*

The first law issued to regulate microcredit operations was directed at the activities performed by NGOs. Law 9.790[76] allowed NGOs offering microcredit to operate under the legal framework of *Public Interest Civil Society Organizations* (OSCIP), expanding their operational scope to enable not only access to public resources but also to allow the use of “Association Agreements”[77]. Later, various regulations were issued establishing general guidelines for the carrying out of such activities. In 2001 OSCIPs and those credit associations for which the corporate purpose was exclusively the granting of financing to microentrepreneurs were excluded from usury regulations[78].

That same year a specific window was introduced to include MFIs within the financial system under the heading of *Microentrepreneur Credit-Granting Associations* (SCM)[79]. This legal format was designed so that MFIs might achieve sustainability solely by means of the offering of financial services. Their exclusive social purpose was defined as the granting of loans to individuals and microenterprises to facilitate small-scale undertakings of a professional, commercial or industrial nature. SCMs require BCB approval, and the BCB is responsible for their supervision. Among other faculties, SCMs are allowed to be transformed into other types of financial institution, they can assign loans with or without recourse, and set up *Microcredit Attention Points*. Activities they are forbidden to perform include the taking of deposits from the public and the granting of consumer loans. For SCMs to be able to reach into the poorer sectors of the population, OSCIPs were allowed to become parent companies of SCMs, as in general the latter seek out microcredit niches offering greater profitability. In 2003 they were allowed to enter into contracts with non-banking correspondents[80] (see below) to expand the scope of their operations. Subsequently, by means of the law that created the *National Program of Oriented Productive Microcredit* (PNMPO)[81], SCMs were authorized to provide other financial services in addition to lending. This same law included SCMs among those oriented productive microcredit agencies qualifying for the program.

- *Non-banking correspondents*

In Brazil, the funds remittance business is quite significant. In view of the country’s size and the lack of branches in various regions, the BCB authorized various financial institutions[82] to contract the services of *non-banking correspondents* to provide the following services, among others:

- Receipt and processing of sight, term and savings account applications,
- Receive deposits and make payments in relation to such accounts,
- Receive and process requests for loans and credit,
- Perform credit analysis and background checks on customers.

In addition to the measures mentioned, the BCB adopted other initiatives to stimulate microfinance activity, including authorization of the opening of simplified accounts and the directing of sight deposits.

- *Simplified accounts*

In 2003 regulations[83] were issued covering the opening of special deposit accounts for the low income sector of the population. These accounts may be held by individuals with no other accounts within the financial system. All that is required for them to be opened is an identity document and registration on a customer database[84]; the balance of such accounts cannot exceed R$ 1,000 (USD 430[85]) at any given moment.

- Directing of deposits

In 2003 the Brazilian government[86] granted the CMN the power to regulate the MF operations performed by certain financial institutions using resources derived from sight account deposits. Among other aspects, it was resolved that it should regulate on the lendable percentage of such deposits, the criteria for classifying individuals and microentrepreneurs, the criteria for selecting low income customers, the maximum interest rate for borrowers, the maximum charge for opening the credit file and the maximum amount to be lent to any one individual. The BCB[87] established that a minimum of 2% of sight deposits taken by commercial banks, multiple-service banks with commercial portfolios and the Caixa Económica Federal should be allocated to microcredit operations. These operations are subject to the following conditions:

- Microcredit operations are to be targeted at :
    - Individuals holding deposit accounts with monthly average balances of less than 1,000 reais (USD 430[88]),
    - individuals with small-sized enterprises of a professional, commercial or industrial nature,
    - legal entities classified as microenterprises based on current legislation,
    - low-income people with or without low value deposits,
    - individuals or legal entities undertaking small-sized productive activities with a gross annual income not higher than 60,000 reais (USD 25,700[89]).
- The effective interest rate charged shall not exceed 2% per month (or 4% for transactions covered by the *National Program of Oriented Productive Microcredit*).
- Maximum amounts:
    - Low income customers and holders of deposits for less than R$ 1,000 (USD 430): R$ 600 (USD 255)
    - Microundertakings: R$ 1,500 (USD 640)
    - Productive microcredit: R$ 5,000 (USD 2,140).
- Term: over 120 days.
- Opening fee: from 1 to 4% depending on the type of loan.
- Guarantees: joint and several guarantees from at least three individuals; guarantee bond; other guarantees accepted by financial institutions.

Financial institutions can use various different instruments to comply with the requirements detailed, such as the transfer of resources to other financial institutions – including SCMs-, the purchase of loans from other financial institutions (OSCIP, NGOs with bylaws contemplating the entering into of microfinance operations, and institutions, funds or programs created for microcredit purposes).

- National Program of Oriented Productive Microcredit (PNMPO)

In 2004, the federal government set up the PNMPO[90] with the purpose of promoting a permanent flow of resources among microcredit institutions, banks and other operators using public resources. To this end, a special deposit line was made available from the Workers Assistance Fund (FAT)[91] (for R$ 200 million, USD 85.5 million[92]), to which was added an allocation of 2% of the sight deposits as mentioned above. This ensured microcredit organizations had a significant and permanent source of resources on the condition that they cannot be lent at an interest rate of more than 4% per month.[93] Institutions require authorization from the Ministry of Labor and Employment to be able to participate in this program.

When detailing the development of MF activity in Brazil, mention should be made of the participation by the government through three public banks: *Banco do Nordeste,* as a first-tier bank, *Banco do Desenvolvimento Economico e Social* (BNDES) as a second-tier institution, and the *Banco do Brasil* subsidiary.

- Banco do Nordeste

Banco do Nordeste[94] is a state-owned first-tier bank operating as a regional development bank in the north-east of Brazil, where the greatest concentration of poverty can be found. Together with *Acción Internacional*, in 1997 a microcredit program known as CREDIAMIGO[95] was designed. With the aim of executing the CREDIAMIGO program and train customers, in 2003 Banco do Nordeste signed an agreement with the *Instituto Nordeste Cidadania* (INEC)[96]. As a result of this partnership, CREDIAMIGO acts as a first-tier bank and the INEC performs the operating procedures and the administration of human resources. The bank is responsible for loan approval, defining goals, and strategies for the training of loan officers, as well as the methodological procedures, providing information systems, furniture and equipment and publishing institutional advertising campaigns. The INEC is responsible for submitting credit proposals to the bank for their final approval, customer assistance and the selection, hiring and training of loan officers and customers. The credit risk of the loans granted under the CREDIAMIGO system is borne by Banco do Nordeste. The main funding sources for the program are lines from Banco do Nordeste. Other resources are provided by the FAT program and the redirecting of deposits as mentioned above. CREDIAMIGO only deals with the granting of loans, as it does not contemplate any deposit-taking from microentrepreneurs. The program's main product is the "popular solidarity working capital," the principal feature of which is its monthly 2% interest rate, to which a commission is added.

- Banco do Desenvolvimento Economico e Social (BNDES)

The BNDES is a second-tier state bank that as part of its social development policies offers programs to expand the availability of productive credit to low-income entrepreneurs through the funding of MFIs. Until 2003 it channeled its operations through the Popular Productive Credit Program, whereby 32 microcredit institutions were supported with a total amount of R$ 43.3 million (USD 15 million[97]). In 2004 the BNDES Micro Credit Program was set up (PMC), with the aim of contributing with the operating aspects of the PNMPO. Some aspects were simplified, such as the acceptance of assets generated by the credit portfolio of agents transferring funds in guarantee of transactions. Another feature was the carrying out of transactions with funds transmission agents accredited as BNDES financial agents[98]. The latter transfer resources to agents operating directly with microentrepreneurs and that do not have sufficient weight to gain access to the PMC directly. In addition, in 2006 an agreement was signed between the BNDES and the Ministry of Labor and Employment for execution of the Institutional Development Plan for the PNMPO. The priority actions established included the training of OSCIP staff and the employees of microcredit institutions, and the spread of successful MPO methodologies.

- Banco Popular do Brasil (BPB)[99]

The BPB is a subsidiary of Banco do Brasil, an institution controlled by the government of Brazil that is listed on the stock exchange. In 2003, within the context of public policies that encouraged the increased use of banking and a more democratic availability of financial services, the BPB was established to achieve the inclusion within the banking system of the lower-income sector of the population. It began to operate in 2004. The BPB acts through non-banking correspondents, as it has no branches, which enables it to cut costs and reach certain communities where the setting up of branches would be unlikely to be viable. As part of its product range, the BPB offers the possibility of access to microcredit and provides its customers with life insurance. Furthermore, the BPB holds interests in OSCIP associations.

As a result of the laws and other measures implemented,[100] in Brazil there are different microcredit modalities that can be summarized as follows:

1. Not-for-profit institutions:
    - NGOs and provincial and municipal Public Funds (people's banks) subject to maximum interest rates.
    - OSCIP (unrestricted interest rates).
2. For-profit institutions:
    - SCM
    - Financial institutions operating directly, including through the adoption of a specialized department or portfolio.

As mentioned above, the government participates in the sector, developing specialized institutions such as the BNDES, BPB and some development agencies, and through official banks with specialized portfolios, such as is the case of the *Crediamigo* program operated by Banco del Nordeste.

The Brazilian microcredit market has grown significantly in recent years. Nevertheless, there is still a wide gap between the supply and demand for these services. On the demand side, a study by the BCB[101] estimates that there are some 16 million small productive units, of which 7 million would be potential customers representing effective demand that translates into some R$ 12.0 billion (USD 5.5 billion[102]). On the supply side, including microenterprise credit cooperatives, at December 2006 there were around 220 institutions serving approximately one million active customers who had borrowed approximately R$ 1.0 billion (USD 470 million[103]), barely 9% of that demand. The largest individual operator continues to be Banco do Nordeste, through the Crediamigo program.

Figures on the following table confirm the significance of participation by the traditional financial system for MF growth, because of their great capacity for generating funding in the short term.

Table 6: Composition of Microcredit Offer (December 2006)

Tipo	Institutions	Customers	Average loan amount (USD mill) (5)	Total amount (USD mill) (5)
SCMs(1)	56	21.286	1.047	22
Ongs, Oscips and public funds (2)	136	89.997	321	25
Crediamigo	1	235.729	338	80
Microentrepreneur cooperatives	23	33.672	2.027	68
Private banks (3)	4	ND	786	34
Targeted resources (4)	-	714.075	383	281
Total	220	1.094.758	817	509

1 Considering an average of 380 customers per SCM, calculated from sampling.
2 Data from Nichter (2002) corrected for the variation in GDP
3 Mean value calculated on the basis of estimates in "La demanda de microcrédito" (2002), p. 78-96
4 2% of sight deposits taken by several types of financial institution, except credit cooperatives, applied as per the terms of Law 10.735/2003
5 Selling dollar-real exchange rate at 12/29/2006.
Source: SBS (2007)

As a result of the policy adopted in relation to non-banking correspondents, in 2006 there were over 95 thousand customer attention points established, five times more than the number of branches. In addition, it should be noted that 37% of the companies in the informal sector with up to five employees made payments by means of non-banking correspondents.

Table 7: Correspondents – Basic Information

Consolidated	2002	2003	2004	2005	2006	2002-2006
Attention points	74.267	78.539	83.396	90.424	95.234	28%
Transactions (1)	900	1.005	1.203	1.418	1.533	70%
Amount (USD mill) (1)	20	24	38	59	85	331%

(1) Year-end balance, except payments and receipts, for which the figure represents the sum of transactions for the year. At the dollar-real exchange rate at the end of December of each year.
Source: BCB (2007)

Information provided by the BCB[104] on sight account for low-income customers reveals that over half the simplified accounts were opened at the *Caixa Económica Federal*[105] (over 3 million), at the *Banco Popular de Brasil* (1.5 million) and at *Banco do Brasil* (approximately one million).

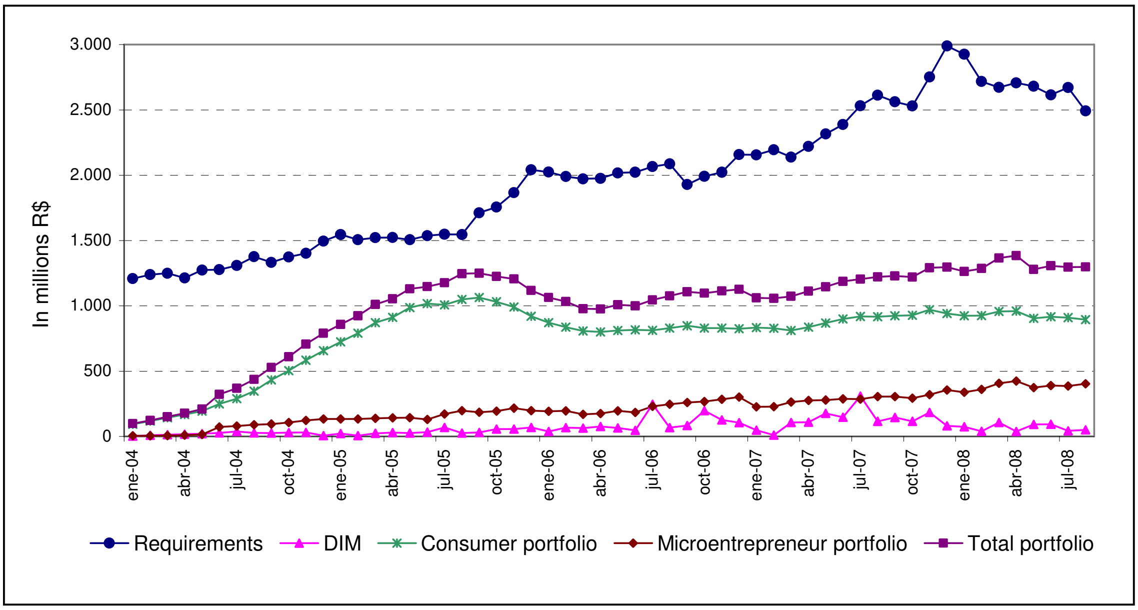
Table 8: Number of Special Accounts Opened

Type of account	Dec-04	Dec-05	Dec-06	2004-2006
Simplified current account	4.021.095	6.292.622	6.792.625	69%
Simplified savings account	138.479	295.672	339.680	145%
Total simplified accounts	4.159.574	6.588.294	7.132.305	72%
Total active accounts (1)	3.976.345	4.676.106	4.818.138	21%

(1) Recording movement in the last six months.
Source: BCB (2007)

On the matter of the allocation of deposits, since the introduction of the law until August 2008 microcredits granted never reached 100% of total resources available for application. The gap between the 2% of deposits requirement and its use for microcredit has been rising in the last three years, as can be seen from the following chart, and stands at 50%. Use of these resources is split between consumer credit and loans for microentrepreneurs, with the amount granted to the latter always being lower than in the case of the former. Only a small proportion of resources is transferred to the SCMs and other non-financial institutions specializing in productive microcredit via interbank deposits linked to MF transactions (DIM).

Chart 3: Deposit Allocation



Source: BCB www.bcb.gov.br

In the case of PNMPO, the program started in 2006 with fifty authorized microcredit institutions, ending the period with an increase of 300%.

Table 9: Authorized Institutions (April 2007)

Productive Oriented Microloan Institute				Intermediation Agents		
Oscip	SCM	IFO(1)	Coop. Singular	AF(2)	Coop. Central	Banco Coop.
94	16	3	107	4	3	1

1 Operating financial institution (Institución Financiera Operadora - IFO)
2 Development Agencies
Source: BCB (2007)

The Banco do Nordeste CREDIAMIGO program that began with a pilot scheme at five branches and expanded to 51 branches in only a year, is one of the world's largest providers of microcredit services, with 400,000 active borrowers and an active portfolio of R$ 362 million (USD 155 million) as at December 2008. Customers forming the program's loan portfolio are diverse. They are mostly owners of micro-undertakings active in the informal sector of the economy, with assets valued at between approximately USD 430 and USD 3,400[106]. Despite forming part of federal government policy, CREDIAMIGO is a sustainable program with a delinquency rate of 1.7%[107] and an annual average rate of return on the portfolio of 8.99% (2007). Its productivity levels are also notable, reaching an average of 408 active customers per loan officer and attending to 3,312 customers per day.

In the case of the performance by BNDES, the PMC portfolio established between 2004 and 2006 reached a record operations level of R$ 80 million (USD 37.4 million[108]). Of the twenty institutions supported, four are second-tier agents that transfer resources to 160 institutions operating directly with microentrepreneurs, thus widening the capillarity of the BNDES and improving access to the resource provided under the program.

3.4. Chile

In Chile, institutions that combine lending activity with the taking of deposits from the public are subject to the supervision of the Superintendency of Banks and Financial Institutions (SBIF).

In addition, all lending institutions, whether or not they take deposits from the public, are covered by a law that sets a cap on interest rates[109]. This limit is known as the agreed maximum rate and cannot exceed the current rate by more than 50%[110].

Rules covering authorized financial intermediaries establish a uniform regulatory treatment for all types of institution. On matters of requirements for their setting up, prudential rules and activities allowed, regulations do not differentiate institutions according to their type of lending (for treasury purposes, consumer loans, housing loans, microcredit, etc.). Nevertheless, regulations contemplate certain windows through which institutions can channel their MF transactions. One of them is the creation of *business units* linked to banks.

- Banking branch companies
A reform of the banking law (in 1986) authorized the setting-up of financial consultancies structured as banking branch companies (*sociedades filiales bancarias).* These branches are able to advise on financial activities such as credit risk or market analysis and the evaluation of new businesses.

- Savings and Loan Cooperatives
Another channel made available to serve low-income members of the population is that of savings and loan cooperatives (*cooperativas de ahorro y crédito - CAC).* A recent change in legislation[111] enabled a broader scope of authorized activities for "larger-size" CACs while at the same time introducing a more demanding supervisory mechanism[112]. CACs may grant loans to their members and the public in general, with or without security, and can carry out collections, payments and fund transfers. These institutions are supervised according to their size, with those with a net worth of less than 400,000 "unidades de fomento" (USD 13.6 million[113]) being excluded from the control of the SBIF.

Furthermore, the Chilean government has used various public agencies to promote initiatives for the providing of financial services to the lower-income segment of the population. Basically, measures consist of the providing of guarantees, operating cost subsidies or direct participation by means of the granting of microloans, such as those provided by BancoEstado.

- Solidarity and Social Investment Fund (FOSIS)
FOSIS[114] is a decentralized public agency with its own legal standing and net worth that was created in 1990 and comes under the supervision of the Planning Ministry. FOSIS finances development plans and programs contributing to a reduction of poverty in the country. Its activities include the subsidizing of part of the operating cost of small loans granted by financial institutions, thereby reducing the cost of such organizations.

- Agricultural Development Institute (INDAP)[115]

The INDAP is a decentralized institution created in 1962 to support small farmer family agricultural activity. Its actions target farmers who work the land themselves and own assets of less than 3,500 UF (USD 96,000). The INDAP operates a rural microloan program that has as its aims the improvement of credit management and working capital, with emphasis on expansion of sources of funding for the support of innovation and investment processes. To this end, the Program for Working Capital for Productive Development was created to encourage financial institutions interested in developing loan platforms for small farmers. This program operates by means of the use of two instruments:

- Working Capital Bond: This bond covers the increased transaction cost of loans granted to small farmers. The bond is auctioned among those institutions that have previously signed an agreement to participate, and is awarded on a competitive basis. The incentive is paid once the awardee institution has granted the loan to the small farmer[116].
- Financial Administration Fund: This fund is designed to encourage the development of credit availability for small farmers through public and private banks and CACs. INDAP transfers resources to various institutions by means of private tenders so that they can be administered for a period of 5 years for the purpose of granting loans to small farmers.[117]

- National Corporation for Indigenous Development (CONADI)[118]

CONADI[119] is a public entity responsible for promoting, coordinating and executing public policy on indigenous affairs (its funds and programs being intended for the return of land and water rights, cultural reinforcement and the development of the indigenous population). One of the tools for the development of indigenous economic activities, in force since 2004, is a program developed together with municipalities for the implementation of MF systems.

- Technical Cooperation Service (SERCOTEC)

SERCOTEC is a corporation established under private law that administers and makes use of state funds, for which reason it is considered to be a state institution[120]. In 2008 SERCOTEC signed an agreement with BancoEstado (a state bank) to promote use of banking services by small businesses[121]. The specific objectives of this program were to provide banking instruments for microentrepreneurs and the promotion of access to private sources of finance, as well as the increased use of banking services by micro and small companies (MIPES). SERCOTEC is responsible for coordinating communication and publicizing of private financing, incorporating private financing to the content of a program for micro-business training, and presentation of micro-businesses and entrepreneurs to banks for financial evaluation when they are potentially in a position to opt for private co-financing for the adequate implementation of their undertaking or business. BancoEstado supports the introduction of MIPES to banking and finance by means of the issue of bank products that improve their internal administration and the financial structure of their businesses, among other tasks.

- Guarantee Fund for Small Entrepreneurs (*FOGAPE)*

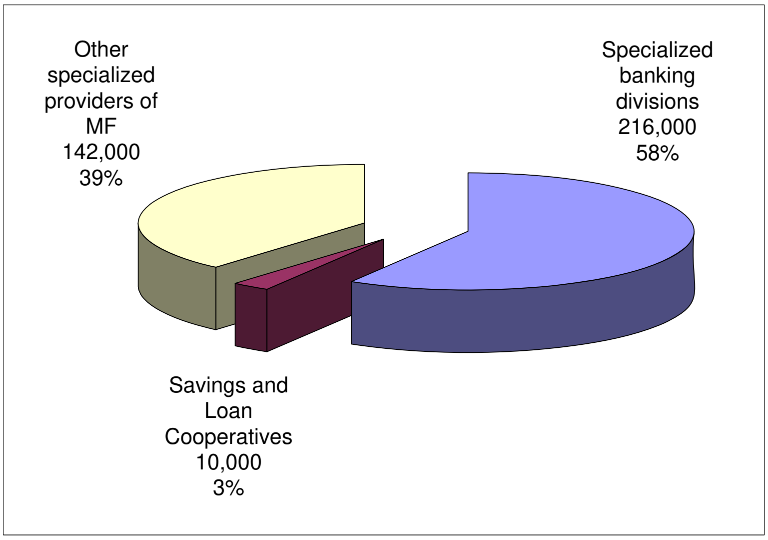
FOGAPE is a state fund that was created in 1980 with the purpose of providing loan guarantees to banks lending to small businesses. FOGAPE is administered by BancoEstado and supervised by the SBIF. The loans guarantees are intended for individuals or companies developing productive or service-sector business activities with an annual sales limit of UF 25,000 (USD 852,500[122]) in the case of non-agricultural businesses, and up to UF 14,000 (USD 477,400) for small agricultural undertakings. To gain access to these loans, borrowers must be tax registered and have no unfavorable commercial history or unpaid debts. Loans must be used for purposes such as working capital or investment projects. Guarantees are offered by means of public tenders held by BancoEstado and can cover up to 80% of the loan, so that the banks share some of the risk of default. Bids are selected on the basis of the coverage required, until the entire amount being tendered has been allocated. Banks recording a high default rate for these guaranteed loans may be excluded from the tender process. FOGAPE charges banks a commission of up to 2% of the guaranteed loan based on each bank's loss record. Commissions and other revenue, such as yield on investments, are used to cover all the administrative costs and losses so that FOGAPE is able to operate on a sustainable basis.

- BancoEstado
BancoEstado began its microfinance activities in 1995 through *BancoEstado Microempresas (BEME).* BEME is a separate entity from the bank, having been established as a financial advisory subsidiary as allowed by regulations. By acting in this manner, BEME achieves autonomy for the development of its loan-granting activities. At the same time, BEME can make use of the bank's infrastructure through its branch network. In addition, on the matter of funding, BancoEstado has a considerable number of savings accounts, enabling the planning of significant growth in the microcredit portfolio without major restrictions.

MF in Chile was initially carried out through microloan organizations, private institutions and NGOs. These organizations arose to provide support for small-sized service and commercial production initiatives that developed as a result of the economic crisis in the 80s. During the 90s the state adopted a more active role, beginning to participate via different channels as mentioned above.

Of the 1.339.000 microenterprises in Chile, 28% receive specialized credit coverage (broken down as shown on Chart 4) of which 61% are attended to via specialized banking divisions and CACs, and the remaining 39% via other specialized providers (INDAP, NGOs, Foundations and other CACs). Some 34% of microenterprises with coverage are informally-established companies, while their participation in the micro-business universe is 57%.

Chart 4: Specialized Microenterprise Loan Coverage

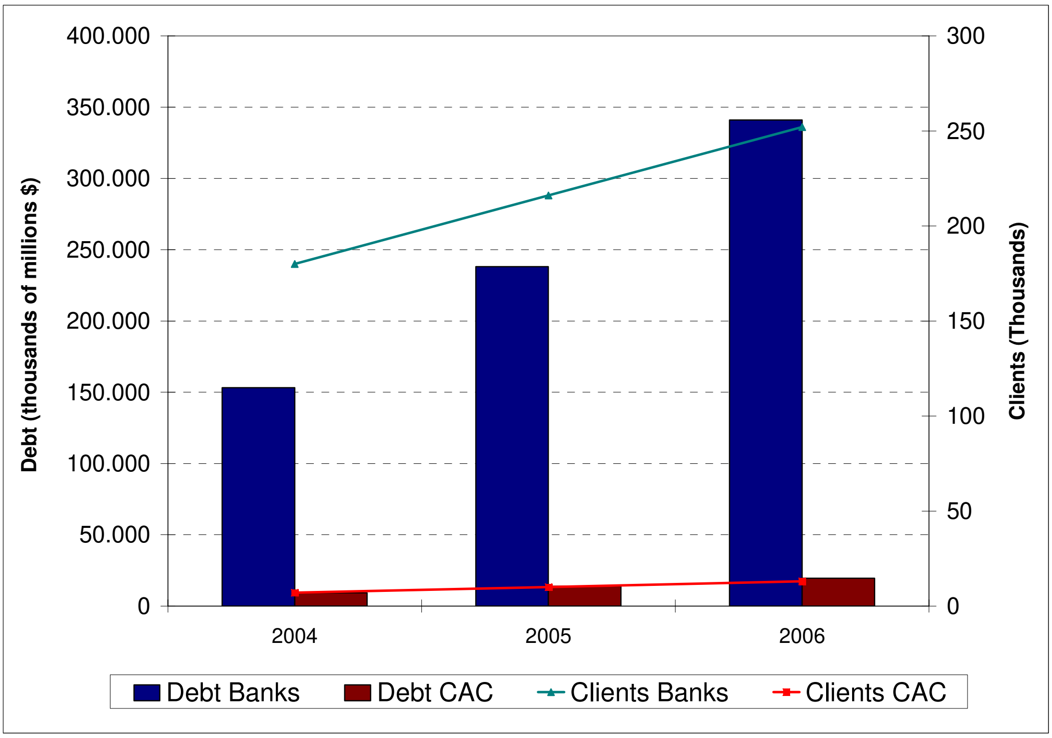


Source: SBIF (2007)

On the supply side, there are three financial institutions and four CACs, supervised by the SBIF, providing MF services. Although there are other players in the sector, they do not specialize in this type of business. The offer includes savings, loan, cash management and insurance products.

In recent years, the portfolios of specialized banking subsidiaries have expanded considerably (Chart 5). In the case of the CACs, the rate of growth is significant, although this activity is performed on a much smaller scale.

Chart 5: Microenterprise Loan Portfolio Growth



Source: SBIF (2007)

The dynamism shown by certain public sector programs indicates that the FOGAPE guarantee system has had considerable success. The default rate on guarantees granted has been relatively low, totaling 1.05% in the second half of 2005. This figure would suggest that this offer of guarantees does not provoke any reduction in bank follow-up and monitoring of their portfolios[123]. In 2007, 17 financial institutions participated in the system, for a total of 24,000 operations for an amount of guaranteed loans in excess of 13 million U.F. (approximately USD 440 million).

Official bank BancoEstado carries out these operations through its subsidiary BEME, with a customer portfolio that accounts for approximately 50% of the market[124]. BEME has 163 contact points for microenterprises along the entire length of Chile. Its loans record low delinquency levels (1.3% in 2006), a figure comparable with that for the leading MF banks in the region[125]. Other notable performance-related features include a high ratio of customers per loan executive (600 each) and rising profits (at the end of 2006 profits were 75 times higher than in 2001).

In addition to BancoEstado, other banks that have ventured into the world of MF are Banefe (Banco Santander) working in the field since 1993 and Banco del Desarrollo, where such activities began in 1991. Both BancoEstado and Banco del Desarrollo conduct their microfinance operations through subsidiaries. Banco del Desarrollo does so through Bandesarrollo Microempresas Asesoría Financiera de Interés Social S.A. This subsidiary places and monitors bank-owned microloans and receives a commission from the bank in exchange for the placement[126]

On the matter of the maximum interest rate, some authors[127] indicate that they have not been able to find evidence of it acting as a restriction on the financing of microenterprises[128] as many of the transactions involving microenterprises during the evaluation period were entered into at below the so-called current interest rate.

3.5. Colombia

The Colombian financial system falls under the supervision of the Colombian Financial Superintendency (SFC), which since 2005[129] oversees financial, stock exchange and insurance activities and any other business involving the taking of deposits from the public. Although intermediation establishments are classified according to their nature[130], there is no specific category for MFIs. Anyway, regulation establishes that commercial financial companies may perform microcredit operations with loans they receive from other financial intermediaries[131].

The public sector has ventured into the MF industry via a wide and varied range of initiatives that established clear definitions for the sector, encouraged the offering of savings and loan services from the private sector and developed training programs, among other aspects.

- National Program for Microenterprise Development
The first public sector initiatives took place in 1994 with the creation of the National Program for Microbusiness Development. This program, established to support the microenterprise sector, was based on several strategies:

- Technical, commercial and financial training.
- Recapitalization of the National Fund for Guarantees (FNG) for the granting of guarantee certificates to people unable to obtain traditional guarantees, and support for cooperatives, associations and financial foundations so they could obtain loans as intermediaries.
- Creation of the Finurbano program, set up by the Industrial Development Institute (IFI) to grant rediscounts to financial institutions and direct lending to savings and loan cooperatives, foundations and not-for-profit associations, among others. IFI funds are obtained on capital markets, as it is not provided with resources by the national Budget.

- *"Mipyme" Law*
The following step was taken by means of the Mipyme (Micro and Small Business) Law[132], the aim of which was to promote the development of micro, small and mid-sized companies. The law laid down several definitions in relation to MF:

- Microenterprise: Defined as a business with not more than 10 workers and total assets (excluding home) of less than 500 monthly minimum wages (USD 112,000 as at January 2009)[133].
- Microcredit system: A system for financing microenterprises by means of loans for less than 25 minimum wages (USD 5,600 as at January 2009).

In addition, financial intermediaries and organizations specializing in microenterprise lending were authorized by the High Council of Microenterprises to charge commissions and fees. Fees were set to remunerate technical advice and in-situ visits, while commissions were to pay for analysis of the credit transaction and its collection, among other matters. This authorization for the charging of fees and commissions was due to the policy for the setting of interest rate caps,[134] currently determined by the Financial Superintendency. These charges are not considered as interest for the purposes of the terms of Colombian legislation on financial transactions[135].

- *Agreement between Banks and Government*
In 2002 the public and the private sectors agreed on an initiative to provide an impulse to the development of MF. The federal government and 31 banking institutions signed an agreement whereby the latter undertook to allocate $ 300,000 million (USD 135 million[136] as at January 2009, or USD 105 million as at December 2002) of their own resources for the granting of loans to microenterprises during the first year. Subsequently, through to 2006, credit lines were to grow by at least the increase in the previous year's consumer price index.

- *Real Estate Microcredit*
In 2003 a new microcredit model was created with the aim of financing housing for microentrepreneurs. Law 795 created the real estate microcredit for the purchase, construction or improvement of property, with the following features:

- The loan should be for less than 25 minimum wages (USD 5,600 as at January 2009), for a maximum term of 5 years, and at a rate equal to that established for the financing of public housing.
- The value of the property should be no higher than 135 minimum wages (USD 30,200 as at January 2009).

The law also authorized the charging of a commission to remunerate analysis of the credit transaction and its collection cost, among other items. These charges are not considered as interest for the purposes of the terms of Colombian legislation on financial transactions [137].

- Entrepreneurial Culture

Subsequently, a law was passed in 2006[138] to assist in the development of an entrepreneurial culture that also proposed the entering into of agreements with financial institutions so that the business plans of new entrepreneurs could serve as a guarantee for the granting of loans.

- Banca de las Oportunidades

That same year, a document from the National Economic and Social Policy Council formed the basis for the creation of an investment program known as the Opportunity Bank (Banca de las Oportunidades)[139], administered by Banco de Comercio Exterior de Colombia, Bancoldex. The aim of this program is to facilitate access to financial services for low-income families, entrepreneurs, and micro, small and medium-sized companies. The Opportunity Bank network is made up of banks, commercial finance companies, cooperatives, NGOs and family welfare associations. Its activities range from proposing regulatory framework reforms to eliminate restrictions, designing incentives to promote access to financial services, and developing programs of financial education and technical assistance for cooperatives and NGOs, among others.

- Interest Rate Certification

Also in 2006, a decree was issued[140] requiring the certification of the various types of bank interest according to the type of loan. This laid down the following definitions:

- Microcredit: Loans granted to microenterprises for a maximum amount of 25 minimum wages (USD 5,600 as at January 2009).
- Microenterprise: A legal or natural person with not more than 10 workers or whose assets (excluding home) total less than 500 minimum wages (USD 112,000 as at January 2009).

This certification is applicable to those institutions regulated by the SFC and the entities supervised by the Superintendency of the Solidarity Economy[141] authorized to perform financial activities or grant loans. This decree was modified on two occasions (2007 and 2008) establishing a new definition of microcredit:

- Microcredits: Operations defined in the credit systems[142] and loans granted to microenterprises for which the principal source of payment comes from revenue derived from the business. The amount of indebtedness within the system as a whole should not be higher than 120 minimum wages (USD 26,800 as at January 2009), excluding mortgage loans for housing.

- Non-Banking Correspondents

Another of the measures adopted in 2006[143] was targeted at the providing of services through non-banking correspondents, defined as physical or legal persons providing attention to customers. Correspondents can carry out the following activities, among others:

- Receipt and transfer of funds
- Remittances in Colombian currency within the country
- Deposits and withdrawals from current accounts, savings accounts or term deposits.
- Disbursements and payments in relation to loan transactions.
- Collection and handing out of documentation on the services provided.

- Exemption from tax on financial transactions
To encourage the use of banks for savings purposes, the tax on bank transactions was eliminated in the case of withdrawals from savings accounts held at financial institutions, financial cooperatives and savings and loan associations supervised by the Solidarity Economy Financial Superintendency[144] in the case of monthly amounts up to a total of 350 UVT[145] (USD 3,700 as at January 2009).

- Fees and commissions
In 2007, Resolution 01 issued by the High Council for Microenterprises set a cap on fees and commissions that could be charged as per Law 590 sect. 39 indicated above. The following amounts were laid down:

- Loans for less than 4 minimum wages: 7.5% p.a.
- Loans for 4 minimum wages or more: 4.5% p.a.

- Savings accounts
In 2008, Decree 1119 authorized credit institutions and cooperatives to offer accounts and savings plans for small amounts at no cost to the beneficiaries. These accounts and plans have the following features:

- Savings accounts:
  - Limits: Deposits for up to a maximum of 2 minimum wages per month.
  - Monthly balance up to 3 minimum wages
- Savings plans:
  - Deposits for up to a maximum of 2 minimum wages per month.
  - Annual balance up to 4 minimum wages
  - Balance at the end of the contract of up to 16 minimum wages
- Includes 2 movements and one balance check per month
- No minimum deposit requirement

In addition, institutions were exempted from the requirement to make mandatory investments for the value of deposits under this system. To simplify the opening of these accounts as regards requirements for the prevention of money-laundering and the financing of terrorism, the Superintendency has established as a sole requirement that the customer should be duly identified.

- Bancamía – Banco de las Microfinanzas
One of the latest developments in the sector has been the setting up of the first specialized bank in this sector, known as Bancamía – Banco de las Microfinanzas. This bank arose from the merger of two NGOs (Corporación Mundial de la Mujer Colombia and Corporación Mundial de la Mujer Medellín) with a majority partner, Fundación BBVA, set up in 2007[146]. In October 2008 the Superintendency authorized Bancamía to

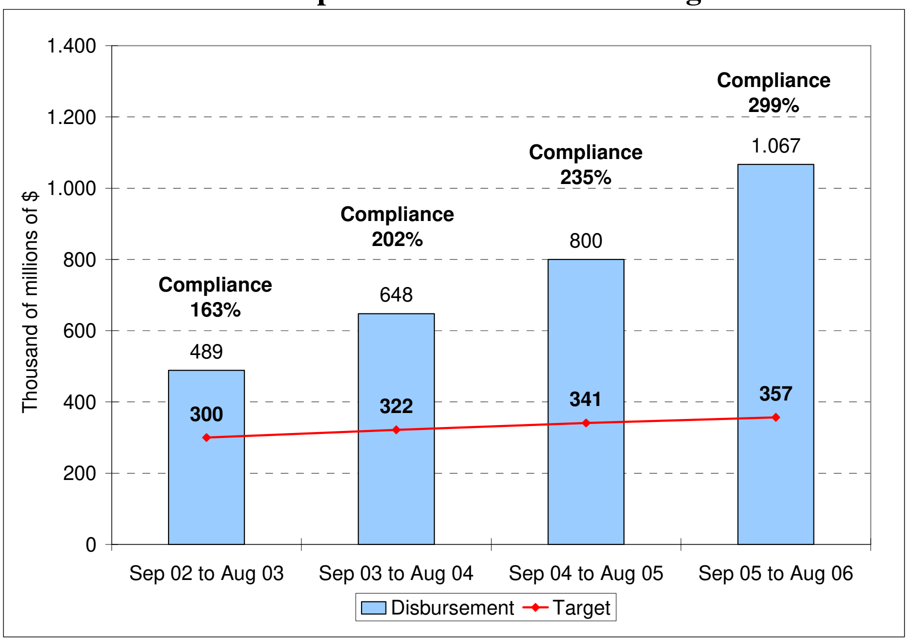
operate as the first banking establishment exclusively for the microenterprise sector[147]. The two NGOs mentioned had already been working in MF for some 20 years.

In Colombia[148] there are 1.6 million microenterprises[149], of which 62% hold some kind of loan, and 41% of these loans come from informal sources[150]. Formal microenterprises[151] tend to finance themselves more through banks and suppliers than informal microenterprises, which make more use of credit lines provided by foundations, and less frequently by means of pawnshops and commercial establishments. Loans from small lenders, friends, neighbors and relatives are used by both formal and informal microenterprises. The total amount of microenterprise credit is $5.7 billion pesos (USD 2.6 million as at August 2007), 20% of this amount coming from informal sources. This indicates that the amounts of informal loans are significantly smaller than those of formal loans.

The following comments can be made regarding the outcome of public policies in this area. The Finurbano program has run into various difficulties in lending to microenterprises. Problems encountered have included the reduced participation in loan placement by regulated intermediaries, mainly because of the low familiarity with the microbusiness sector, the high administrative cost of such loans, and the lack of specialized risk-analysis units. In the case of unregulated intermediaries, mention should be made of the limited availability of guarantees and very low levels of net worth, which hinder access to credit. According to Andares (2007)[152] public assistance via portfolio rediscounts is not much utilized by NGOs because the official guarantee demanded increases its cost.

In the case of the Bank-Government Agreement, since it began (August 2002) through to the latest information available (August 2006), the program has significantly exceeded the targets that had been established (Chart 6). At the time the agreement was signed four banking institutions participated actively in this business. In 2005, almost 20 commercial banks were lending to microenterprises.

Chart 6: Compliance with Microcredit Agreement

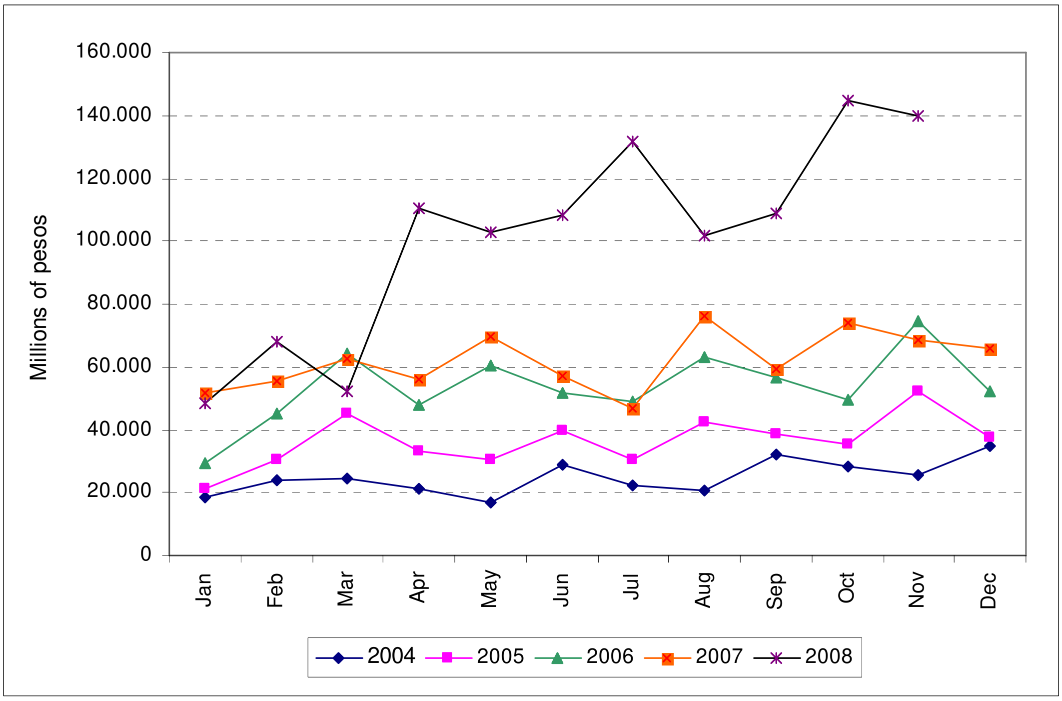


Source: Asobancaria based on figures from the Ministry of Industry, Trade and Tourism.

In June 2007 there were 1,658 non-banking correspondents, while the total as at November 2008 reached 4,870, of which more than 80% belonged to a single institution (Citibank).

Regulated credit establishment microcredit portfolios evolved as follows:

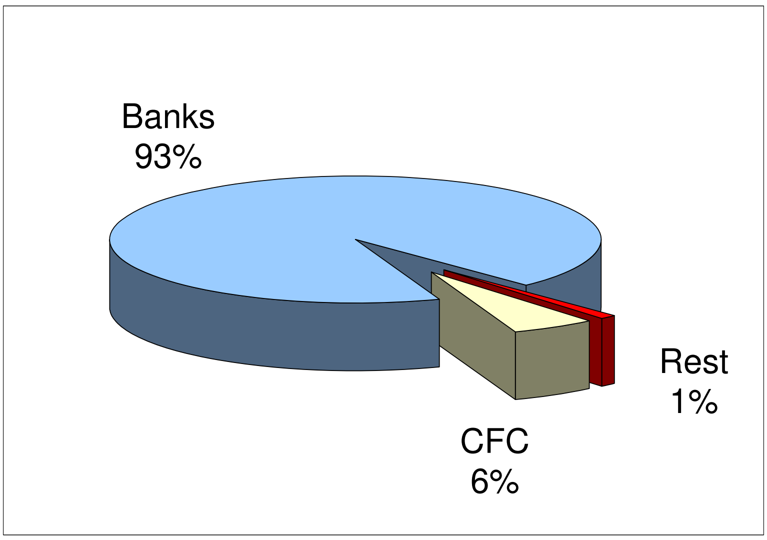
Chart 7: Microcredit Disbursements



Source: Superintendencia Financiera

Among different credit establishments, banks are those who concentrate the most of microloans awarded (December 2008).

Chart 8: market share of the microloan portfolio



Source: Superintendencia Financiera

Although no reliable data exist of all existing microloan providers, the latest figures (2003)[153] would indicate that banks (public and private) are first in the ranking, followed by NGO's and at last with a smaller share the CFCs.

3.6. Ecuador

The Financial system Institutions Act[154] regulates the creation, organization, activities, operation and winding-up of private financial system institutions, as well as the organization and functions of the Superintendency of Banks (SBS). Private financial institutions are defined as banks, finance companies and investment and development corporations, mutual savings and loan associations for housing, and savings and loan companies that carry out financial intermediation with the general public. A minimum capital requirement of 9% of weighted assets and a basic capital amount of USD 2,628,940 has been set for banks and USD 1,314,470 for finance companies and investment and development corporations. The SBS has the power to set the basic capital requirement for other types of financial institution.

The Organic Law on Monetary Regime and State Bank determines Ecuador's monetary regime, establishing that the Central Bank of Ecuador (Banco Central del Ecuador - BCE) is responsible for its execution. Section 22 lays down that the BCE Board is to determine, in a general manner, the interest rate system for lending and borrowing transactions, which will govern future transactions, having no retroactive effect.

The Law for the Regulation of the Effective Maximum Cost of Credit was issued in June 2007, introducing the following reforms to the General Law on Financial System Institutions, which could have an impact on microfinance activity:

- A Liquidity Fund is to be set up that is to be managed by a private trustee from Ecuador or abroad, selected by the private financial institutions and authorized by the Banking Committee. The Banking Committee will establish policies on financial system liquidity risk management in accordance with international best practices, and in particular on the basis of the Basel Committee recommendations. The Liquidity Fund shall be composed exclusively of contributions made by the private financial institutions themselves, and its resources shall not be able to be provided by the Government of Ecuador or any public sector institution[155].

- The rates to be charged by the financial institutions for their lending and borrowing services and any other services they may provide shall be freely agreed between the contracting parties and shall have as their maximum limit the system average per service plus two standard deviations, giving 95 percent confidence. The charging of fees for which there is no counterpart service is forbidden. Likewise, interest charges disguised as fees or rates are also forbidden. Fees and expenses must relate to services actually provided or expenses actually incurred. It shall not be possible to charge commissions or fees for services that have not been accepted or solicited by the customer. Should there be costs payable to third parties other than the lender, such as fees of expert appraisers, property registers, commercial registers, insurance premiums, these must be authorized previously by the borrower and detailed on the corresponding liquidation. There should be no charge for direct legal fees for the granting of the loan. It is forbidden for creditors to charge any type of commission on credit transactions.

Creditors are forbidden from collecting commissions or fees of any kind on any advance payment made by debtors when the interest rate is adjustable.
- Natural or legal persons performing commercial activities that make sales on credit shall only be able to charge the effective rate for the consumer segment, plus taxes required by law, and shall in no case charge commissions or other additional items. Such interest shall not be able to exceed the effective maximum reference rate for the segment; should it do so, the natural persons responsible for setting and/or collecting such a rate shall incur the crime of usury.

In December 2007[156] the BCE made a significant modification to its Code of Regulations[157], declaring the unconstitutionality of the reforms to the Organic Law on Monetary Regime and State Bank contained in the Law for the Regulation of the Effective Maximum Cost of Credit, introducing the following changes:

It establishes the following credit segments:

a) Commercial
b) Consumer
c) Microcredit
d) Housing

Microcredit is defined as all loans for not more than USD 20,000 granted to a borrower, whether incorporated as a natural or a legal person, recording annual sales of less than USD 100,000, a self-employed worker, or a group of borrowers with several guarantee, intended to finance small-scale manufacturing, sales or service activities for which the main source of repayment will be the proceeds of sales or the income generated by such activities, adequately verified by the financial system institution.

In the case of natural persons without a wage, usually in the informal sector, for whom the principal source of repayment shall be the sales or income generated by the activities to be undertaken, regardless of whether the purpose of the loan is the financing of productive activities or for the purchase of goods for consumption or payment of services for personal use, the transaction shall be understood to be microcredit, and therefore the interest rate to be applied shall be that of any of the three existing microcredit segments.

Self-employed workers are understood to be those who perform their activity making use only of their personal work; in other words, they do not depend from an employer, nor do they make use of waged workers, although they may be assisted by unremunerated family workers.

In the case of microcredit transactions instrumented by means of community-type granting methodologies, the effective rate to be applied to these credit transactions shall not exceed the maximum rate for the segment to which the average individual amount received by each member of the group receiving the loan corresponds.

For such operations, the BCE defines the following segments for microcredits[158]:

Subsistence microcredit – Credit operations for amounts per transaction and amount due to the financial institution of USD 600 or less.

Simple accumulation microcredit - Credit operations for amounts per transaction and amount due in the form of microcredit to the financial institution that are higher than USD 600 and do not exceed USD 8,500.

Extended accumulation microcredit – Credit transactions for amounts in excess of USD 8,500.

For all the segments defined, maximum effective lending rates have been established corresponding to the average rate, weighted by amount of the credit transactions granted in each segment in the four weeks prior to the last full week of the month in which they will take effect, multiplied by a factor to be determined by the Board of the BCE. It is forbidden to charge a nominal interest rate if the equivalent effective annual rate exceeds the maximum effective annual interest rate for its respective segment. These rates shall be in force for monthly periods, and shall be published in the widest-circulation newspapers in the country. As an example, below is the rate table for the rates set by the BCE corresponding to the month of January 2009:

Table 10: Effective Lending Rates (ELR) - January 2009

Segment	Reference ELR % p.a.	Maximum ELR % p.a.
Corporate commercial	9,2	9,3
Commercial SMEs	11,2	11,8
Consumption	15,7	16,3
Retail consumption	18,6	21,2
Housing	10,9	11,3
Extended Accumulation Microcredit	23,0	25,5
Simple Accumulation Microcredit	28,8	33,3
Subsistence Microcredit	31,5	33,9

Source: SBS

Interest rates on all transactions entered into outside the financial system shall be freely contracted, but shall not be able to exceed the maximum effective interest rate for the corresponding credit segment. The regulation also establishes the following guidelines for certain lending and deposit rates:

- Interest rates on loans from Banco del Estado, Banco Ecuatoriano de la Vivienda and Banco Nacional de Fomento shall be freely contracted, but shall not be lower than the average cost weighted by amount of the interest-bearing liabilities of those institutions.

- Interest rates on loans to financial institutions by Corporación Financiera Nacional, including rediscount transactions, shall also be freely contracted, but shall not be lower than the average cost weighted by amount of the liabilities of Corporación Financiera Nacional.

- Interest rates on all lending transactions by institutions subject to the control of the SBS, except occasional overdrafts and agreed overdrafts, shall be freely entered into, but no higher than the maximum effective rate for the corresponding segment. In the case of occasional or agreed overdrafts, the interest rate shall not be able to exceed the maximum effective rate for the consumer segment.

The Law for the Creation of the Financial Safety Network that was issued in January 2009 also has several aspects that could affect MFI activity in Ecuador.

This law calls for the setting-up of a Liquidity Fund for the Ecuadorian Financial System to act as a lender of last resort, granting liquidity assistance loans to financial institutions that must hold their deposit reserves at the BCE. It also created the Deposit Insurance Corporation to manage the deposit insurance scheme for institutions within the private financial sector established in the country that are subject to the control of the SBS.

The law also included within the concept of financial security the maximum rates to be applied to lending and deposit services and services of any other nature provided by financial institutions that are to be segmented according to the nature of each financial institution. It also establishes that the SBS shall authorize in advance the services to be freely accepted and received by customers and users, and shall determine the activities proper to the normal course of business that do not represent services.

The law also creates the post of customer ombudsman, to be appointed by the SBS from a shortlist of three to be submitted by the association of depositors or customers of each financial institution, with the job of protecting customer interests, receiving a salary to be paid by the institution being monitored.

Lastly, loans granted by financial system institutions subject to the control of the SBS have been exempted from all taxes.

Some market participants have indicated that these legislative developments could impact on MFI activity, as maximum rates previously applied to nominal loan interest, whereas as from the changes they apply to the total financial cost of the transaction, making it difficult to cover the operating costs of the transactions. With the reduction in interest rates and the elimination of loan commissions, one of the main concerns is the impact of the measures on the cooperative system[159].

The main impact[160] since the setting of maximum rates on lending transactions ("*interest rate ceilings*") has been as follows:

- Increased average amount of loans
- Reduction in the placing of loans for amounts of under USD 600
- Reduction in the placing of loans in areas of limited banking access
- Increased loan delinquency

- National Microfinance System

Notable among the public policies and initiatives tending to encourage the development of microcredit has been the creation of the National Microfinance System *(Sistema Nacional de Microfinanzas - SNM)*[161]. This initiative seeks to coordinate public and private microcredit programs to avoid duplication of effort and achieve a reduction of operating costs and serve as an instrument for the adequate channeling of financial

resources to the benefit of solidarity economy activities. The governing authority of the system is the Ministry of Economy and Finance, and the board of the entity includes representatives from the Ministry for Coordination of Social Development (MCDS), the Ministry for Coordination of Production, the Ministry of Social Welfare, and a representative of the cooperatives and unregulated organizations.
The SNM is to consist of three main instances:

- The National Microcredit Fund, which will operate as a legal entity subject to private law with nationwide jurisdiction, is to channel its resources to the economy using a second tier mechanism, operating through regulated and unregulated MFIs that have previously qualified for the purpose by means of a mechanism for public auctions based on project merit.

- The Strengthening and Training Fund, to operate under federal jurisdiction, which will channel its resources towards the strengthening and training of regulated and unregulated MFIs (first-tier operators) as well as for the training of end loan beneficiaries (microentrepreneurs) through a public tender mechanism for award on the basis of project merit.

- The National Network of Microcredit Operators, the main aim of which will be to extend the interbank payment system of the Central Bank of Ecuador.

The SNM channels its funds through Corporación Financiera Nacional (CFN) and Banco Nacional de Fomento (BNF). By the end of 2008, the SNM had entered into credit transactions with 13 NGOs, 37 Savings and Loan Cooperatives, and the BNF. Between January and April 2008, when the SNM operated with a credit fund administered by the CFN, 546 loan transactions were entered into for a total amount of USD 635,523. From August 2008 through December 31, as part of the Solidarity and Social Economy credit line, it channeled 12,753 credit transactions for an amount of USD 13,820,873, and under the Human Development Loan Credit (see below) it handed out USD 11,616,552 through 61,108 loan transactions[162].

Regarding the Solidarity and Social Economy credit line, it can be seen that based on the number of loans granted by poverty level, 80.3% have been made to individuals with a poverty level in excess of 65%, and 6.1% was granted in localities where the poverty level was under 38%. A total of 43% of loans was allocated for activities related to the trade sector, 30% for agricultural activities, 13% for services, 8% for the handicrafts sector, and the remaining 6% was allocated to other unspecified activities.

Another of the objectives of the PSNM is the development and strengthening of institutions that operate in the field of Popular Finance, implemented through two initiatives:

- A training scheme was carried out in the northeastern region of the country in which 12 such institutions participated, under a cooperation agreement with Swisscontac.
- A training program was developed nationwide with the participation of 73 local financial institutions, all members of the National Network of Ecuadorian Popular and Solidarity Finances, an organization with which SNM has signed a

cooperation agreement, which in turn the Dutch SNV Cooperation Service has undertaken to support.

- *Corporación Financiera Nacional*
Corporación Financiera Nacional (CFN)[163] is an autonomous public financial institution with legal capacity and indefinite duration. This institution encourages investment and promotes sustainable economic growth and competitiveness in productive and service sectors in Ecuador. At present, the CFN is the largest fiduciary agent in the country, administering an autonomous net worth in excess of USD 1 billion, spread among both public and private sector projects, supporting major sectors of the country's economy such as those of finance, electricity, telecommunications, infrastructure, real estate and MFIs, among others.

It is a significant second-tier provider of credit for financial institutions (IFI) focusing on the granting of microcredit via the "Credimicro" credit line. This program is directed at persons with small-scale businesses and sales or gross revenue of up to USD 100,000, so they can build up fixed assets and obtain working capital and technical assistance. The maximum loan amount is USD 20.000, and the terms for repayment are:

- 10 years for fixed assets.
- 3 years for working capital.
- 1 year for technical assistance.

Disbursements by this second-tier entity between January and December 2007 totaled USD 109.53 million, with 94% of beneficiaries linked to the "Credimicro" program. Of these loans, 63.3% went to commercial banks, 31.1% to cooperatives, and 5.0% to finance companies.

- *Banco Nacional de Fomento*
Banco Nacional de Fomento[164] (BNF) is a nationwide official bank operating a microcredit program known as "*CreceMás*" that targets individuals in the areas of production, commerce and services whose total assets do not exceed USD 20,000 and who employ up to 10 workers. Finance is provided for up to 100% of the investment project to be carried out.

This financing is for working capital and the forming of fixed assets, with an emphasis on project profitability. Finance will not be provided for the payment of debt, personal consumption needs, payments of leases or the purchase of land and property, purchases of vehicles or housing, household appliances not necessary for the development of the business activity, furniture for personal use, used equipment or tools, purchases of shares or the payment of taxes. Loans may be repaid on a daily, weekly, two-weekly or monthly basis, depending on the activity; in the case of agricultural activities, repayment will be determined in accordance with the income generated.

For these microcredit transactions, personal guarantees are accepted for individual loans, and several guarantees in the case of group loans, while cross-guarantees are not acceptable. Depending on the economic situation of the customer, personal guarantees, mortgages or pledges may be considered, or a suitable combination of such sureties.

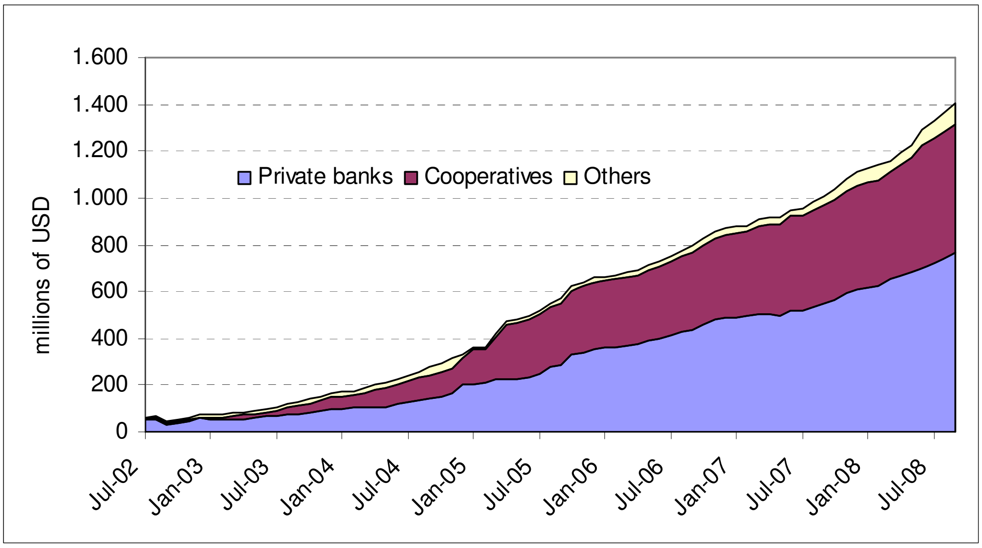
With the aim of getting to know the customer and evaluating compliance with the commitments to the Bank, a sequential credit policy is applied whereby the first loan is for an amount of up to USD 500 and for a maximum term of 4 months. If cash payment is made in a timely manner, the second loan may be for a larger amount and for a longer term. Depending on the business and on the basis of a favorable report from the microcredit advisor, terms and amounts may be increased.

Another BNF program, coordinated by the MCDS, is the "*Human Development Microcredit*" scheme targeted at individuals listed on the *"Human Development Bond"* program database. The maximum amount granted is USD 350, and loans are financed for investment projects in micro production, commerce or service units. Loans are granted at subsidized rates and require no guarantee, as repayment will come from the resources of the Social Protection Program. Applicants for loans for account of the Human Development Bond must expressly authorize the BNF to credit the Social Protection Program an amount of USD 30 against the microcredit granted until it is fully settled.

There is a wide range of institutions specializing in MF in Ecuador, including: 4 specialized regulated institutions, 23 regulated savings and loan cooperatives, over 1,000 savings and loan cooperatives not regulated by the SBS, around 40 non-governmental organizations and countless local financial structures: welfare funds, popular investment associations, communal banks, pre-coops and others. They currently serve over 650,000 microenterprises, covering 45% of all microentrepreneurs in the country. These institutions also offer wide coverage, reaching 74% of Ecuador's cantons. Coverage and competition has increased, particularly in urban areas, and this has resulted in financial product diversification and effective adjustment. Although several institutions are reaching into the rural sector, there is as yet no mass coverage by this service in rural areas of the country[165].

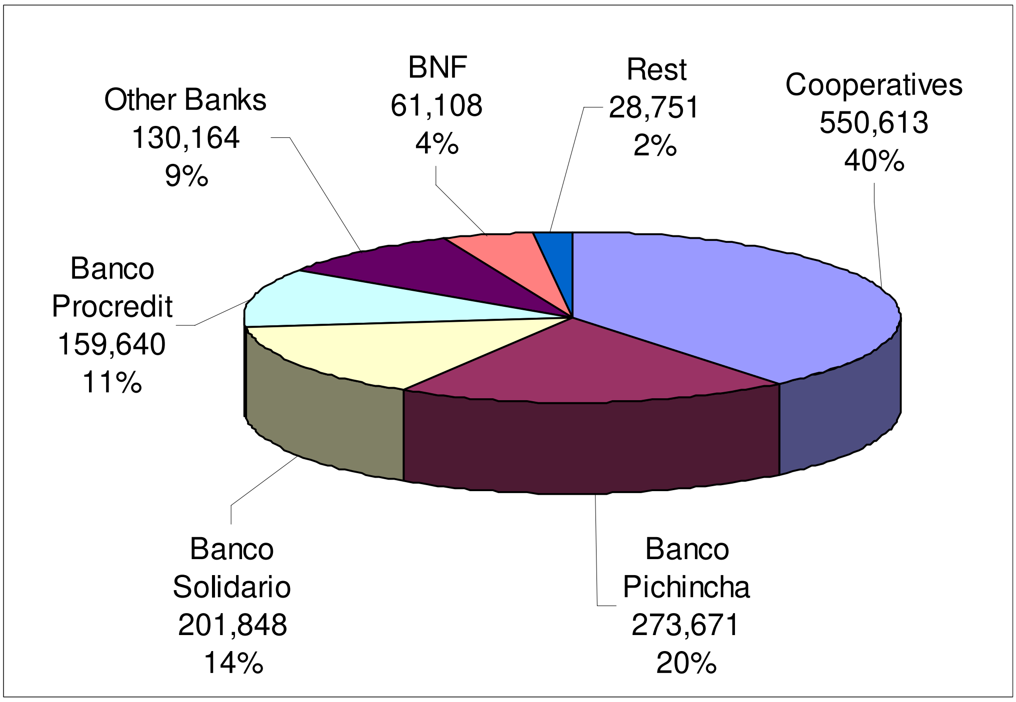
A significant aspect of the Ecuadorian case has been the sharp MF growth rate in the last six years, with notable participation by three commercial banks and regulated credit cooperatives,[166] as can be seen from the following charts:

Chart 9: Growth in Microenterprise Credit in Ecuador



Source: SBS - Gross micro-loan portfolio

Chart 10: Current Microcredit Segmentation in Ecuador



Source: SBS - Gross microcredit portfolio in thousands of USD as at September 2008

In view of their importance, there follows a brief summary of the history and current situation of the leading commercial banks offering microfinance services: Banco Pichincha and Banco Solidario.

In October 1998 Banco Pichincha[167] hired the services of Acción Internacional to assist in the creation of its CREDIFE microcredit program that opened its doors to the public in June 1999. Through its structure of 122 branches, CREDIFE was quickly able to expand its operations, as can be observed from its current market share (see Chart 10). In addition, the large size of the bank ensures a significant source of funding that allows CREDIFE to broaden its operations at very competitive rates. Its customer profiles fall into the categories of personal or family businesses in the formal and informal sectors, and includes small manufacturers, traders and service providers. The average balance of loans is in the order of USD 2,300, with a portfolio at risk of 1.5% (December 2007).

Banco Solidario[168] was established in Quito in May 1996 through the merger of Sociedad Financiera Enlace S.A. and Sociedad Financiera Finambato, which became Banco Solidario S.A., the first such initiative in Latin America with a social purpose and 100% private capital. In addition to the participation by Acción Internacional in the governance of Banco Solidario, both institutions have worked together on the development of new products (loans for housing improvement, personal and group farm loans), as well as on audit and credit scoring methodologies, among other aspects. Its customer profiles fall into the categories of personal or family businesses in the formal and informal sectors, and self-employed individuals in the rural and urban sectors. The average balance of loans is close to USD 1348, with a risk portfolio of 2.9%[169]. Recently Banco Solidario has been developing remittance services for Ecuadorian immigrants in Spain, providing automatic credit approval for families with members resident in Spain.

3.7. Peru

The general law covering the financial system[170] included institutions specializing in the providing of microfinance services within the sphere of the Superintendency of Banks and Insurance Companies (SBS), classified as follows[171]:

- Rural Savings and Loan Associations *(Caja Rural de Ahorro y Crédito - CRAC)*: These entities take deposits from the public and specialize in granting loans to small, medium and micro enterprises in the farm sector.
- Municipal Savings and Loan Associations *(Caja Municipal de Ahorro y Crédito - CMAC)*: These entities take deposits from the public and specialize in granting loans to small, medium and micro enterprises.
- Small and Micro Business Development Companies *(Empresa de desarrollo de la pequeña y micro empresa - EDPYME)*: These companies specialize in granting loans to small and micro business owners.

A recent decree[172] significantly broadened the range of operations that can be performed by these institutions, in addition to opening the door to the providing of all other operations allowed for commercial banks, as long as they fulfill the requirements laid down by the SBS. Although in principle the possibility of taking sight deposits is excluded, with CRACs only being able to receive time deposits and savings deposits (as well as funds in custody), in practice SBS statistics show that most CMACs and CRACs take deposits in excess of the loans granted. Operations that they are in principle forbidden to perform include:

- Granting of mortgage and pledge-backed loans,
- Granting of current account overdrafts,
- Issue and management of credit cards or debit cards,
- Issue and placement of bonds and other paper representing debt.

Currently, CMACs are authorized to operate outside their municipalities, in some way recognizing their capacity to compete with commercial banks.

Regulated institutions must publish their effective interest rates on Internet, and issue annual financial statements. As from 2010 EDPYMEs, CRACs, and CMACs must obtain external ratings, as currently required for commercial banks.

There are several NGOs[173] and credit cooperatives that continue to operate as unregulated MFIs, although the latter are restricted to granting loans to their members, mainly for consumption purposes. In practice, NGOs wishing to carry out MF business must register with the Superintendence of Public Records and tax, labor and municipal authorities. In addition, they can register with the Peruvian International Cooperation Agency if they wish to receive international financial assistance. Although these requirements are easy to comply with, NGOs must pay a tax on their interest income, and they are subject to a cap on the interest rate they are allowed to charge. These matters provide a strong incentive for them to become transformed into EDPYMEs. These EDPYMEs are institutions that are not authorized to take deposits, and they have increased in number (and profitability) so that they have currently exceeded CRACs in importance.

Regarding portfolio classification rules and the provision requirements for loan losses, a special treatment exists for microcredits[174] (loan balance must be smaller than 20,000 Nuevos Soles (NS)[175] and a general provision applies of at least 1%). The classification of all debtors is made according to the days in arrears with obligations and a specific provision must be set up on the basis of that classification. Notwithstanding the specific provision regime, regulations require additional procyclical provisions for performing loans (in case of microcredits 0.5%) when GDP grows at a rate bigger than 5%.

The second half of the 90s[176] saw the first signs in Peru of active public policies and promotion instruments for the development of Micro and Small Companies (MYPE), as well as the appearance of public institutions to support them. The Microenterprise Development Fund (FONDEMI) was created in 1992, and the Program for Small and Microenterprises in 1994, both within the sphere of the Ministry of Industry, while the Commission for the Promotion of Small and Microenterprises (PROMPYME) was created in 1997, within the sphere of the Presidency of the Council of Ministers. In the last five years a new regulatory framework has been established, and the Bonopyme and PROMPYME programs were transferred to the orbit of the Ministry of Labor and Promotion of Employment (MTPE)[177]. The system or institutional model for state support for MYPE in Peru consists of several public institutions that divide responsibility according to their public function, the type of services offered, the MYPE segment they serve, and the sector of the economy. The current regulatory framework establishes that the governing body for public MYPE policies is the MTPE.

Mention should be made of three experiences that have provided adequate coordination, continuity and clarity for the functions and roles of public policy:

- The experience of PROMPYME in public procurement (through a program for facilitation of access by MYPEs to state purchasing and the domestic market).
- The *"Perú Emprendedor"* program (previously Bonopyme) designed to provide dynamism to the service market and co-finance business development services by means of a system of bonds for various MYPE segments: self-employed workers and informal microentrepreneurs, micro and small businesses in the formal sector, and young persons and women starting up undertakings. The financing scheme is novel because it could achieve sustainability.
- INTERMESA is a council for the promotion of the National Program for the Simplification of Local Government Procedures for companies, promoted by public sector institutions, international cooperation agencies, local governments, unions and business leaders from all sectors, including MYPEs.

- *Guarantee Fund for Loans to Small Industries*

Another of the players in this segment is the Guarantee Fund for Loans to Small Industries (*Fondo de Garantía para Préstamos a la Pequeña Industria - FOGAPI*), one of the oldest systems of public guarantees in the region, which has increasingly become involved with the microfinance segment, offering portfolio guarantees to specialized banks. Recently it has opened a credit line for "intermediaries" targeting regulated non-bank institutions (CMACs, CRACs and EDPYMEs) and NGOs. According to the latest available information, by 2004 FOGAPI had granted guarantees on loans to microenterprises for an amount of close to USD 35 million, providing coverage of 50%.[178]

- Law for the Promotion and Inclusion in the Formal Economy of Micro and Small Enterprises

The Law for the Promotion and Inclusion in the Formal Economy of Micro and Small Enterprises was passed in August 2003[179], with the aim of promoting competitiveness, inclusion in the formal economy and development of MYPEs, coordinating all existing initiatives. This law establishes objective parameters for MYPEs and creates a National Council for MYPE development MYPE (CODEMYPE), the aims of which are the approval of a national program for promotion and formal inclusion for MYPE competitiveness and development to contribute to coordination and harmonization of sector policies and actions for the support of MYPEs at national, regional and local level. It establishes that the role of the State should be to promote overall development and facilitate access to business services and new undertakings, with the aim of creating a suitable environment for their competitiveness, encouraging the development of financial and non-financial service markets and promoting training and technical assistance via CODEMYPE. In addition, conditions were laid down for the PROMPYME program, export promotion and the generation of statistics and databases via the National Institute for Statistics and Information Technology.

This law promotes access by MYPEs to financial and capital markets, encouraging expansion, solvency and decentralization of those services. It lays down that the State must promote the strengthening of those MFIs supervised by the Superintendence of Banks and Insurance Companies, and establishes that the Corporación Financiera de Desarrollo S.A. (COFIDE) should promote and comprehensively develop diversified, decentralized financing, increasing the availability of financial and capital market services to the benefit of MYPEs. Subsequent sections establish instruments for the simplification of procedures and the obtaining of municipal licenses and permits, and a simplified tax regime for MYPEs. The law ends with a chapter dealing with the employment regime for microenterprises and complementary regulations.

- Corporación Financiera de Desarrollo S.A.

Mention should be made of the performance of COFIDE[180], "*a mixed-capital company with administrative, economic and financial autonomy, 98.56% of the capital of which is held by the Peruvian State, represented by the Federal Fund for the Financing of State Business Activity, depending from the Ministry of Economy and Finance, with 1.41% owned by Corporación Andina de Fomento (CAF)*". From the time of its creation through to 1992, COFIDE acted as a first-tier bank, then switching to becoming exclusively a second-tier development bank, channeling the resources it administers solely through the institutions supervised by the Superintendence of Banks and Insurance Companies.

"*All the lines and loan programs administered by COFIDE are channeled to beneficiaries through an Intermediary Financial Institution (IFI): a bank, finance house, CRAC, CMAC, EDPYME, cooperative or financial leasing company. IFIs are responsible for receiving, grading, approving, disbursing and recovering the loans they approve, granted from the resources administered by COFIDE, so that those interested in obtaining financing must apply for it at their financial institution of choice. This means that each IFI sets the final terms for each transaction, as a result of its own credit assessment.*"

COFIDE programs designed for small companies are summarized on the following table[181]:

Table 11: COFIDE Programs

Program	Purpose	Payment term** (years)	Grace period (years)	Maximum amounts (USD)
Microglobal to microenterprise*	Investment. Working capital	4	1	Average IFI portfolio 5,000
Productive Habitat	Working capital. Purchase of machinery and equipment.	4	1	Average IFI portfolio 3,000
	Purchase, construction, expansion and improvement of business premises and housing.	7	1	Average IFI portfolio 6,000
FONDEMI	Investment. Working capital.	2	1	

* Maximum of 10 workers, including owner, total assets USD 20,000 excluding real estate.
** Payment terms include grace periods.

The Microglobal program is intended to increase credit access for formal and informal microenterprises in urban, marginal and rural areas that carry out manufacturing, commerce or service activities. Program resources are provided by funds from the Inter-American Development Bank (IDB), beneficiary contributions and the IFI. The interest rate charged to the IFI is set by the Board of COFIDE. In addition, an inspection and audit commission is charged on transactions, as well as a commitment commission on undrawn balances in the case of loans with more than one drawdown. COFIDE disburses funds un US dollars, and repayment must be in the same currency, with the IFIs being authorized to grant beneficiaries loans either in US dollars or in local currency.

The Productive Habitat program is intended to contribute to improvement in the income and consolidation of employment in the Peruvian microenterprise segment. Preference is given to borrowers belonging to the sector of the population affected by the "El Niño" phenomenon, inhabitants and zones where the Deputy Minister for Housing and Construction performs urban development activities, and those regions where the Spanish Cooperation Agency carries out its work. Program resources are provided by Spain's State Secretariat for International and Ibero-American Cooperation – SECIPI, and COFIDE. End borrowers must be natural or legal persons performing manufacturing, agricultural, livestock, fishing, commercial or service activities classifiable as microenterprises.

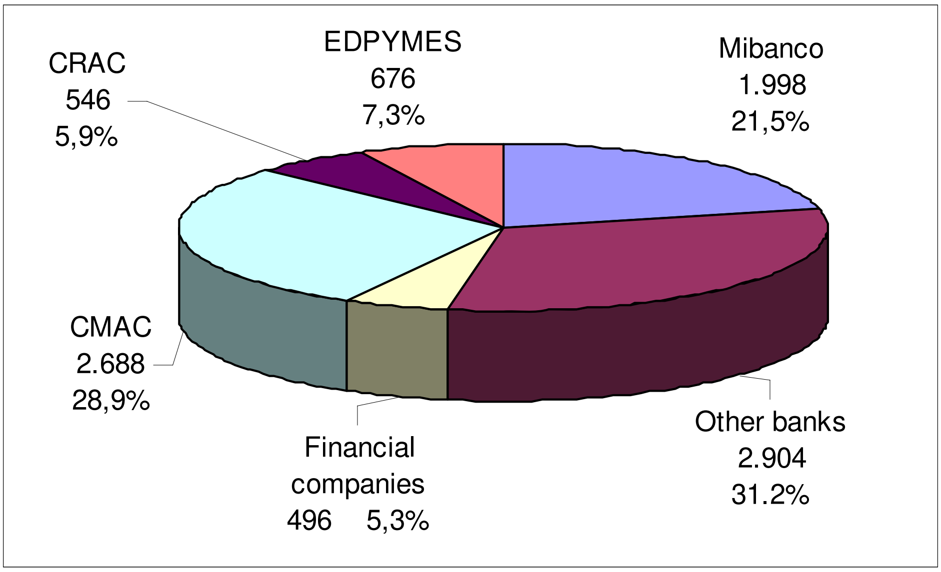
The FONDEMI is a component of the *"Perú Emprendedor"* program of the MTPE to provide financial services, administered by COFIDE as a trust, with funds from the European Union and contributions from the public sector. Its purpose is to contribute to microenterprise development, channeling resources to finance the requirements of the MYPE sector derived from its productive, commercial and service activities. The COFIDE, as the entity executing the resources of the FONDEMI, channels the resources through the IFIs in the form of credit lines.

Peru shows a clear intention to establish market incentives for the development of an autonomous microfinance sector similar to the Bolivian case[182]. Both the supply and demand for MF shows sustained growth in volume and in quality, in breadth (number of institutions and customers) and in depth (products, services and customer maturity). In the case of volume, the numbers are very clear: more institutions, a rising number of new customers, and the existing ones requesting more loans, growth rates at the forefront of the financial sector and improved indicators for solvency, liquidity and profitability. Despite the recognition of the contribution made to the national economy by the micro and small business segment, State involvement has been only marginal and it cannot be considered to have been a source of growth. As a result, supply and demand, that is to say, the private sector, has been primarily responsible for the growth of the segment.[183]

The micro and small business segment (MYPE) is vitally important to Peru's economic growth, it having been estimated that in 2007 it accounted for 42% of GDP and 74% of the economically active population. Peru has one of the largest informal economies in Latin America, making a contribution of over 42% in terms of GDP, exceeded only by Bolivia and Panama. Recent studies estimate that there are approximately 3.1 million business units with 10 or fewer employees[184], and they are receiving a growing offer of financial services by a group of companies in the national financial system (the figure indicated also includes small farm units).

Within Peruvian MFIs, the performances by Mibanco, a commercial bank specializing in MF, and the CMACs are particularly worthy of note, as can be seen from the following chart:

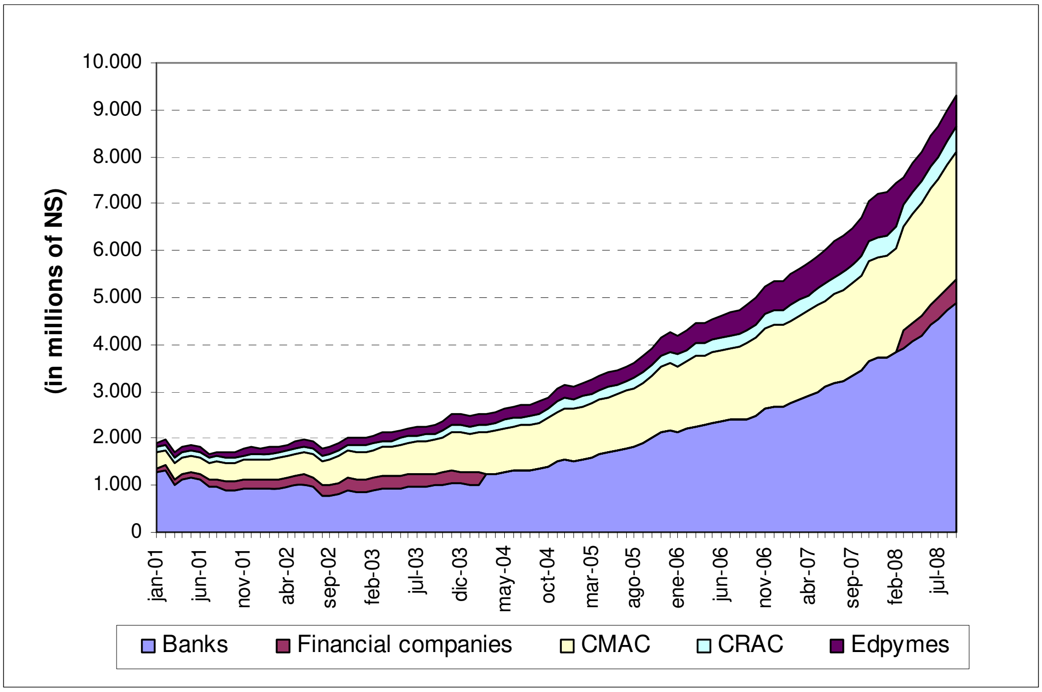
Chart 11: Segmentation of Microenterprise Credit in Peru



Source: SBS - Direct loans in millions of Nuevos Soles (NS) - September 2008

The significant growth of MFIs and the role played by these institutions in the providing of credit for microenterprises in recent years can be seen from the following statistics[185]:

Chart 12: Growth of Lending to Microenterprises in Peru



Source: SBS - Gross micro-loan portfolio

It should also be noted that the portion of the microcredit market in relation to total loans has grown from an average of 4.5% in 2001 to 10% in 2008. Another important fact is that of the NS 4,902 million (USD 1,578 billion) granted as at September 2008 by banks, NS 1,993 million (USD 642 million) were accounted for by Mibanco.

Mibanco, together with the CMACs and Edpymes, have made a notable contribution to increasing the use of banking services, as these institutions have granted the highest proportion of first-time loans, mainly in the small entrepreneur segment[186]:

Table 12: Ranking of First-Time Bank Service Users

Institution	Number of people	Percentage
Mibanco	73,632	23.8%
Edpyme Edyficar S.A.	42,587	13.8%
Caja Municipal de Ahorros y Créditos de Arequipa	20,438	6.6%
Caja Municipal de Ahorros y Créditos de Trujillo	17,276	5.6%
Edpyme Confianza S.A.	13,222	4.3%
Other institutions	141,785	45. 9%
Total	**308,940**	**100.0%**

Data as at December 2007

Despite the importance of MYPES in Peru in terms of jobs, there has still not been any significant progress in increasing levels of formal employment. A new promotion law for the sector is currently being debated, as the Law for the Promotion and Formalization of Micro and Small Enterprises, passed in September 2003 and still in force, didn't match the expected results.

4. Conclusions

The public policies implemented in each of the countries studied have been included on a comparative table (Annex I). This shows the existence of a wide range of measures that have not all been applied simultaneously.

It can be seen that public policies in each of the countries surveyed respond to contrasting approaches, with interventionist and pro-market policies existing side-by-side, in addition to laissez faire approaches (see introduction). This seems to be due to the following factors:

- Successive implementation of policies by different governments with a different outlook,
- Initiatives have been adopted simultaneously by various government instances (Central Banks, Ministries of Economy, Social Development, etc.) with different focuses and strategies.

This has meant that in many cases a policy accumulation process has taken place that is not always correctly integrated. Despite this lack of uniformity, the following attempts to draw some conclusions from the outcome of some of these initiatives considered to be the most relevant.

- The "interest rate" factor
As mentioned in the introduction, interest rate caps are a classic interventionist measure, and specialized international agencies strongly advise against them. Nevertheless, from our observation of the countries surveyed where they have been applied (Ecuador, Chile and Colombia), it cannot be said that they have been a major obstacle to the development of MF. This could be explained by the levels of the maximum rates established for microfinance activity; these would appear to have been set sufficiently high so as not to hinder MFE operations. In other cases, fees and/or commissions (sometimes regulated) are allowed to be charged, which makes it possible to pass on part of the higher cost of these operations. Furthermore, countries taking what is in principle a "laissez faire" approach, in that they do not set restrictions on interest rates (such Argentina, Bolivia, Brazil and Peru), record fairly uneven results as regards the development of this business. It would therefore seem that the "interest rate" factor does not in itself play a significant role in explaining the development of the sector.

- The "financial infrastructure" factor
This is a pro-market factor that always seems to contribute to the development of MF services. We found various examples in the countries selected: non-banking correspondents in Brazil and Colombia, microcredit operator networks in Ecuador and the entering into of mandate accords between financial and non-financial institutions in Bolivia. In all cases, each country's financial structure has adopted ways for MF to be channeled in an effective manner. For this reason, the construction of adequate infrastructure would facilitate the development of the business.

- The "Official bank" factor
This element is subject to far more debate, as literature classifies government participation via official banks and an interventionist policy. In general, these banks have been criticized for their tendency to direct loans, as well as in many cases because

of their operating inefficiency. Nevertheless, their participation in the countries analyzed would seem to have been fairly significant. This has been because of their demonstration role for the rest of the sector, the funding they have been able to provide to small MFIs, and their ability to serve a large mass of microentrepreneurs through their extensive branch networks. In the case of Peru, municipal “cajas” have been transformed into one of the main commercial providers of MF services. BancoEstado in Chile, and the Crediamigo program in Brazil, operate on a sustainable basis and can claim one of the highest market shares.

- The “Credit guarantee systems” factor

This is another topic much argued about in literature. Classified as a tool of an interventionist nature, many criticize it because of the moral hazard that it could give rise to. Its defenders argue that such systems are valid, as they cover the cost derived from the need to learn about granting loans to a group of agents of whom nothing is known. On the basis of our observations in the region, the design of this factor could play a key role in achieving efficient performance. FOGAPE in Chile is a clear example of a successful state fund, as it encourages market activity at the same time as it minimizes the problems of asymmetric information.

An overall evaluation of the different public policies adopted is not a simple task, given the degree of diversity that exists. Nevertheless, one common element observed in all the countries surveyed is the role played by commercial banks in MF development[187]. This involvement, whether implemented though public or private banks, is closely linked to the role adopted by the State.

As indicated, actions by the public sector to build an inclusive financial system can take a wide variety of shapes. Deciding which of these policies might be successful will depend on the imprint it is sought to give MF. For example, actions by public banks in sustainable systems could lead to very different results from those derived from the application of non-commercial criteria.

Nevertheless, one should not rush to draw conclusions regarding the effectiveness of public policies without taking into account socio-economic, geographic and cultural factors in the countries in which they are implemented. Although such an analysis does not form part of this present paper, various statistical sources (see Annex II) enable a brief survey to be made of some of these factors and their connection with the level of MF development.

In general terms, indicators such as per capita GDP, numbers of poor in urban areas and nationwide, and the number of self-employed workers as a percentage of the working population throw up figures that reflect clearly different realities. The same happens when observing the degree of MF development, although this latter indicator moves in the opposite direction to the former.

In those countries where MF has achieved greatest depth, wealth per inhabitant tends to be low, while poverty and the proportion of self-employed is high. On the other hand, MF is in an incipient stage, or is not very well developed, in economies with better social and economic indicators and lower proportions of independent workers. One case that does not follow this logic is that of Chile, where microfinance activity can be considered significant, despite recording better numbers for its economy than the rest of the countries selected. Nevertheless, there would seem to be some correlation between the economic and social environment and employment levels of a country and the providing of microfinance services.

Regardless of the different realities in the countries studied, the visible hand of the public sector has been present to support commercial banks as the main providers of MF. It has however been observed that only those measures applied on the basis of sustainability criteria and a commercial approach have achieved the best and most significant results.

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Annex I: Comparative table of public policies oriented to the promotion of MF

Public policies	Countries: Argentina	Brazil	Bolivia	Chile	Colombia	Ecuador	Peru
National legislation and financial system regulatory framework related to MF	Microloan law (26.117) / BCRA: microloan category / Financing of MFIs / Complementary service companies / Credit cooperative associations / Basic savings account	OSCIP / Credit cooperatives of microentrepreneurs / SCM / Simplified accounts	Private Financial Funds (FFP) / Closed cooperatives and IFDs regulation / Non banking financial institutions regulation / Special prudential regulation (Mutual societies, FFP, opened and closed cooperatives and IFD). Specialized in MF commercial banks.	Financial consultancies / Savings and Loan Cooperatives (CAC)	Microcredit system definition / Real state microcredit definition / Commercial financial companies / Savings accounts	Segments for microcredits definition (3 categories: Subsistence, Simple accumulation and Extended accumulation). Specialized banks / credit cooperatives (regulated and not regulated) / ONG	Specialized banks / CMAC / CRAC / EDPYME / Law for the promotion and Inclusion in the formal Economy of micro and small Enterprises
Public banks (direct MF)	BAPRO	Banco do Nordeste (CREDIAMIGO) / Banco Popular do Brasil		BancoEstado Microempresas (BEME)		Banco Nacional de Fomento (BNF)	
Interest rate liberalization	Free	Free	Free	Agreed maximum rate (law 18.010)	Maximum rate / Commissions and fees (law 590)	Law for the regulation of the effective maximum cost of credit	Free
Subsidies	implicit subsidies (law 26.117)		Lowers interest rates loans (Banco de Desarrollo Productivo and FONDESIF)	Solidarity and Social Investment Fund (FOSIS) / INDAP (Working Capital Bond)			
Financial infrastructure	Mobile branches	Non-banking correspondents	Financial intermediation mandates between regulated and not regulated institutions		Non-banking correspondents	National network of microcredit operators	
Credit guarantee systems	Guarantee Fund of Buenos Aires (FOGABA)			Guarantee Fund for Small Entrepreneurs (FOGAPE)	National fund for guarantees (FNG)		Guarantee Fund for Loans to Small Industries (FOGAPI)
Second-tier funds	Social capital Fund (FONCAP) / Bco. Ciudad / BNA / BAPRO (Fuerza solidaria program) / Microloan law (26.117)	Banco Nacional do Desenvolvimento Económico e Social (BNDES) / National Program of Oriented Productive Microcredit (PNMPO)	Banco de Desarrollo Productivo / (ex NAFIBO) / FONDESIF	INDAP (Financial Administration Fund)	Industrial development institute (Finurbano program)	Corporación Financiera Nacional (CFN) / National microcredit fund (FNM)	COFIDE (Microglobal and Productive Habitat programs) / Microenterprise Development Fund (FONDEMI)
Others	Exception to the mandatory reserve requirement on financing from abroad	Directing of deposits		National Corporation for Indigenous Development (CONADI) / Technical Cooperation Service (SERCOTEC)	Banks and government agreement Entrepreneurial Culture Tax exemption	Taxes exemption for active operations / Strengthening and Training Fund	PROMPYME / Perú Emprendedor program / INTERMESA

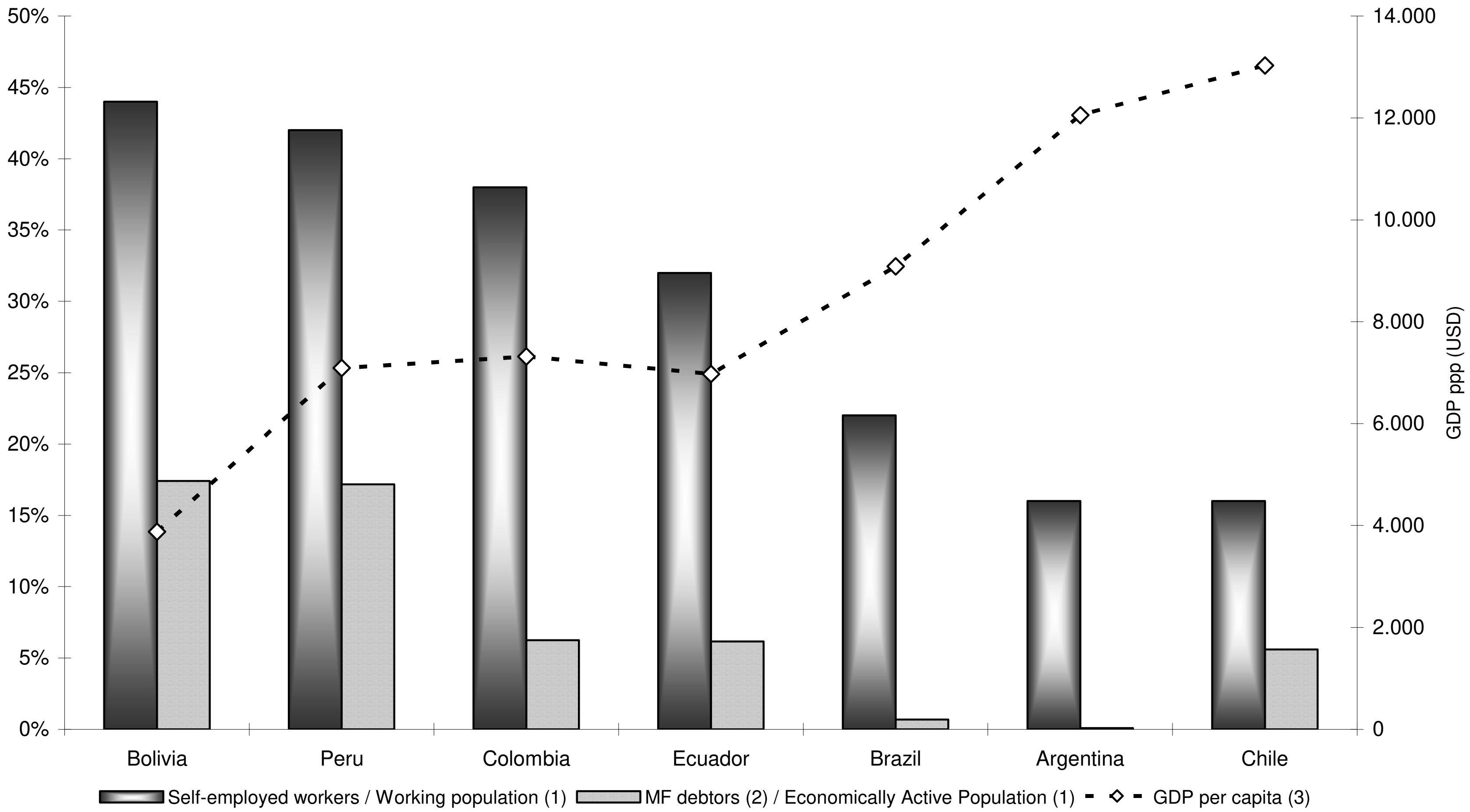
Annex II: Socio-economic statistics

	Loan portfolio[1]	Debtors[1]	% of loan portfolio in South America[1]	% of debtors in South America[1]	Debtors[1] / EAP[2]	GDP per capita[3]	% of poor in urban areas[2]	% of poor nationwide[2]	Self-employed workers / Working population[2]
Argentina	13	17	0,11%	0,27%	0,1%	12.054	21%	-	16%
Bolivia	1.505	746	13%	12%	17%	3.882	54%	64%	44%
Brazil	386	628	3%	10%	1%	9.086	30%	33%	22%
Chile	1.083	369	9%	6%	6%	13.032	14%	14%	16%
Colombia	3.254	1.432	28%	23%	6%	7.317	45%	47%	38%
Ecuador	1.090	403	9%	6%	6%	6.978	40%	43%	32%
Peru	3.675	2.361	31%	38%	17%	7.094	31%	45%	42%
Selected countries	11.006	5.956	93%	95%	-	-	-	-	-
South America	11.810	6.251	100%	100%	3%	-	30%	35%	-

Loan portfolio in millions of USD
Debtors in thousands
EAP: Economically Active Population
GDP per capita: gross domestic product per capita valued according to PPP (purchasing power parity) USD
Poor per geographical area over total population
Self-employed workers: self-employed workers and their parents (without technical or professional qualifications)

[1] Source: MIX MARKET. Voluntary information
[2] Source: CEPAL
[3] Source: IMF
(last available data)

Annex III: Microfinance and socio-economic statistics



Sources: (1) CEPAL (2) MIX MARKET (3) IMF
Last available data

Footnotes

[1] CGAP (2003); Delfiner, Pailhé, Perón (2006).
[2] World Bank (2007).
[3] Ibíd.
[4] This project was supported by a multilateral agency group representing the World Bank, the International Monetary Fund, the International Fund (FMI) for Agricultural Development and the International Labour Organization. This team was further supported by the Consultative Group to Assist the Poor (CGAP), the African Development Bank, the Asian Development Bank, the Inter-American Development Bank, and others.
[5] Naciones Unidas (2006).
[6] Chapter 5 of the Blue Book: the following points provide a summary of its contents.
[7] Star-up costs are examples of "smart" subsidizes.
[8] Including the WB, IABD, USAID and the European Community.
[9] CGAP (2006).
[10] CGAP (2006).
[11] Other policies include establishing a favorable legal environment related to issues like contract enforcement, business registry, collateral confiscation, property rights, and taxation.
[12] Corresponde a programas a través de los cuales el gobierno "matchea" cada peso depositado por una familia trabajadora pobre en una relación 1:1 o mayor, siempre que los mismos sean destinados a la compra de una vivienda, el pago de estudios superiores, o el inicio de un emprendimiento propio.
[13] Communication A 4891 dated 12/26/2008.
[14] Reference exchange rate at 02/06/2009: 3.486.
[15] Communication "A" 4712 – 09/24/2007.
[16] Reference exchange rate at 02/06/2009: 3.486.
[17] Communication "A" 4578 – 09/28/2006
[18] Decree 616/05 – 06/10/2005
[19] Communication "A" 4427 – 10/17/2005
[20] Communication "A" 4843 – 09/19/2008
[21] Communication "A" 4809 – 06/06/2008
[22] CUIT or CUIL (single tax and labor identification code); in the case of those not having formal employment and therefore no CUIT or CUIL, they can open an account with a CDI (identification code) granted by the Federal Administration of Public Revenue (AFIP).
[23] Ley Provincial - Law 11.560
[24] Law 26.117 – July 2006
[25] Reference exchange rate at 02/06/2009: 3.486.
[26] Source BNA.
[27] Andares (2006)
[28] Alternativa 3, FIE Gran Poder, FIS Empresa Social, Fundación Pro Vivienda Social, Entre Todos, Fundación Progresar, Fundación Grameen Mendoza, Banco Mundial de la Mujer / INTIHUACA, Pro Mujer Argentina, Columbia Microcréditos and Carta Austral.
[29] Two of these are connected with local commercial banks.
[30] Bolivian MF market had received the highest score in Microscope 2007 performed by The Economist in 15 countries of Latin America. The evaluation considered the MF regulatory framework, the investment climate in the country and the MF institutional development.
[31] Trigo Loubière, Devaney, Rhyne (2004) and Gomez, Tabares, Vogel (2000).
[32] From a peak of more than 1,000% in 1985 to 14% in 1987. www.indexMundi.com
[33] Between 1987 and 1991 the financial system of Bolivia registered the closure of 8 banks.
[34] During 1988 Bolivia received USD 392 million from international aid, the figure was increased in 1989 to USD 669.4 millions and to USD 738.2 millions in 1990. Arellano-Lopez and Petra 1994.
[35] Arellano-Lopez and Petra 1994.
[36] Ley de Bancos y Entidades Financieras; Law 1488 dated April 14, 1993.
[37] Gomez, Tabares, Vogel (2000).
[38] Delfiner, Pailhé, Perón 2006.
[39] Malamut (2005). Pro-Crédito association was the most important shareholder of FFP and GTZ, from Germany, has been one of the main technical assistance providers.
[40] www.grupofortaleza.com.bo
[41] SBEF: "La Regulación y Supervisión de las Entidades Microfinancieras en Bolivia."
[42] Compilation of Regulations for Banks and Financial Institutions (RNBEF). Title V, Chapter I, Annex I: Evaluation and Classification of the Loan Portfolio.

[43] It should be mentioned that the regulations adopt the same methodology and number of days in arrears to classify and set up provisions on consumer loans.

[44] The two methods for setting-up generic provisions are not cumulative, the higher of the two calculations being applicable. "La Regulación y Supervisión de las Entidades Microfinancieras en Bolivia". SBEF.

[45] Circular 590 dated 2008. SBEF.

[46] Circular 590 dated 2008. RNBEF, Title V, Chapter I, Annex I: Evaluation and Classification of the Loan Portfolio.

[47] RNBEF. Title I, Chapter IV: Regulation on Correspondent Contracts for Auxiliary Financial Services.

[48] RNBEF. Title. I, Chapter VII: Regulation for Financial Information Bureaus.

[49] RNBEF. Title IX, Chapter XVI: Interest Rate Regulation.

[50] RNBEF. Title I, Chapter VIII: Regulation for the Operation of Customer Complaint Attention Service.

[51] Law No. 3.892 dated June 18, 2008 "Changes to the Law on Banks and Financial Institutions" included within the scope of SBEF regulations closed cooperatives that until the appearance of this law only performed savings and loan transactions with their members, which must now operate under the name of "Cooperative Savings and Loan Societies."

[52] By means of Circular 34/2008 dated March 10, SBEF incorporated IFDs within the scope of its regulation.

[53] CEP (2008).

[54] www.finrural-bo.org

[55] FINRURAL, Self-regulation system.

[56] The minimum capital required capital by the new regulation is100,000 SDRs (USD 149,000) cooperative societies, and 300,000 (USD 447,000) SDRs for IFDs.

[57] CEP (2008).

[58] Navajas and Schreiner, 1998.

[59] Supreme Decree 29,272, September 2007.

[60] www.bolpress.com/art.php?Cod=2007010204

[61] Average exchange rate 2007-2008. Source: www.bdp.com.bo Consolidated statistics as of May 2008

[62] Created by National Law 1,670, October 1995.

[63] KFW Entwicklungsbank. Bolivia: Financing Micro and Small Enterprises (NAFIBO II).

[64] www.nafibo.com.bo 2006 Financing.

[65] Bolivian Supreme Decree 28,999, of January 2007.

[66] Bolivian Supreme Decree 25,338 of March 1999.

[67] Bolivian Supreme Decree 28,793 of July 2006.

[68] www.fondesif.gov.bo

[69] Bolivian Supreme Decree 28,999 dated January 2007.

[70]CEP (2008).

[71] During 1999 only two from six existing FFPs showed a negative net result, although having a positive gross operating result.

[72] Law 4.595

[73] BCB Resolution 3.058 dated December 2002

[74] Until that time it had only been possible for microentrepreneurs to form cooperatives on the basis of segmentation by line of business.

[75] BCB Resolution 3.106 dated June 2003

[76] 1999

[77] A legal instrument created for the entering into of agreements between the public authorities and the OSCIP to support the execution of projects. This legal instrument consolidates a cooperation agreement between the parts and establishes simpler procedures than those used for the entering into of a contract.

[78] Provisional Measure from the Presidency of the Republic (MP) 1.914, currently MP 2.172-32 (2001).

[79] MP 1.894 transformed into Law 10.194 (2001)

[80] BCB Resolution 3.156 (2003)

[81] Law 11.110 (2005)

[82] BCB Resolution 2.640 (added to by Resolution 2.707 –2002-)

[83] BCB Resolution 3.104

[84] "Catastro": Listing containing details of personal account-holders.

[85] Exchange rate at 12/31/2008: 2.34 reais per dollar

[86] MP 122 (2003), currently Law 10.735 (2003)

[87] BCB Resolution 3.310 (2005)

[88] Exchange rate at 12/31/2008: 2.34 reais per dollar

[89] Exchange rate at 12/31/2008: 2.34 reais per dollar.
[90] MP 226 and Decree 5.288, ratified as from transformation of the measure into Law 11.110 (2005)
[91] The Workers Assistance Fund (FAT) is a public fund with resources derived from a 1% deduction on wages paid by companies in the formal sector of the economy; part of these funds are allocated to funding of national employment system policies, workforce intermediation, unemployment insurance, professional re-training, unemployment data and work generation programs.
[92] Exchange rate at 12/31/2008: 2.34 reais per dollar.
[93] Law 11.110 (2005) and ECLAC-Cooperazione Italiana (2006).
[94] Banco do Nordeste (2005).
[95] www.bnb.gov.br
[96] The INEC was founded in 1993 at the initiative of officers of Banco do Nordeste, and was later transformed into an OSCIP with a staff of collection agents, administrative and credit advisors, coordinators and human resource experts.
[97] Exchange rate at 12/31/2003: 2.89 reais per dollar.
[98] Cooperative banks, development agencies, and central credit cooperatives.
[99] BCB (2007) and BPB (2008).
[100] Law 10.194 (SCMs), MP 2.172-32 (exception to the nullity of contractual terms in relation to stipulations regarding usury –The Usury Act).
[101] BCB (2007).
[102] Exchange rate at 12/29/2006: 2.14 reais per dollar.
[103] Exchange rate at 12/29/2006: 2.14 reais per dollar.
[104] BCB (2007)
[105] The Caixa Economica Federal is a public financial institution linked to the Economy Ministry, acting nationwide. It forms part of the National Financial System and assists in the execution of the Federal Government's credit policy. Therefore, as in the case of all other financial institutions, it is subject to the decisions and the regulatory discipline of the competent authorities and the supervision of the BCB. Soure: http://www1.caixa.gov.br/idiomas/espanhol/estructura.asp
[106] Exchange rate at 12/30/05: 2.33 reais per dollar.
[107] CREDIAMIGO (2007). The delinquency rate is defined as the portfolio at risk aged over 30 days= total balance of transactions with arrears of between 30 and 360 days/ gross amount of loans and credit (with loan operation provisions).
[108] Exchange rate at 12/29/2006: 2.14 reais per dollar.
[109] Law 18.010
[110] The current rate is the average rate charged by banks and financial institutions in Chile on their domestic transactions.
[111] Ley de Cooperativas. Ministerio de Economía, Fomento y Reconstrucción; Subsecretaría de Economía, Fomento y Reconstrucción (latest change: Law 20190 06/05/2007).
[112] Loans from CAC under the control of the banking supervisor represent more than 80% of the loan stock for that industry. Since the legal reform was introduced, three new CACs have been included within the scope of banking supervision. (SBIF 2007)
[113] 1 *Unidad de Fomento* is equal to $ 21.453,26. Exchange rate at 30/12/2008: 629.11 Chilean pesos per dollar.
[114] Law 18.989
[115] http://www.indap.gob.cl/
[116] INDAP operates participation agreements with 18 institutions, consisting of 3 Banks, 9 Cooperatives and 6 Foundations: Banks: BancoEstado Microempresas, Banco del Desarrollo Microempresas, Santander Banefe; CAC: Abamcoop, Andescoop, Casual, Chilecoop, Coocretal, Credicoop, Detacoop, Limarí, O"Higgins, Oriencoop and others.
[117] INDAP currently operates Administration Contracts with 8 Financial Institutions, consisting of 2 Banks and 6 CACs. Banks: Banco del Desarrollo Microempresas, Banco Santander Banefe; CAC: Abamcoop, Casual, Coocretal, Credicoop, Detacoop, Oriencoop.
[118] http://www.conadi.cl/fondodesarrolloIV.html
[119] Created by Law 19.253 (1993)
[120] http://www.sercotec.cl/
[121] http://www.laopinon.cl/admin/render/noticia/16373
[122] Exchange rate at 12/30/2008: 629.11 Chilean pesos per dollar. Chilean peso / UF = 21,453.26 at the same date.
[123] In comparison, the default rate for the banking system totaled 1.01%.
[124] BancoEstado (2004).

[125] Banco Sol 3.9%; Crediamigo 1.5%; MiBanco 2.2%; Compartamos 0.4%.
[126] See Planet Rating's report on Banco del Desarrollo at www.MixMarket.org
[127] SBIF (2007).
[128] Although it should be taken into account that the financial cost to microenterprises includes not only the interest charged but also other components such as commissions and other charges.
[129] Decree 4327 Art. 1, merger of Superintendencia Bancaria de Colombia and Superintendencia de Valores de Colombia.
[130] Decree 663 (1993): Banks, financial corporations, savings and loan corporations, commercial finance companies, financial cooperatives.
[131] Law 795 (2003) Art. 3
[132] Law 590 - 2000
[133] This was later changed to total assets for between 100,000 and 610,000 tax value units (USD 1,1 million and 6.5 million as at January 2009). Source: http://www.dian.gov.co. For 2009 the minimum wage has been set at the equivalent to $ 497,000 = USD 224.
[134] Section 6 of Decree 2.206 dated 1963.
[135] Law 45 Sect. 68. – 1990 - For all legal purposes interest shall be considered to be the sums received by the creditor from the debtor for no consideration other than that of the loan granted, even when justified on the grounds that they are fees, commissions or other similar items. In addition, interest shall include sums paid by the debtor for services related directly to the loan in excess of the sums indicated by the regulations.
[136] Exchange rate at 01/20/2009: 2227.68 Colombian pesos per USD. Based on information published by Banco de la República de Colombia. http://www.banrep.gov.co/series-estadisticas/see_ts_cam.htm#tasa
[137] Ditto footnote 135.
[138] Law 1014 – 2006.
[139] Regulations for the creation, organization and operation of the Opportunity Bank Investment Program: Compes No. 3424 - May 16, 2006 – The Opportunity Bank: A Policy to promote access to credit and other financial services, in the search for social equity. Decree No. 3078 - September 8, 2006 – Ministry of Economy and Public Credit – Whereby the Opportunity Bank Investment Program is created. Decree No. 4389 – December 5, 2006 - Ministry of Economy and Public Credit - whereby Decree 3078 dated 2006 is modified. Decree No. 1695 – May 16, 2006 - Ministry of Economy and Public Credit - Modifying Decree 3078 dated 2006, modifying Decree 4389 dated 2006.
[140] Decree 4090
[141] This is a technical agency of the State responsible for the overall supervision of the solidarity economy in Colombia. It controls companies in the solidarity economy, which are those set up by a given number of people with the aim of creating and organizing a legal entity under private law, the activities of which must be carried out with a social purpose and not for profit (cooperative public administrations, mutual associations, work cooperatives, specialized savings and loan associations, specialized associations without savings, etc.) Sources: http://www.supersolidaria.gov.co, http://www.colombiestad.gov.co/, and http://www.gestiopolis.com/.
[142] Defined in Sect. 39 of Law 590 (2000), on microcredit systems, as mentioned previously.
[143] Decree 2233
[144] Section 870. Tax on Financial Transactions -GMF- and Section 871. Events Generating GMF. Source: Estatuto Tributario República de Colombia Book Six: Tax on Financial Transactions - https://www.icesi.edu.co/cienfi/images/stories/pdf/estatuto_tributario_libro_vi.pdf
[145] UVT: unit of tributary value, with which one will periodically update all the taxes.
[146] Fundación Microfinanzas BBVA is an institution created by Grupo BBVA in the context of its corporate responsibility actions (RC). This autonomous foundation of the BBVA Group has a fund of 200 million euros, and reinvests the yields from these funds in the entities in which it participates, with no profit for BBVA.
[147] http://www.bancamia.com.co/compania_historia.php
[148] Survey of the informal credit market - USAID and the MIDAS Program (2007).
[149] Defined as companies with fewer than 10 employees from the low-income sector of the population.
[150] Informal sources: friends, neighbors, relatives, pawnshops and small lenders. Formal sources include both finance houses and commercial institutions: welfare funds, foundations, cooperatives and banks, as well as the company where the individual works, supplier and store credit and commercial establishment credit.
[151] A formal entity is one that has obtained a Single Tax Code or Tax ID Number, or has been registered with a Chamber of Commerce.

[152] Andares (2007) Microfinanzas en Argentina y en América Latina: Regulaciones, Instituciones y Políticas Públicas.
[153] Trigo Loubière, Lee Devaney, Rhyne (2004)
[154] Codification of the General Law on financial system institutions – Ecuador
[155] Changes to legislation and principal definitions for the operation of this Liquidity Fund have been laid down in the law creating a financial safety network promulgated in January 2009.
[156] Regulation No. 153-2007 - Ecuador
[157] Central Bank of Ecuador Regulations - Title VI "Sistema de tasas de interés del Libro I Política monetaria – Crediticia".
[158] Granted to microentrepreneurs recording annual sales for less than USD 100,000, self-employed workers, and groups of borrowers that are severally guaranteed.
[159] According to a prior study by the SBS, the total elimination of remuneration could lead to the closing of 20 cooperatives and 5 banks (two public sector institutions and three finance companies); nevertheless, to date no institution has been forced to close for this reason.
[160] According to information provided by RFR - Ecuador
[161] Decree 1126 - Ecuador
[162] MCDS – Ecuador (2008): Performance Report.
[163] CFN-Ecuador
[164] BNF-Ecuador
[165] RFR - Ecuador
[166] SBS
[167] Acción Internacional - http://www.accion.org/Page.aspx?pid=696
[168] Ibid.
[169] Figures as at December 2007.
[170] Law No. 26702.
[171] With a requirement for a minimum capital of 678,000 NS, equivalent to approximately USD 220,000 as at November 2008.
[172] Legislative Decree No.1028, Peru
[173] Microscopio 2008.
[174] SBS Resolution Nº 11356 - 2008
[175] Approximately USD 6490 as at November 2008.
[176] Mifflin (2006).
[177] Ibid.
[178] Ibid.
[179] Law No. 28015 (2003).
[180] http://www.cofide.com.pe/
[181] Limiting the amount per end borrower to USD 10,000 with financing of up to 100% of the requirement.
[182] Andares (2007).
[183] Mibanco (2007).
[184] SUNAT (2007)
[185] 1NS = 0.322 USD at 11/19/2008.
[186] Mibanco (2007). Ranking of first-time bank service users by means of a loans to a microenterprise.
[187] Except in the case of Argentina; here it should be noted that the measures adopted in relation to the insertion within the financial system of MF are very recent, so that it is not yet possible to evaluate their impact.