

MIX Microfinance World: Microfinance Market Report for Latin America and the Caribbean 2010

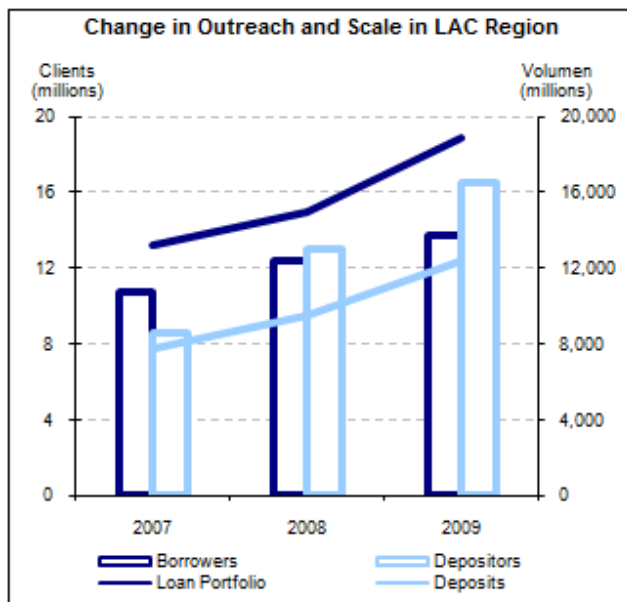


Introduction

The Microfinance in Latin America and the Caribbean showed signs of recovery in 2009, after the cumulative credit portfolio reached USD 19,552 million meaning an improvement of 24% over the previous year, when growth was only 13.6%. Likewise, growth in the number of borrowers (14.6 million) was 10% and loans (16.3 million) were in the range of 11.6%, which involved higher average credit balance per borrower and per loan. In relation to funding, the growth in deposits maintained the same pace of previous years as it reached 29% in accrued balance USD 12,834 million, while depositors reached 30.3% with 17.3 million. In parallel, the dynamic of debit kept its 14% growth as the previous year, taking into consideration that is the greatest source of funding for institutions that do not mobilize savings from the public.

Although microfinance activity in the region continues to grow and is overcoming the impact of the international financial crisis that originated at the end of 2008, it was precisely in 2009 where its main effects were reflected in the region. In this way, the growing level of portfolio at risk over 30 days rose to 4.8% while written-off loans grew to 2.6%. The effect on profitability was clear, decreasing to 0.5%,

given the lower income levels, and higher expenses for provisions and operations as consequence of the increase in collection efforts.



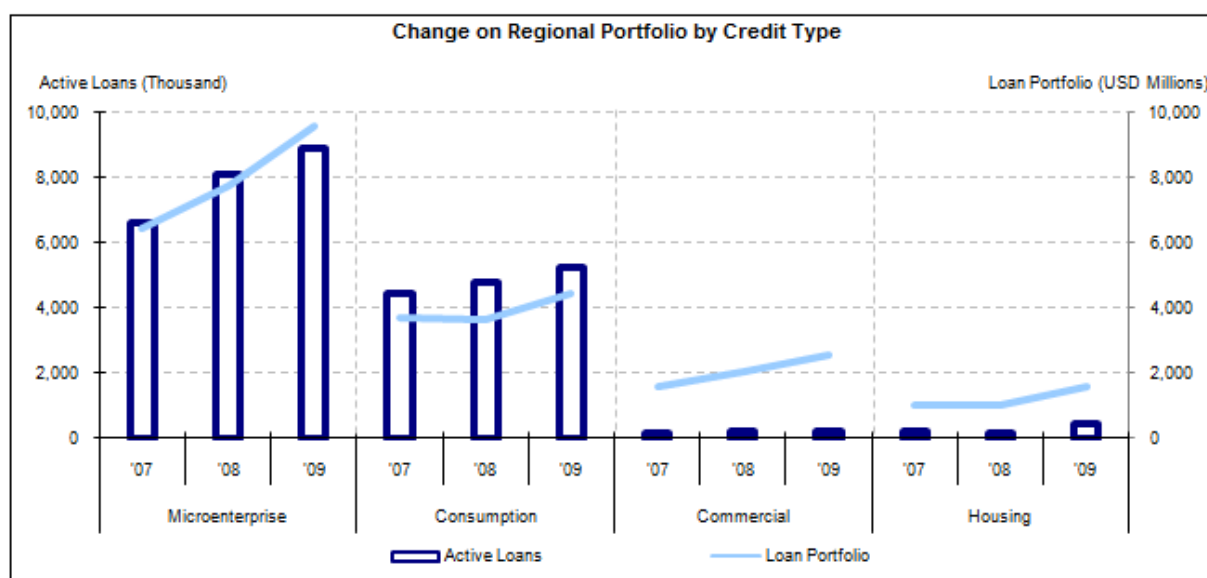
Importantly, the results were different if we review performance by sub region. While both the increased portfolio risk and reduction of overall profitability was a general result, South America stands as a mature market, therefore less affected. Mexico continues to show high potential with high growth rates, although margins are declining, however Central America was the region where MFIs were most negatively affected. Particularly in this sub-region a series of local events conjugated, reducing the credit offer and market results. Yet the general opinion is that these events simply made evident the latent fast growth, market saturation and over indebtedness of clients.

Source: MIX / aggregated information from 238 MFIs in LAC

More Credit to Fewer Clients

- The types of credits progressed in their portfolios while the number of credits experienced a reduction, with the exception of housing credits.
- In some countries, such as Ecuador, Bolivia and Peru, greater growth of consumption credits was observed.

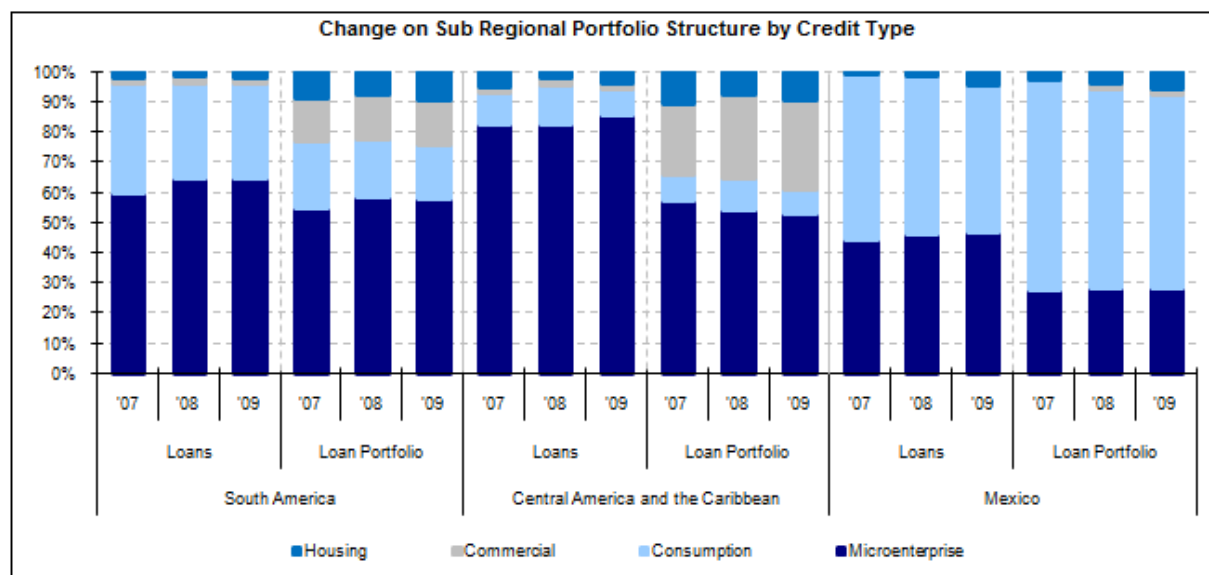
In 2009, all types of credits presented a favorable portfolio evolution; the difference was in the number of loans. Thus, the portfolio of credit to microenterprises increased 23.5% (close to the 21.2% of the previous year), but the dynamic of the number of credits reduced to half at 10.3%. Commercial credit continued to advance its credit dynamics at 25.2% (similar to the 25.9% of 2008) but reduced its loans by 6.4%. This behavior in both types of credit was certainly a reflection of the business dynamic, whether at micro, small and medium enterprises, taking into consideration the lower number of credits financed. Nevertheless, the MFIs try to compensate this reduction by giving higher amounts of credits to their clients who showed a stable risk profile. This strategy was mainly adopted by MFIs with substantial market coverage and a diverse credit offering; some MFIs adopted it as a temporary strategy, expecting an improvement in the economic environment, and a few as a permanent strategy, even considering leaving the micro enterprises level of the market.



Source: MIX / aggregated information from 238 MFIs in LAC

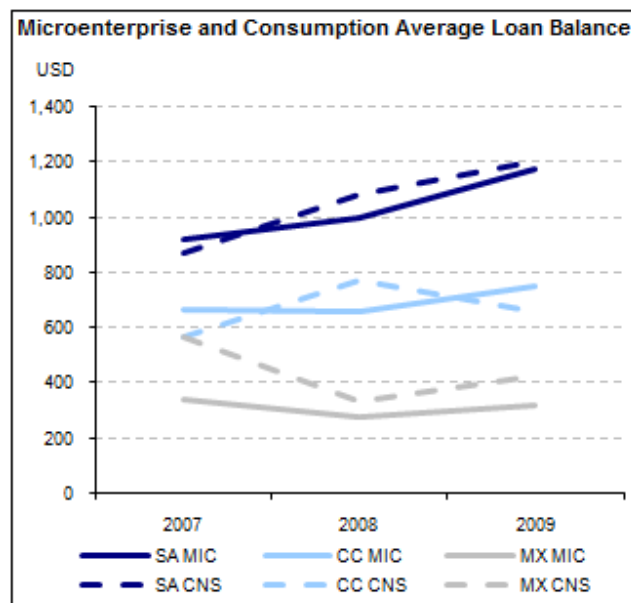
The inverse situation was observed in consumption credits, but with the same result (increase in average balance) where the balance grew 21.2% (after receding 2% in 2008) while the number of loans rose 9.3%. On the other hand, housing credit was more dynamic as it with an increase 130% in number of loans and 55% in the portfolio. Besides the fungible nature of money and the greater family demand to not only attend the needs of micro enterprises, the expansive monetary policies in some countries in the region, aimed at attenuating the effects of the financial crisis, generally provided greater resources to financial institutions. For this reason, MFIs sought other market niches to allocate the surplus and increase their incomes, in the same way as the traditional banking sector with the microenterprises sector.

This situation was evident in some South American countries, where consumption credit was more dynamic than credit for microenterprises, taking into consideration only the most representative MFIs. In this way, in the five biggest MFIs in Peru credit to micro enterprises grew by 25%, less than half if compared with the 68% achieved by consumption credit in 2009. We find a similar scenario in the five biggest MFIs in Bolivia and Ecuador, where consumption credit grew by 38% and 31% respectively, while credit to micro enterprises increased only 19% for the former and fell 4.4% for the later. It is interesting to note that for some MFIs, consumption credit presented a lower level of delinquency than credit to microenterprises.



Source: MIX / aggregated information from 238 IMF in LAC

In terms of portfolio structure, there have been no significant changes at the sub regional level. Certainly, credit to microenterprises is the most representative in MFIs in South America, Central America and the Caribbean, both in terms of loans and portfolio, while consumption credits concentrate the second largest base of clients with some portfolio distribution. However, in Mexico, consumption credit had greater participation due to the presence of the two regional giants¹.

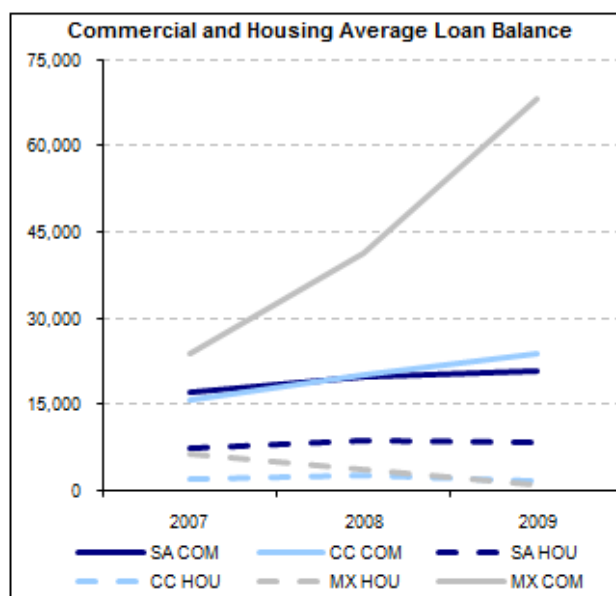


Source: MIX / aggregated information from 238 MFIs in LAC

¹ Financiera Independencia and Caja Popular Mexicana justified 47.0% of the entire country's portfolio; consumption credit in both institutions represents 13.3%.

Particularly, Central America and the Caribbean MFIs had a larger base of clients with credits for microenterprises, although its portfolio participation was discreetly reduced in favor of commercial credits. This means that MFIs in the sub-region increased their participation in larger credits, many of them for the livestock sector and rural zones; taking into consideration the higher level of funding previously obtained that increased their exposure to risk.

It is interesting to note, microcredit rates and consumption were grouped when analyzing the three Latin American sub-regions, emphasizing higher levels in South America, medium in Central American, and the most reduced in México. And thus reinforcing the fungible nature of money; facing the different destinations that micro entrepreneurs can give to it once they have received money and the greater family demand. Only in South America, both average credits showed upwards while in the other two sub-regions, consumption credit was volatile.



Source: MIX / data presented by medium size institutions

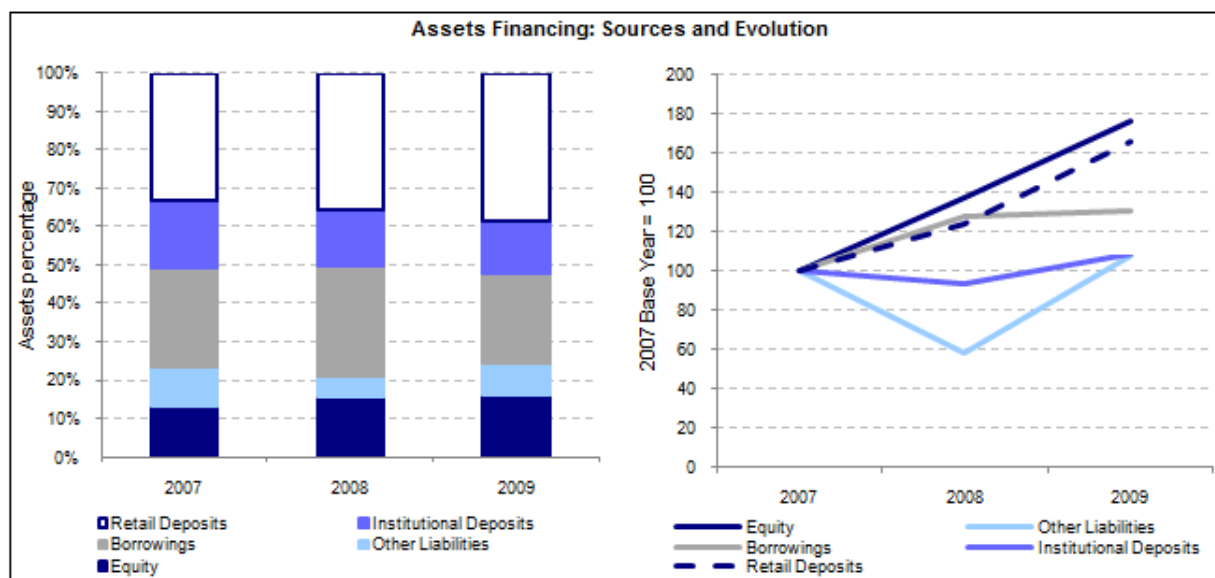
In the case of commercial credit, a significant increase in the average balance was noted, especially in Central America and the Caribbean² that even exceeded the levels of South America; explaining a depuration of clients that presented payment problems, their credits were not renewed, and thus funding was aimed at clients with better risk profile. Credit for housing remained stable with the exception of México, where it was aimed at house improvements instead of house acquisitions, thus reducing the average credit.

Funding Through Indebtedness Slows Down

In 2009, deposits were the main source of funding, concentrating 52.3% of funding. Taking into consideration its two components, retail deposits advanced 34.4% while institutional deposits reached a 15.6% increase. Despite their importance, their dynamics due to continued progress, grew only 14.1% in 2009 (22.0% growth in 2008) accumulated just over USD 5,100 million. Finally, funding was completed by capital with nearly 16% of assets, but the dynamic in the region reduced to 5.4% in 2008³.

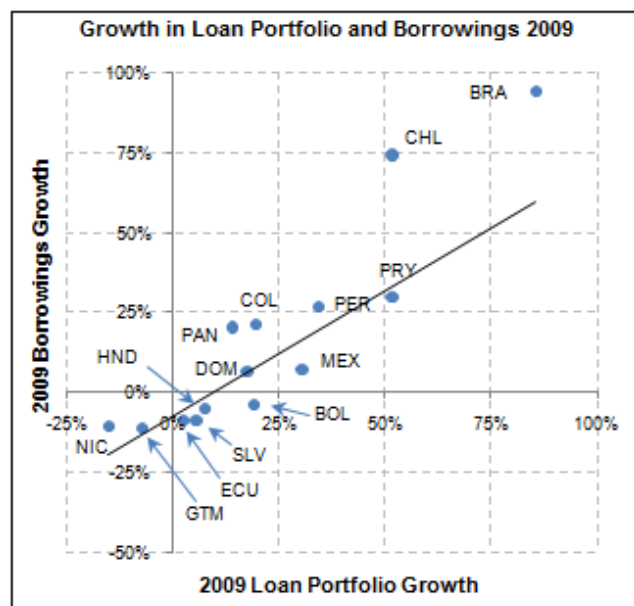
² The case of México was not taken into consideration as only 4 MFIs from the sample offered commercial credits.

³ From the 347 MFIs in LAC that report their information, 41.2% was funded by deposits. From the other 58.8%, one third was mainly funded by their own resources (Capital / Assets > 50%) and the other two third parts mainly through indebtedness.



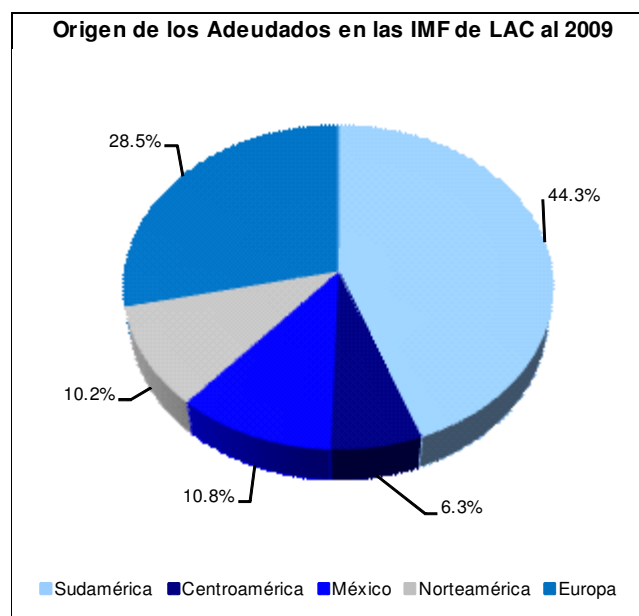
Source: MIX / data presented are aggregates

In most countries in the region, the relationship between portfolio growth supported by indebtedness was noticed. In this way, the contraction in most of the countries in Central America was related to the decrease in indebtedness. Cases such as Bolivia, respond to a funding substitution in favor of deposits and against indebtedness, but with a growing credit dynamic.



Source: MIX / aggregated information from 238 MFIs in LAC

Regarding the source of indebtedness, South America was mainly funded by its own resources, 49.5% in 2009. On the other hand, Central America was funded partly by North America and Europe, which advanced 7.0% and 14.8% respectively, due to the contract of local funding (-6.5%). Similarly, resources from Mexico grew 12.4%.



Source: MIX / data presented by medium size institutions

The main source of funding came mostly from local financial institutions (29.4%) followed by development finance institutions (23.7%) and investment funds (22.7%), but funding from North America was mainly through IFD (44.0%) and in Europe through Fondos (67.8%). Preference was given to fixed rate funding, mainly to funds from Central America (86.7%) and Europe (90.8%). Additionally, the main maturity dates will be in the next 3 years (68.0%), but Mexico has longer terms.

Classification		Source of Borrowings						Total
		SA	CA	MX	NA	EU	Other	
Lender Type	DFI	33.7%	27.7%	16.2%	44.0%	11.4%	0.0%	23.7%
	Financial Institution	44.2%	49.4%	43.1%	11.2%	7.7%	16.6%	29.4%
	Funder	1.1%	0.9%	18.7%	32.8%	67.8%	1.8%	22.7%
	Government	17.1%	7.6%	22.0%	0.5%	9.7%	3.5%	12.3%
	Other	4.0%	14.4%	0.0%	11.5%	3.4%	78.1%	11.8%
Interest Rate	Fixed	66.4%	86.7%	4.3%	60.3%	90.8%	24.1%	62.8%
	Floating	33.6%	13.3%	95.7%	39.7%	9.2%	75.9%	37.2%
Maturity	In 1 year	35.4%	22.4%	32.3%	15.0%	16.2%	5.8%	22.8%
	In 2 years	23.0%	25.5%	7.2%	36.8%	30.9%	2.1%	23.9%
	In 3 years	20.5%	20.2%	6.0%	17.3%	18.8%	49.7%	21.3%
	In 4 years	4.8%	4.6%	53.9%	4.4%	11.5%	19.3%	12.3%
	In 5 years	3.3%	8.4%	0.6%	11.9%	6.7%	0.2%	5.2%
	More than 5 years	13.2%	18.9%	0.0%	14.6%	15.9%	23.0%	14.5%

SA: South America, CA: Central America, MX: Mexico, NA: North America, EU: Europe

Source: MIX / data presented are aggregates

It is important to emphasize that the concentration of indebtedness by type of funder is not homogenous in the different markets of the region. In Brazil, MFIs depend on the state, while in markets with MFIs of greater depth, such as Bolivia, Ecuador and Nicaragua, funds were more representative. On the other hand, in Colombia and Peru, financial institutions (development and local) showed greater participation.

BORROWINGS BY LENDER TYPE IN SELECTED COUNTRIES (Closing FYE figures: Dec. 31st, 2009)					
Country	DFI	Financial Institution	Funder	Government	Other
Bolivia	17.1%	21.9%	40.5%	10.6%	9.9%
Brazil	8.3%	13.2%	1.2%	75.2%	2.2%
Colombia	32.3%	42.6%	13.2%	2.6%	9.4%
Ecuador	17.3%	14.8%	49.0%	12.5%	6.4%
Mexico	13.2%	33.3%	14.7%	13.8%	25.0%
Nicaragua	20.4%	14.4%	47.4%	5.1%	12.6%
Peru	37.6%	28.7%	23.1%	4.0%	6.6%
Total	23.7%	29.4%	22.7%	12.3%	11.8%

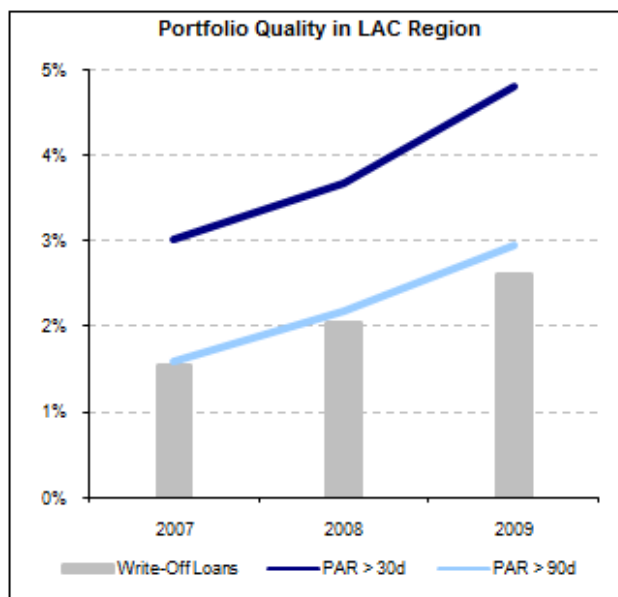
Source: MIX / data presented are aggregates

Progressive Portfolio Impairment

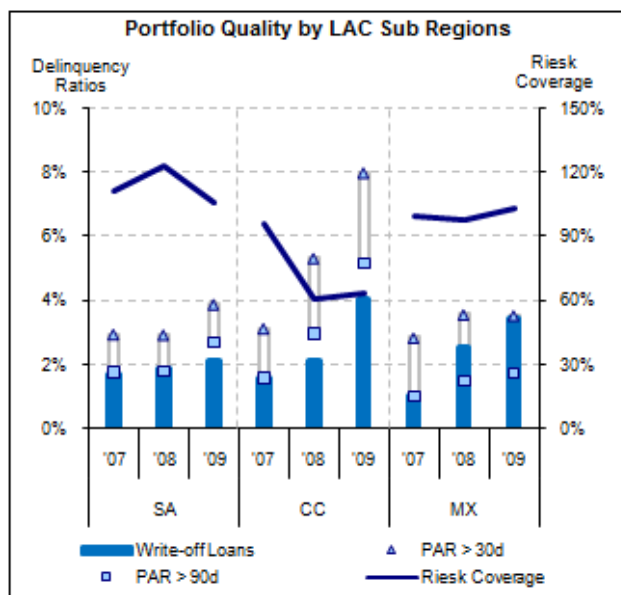
- All risk indicators showed progressive impairment in the recuperation of credits in the region.
- Central America was affected by a set of local events while other sub-regions presented mixed results.

The effects of the financial crisis, economic slowdown, and local events were evident as never before, in the portfolio quality in the region. All the indicators of portfolio at risk were higher, meaning collection problems for the MFIs which had to take special action (increase collection shifts, implement early alert systems, changes in staff's incentives, rationalize expenses, among others) in an effort to not increase even further the growing levels of delinquency.

Part of this deterioration comes from the rapid growth of MFIs in previous years due to the funding they received. MFIs were pressed to allocate said resources and relax their credit procedures and did not have enough time to follow up on the largest loans or even assimilate entering of new segments such as commercial credit, as credit methodology is different and traditional financial institutions have better management.



Source: MIX / data presented are aggregates



Source: MIX / data presented are aggregates

As a result, portfolio at risk over 30 days increased to 4.8% by the end of 2009 while portfolio at risk over 90 days grew 3.0%, i.e., the difference of 1.8% of the portfolio was recovered through special collection efforts, while the level of write offs also progressively increased up to 2.6%. Among MFIs in the region there is a clear relationship between portfolio at risk over 90 days and what will subsequently be declared as irrecoverable.

These results mean problems in the demand for the reduction in microenterprise activities, especially in the commercial sector (mainly linked to imported products), services (particularly tourism) and livestock (especially in Central America) to resume their payments, as some individuals responsible for MFIs mentioned. Problems also exist from the supply side, such as the pressure to allocate, together with the risk of

entering to new markets, as consequence MFIs relaxed their credit policies.

Seen by sub region, none of them were free of portfolio deterioration, this was emphasized in the case of Central America. A series of local events, like the No-Payment Movement in Nicaragua, the vacancy of Honduras' presidency, urban violence in El Salvador, among others, conspired against the microfinance sector causing a cut in the chain of payments with the subsequent increase in the portfolio at risk over 30 days up to 8.0% as of the end of 2009, while write-offs duplicated up to 4.0%.

In the other sub-regions results were mixed. In the case of South America, portfolio at risk over 30 days increased to 3.9% while write-offs remained at 2.1%, although the level of risk coverage remained over 100% with a slight decrease towards the end of the period. Parallel, in México the portfolio at risk remained at 3.5% while write-offs increased to a similar level, although the loss could be absorbed considering the rise in risk coverage to exceed 100%.

Crossed Indebtedness, What Can We Learn From MFIs in Ecuador?

Normally, we refer to a client's "over indebtedness" when the client has more debts than required, or more formally, when his/her debts exceed his/her payment capacity in such a way that he/she won't be able to pay them and, eventually, will declare bankruptcy. As it is impossible to know the real payment capacity of each client, the most common way of having an idea of such condition (over indebtedness) is to get to know how many active loans on average have a client.

However, the idea is complex because a client may not only have credits with just one institution but with many institutions at the same time. And thus, it is more useful (but not easier) to know with how many institutions with which the client has active loans; we call this "crossed indebtedness". And this is possible provided that a market has a strong credit bureau to provide such information.

Taking as example the information presented by MFIs in Ecuador⁴, it is then possible to determine the relationship between indebtedness and risk levels for a MFI or if there are any other relationships that are not obvious. But first, it is useful to observe how the number of borrowers (served market) is reduced by 33% due to the effect of crossed indebtedness. With this, the average level of active loans per borrower goes from 1.1 to 1.7 by correcting market figures.

ECUADOR: MICROFINANCE MARKET FOR 38 MFI (Closing FYE figures: Dec. 31st, 2009)	
Variables	Valores
Loan Portfolio (USD Millions)	998
Total Loans reported (Thousand)	662
Total Borrowers reported (Thousand)	595
Loans per Borrower (x)	1.1
Adjusted Borrowers by Cross Indebtedness (Thousand)	399
Loans per Adjusted Borrowers (x)	1.7
Exclusive Borrowers (%)	75.5%

Source: MIX / data presented are aggregates

The corrected number of borrowers for each MFI results from a lineal combination with the number of exclusive borrowers, i.e., clients that only have active loans with one MFI. This data gives an idea of the number of loans per borrower in each MFI, which has been extended nationwide.

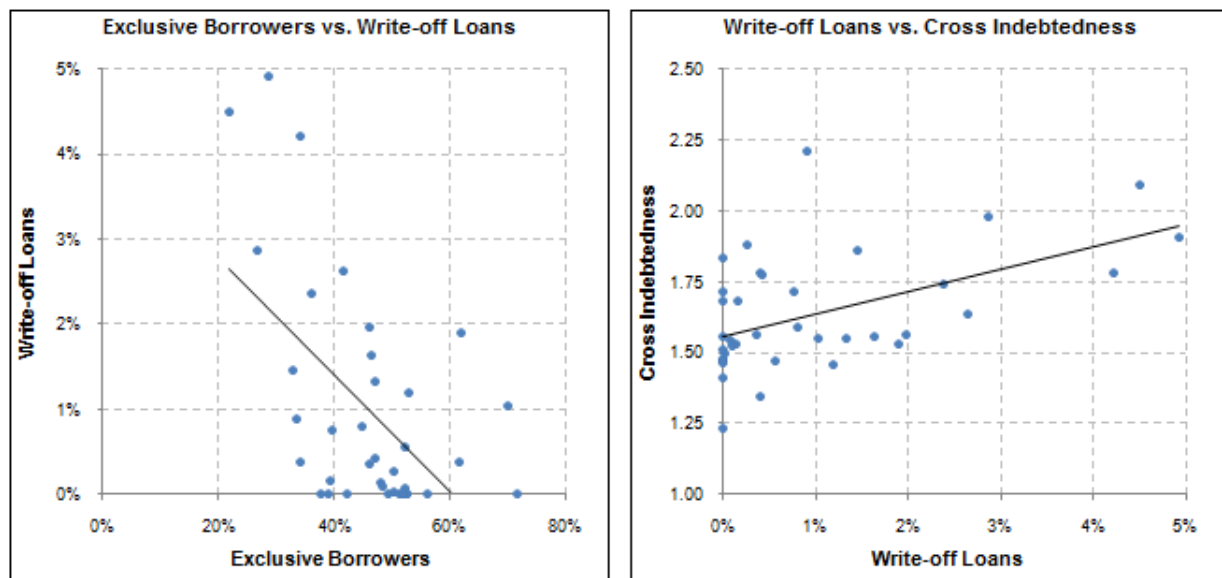
With both variables we also seek some relation or causality with risk variables (portfolio at risk over 30 days) and outreach (growth in average credit, loans, borrowers and portfolio). However, we did not find any satisfactory relationship which we can contribute to the following:

- The level of indebtedness should give an idea of potential risk, and thus should be reflected in the level of future risk and not necessarily in the current risk.
- As this is the first time that we collected information of crossed indebtedness, we do not know the prior trends had been in order to relate it in to the risk level.

⁴ From the 43 MFIs that reported financial information with cutting day as of December 31st to the MIX Market, 38 provided information about crossed indebtedness, representing 89.0% of active loans and 80.4% of gross portfolio. This information comes from crossing information with clients of MFIs with local credit bureau (Equifax Ecuador). In this way, we can determine the number of exclusive clients after verifying clients' information that have debts with other regulated institutions, with non regulated institutions and with the both at the same time, and the rest are the clients that only have credit from just one institution.

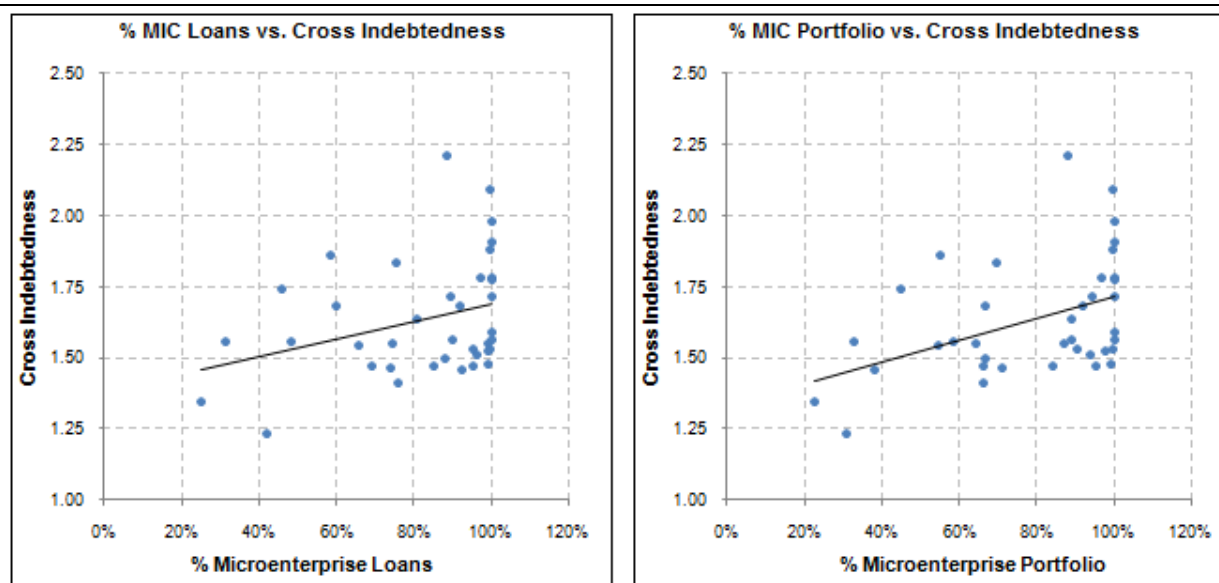
- There are other unobservable factors more important than the number of credits that relate with the risk level, that determine the borrower's payment capacity.
- Variables of the economic environment have also played role against the activity of the microenterprise sector in the last two years, resulting in increased levels of risk.

Although there were no decisive relationships, it was interesting to discover a direct relationship between crossed indebtedness and the level of write-offs, which is also a measure of credit risk. The level of indebtedness can give an idea of the level of future write-offs without knowing the level of portfolio at risk, and vice versa, a greater portion of exclusive clients suggest lower level of write-offs.



Source: MIX

Another interesting relationship rose from the combination of concentration of the microenterprise portfolio and the level of crossed indebtedness. Opposite of what is expected, a greater concentration of portfolio on microenterprises supposes a greater level of over indebtedness, and this can explain the focus of operators in this market. Any attempt to diversify the portfolio will contribute to reduce over indebtedness levels, this means that MFIs differentiate between clients that want credits for microenterprises compared clients that want consumption credits, there is a greater probability that the same client will not receive the two types of credits simultaneously.



Source: MIX

One last relation, but less consolidated than the previous ones, arises when crossing data with financial growth. This relation suggests that as funding of MFIs has increased, clients have increased their participation as exclusive borrowers and have reduced their levels of crossed indebtedness; it is probable that they have started in new segments and niches of the market, and have established as the only offer of financial services in certain zones.

As long as MFIs continue to provide their information on borrowers to the credit bureaus in the different countries in the region, they will not only validate previous statements based in the three described relations (crossed indebtedness with portfolio written-offs, crossed indebtedness and microenterprises portfolio, and exclusive borrowers with growth in funding), but also to verify other new relations, in such a way that the crossed indebtedness variable for each MFI will serve as cause and not as effect when relating with risk levels.

Low Returns Due to Lower Incomes

- As consequence of the increase in delinquency, MFIs were mainly affected by lower interests' incomes and, secondly, by higher provision expenses for.
- South America and Mexico showed profitability dispersion ranges without much change, but in Central America the coincidence of negative events is confirmed.

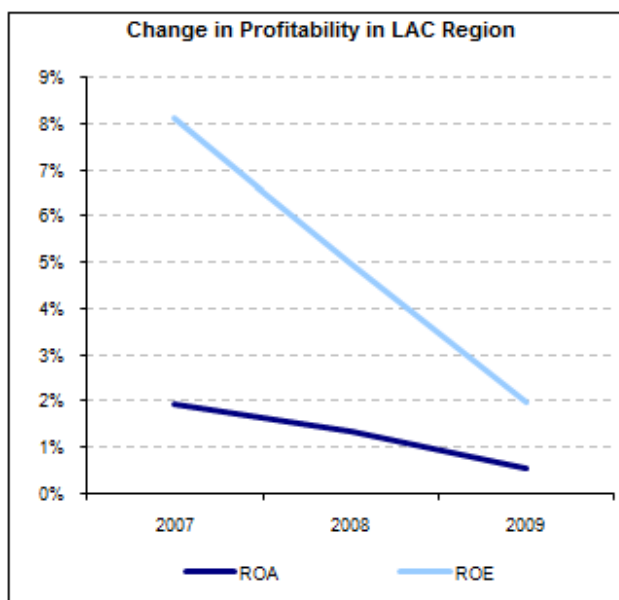
As a result of an increase of portfolio at risk, MFIs suffered a progressive decline in levels of profitability throughout the region. ROA decreased to 0.5%, less than half the rate in 2008 (1.3%) while ROE also decreased to its lowest of 2.0%. During the years preceding the crisis, the decrease in returns in some markets was attributed to a greater number of competitors and consequent margin reduction, but during recent years, the economic slowdown has played against the microfinance activity.

Analyzed by sub-regions, we verify that no reduction was unrelated to the returns, although each one with different nuances. In South America, MFIs were less affected because they marginally reduced their returns on assets during the last year, keeping a higher level of profitability. In Mexico, MFIs experienced a continued decrease in ROA; however they managed to keep positive values. Central America was most affected as they decreased by 3% reaching -1% of median return.

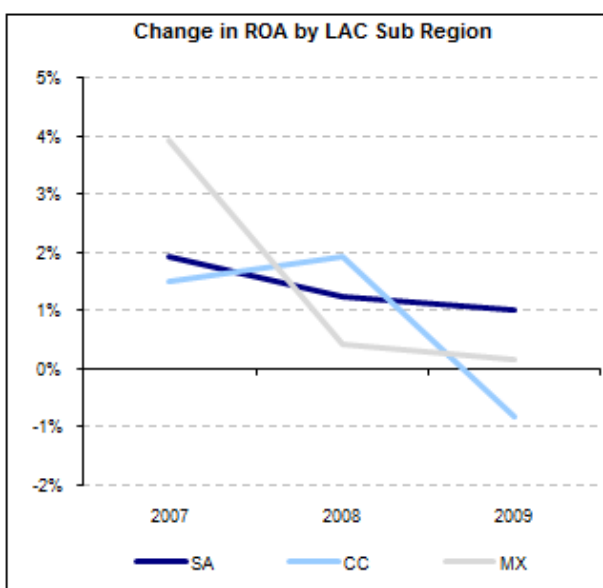
It is important to review the development and range of returns in each sub region, in order to determine if they follow the same pattern as previous years. Thus, the lower dispersion of ROA in South America refers to a mature and more developed market when compared to Mexico, where the ROA has a wider dispersion and in higher proportion over the median. What happened in Central America confirms that it is an unprecedented event due to the greater dispersion of returns towards negative values, considering the coincidence of the above mentioned local events.

As mentioned, the increase in delinquency negatively impacted MFIs' profitability, both due to lower incomes as well as higher operating expenses and provisions. However, the lower decrease in incomes was the main factor in the reduction of profitability in the region, as consequence of the problems that MFIs had to face in order to indentify economic activities with fast deterioration taking into consideration the speed of credits disbursed in previous periods.

In the case of South America, the levels of expenses and incomes were lower than in other sub-regions because operating MFIs are bigger. It can be observed that the level of operating expenses had not substantially been modified during the last three years, including losses for provisions, due to higher levels of risk coverage of previous years that allowed absorbing loss through write-offs. Nevertheless, the reduction of financial incomes was enough to decrease the reduction of profitability, despite decreased funding costs.



Source: MIX / data presented are medians



Source: MIX / data presented are medians

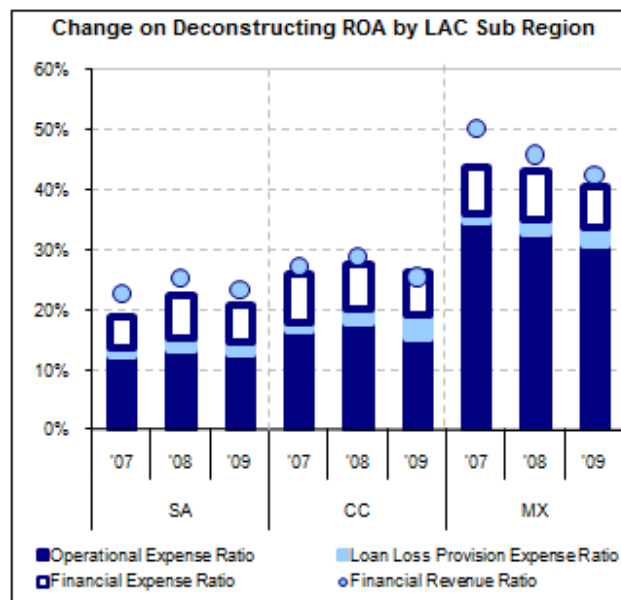
Mexico experienced a reduction in operational and financial expenses accompanied by a higher provision expense, considering the increase in write-offs, although the decrease in financial incomes was more pronounced. MFIs in Central America also experienced a decrease in incomes, which combined with an increase in provisions expenses (and even though risk coverage was kept at levels of 60%), lead to a reduction in profitability, despite the achievements in reducing levels of operating expenses.

Update in Projected Growth

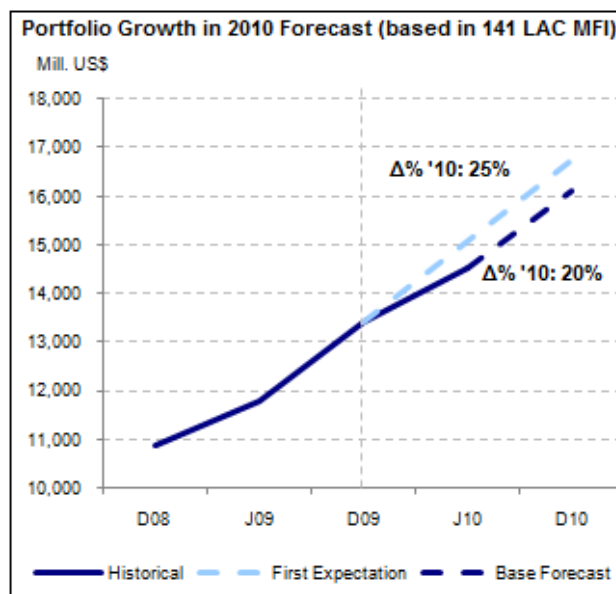
- The growth of the regional portfolio will be slightly below the previous year (20%), correcting the initial expectations that suggested 25%.
- Although portfolio at risk levels improved by the middle of 2010, in some cases, due to the application of write-offs, with an expected level of 4.3% by the end of 2010.

Growth expectations were pessimistic in 2009 (initial projection 10%), however the portfolio grew by 24%, encouraging stakeholders to have expectations for a similar performance in 2010. Based on a sample of 141 MFIs in the region, representing 68.6% of the regional portfolio and including every type of MFI by size, legal status and sub-region, in the first quarter of 2010 the regional portfolio of Latin America grew by 8.4%, and although credit demand increased in the second semester, it should not exceed 20% for 2010 annual accrued.

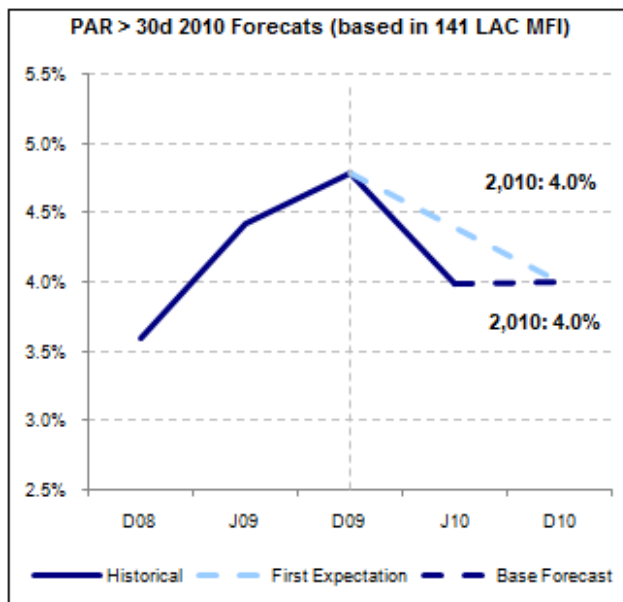
In relation with portfolio at risk over 30 days, the same number of MFIs showed a remarkable reduction in the first semester of 2010, although in some cases it was due to the application of write-offs, although part of the portfolio was cleaned making difficult to project. Taking into consideration that many MFIs have the capacity to absorb this loss, it will not damage risk levels shown in the 2010 books even further, and thus it is expected that the regional level will be below the level at the end of 2009, but above initial expectations with the indicator at around 4%.



Source: MIX / data presented are medians



Source: MIX / data presented are medians



Source: MIX / data presented are medians

micro entrepreneurs will regain the confidence of previous years and energize to allocations throughout the region.

Although most markets have experienced setbacks or less dynamic microfinance, mostly conditioned by the economic slowdown it is not possible to exactly determine how long this situation will last. Nevertheless, there are unresolved structural topics pending solution, such as the increase in clients' indebtedness level, whose payment capacity is not known, but can be inferred that it has been weakened with the decrease of demand for credit within the last year.

Even with this complicated and uncertain outlook, MFIs have favorable growth expectations as they express their intention not to reduce their service points and simply delay, but not to cancel their plans for expansion. It only remains to hope that in the same way that deposits maintain growth and funds providers continue cautiously investing in the industry,

Social Performance in Latin America

Overview

Data collected by MIX over the past two years show that the majority of LAC MFIs conceive of microfinance chiefly in terms of poverty alleviation, have a broad target market composed mainly of micro entrepreneurs, and serve about 14 million borrowers. The region offers a variety of financial products and services, with a strong alignment towards certain markets, such as women, but less so towards other poor and/or vulnerable populations. Only a minority of MFIs track poverty data and the poor represent 31 % of entry clients. Some MFIs have established innovative approaches to deepening outreach by adapting services to the different needs of their target market and by adopting a more holistic approach to relieving poverty that includes education and health services. A rising number of MFIs are investing more resources in improving their client protection policies but more effort is needed concerning the reinforcement of procedures and operations meant to promote and improve communication with clients.

Achieving the Mission

LAC has been the region most active in reporting social performance data to MIX, with 172 MFIs completing MIX's Social Performance Standards Report in the past two years. Half of which are NGOs, followed by NBFIs (30 %), cooperatives (13 %) and banks (8 %). Maturity level seems to play a role in the ability of an MFI to report social performance information, as the vast majority of those reporting have been in operation for more than 8 years. MFIs reporting social performance data represent 41 % of all LAC MFIs registered on MIX Market.

How effective are these MFIs at reaching their target market and achieving their stated development goals? Poverty reduction is a goal for the vast majority, but a mere 16 % of them mention targeting the poor in their mission statement and fewer still consistently track their clients' poverty level.

Nevertheless, 2009 did see a 24 % increase in the number of Latin American MFIs applying poverty assessment tools to identify clients' poverty levels at entry, thanks in part to the increased number of MFIs (15 total) using the Progress Out of Poverty Index™ (PPI™)⁵. 31 % of entry clients are below the national poverty line (NPL) and 19 % below the extreme NPL⁶ in the LAC region.

Table I: Poverty outreach by country

MFIs reporting poverty data	Honduras (5 MFIs)	Nicaragua (3 MFIs)	Guatemala (4MFIs)	Mexico (4 MFIs)	Peru (10 MFIs)	Ecuador (6 MFIs)	Argentina (5 MFIs)
Clients below national poverty line at entry (median)	82%	75%	43%	40%	31%	30%	5%
Population below the national poverty line*	51% (04)	48% (05)	51% (06)	18% (08)	52% (04)	38% (06)	14% (09)
Penetration rate** (tot. borrowers /poor in the country)	7%	20%	6%	21%	18%	14%	1%

⁵ The PPI™ is currently available in the following Latin American countries: Bolivia, Brazil, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, and Peru.

⁶ Extreme national poverty line refers to clients in the bottom 50% of the national poverty line.

*World Development Indicators, various years

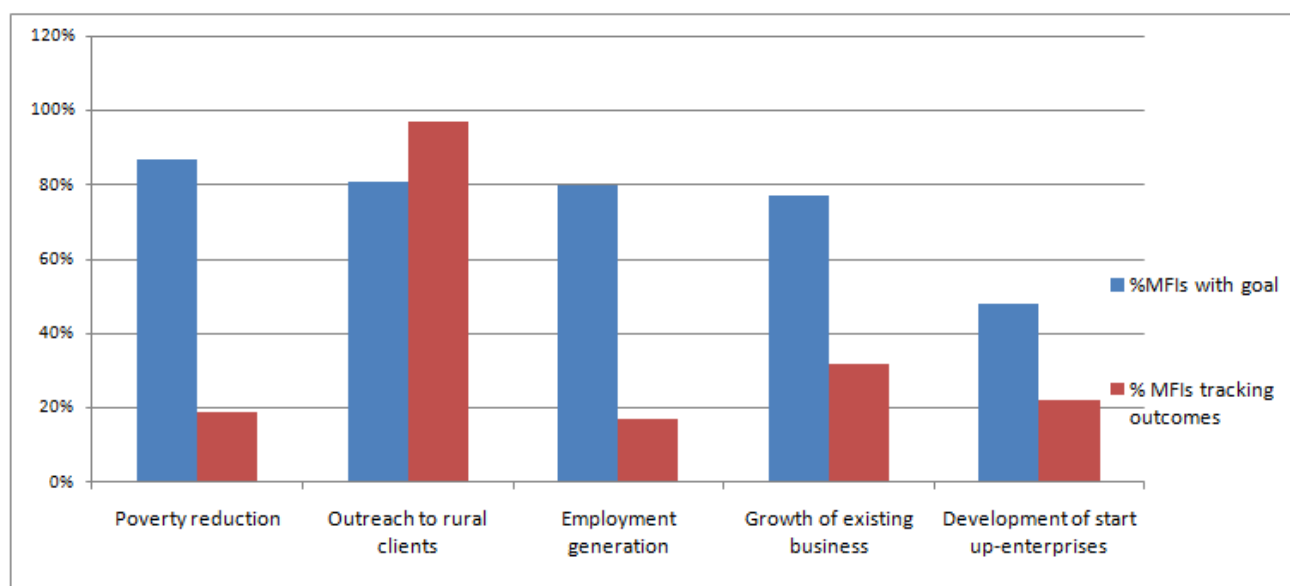
**Data from “How Many MFIs and Borrowers Exist? Dec. 08”, MIX

Women represent the majority of clients in Latin America (63 %), most of them (56 %) are served through individual lending. A relatively small number of MFIs (26 %) could report the number of female clients who had graduated from group lending methodology to individual lending and that number was extremely low (a median of 3 %). 61 % of MFIs have established women’s empowerment/gender equality as a development goal but only half of these offer some form of women’s empowerment services⁷. It is interesting to note that MFIs not exclusively targeting women but with top management composed mainly of women register outreach to women 10 points higher than the average.

Eight MFIs in Peru (6 NGOs, 1 cooperative and 1 bank) applied the PPI™ in 2009. Results show 33 % of clients below the NPL and 26 % below the extreme NPL. Peru’s population census in 2007 (INEI) estimates that 39 % of the population in Peru lives below the NPL and 14 % lives below the extreme NPL.

As for the provision of financial services, the region offers a wide variety of loan products. The most popular of these are microenterprise loans, housing loans, consumption loans and loans for agriculture. Beyond credit, 55 % of MFIs offer savings and 23 % mobilize savings through partnerships with other financial institutions. The majority of MFIs offer some form of insurance, mainly compulsory, and money transfer services are also common.

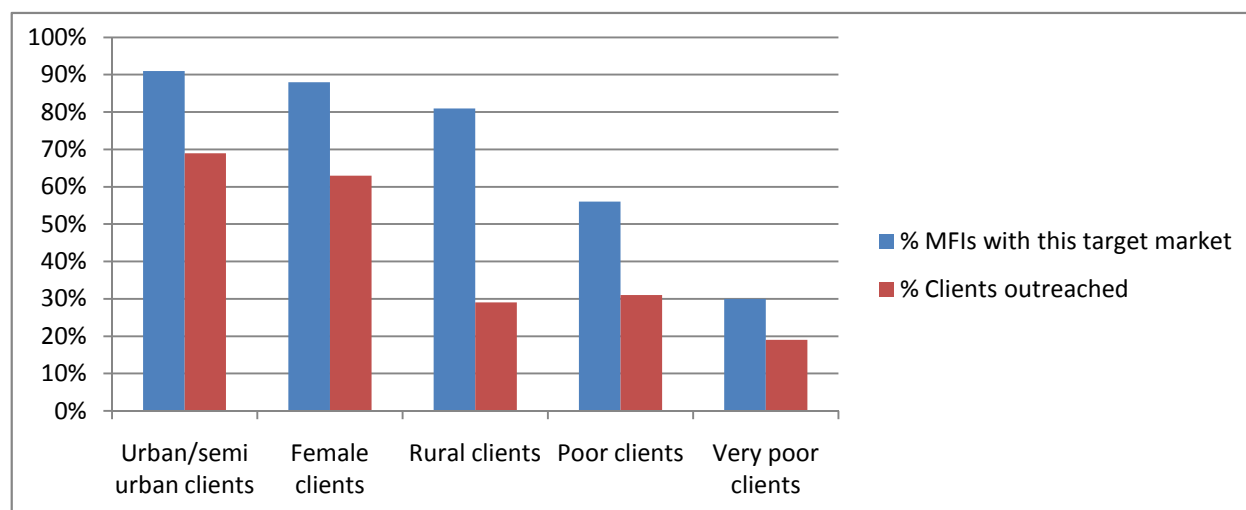
Fig.1 Development Goals and Outcomes Tracking



Source: MIX Market, 2008-2009. Note: MFIs tracking outcomes refers to the ability of reporting indicators related to the development goals. In the case of ‘poverty reduction’ it refers to the ability of the MFIs to report the number of clients who are above the poverty line after 3 years in the program

⁷ Women’s empowerment services identified in the SPS Report are: business training for women, leadership trainings, women’s rights education and counseling for women victim of violence

Fig. 2 Target Market and Outreach



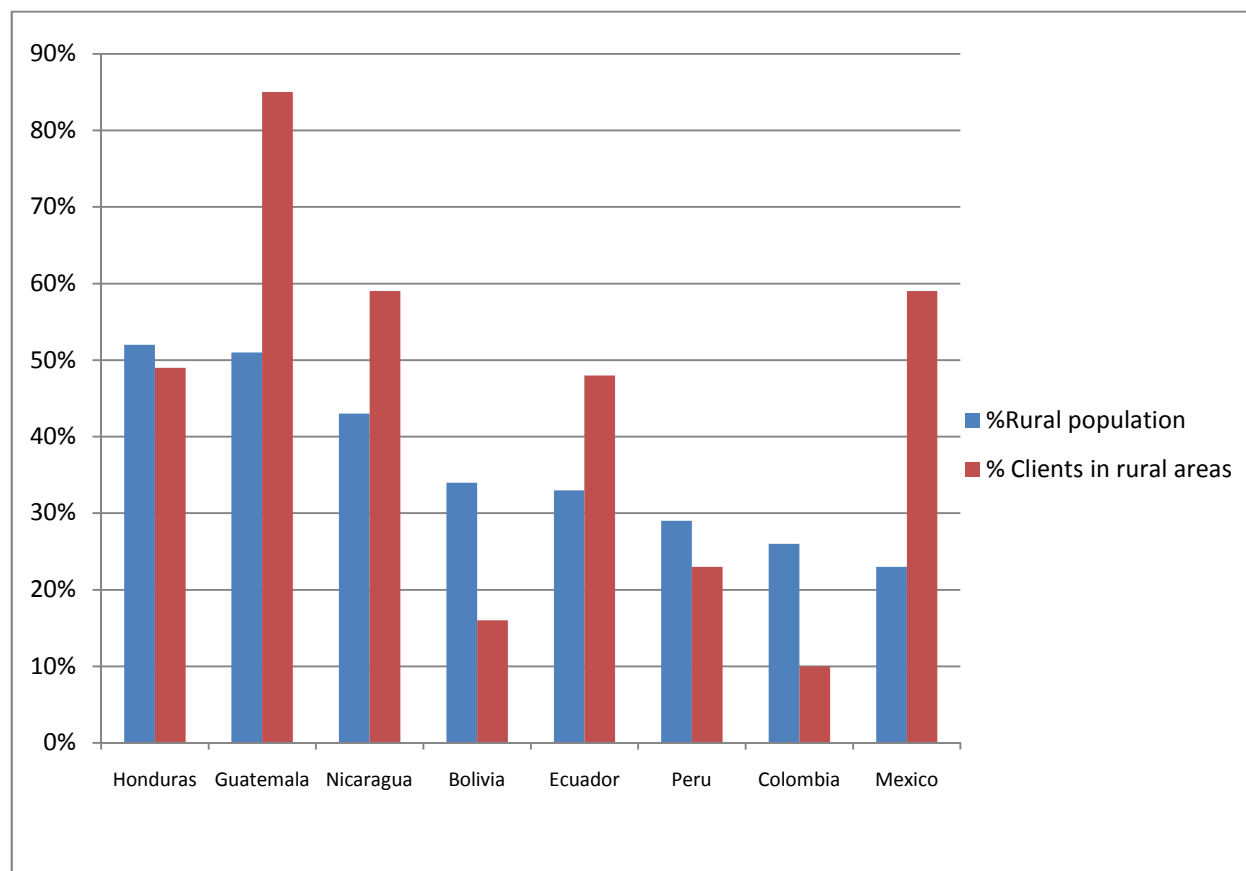
Source: MIX Market, 2008-2009. Note: 'Poor clients' refer to clients below the national poverty line. 'Very poor clients' refer to clients below the bottom 50% of the national poverty line. 19% of MFIs reported data for clients under the NPL at entry and 13% under the extreme NPL at entry; 7% for clients under the \$1 a day line at entry; 8% for clients under the \$2 a day line at entry

A majority of LAC MFIs seem to agree that the achievement of an MFI's mission is better met in conjunction with the provision of non-financial services that complement the institution's core business and enable clients better to utilize the financial products and services available. The vast majority of such institutions offers enterprise services and more than half provide adult education and women's empowerment services.

Rural outreach⁸ is a goal for most of the MFIs who reported, although only a median of 29 % of clients live in rural areas. In addition, 28 % of MFIs reported having branches in areas where there are no other MFIs and 10 % of the total clients served fall into this category. MFIs have also integrated their approach to rural development with social responsibility towards the environment.

⁸Rural outreach refers to settled places outside towns and cities, such as villages and hamlets, where most livelihoods are farm-based. Semi-urban areas are defined by the MIX SPS Report as residential areas on the outskirts of a city or town with a strong presence of non-farming activities.

Fig. 3 Rural Outreach



Source: MIX Market, 2009. Data represent medians.

While few MFIs have formal written environmental policies for the clients or microenterprises they finance, some have demonstrated awareness of the environmental component of their activities by offering discounted interest rates for enterprises that successfully implement and comply with specific environmental policies in their loan contracts. Furthermore, 42 % of MFIs reported raising awareness about environmental impact generally. More work remains, however, as only 11 % of MFIs have lending lines linked to alternative energies.

Social Performance Management

Governance plays a key role in ensuring that an MFI does not experience mission drift. While the majority of the LAC sample reported that social performance issues had been identified as components of their strategic and business plans, only 27 % have a standing social performance committee that regularly reviews social performance issues. MFIs with such a committee in place tend to have more staff incentives⁹ and training related to social performance goals, as well as lower client dropout rates (Table III).

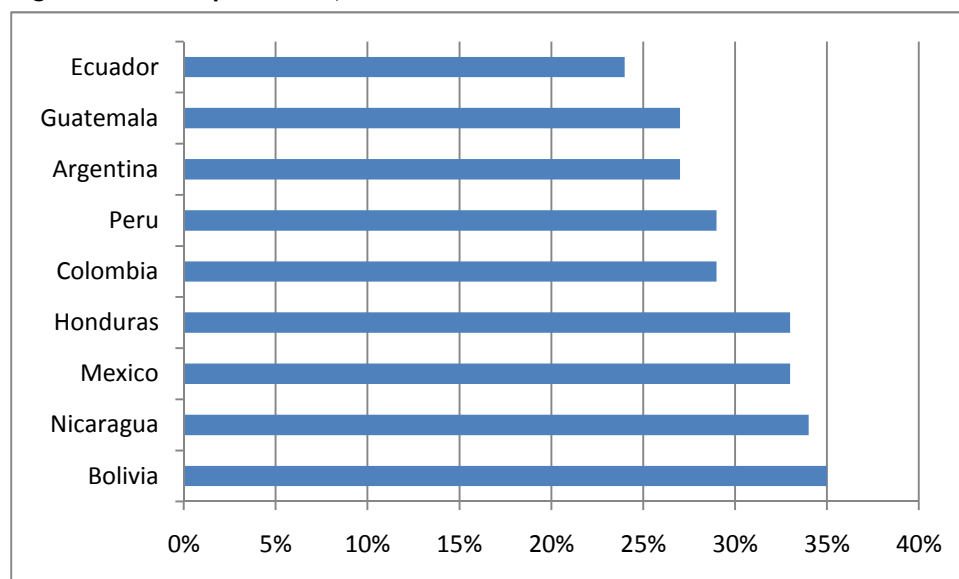
⁹Social performance incentives refer to those based on a staff member's ability to attract new clients from a target market, increase outreach to remote rural communities, increase outreach to women, the quality of a staff member's interaction with clients, the quality of social data collected, retention/dropout rate-based incentives and portfolio quality-based ones.

Table III: Governance and Social Performance

Social Performance Committee among the BoD	Social performance incentives in at least 4 SP areas	MFIs training management on social performance	MFIs training loan officers on social performance	Clients' dropouts
Yes (26%)	40%	72%	60%	28%
No (72%)	30%	56%	45%	34%

Client dropout levels increased over the last year, especially in countries with slower economic growth, such as in Bolivia or Peru, or where the industry as a whole has experienced problems, such as in Nicaragua (where many loans have been written off due to the “Movimiento de No Pago”). The median dropout rate in Latin America for 2009 was 30 %, an increase over last year’s rate of 27 %¹⁰. Interestingly, MFIs with systems in place to track client dropout do not have a lower dropout rate than those who do not. This suggests that how an MFI uses such information is as, if not more important than obtaining it in the first place. Conditions external to the organization (such as competition or political environment) also play an important role in affecting dropout rates. In addition, almost half of MFIs were able to report figures regarding clients borrowing from other institutions and such clients represent the majority of all clients served. It is noteworthy as well that dropout rates are ten %age points lower for MFIs that are able to report on multiple borrowing versus those that cannot.

Fig. 4 Client Dropout Rate, 2009



Dropout figures have a strong relationship with staff rotation. For each staff member who leaves an MFI there are roughly 150 clients who do not have their credits renewed¹¹. This figure, however, does not take into account whether clients’ dropouts are forced or voluntary. When a staff member leaves to work for another MFI, he or she often brings his or her clients along as well. This, in turn, increases the

¹⁰ The formula used to calculate client dropout rate is: (clients at beginning of the period + new clients - clients at the end of the period)/clients at the beginning of the period.

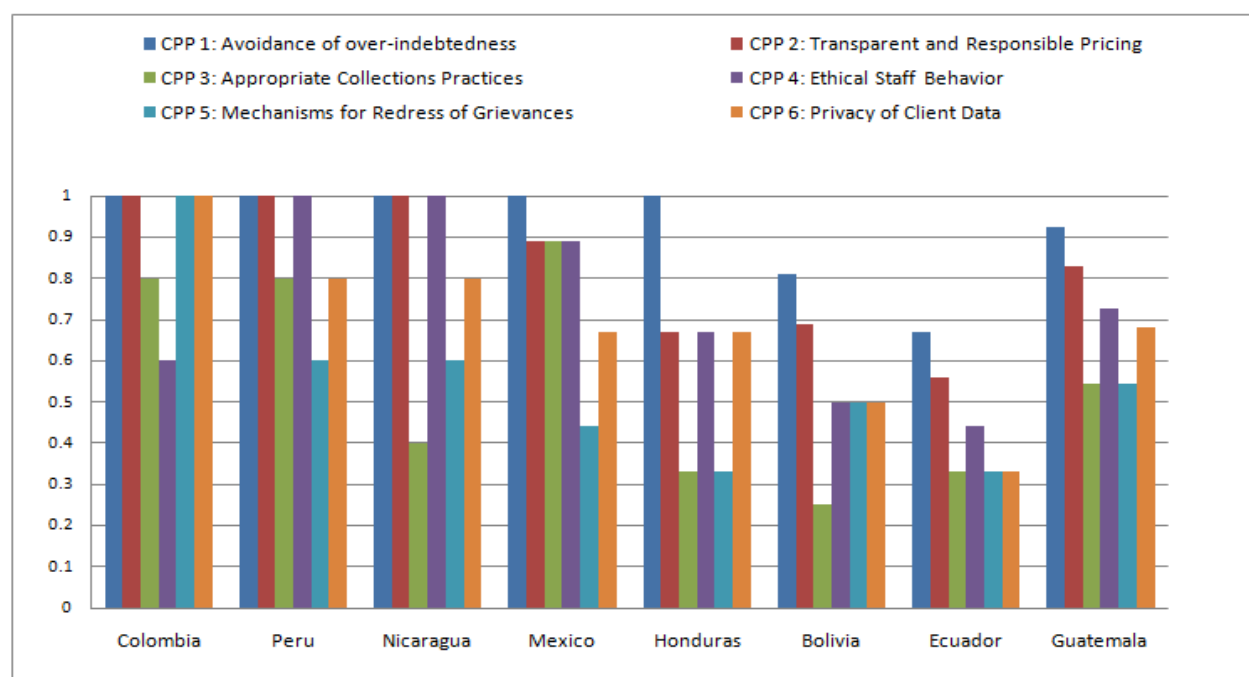
¹¹ This calculation is based on a simple linear regression using client drop-out rates and staff turnover rates as variables from 112 Latin American MFIs who reported information for fiscal year 2009.

cost of the loss for the original MFI. Overall, the median staff rotation in the LAC sample in 2009 was 20 %, with the highest figures registered in Mexico, while more competitive markets, such as Ecuador, Peru and Bolivia, have dropouts below the regional average. One possible explanation for this difference is that more developed microfinance markets are investing more resources in staff and incentives.

Most MFIs report that they evaluate borrower repayment capacity; and that prices, terms and conditions of all financial products are fully disclosed to the client prior to loan disbursement. Half of all MFIs reported appraising the quality of staff interaction with clients, although only a small minority has set up mechanisms to handle client's complaints or has a corporate culture and/or human resource system that values and rewards high standards of ethical behavior.

MFIs in Ecuador, Peru, Colombia, Mexico and Bolivia reported that between 43 and 64 % of their clients are borrowing from other MFIs. This does not necessarily mean these clients are over-indebted, however. More mature markets tend to offer quite varied types of financial services; hence these figures may simply indicate that more client needs are being met than elsewhere.

Fig. 5 Consumer Protection Principles in Select LAC Countries



Source: MIX Market, 2009. Data represent averages.

A loan approval process that evaluates borrower repayment capacity and financial literacy classes are among the more popular measures MFIs are using to address potential over-indebtedness in the LAC region. Furthermore, MFIs in Bolivia, Peru, Ecuador and Colombia have access to credit bureaus that, if used as part of portfolio risk analysis, can be an effective way of mitigating the risk of over-indebtedness.

Only a minority of reporting MFIs regularly monitor client exit and very few perform internal audits when evaluating client repayment capacity. Finally, a mere 35 % of MFIs offer voluntary insurance, such as health, house or workplace insurance.

80 % of MFIs perform staff training on social performance topics, the most common being training on mission orientation, development goals, over-indebtedness prevention and communication with clients about prices.

In terms of human resources, most MFIs show responsible staff employment: the vast majority of MFIs have practices that ensure staff safety, have a clear salary scale based upon market salaries and allow staff to participate in decisions that affect them. Half of the MFIs reporting also pay pension contributions. Turning to the gender dimension, women appear equally represented, with 49 % of staff composed of women. However, women remain underrepresented at the management level and as loan officers - this despite the fact that most MFIs have equal opportunity policies and equal pay for men and women with equal skills (Table IV).

Table IV: Gender Dimension of MFIs

Women in the board	Top managers who are women	Loan officers who are women	Equal opportunities policies	Quota for women staff	Work time adapted to family constraints	Policies to support women's mobility in the field	Anti harassment policy	Equal pay for men and women with equal skills
33%	35%	43%	82%	8%	26%	24%	47%	90%

Conclusion

Social performance management is increasingly recognized by LAC MFIs as a fundamental area of assessment and monitoring, and the number of reports received confirms this trend.

MFIs in the region have made considerable progress towards integrating the social component into their operations, most notably by establishing trainings and incentives for staff, improving policies regarding client protection and creating specific social performance positions within their organizations.

Challenges remain, however, in terms of tracking a number of different outreach indicators and improving the depth of this outreach. Given the risk of over-indebtedness in the region's more mature markets, MFIs need to put more effort into reinforcing policies and operations designed to promote and improve communication with clients. Finally, governing bodies should be more involved in training on, and assessment of, social performance management in order to ensure the alignment of MFIs' operations with their stated goals.

MFI Reporting on Social Performance by Country and Legal Form (2009-2010)

Country	NGOs	NBFIs	Cooperatives	Banks	Tot MFIs reporting
Argentina	6	5	-	-	11
Bolivia	8	-	-	3	11
Brazil	-	3	1	1	5
Chile	1	1	-	-	2
Colombia	9	2	2	-	13
Costa Rica	6	-	-	-	6
Ecuador	10	1	14	2	27
El Salvador	3	2	-	-	5
Guatemala	9	3	-	-	12
Haiti	-	2	-	-	2
Honduras	3	7	-	-	10
Mexico	5	8	-	2	15
Nicaragua	13	2	1	-	16
Panama	2	2	2	1	7
Paraguay	1	1	-	1	3
Peru	8	12	2	1	23
Dominican Republic	1	-	-	2	3
Venezuela	-	-	-	1	1

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