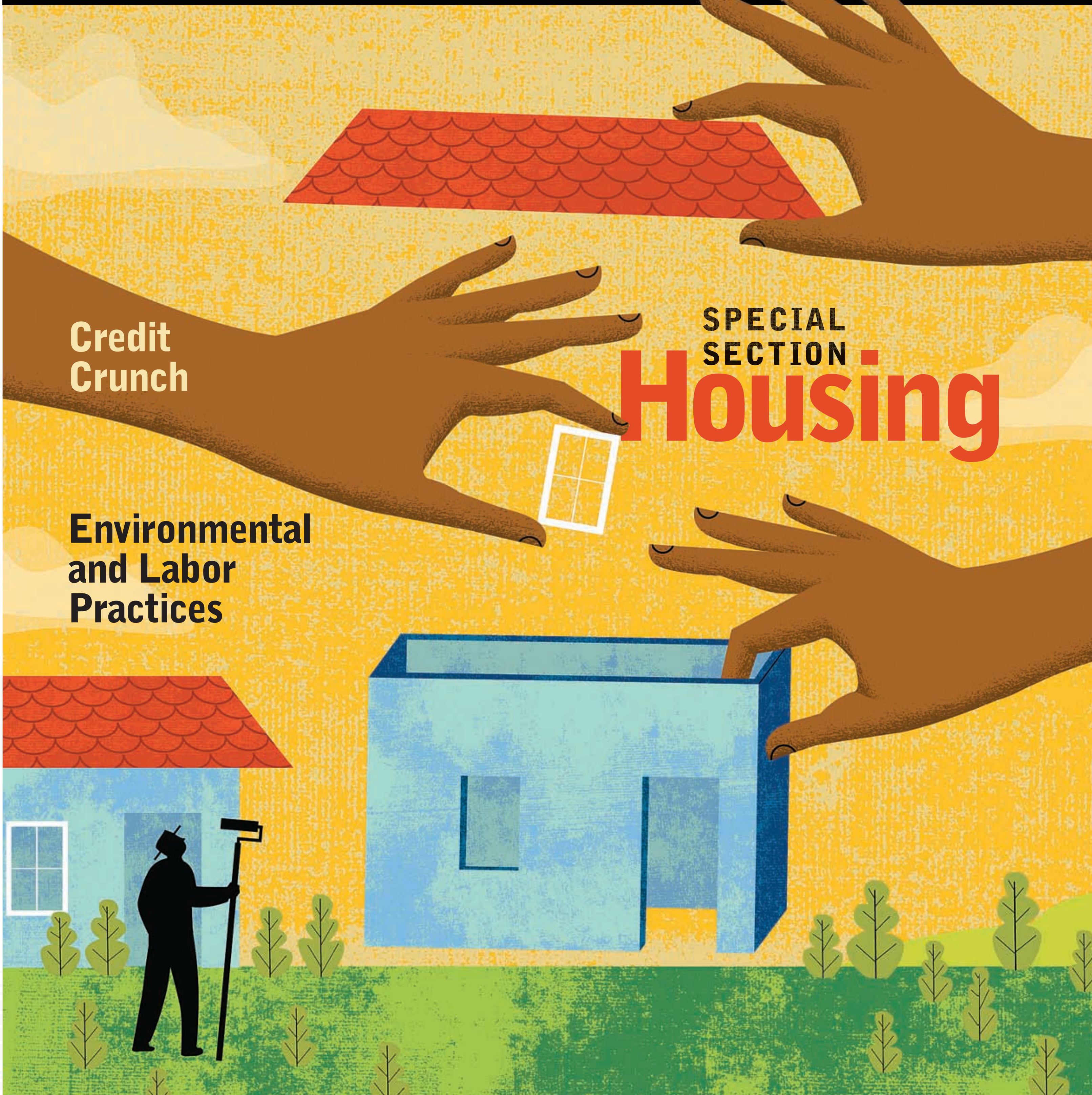
MICRO Enterprise™ Americas

Fall 2008



Credit Crunch

Environmental and Labor Practices

SPECIAL SECTION

Housing

MICROENTERPRISE AMERICAS • FALL 2008

Editorial

MICROEnterprise™ Americas

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Microfinance—Moving From the Margin

When you visit Latin America and the Caribbean you will probably notice that in the poorest areas of any city there are numerous houses in various stages of construction: while some raise walls or finish a roof, others wait for the next stage to begin. This does not necessarily indicate that a construction boom is taking place in poorer areas, but rather that building or repairing a home can take considerable time when you don't have enough savings, or access to financing, to take on the job all at once from start to finish.

MicroEnterprise Americas has dedicated this issue's Special Section to housing and the institutions that are using their resources for creative solutions aimed at helping the poor achieve homeownership. The articles look at various schools of thought on housing microfinance and trends such as micromortgages and tools for financing housing improvements.

As the first signs of a US economic crisis and its immediate impact on the housing market become apparent, speculations abound on the effects in Latin America and the Caribbean, both on housing and the economy in general. Our finance section explores this situation. It also raises questions about the level of responsibility microfinance institutions (MFIs) are taking in their dealings with a clientele that is predominantly poor and often financially uneducated. Experts in the field are showing increasing interest in this topic, and it is sure to be the subject of many discussions to come.

The extension of microfinance coverage can produce many benefits for microenterprises, but it also implies greater responsibility for institutions. MFIs are engaged in ensuring that the products and services their microcredit clients engage in are environmentally sound and in accordance with national and international labor laws. In this edition we present a case study on the Netherlands Development Bank, FMO, one of the pioneers in this new area and the creators of a tool called "Environmental and Social Risk Management," which teaches MFIs to evaluate the activities of their clients and provide guidance.

As always, *MicroEnterprise Americas* is proud to present the Championship League of MFIs, which for the first time focuses its top 100 list on microenterprise lending. And among the tables ranking the top 10 in various performance categories, market penetration appears as a new grouping that measures the outreach of microenterprise credit activities relative to a country's poor population.

Our article on technology highlights some of the most striking developments of the moment: Web 2.0, cell phones, websites, networks, a plethora of new opportunities and possibilities for microenterprises regardless of where they are based, or whether they are rich or poor. We also feature an interview with Wenceslao Casares, the founder of Lemon Bank in Brazil, an institution that has been particularly effective in distributing microcredit in Brazil's most remote areas through a system of ATMs in shops and stores instead of banks.

All in all, we hope this issue of *MicroEnterprise Americas* is interesting, enjoyable and inspiring in its new endeavors.

—LENE MIKKELSEN

Features

26 Rural community tourism will grow significantly in the next 15 years.

SPECIAL SECTION: Housing

Sections

COVER: MICHAEL AUSTIN

Finance

Championship League 2008

MIX Latin America & Caribbean 100

Microfinance in Latin America and the Caribbean skyrocketed in 2007, fueled by booming demand for financial services from microentrepreneurs in the region's fast-growing economies along with new funding in both debt and deposit. The region and its microfinance institutions (MFIs) remained in the forefront of attractive investment opportunities. MFIs continued to fund 80% of the region's loan portfolios with more than US$11.7 billion in commercial funding to keep pace with a record 37% portfolio growth during the year. However, fast growth also boosted competition, resulting in a decline in profitability. Return on assets fell from 3.1% to 2.5% and return on equity dropped from 10.6% to 9.8% as institutions felt the impact of new entrants and increasing portfolio risk across the region.

Want to see more?

This article contains only a small portion of the information available on Latin American & Caribbean MFIs. More complete data can be found by logging on to www.mixmarket.org, clicking on "Demand" and searching by Region "Latin America and The Caribbean."

MicroEnterprise Americas and the Microfinance Information Exchange, Inc. (MIX) are pleased to present this year's *Championship League*, our annual report ranking the region's leading microfinance institutions in eight performance categories. Drawing on a survey of 193 MFIs, we analyzed the latest, high-quality data from auditors, regulatory agencies and other third-party sources to report on MFI performance for 2007. Taken as a group, these 193 institutions in 15 countries across the region ended the year managing US$12.8 billion in more than 11.7 million loans to low-income clients across all credit types. Credit specifically to microentrepreneurs grew by 41.7 percent to more than US$6.2 billion in approximately 6.5 million loans.

Scale (Microenterprise)

This year's Championship League ranking begins with a fresh, new look at an increasingly diverse microfinance industry in Latin America and the Caribbean—the top 100 microfinance institutions are ordered by the number of active loans to microentrepreneurs at the end of 2007.

With almost 1.4 million loans, Mexican MFIs served more microentrepreneurs than in any other country in the region thanks in part to CompartamosBanco's massive outreach. However, with slightly fewer loans, Peru almost tripled Mexico by finishing the year with US$1.57 billion lent to microentrepreneurs. The difference between these two important markets was due to the average loan balance, which at US$1,192 in Peru was almost three times that of Mexico.

While traditional market leaders such as Mexico's giant CompartamosBanco contin-

MICRO miX

GROWTH

Ranking 2007	MFI	Country	% Change in Microenterprise Loans	Absolute Change in Microenterprise Loans	Adjusted Absolute Change in Gross Loan Portfolio (US$)
1	Apoyo Económico	Mexico	1781.3%	22,106	15,019,168
2	Forjadores de Negocios	Mexico	356.2%	10,354	2,949,964
3	Progresemos	Mexico	348.5%	5,991	1,442,566
4	Te Creemos	Mexico	332.7%	5,632	1,230,713
5	D-Miro	Ecuador	230.2%	16,288	9,485,139
6	Invirtiendo	Mexico	188.2%	10,155	4,631,460
7	Fundación San Miguel	Dominican Republic	160.5%	7,469	1,340,563
8	APROS	Mexico	136.5%	6,344	456,335
9	FINCA - Haiti	Haiti	123.2%	7,779	1,189,408
10	Emprender	Bolivia	120.9%	4,101	783,770
11	FINCA - Guatemala	Guatemala	108.2%	21,363	5,421,941
12	Friendship Bridge	Guatemala	107.8%	8,913	1,946,423
13	AMEXTRA	Mexico	107.4%	2,851	252,658
14	AgroCapital	Bolivia	106.8%	6,730	2,572,314
15	COCDEP	Mexico	99.5%	6,577	643,914
16	Visión de Finanzas	Paraguay	88.3%	13,959	30,293,879
17	CrediComún	Mexico	79.9%	2,721	3,280,491
18	FINCA - El Salvador	El Salvador	78.6%	6,052	3,519,449
19	Coop 20 de Abril	Nicaragua	77.2%	3,072	3,613,201
20	Soluciones Financieras Internacionales	Mexico	76.2%	2,529	2,385,266

ued to stand out for their huge outreach, the difference in size between most MFIs in the top positions and those further down the list was reduced when only taking microenterprise credit into account. Nor were there many significant changes in placement among the region's largest MFIs. Brazil's CRESOL BASER, a large collective of credit cooperatives operating in the southern part of the country, rose seven places, taking advantage of the tremendous potential offered by the gigantic Brazilian market.

Growth

For a second year in a row, Mexican MFIs leveraged their high returns to expand rapidly, leading the ranking for growth in microenterprise loans. Apoyo Económico was the region's

fastest-growing microenterprise lender during 2007, exploding in size with a hefty investment in infrastructure to better serve markets thirsty for financial services. Forjadores de Negocios more than quadrupled in size thanks to a healthy injection of capital and management experience from the owners of Peru's MiBanco.

Among the top-growing MFIs during 2007, lenders from other countries also figured prominently. D-Miro placed in the top five, buoyed by fresh funding to serve an increasing number of clients in and around Guayaquil, Ecuador's largest city. Two Caribbean MFIs placed among the top ten finishers. The Dominican Republic's Fundación San Miguel Archángel and FINCA Haiti each more than doubled in size, showing the potential for growth in the sub-region.

Market Penetration

As a new addition to this year's Championship League ranking, we examine the outreach of microenterprise credit operations relative to the poor population in each Latin American and Caribbean country. MFIs from three of Latin America's lowest per-capita income countries took center stage in serving high proportions

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TOP 100 MFIs IN LATIN AMERICA AND THE CARIBBEAN

Ranking 2007	2006	MFI	Country	Number of Microenterprise Loans Outstanding	Gross Loan Portfolio (US$)	General Portfolio Composition †
1	1	CompartamosBanco	Mexico	837,743	363,020,997	MIC
2	2	CrediAmigo	Brazil	329,071	138,397,326	Only MIC
3	3	MiBanco	Peru	245,028	357,863,485	MIC
4	4	WWB Cali	Colombia	209,693	208,605,816	MIC
5	5	FMM Popayán	Colombia	196,519	117,854,676	MIC
6	8	FMM Bucaramanga	Colombia	161,083	121,812,351	MIC
7	6	BancoEstado	Chile	158,098	569,818,143	MIC
8	7	Banco Caja Social	Colombia	140,056	210,474,298	CNS
9	10	EDPYME Edyficar	Peru	133,842	116,546,729	MIC
10	13	Banco del Trabajo	Peru	107,567	170,341,789	CNS
11	9	CMAC Arequipa	Peru	106,584	141,284,045	MIC
12	14	CAME	Mexico	105,778	18,799,325	Only MIC
13	17	BancoSol	Bolivia	103,462	177,194,966	MIC
14	11	CRECER	Bolivia	101,585	27,205,660	MIC
15	12	Banco Solidario	Ecuador	92,849	138,652,000	MIC
16	18	ProMujer - Bolivia	Bolivia	90,171	21,376,090	MIC
17	21	FINCA - Mexico	Mexico	87,428	22,242,631	Only MIC
18	15	CMAC Trujillo	Peru	85,348	133,831,249	MIC
19	16	PRODEM FFP	Bolivia	82,486	161,084,723	MIC
20	19	Credi Fé	Ecuador	76,901	162,942,594	MIC
21	28	CRESOL BASER	Brazil	76,815	174,279,043	MIC
22	24	CMM Bogotá	Colombia	74,712	51,386,699	MIC
23	29	CMM Medellín	Colombia	72,705	66,020,466	MIC
24	22	Génesis Empresarial	Guatemala	69,913	37,500,982	MIC
25	25	FIE FFP	Bolivia	67,211	141,482,586	MIC
26	23	ADOPEM	Dominican Republic	65,580	26,422,929	MIC
27	27	Fondo de Desarrollo Local	Nicaragua	59,720	39,973,859	MIC
28	26	FINCA - Ecuador	Ecuador	58,584	27,464,705	Only MIC
29	30	ProMujer - Peru	Peru	49,806	8,470,149	MIC
30	33	FinComún	Mexico	47,062	41,878,884	MIC
31	31	CMAC Sullana	Peru	43,601	74,084,219	MIC
32	40	EDPYME Confianza	Peru	41,801	45,862,003	MIC
33	54	FINCA - Guatemala	Guatemala	41,100	8,448,931	Only MIC
34	38	EDPYME Crear Arequipa	Peru	40,956	41,603,811	MIC
35	34	Fundación Mario Santo Domingo	Colombia	37,833	15,144,552	MIC
36	37	CMAC Huancayo	Peru	35,907	49,476,588	CNS
37	39	Diaconia	Bolivia	35,589	18,921,918	Only MIC
38	43	ACODEP	Nicaragua	34,584	28,460,475	CNS
39	35	BanGente	Venezuela	34,526	66,637,634	Only MIC
40	41	CMAC Cusco	Peru	34,011	54,219,087	MIC
41	36	Banco ADEMI	Dominican Republic	31,604	59,336,505	MIC
42	44	Actuar Antioquia	Colombia	29,818	27,152,469	Only MIC
43	48	Sèvis Finansye Fonkoze *	Haiti	31,069	7,216,618	MIC
44	70	Visión de Finanzas	Paraguay	29,759	64,539,550	CNS
45	57	EDPYME Proempresa	Peru	29,556	23,745,687	MIC
46	51	COAC Mushuc Runa	Ecuador	28,887	38,364,991	MIC
47	45	FinAmérica	Colombia	28,854	40,388,166	MIC
48	46	CMAC Ica	Peru	28,758	45,276,368	MIC
49	50	Apoyo Integral	El Salvador	27,773	23,865,988	MIC
50	42	FAMA	Nicaragua	27,725	21,851,585	MIC
51	47	FINCA - Nicaragua	Nicaragua	26,994	5,079,576	Only MIC
52	49	Caritas	Peru	25,358	14,758,332	Only MIC
53	58	Fundación Espoir	Ecuador	24,627	9,010,091	Only MIC
54	60	ProMujer - Nicaragua	Nicaragua	24,361	3,915,965	MIC

Ranking 2007	2006	MFI	Country	Number of Microenterprise Loans Outstanding	Gross Loan Portfolio (US$)	General Portfolio Composition †
55	59	ENLACE	El Salvador	24,348	5,049,345	MIC
56	55	FINSOL	Honduras	24,243	23,728,712	MIC
57	56	EDPYME Raíz	Peru	24,133	38,283,540	MIC
58	62	Asociación Raíz	Guatemala	23,595	21,733,815	MIC
59	63	ODEF	Honduras	23,503	19,144,275	MIC
60	53	FIELCO	Paraguay	23,423	20,744,467	MIC
61	134	D-Miro	Ecuador	23,364	13,975,959	Only MIC
62	189	Apoyo Económico	Mexico	23,347	17,470,505	Only MIC
63	76	Credi-Capital	Mexico	22,745	8,181,672	Only MIC
64	64	Caja Nor Perú	Peru	22,259	24,885,848	MIC
65	67	FINCA - Honduras	Honduras	22,194	6,638,122	Only MIC
66	89	Soluciones Financieras	Mexico	22,095	6,094,359	Only MIC
67	83	Fondo Esperanza	Chile	21,882	4,461,752	Only MIC
68	52	FADES	Bolivia	21,784	22,602,510	Only MIC
69	72	ProMujer - Mexico	Mexico	21,011	5,088,935	Only MIC
70	61	BanCovelo	Honduras	20,681	17,506,563	MIC
71	75	CRAC Señor de Luren	Peru	20,529	30,368,709	MIC
72	65	ACME	Haiti	20,112	9,350,372	Only MIC
73	71	PRISMA	Peru	19,919	7,334,512	Only MIC
74	69	EcoFuturo FFP	Bolivia	18,946	29,653,575	MIC
75	87	Fundación Paraguaya	Paraguay	18,864	7,088,663	MIC
76	88	CMAC Tacna	Peru	18,792	40,082,446	MIC
77	66	Fonkoze *	Haiti	18,227	3,382,680	Only MIC
78	74	CEAPE Maranhão	Brazil	18,189	13,904,491	Only MIC
79	94	EDPYME Alternativa	Peru	17,344	10,066,418	MIC
80	126	Friendship Bridge	Guatemala	17,181	3,585,272	Only MIC
81	104	FUNDESER	Nicaragua	17,133	12,429,833	MIC
82	81	Asociación Arariwa	Peru	16,942	3,877,411	Only MIC
83	78	Financiera Familiar	Paraguay	16,409	21,225,808	CNS
84	80	FINDESA	Nicaragua	16,228	32,248,145	CNS
85	93	Alternativa Solidaria	Mexico	16,047	3,181,383	Only MIC
86	100	FUNED	Honduras	15,861	5,890,411	MIC
87	91	CMAC Paita	Peru	15,678	18,904,795	MIC
88	152	Invirtiendo	Mexico	15,552	8,304,835	Only MIC
89	77	Fundación Ecuatoriana de Desarrollo	Ecuador	15,238	10,080,366	Only MIC
90	82	Familia y Medio Ambiente	Honduras	15,015	8,735,260	Only MIC
91	107	Grupo Consultor para la Microempresa	Mexico	14,943	2,666,238	Only MIC
92	95	Microempresas de Antioquia	Colombia	14,381	12,764,974	MIC
93	96	Manuela Ramos	Peru	14,363	3,061,445	Only MIC
94	68	World Relief - Honduras	Honduras	14,276	4,614,844	MIC
95	85	CMAC Del Santa *	Peru	14,270	17,434,143	MIC
96	73	Interfisa	Paraguay	14,101	19,524,418	CNS
97	138	FINCA - Haiti	Haiti	14,094	1,639,010	Only MIC
98	90	AGAPE	Colombia	14,060	2,328,054	Only MIC
99	110	FODEMI	Ecuador	13,969	5,993,698	Only MIC
100	129	FINCA - El Salvador	El Salvador	13,750	6,283,663	Only MIC
Totals for 2006 (193 MFIs)				**5,126,608**	**4,425,464,232**	
Totals for 2007 (193 MFIs)				**6,567,865**	**6,270,571,231**	

* Of the top 100 institutions, some only provided data on the volume of active loans and outstanding portfolio.

† General trend defined as:

Only MIC: 100% of Loans to Microenterprises

MIC: Loans to Microenterprises > 50% Total Loans

CNS: Loans to Consumer > 50% Total Loans

of microentrepreneurs. Institutions in Bolivia, Nicaragua and Paraguay occupied 14 of the top 20 positions, the result of years of intense growth and competition relative to their smaller populations. Assuming no client overlap, leading MFIs in these three countries served up to 12.1%, 10.9% and 8.6% of potential markets, respectively.

Some MFIs from the largest Latin American economies ranked high in terms of market penetration as well. Chile's BancoEstado took the lead, serving more than one in 20 of its nation's low-income citizens. CompartamosBanco was not far behind, capturing nearly 5% of Mexico's poor population in its quest to be the first Latin American and Caribbean MFI to actively serve one million microentrepreneurs.

Scale (Consumer)

This year we present another new scale—the top 10 MFIs ranked by the *consumer* microloan portion of their portfolio. While not a comprehensive survey of consumer lending in the region, with nearly US$4.5 billion in portfolio and 5.2 million active loans, consumer microlending by MFIs grew by 32.2% as many institutions broadened their product lines to serve their clients' financial needs.

Consumer loans from participating MFIs did not always follow conventions. Loans easily qualified as "micro" with a median average balance at US$825, only slightly higher than microenterprise loans. Moreover, consumer loans were not necessarily used for consumption. According to a client survey by Caja Popular Mexicana, one of Latin America's largest cooperatives, 20.7% of its consumer loans were for productive use in 2007, essentially placing it among the largest microenterprise lenders in the region.

PENETRATION

Ranking 2007	MFI	Country	Microenterprise Loans / Poor Population	Microenterprise Loans
1	BancoEstado	Chile	5.6%	158,098
2	CompartamosBanco	Mexico	4.6%	837,743
3	Fondo de Desarrollo Local	Nicaragua	2.4%	59,720
4	Visión de Finanzas	Paraguay	2.3%	29,759
5	FIELCO	Paraguay	1.8%	23,423
6	BancoSol	Bolivia	1.8%	103,462
7	CRECER	Bolivia	1.8%	101,585
8	ADOPEM	Dominican Republic	1.7%	65,580
9	MiBanco	Peru	1.6%	245,028
10	ProMujer - Bolivia	Bolivia	1.6%	90,171
11	Banco Solidario	Ecuador	1.5%	92,849
12	Fundación Paraguaya	Paraguay	1.5%	18,864
13	PRODEM FFP	Bolivia	1.4%	82,486
14	ACODEP	Nicaragua	1.4%	34,584
15	Financiera Familiar	Paraguay	1.3%	16,409
16	Credi Fé	Ecuador	1.3%	76,901
17	FIE FFP	Bolivia	1.2%	67,211
18	FAMA	Nicaragua	1.1%	27,725
19	Interfisa	Paraguay	1.1%	14,101
20	FINCA - Nicaragua	Nicaragua	1.1%	26,994

Savings

While commercial funding kept pace with 2007's strong loan portfolio growth, savings did not expand as quickly as borrowings as a funding source in the region, falling from 74% to 70% of total commercial funding. In fact, only one MFI featured in this survey became regulated during the year. Nevertheless, savings remained critical to loan portfolio growth for regulated MFIs as microsavings portfolios increased by 28.1% to US$8.2 billion in more than 9 million accounts. Banco Caja Social Colombia led the region with more than US$2.5 billion in voluntary savings by taking advantage of a growing economy and light competition for savers as most other Colombian MFIs were not permitted to mobilize deposits.

In both Peru and Bolivia, regulated institutions sought to consolidate their hold on the savings market as the competitive landscape prepares to shift dramatically in 2008. Peruvian CMAC institutions (Municipal Savings and Credit Unions) were recently authorized to open branches in any market in the country, allowing the municipal giants to compete directly for the first time. In Bolivia, 15 NGOs, including some of the country's largest MFIs, are in the process of becoming regulated and will for the first

CONSUMER

Ranking 2007	2006	MFI	Country	Number of Consumer Loans Outstanding	Gross Loan Portfolio (US$)	General Portfolio Composition †
1	2	Banco Caja Social	Colombia	859,733	1,029,729,581	CNS
2	5	Financiera Independencia	Mexico	833,902	290,456,921	CNS
3	1	Caja Popular Mexicana	Mexico	775,540	1,121,808,909	CNS
4	4	Banco del Trabajo	Peru	659,984	167,720,961	CNS
5	6	Caja Libertad	Mexico	343,706	584,629,164	CNS
6	3	Banco Popular do Brasil	Brazil	243,023	17,030,909	CNS
7	8	Cooperativa Universitaria	Paraguay	115,755	100,094,647	CNS
8	7	Financiera Familiar	Paraguay	104,386	29,423,314	CNS
9	10	MiBanco	Peru	98,290	83,989,653	MIC
10	14	EDPYME Efectiva	Peru	82,315	20,479,890	CNS
Totals for 2006 (114 MFIs)				**4,441,992**	**3,382,368,137**	
Totals for 2007 (114 MFIs)				**5,218,290**	**4,471,277,471**	

† General trend defined as:
MIC: Loans to Microenterprises > 50% Total Loans
CNS: Loans to Consumer > 50% Total Loans

SAVINGS

Ranking 2007	2006	MFI	Country	Savings Accounts	Voluntary Savings (US$)	Deposits to Gross Loan Portfolio
1	1	Banco Caja Social	Colombia	2,450,063	2,568,440,202	107.2%
2	2	Caja Popular Mexicana	Mexico	1,307,764	1,371,500,800	120.8%
3	4	Banco del Trabajo	Peru	782,458	309,916,222	90.5%
4	3	Caja Libertad	Mexico	718,994	574,296,202	100.9%
5	5	PRODEM FFP	Bolivia	331,962	149,454,322	90.4%
6	6	CMAC Arequipa	Peru	235,732	176,404,873	71.0%
7	8	BancoEstado	Chile	219,069	325,320,545	39.5%
8	9	FIE FFP	Bolivia	207,692	99,045,597	61.9%
9	13	BancoSol	Bolivia	174,867	167,747,611	81.0%
10	8	MiBanco	Peru	166,465	279,398,531	56.2%
11	15	CMAC Cusco	Peru	142,370	106,753,978	96.9%
12	16	CMAC Trujillo	Peru	113,114	184,683,109	74.8%
13	n/a	Cooperativa Jesús Nazareno	Bolivia	102,955	71,091,639	99.9%
14	18	CMAC Sullana	Peru	102,533	93,406,498	69.4%
15	22	COAC Jardín Azuayo	Ecuador	97,509	71,933,241	99.7%
16	12	Banco Solidario	Ecuador	95,063	167,819,719	76.0%
17	22	COAC Mushuc Runa	Ecuador	93,880	32,732,884	79.0%
18	17	FinComún	Mexico	89,747	24,391,231	56.2%
19	23	CMAC Huancayo	Peru	88,303	84,290,771	78.0%
20	34	Banco ADEMI	Dominican Republic	85,599	62,382,807	52.6%
Totals for 2006 (61 MFIs)				**6,902,610**	**6,436,073,727**	
Totals for 2007 (61 MFIs)				**9,088,407**	**8,242,736,686**	

n/a: not available

MICRO mix ASSET QUALITY

Ranking 2007	2006	MFI	Country	Adjusted Portfolio at Risk > 30 Days	Adjusted Write-off Ratio *
1	n/a	FIACG	Guatemala	0.0%	0.0%
2	3	Movimiento Manuela Ramos	Peru	0.0%	0.1%
3	1	ProMujer - Peru	Peru	0.1%	0.0%
4	n/a	CrediComún	Mexico	0.1%	0.6%
5	n/a	SemiSol	Mexico	0.1%	0.7%
6	1	ADRA Peru	Peru	0.3%	0.1%
6	n/a	Alternativa Solidaria	Mexico	0.3%	0.1%
8	8	FINCA - Peru	Peru	0.3%	0.4%
9	n/a	COCDEP	Mexico	0.3%	0.8%
10	8	CRECER	Bolivia	0.5%	0.5%
10	11	Fundación Espoir	Ecuador	0.5%	0.5%
12	n/a	Fondo Esperanza	Chile	0.5%	2.1%
13	n/a	Conserva	Mexico	0.6%	0.4%
14	n/a	Cooperativa 20 de Abril	Nicaragua	0.6%	0.5%
15	7	ProMujer - Bolivia	Bolivia	0.7%	0.1%
16	n/a	FODEMI	Ecuador	0.7%	0.5%
17	12	Diaconia	Bolivia	0.7%	0.7%
18	n/a	Crece Safsa	Mexico	0.7%	2.2%
19	n/a	Grupo Consultor para la Microempresa	Mexico	0.8%	0.1%
20	27	BancoSol	Bolivia	0.8%	2.5%

n/a: not available

* Write-off Ratio should be less than 3%.

time offer savings products previously available only at regulated FFPs and cooperatives.

Efficiency

Despite stiff competition in the region, Latin American and Caribbean MFIs achieved only a 3.3% increase in operating efficiency in 2007. It is possible that these modest efficiency gains for many MFIs were primarily due to a tendency to disburse larger loans as the median average loan balance across all credit types increased by 13.2% during the year. Since operating efficiency indicators can benefit from increasing loan balances and the attendant distribution of costs over larger loan portfolios, this may have been the case.

While almost all MFIs on the >US$500 table averaged loan balances well above US$1,000, Colombia's FMM Popayán shone among Latin America's most efficient lenders thanks to its extremely productive staff, despite a relatively low average loan balance. On the <US$500 table, FODEMI and FINCA Ecuador stood out among top finishers by increasing their efficiency while actually decreasing their average loan balance.

Asset Quality

Increasing competition for clients throughout the region and pressure on borrowers due to rising global commodity prices in 2007 led to rising portfolio risk in many countries and in the region as a whole. According to FINDESA's Gabriel Solorzano, "Some companies that have decided to continue growing have loosened credit standards, and thus have seen increased arrears." By region, South American MFIs saw the largest increases in delinquency, with PAR > 30 days increasing by over 30%. Peru and Colombia led the continent, fueling worries about over-indebtedness from saturation in both markets. In Mexico, Central America and the Caribbean, portfolio risk increased by closer to 10% in each, though all remained riskier than South America on the whole.

Despite these challenges, the MFIs with the lowest portfolio risk in the region fought off the regional upswing

EFFICIENCY

AVERAGE LOAN BALANCE > US$500

Ranking 2007	Ranking 2006	MFI	Country	Operating Expense/ Average Gross Loan Portfolio	Adjusted Average Loan Balance (US$)	Adjusted Loans per Staff Member
1	1	COAC Jardín Azuayo	Ecuador	4.8%	2,936	172
2	6	Credi Fe	Ecuador	4.9%	2,016	245
3	2	PRODESA	Nicaragua	5.2%	930	245
4	4	COAC San José	Ecuador	6.6%	2,310	125
5	5	BancoEstado	Chile	6.9%	3,299	268
6	n/a	CRESOL BASER	Brazil	8.0%	1,952	316
7	9	COOPAC Santo Cristo de Bagazán	Peru	8.3%	1,855	140
8	n/a	CIDRE	Bolivia	8.8%	1,071	218
9	n/a	CODESARROLLO	Ecuador	8.8%	2,000	125
10	8	COAC Mushuc Runa	Ecuador	8.9%	1,364	301
11	10	CMAC Tacna	Peru	9.4%	2,273	123
12	12	ACCOVI	El Salvador	9.4%	3,932	70
13	n/a	Cooperativa Jesús Nazareno	Bolivia	9.5%	3,013	106
14	25	ACTUAR Antioquia	Colombia	9.7%	1,202	280
15	7	CMAC Cusco	Peru	9.8%	2,400	90
16	13	CMAC Arequipa	Peru	9.9%	1,613	223
17	n/a	CRAC Señor de Luren	Peru	10.0%	1,556	163
18	n/a	Fortaleza FFP	Bolivia	10.0%	5,269	34
19	31	FMM Popayán	Colombia	10.5%	646	330
20	16	CMAC Trujillo	Peru	10.5%	1,800	190

n/a: not available

AVERAGE LOAN BALANCE < US$500

Ranking 2007	Ranking 2006	MFI	Country	Operating Expense/ Average Gross Loan Portfolio	Adjusted Average Loan Balance (US$)	Adjusted Loans per Staff Member
1	11	FONCRESOL	Bolivia	12.6%	381	200
2	2	CRYSOL	Guatemala	15.2%	429	313
3	5	FODEMI	Ecuador	15.6%	429	297
4	6	ProMujer - Bolivia	Bolivia	18.2%	236	168
5	n/a	FUBODE	Bolivia	19.1%	341	175
6	38	Friendship Bridge	Guatemala	19.5%	209	291
7	9	FINCA - Ecuador	Ecuador	19.6%	469	291
8	8	CRECER	Bolivia	20.5%	270	293
9	n/a	FONDESOL	Guatemala	20.7%	305	250
10	10	CrediAmigo	Brazil	20.7%	421	229
11	n/a	APROS	Mexico	22.0%	193	314
12	n/a	Fundación Mario Santo Domingo	Colombia	22.7%	429	312
13	13	ACODEP	Nicaragua	23.2%	483	243
14	21	FUNDAHMICRO	Honduras	23.6%	461	141
15	12	Asociación Arariwa	Peru	23.9%	229	261
16	n/a	Banco del Trabajo	Peru	25.0%	446	282
17	15	ProMujer - Peru	Peru	25.2%	170	289
18	20	EDPYME Efectiva	Peru	25.3%	249	295
19	n/a	Financiera CONSER	Mexico	25.5%	374	99
20	19	FUNED	Honduras	26.7%	398	146

n/a: not available

PROFITABILITY

Ranking 2007	2006	MFI	Country	Adjusted Return on Assets	Adjusted Return on Equity
1	1	Conserva	Mexico	26.1%	46.8%
2	n/a	Financiera CONSER	Mexico	20.2%	64.6%
3	2	CompartamosBanco	Mexico	20.1%	45.8%
4	n/a	Invirtiendo	Mexico	19.9%	112.8%
5	n/a	Alternativa Solidaria	Mexico	17.8%	44.7%
6	n/a	COCDEP	Mexico	16.5%	30.9%
7	4	Financiera Independencia	Mexico	15.2%	29.6%
8	34	CEAPE Maranhão	Brazil	13.4%	28.6%
9	5	ProMujer - Peru	Peru	13.4%	25.0%
10	169	Friendship Bridge	Guatemala	13.2%	17.4%
11	8	EDPYME Efectiva	Peru	12.8%	70.5%
12	n/a	Grupo Consultor para la Microempresa	Mexico	12.5%	37.8%
13	3	CrediAmigo	Brazil	12.3%	38.3%
14	70	Fundación José Nieborowski	Nicaragua	12.1%	42.0%
15	38	FAFIDESS	Guatemala	11.6%	18.1%
16	6	Diaconia	Bolivia	11.4%	13.0%
17	29	FUNDENUSE	Nicaragua	10.0%	22.7%
18	n/a	FUBODE	Bolivia	10.0%	20.0%
19	23	Emprender	Bolivia	9.8%	40.4%
20	99	Micro Crédit National	Haiti	9.6%	50.3%

n/a: not available

in delinquency thanks to their high quality lending practices. In several cases, high asset quality impacted the MFI's efficiency and profitability. Four institutions with low portfolio risk ranked among the region's most efficient as they spent fewer resources chasing bad debt. Several Mexican institutions moved into top positions in 2007 for their asset quality, while simultaneously finishing the year among Latin America's most profitable. ProMujer Peru stood out among all entrants, placing in the top 20 in all three categories.

Profitability

While margins generally fell across the region in 2007, microfinance was a highly lucrative endeavor for Latin America's most profitable institutions. Even though a few perennial performers like CompartamosBanco and Brazil's CrediAmigo remained near the top, the vast majority of the MFIs on this year's list appear for the first time. Some ranked highly due to improvements in institutional performance. Nicaragua's Fundación José Nieborowski and Brazil's CEAPE Maranhão dramatically increased margins to finish in the top 10 by cutting operating costs and portfolio risk. Others, such as Friendship Bridge in Guatemala and EDPYME Efectiva in Peru ranked among the region's most efficient.

In some cases, the region's most profitable MFIs operated in underserved, extremely localized markets where institutions could increase margins and increase growth by charging higher interest rates rather than improving efficiencies. This was particularly common in Mexico, where MFIs took all seven of the top positions, each with return on assets above 15%. Of the seven, only Financiera CONSER placed in the efficiency rankings. However, the spread between results within Mexico shrank compared to previous years, showing early signs of the influence of increasing competitive forces in the market. Even CompartamosBanco saw its margins reduced (slightly) for the first time in years in the face of competition from up-and-comers like Conserva and emerging consumer giants like Banco Azteca and Banco Wal Mart.

Conclusion

Microfinance in Latin America and the Caribbean will face some of its greatest challenges going forward. Record high commodity prices may have a direct impact on the ability of many

low-income borrowers to repay loans. In addition, unfavorable public policy in some countries may undermine their microfinance sector's performance, while the increasing availability of easy consumer credit (and the accompanying risk of over-indebtedness) in others will test the balance sheets and bottom lines of many institutions. While there may be bumps in the road ahead, well-managed and diversified microfinance institutions working to provide financial services to the poor will find that there is still room for growth and sustainability in some of the world's most dynamic markets.

MIX and *MicroEnterprise Americas* would like to thank all participating institutions for sharing their financial and outreach information and advancing transparency in the region.

BY MATTHEW GEHRKE, RENSO MARTÍNEZ AND MARÍA CECILIA RONDÓN, MICROFINANCE INFORMATION EXCHANGE, INC. (MIX)

Methodological Note: All data are presented in USD for the year ending December 31, 2007, and must be of sufficient quality and detail to stand up to critical scrutiny. Financial data must be provided along with third-party documents verifying the accounts. All data are reclassified to industry standard financial statement presentation and then adjusted using MIX standard *MicroBanking Bulletin* methodology. Only loan and portfolio information from the "scale" list remains unadjusted. Microfinance programs and departments within larger entities must also provide reliable allocations of income statement items to be eligible for the subsidiary top 20 lists. Otherwise, MFIs that cannot be completely analyzed are only eligible for the lists based on volume and are listed with an asterisk (*).

Following the methodology of MIX, the analysis defines a microfinance institution as one with an average size of financial products less than 250% of average individual income levels (GNI per capita) in the country where it is based. For purposes of comparison, only institutions reporting more than 5,000 clients were considered for this survey. Notable exceptions from this list have likely been excluded because they could not or would not provide or substantiate information within the allotted time frame. Some institutions could not appear in the scale list because of size but did appear in other categories due to performance.

For more information on the definitions and methods used, go to www.mixmbb.org.

MIX Credit Type Definitions:

Microenterprise: Given to persons or enterprises to finance the production or trade of goods and services; usually directly to micro- and small enterprises.

Consumer: Given to persons to finance the purchase of consumer goods and services that have no commercial or enterprise purposes, including home improvement, health and education loans.

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Link:
www.themix.org

Finance

Microenterprise in Paraguay: Potentially a Heavyweight Sector

A large portion of the employed population in Paraguay works in the microenterprise sector, which has produced many successful and dynamic businesses. More than 150,000 microentrepreneurs have accessed financing through specialized microcredit institutions. However, many microenterprises do not provide their proprietors and workers with a significant and steady source of income due to low productivity, limited management capacity, and lack of access to financing. This underdeveloped group of microenterprises, which accounts for 85% of the total, is an important and interesting potential market for microcredit and non-financial enterprise development services.

The microenterprise sector employs about 74% of the population in businesses with 10 employees or less. A significant number of microenterprises are rural with 57% of self-employed workers living in the countryside.

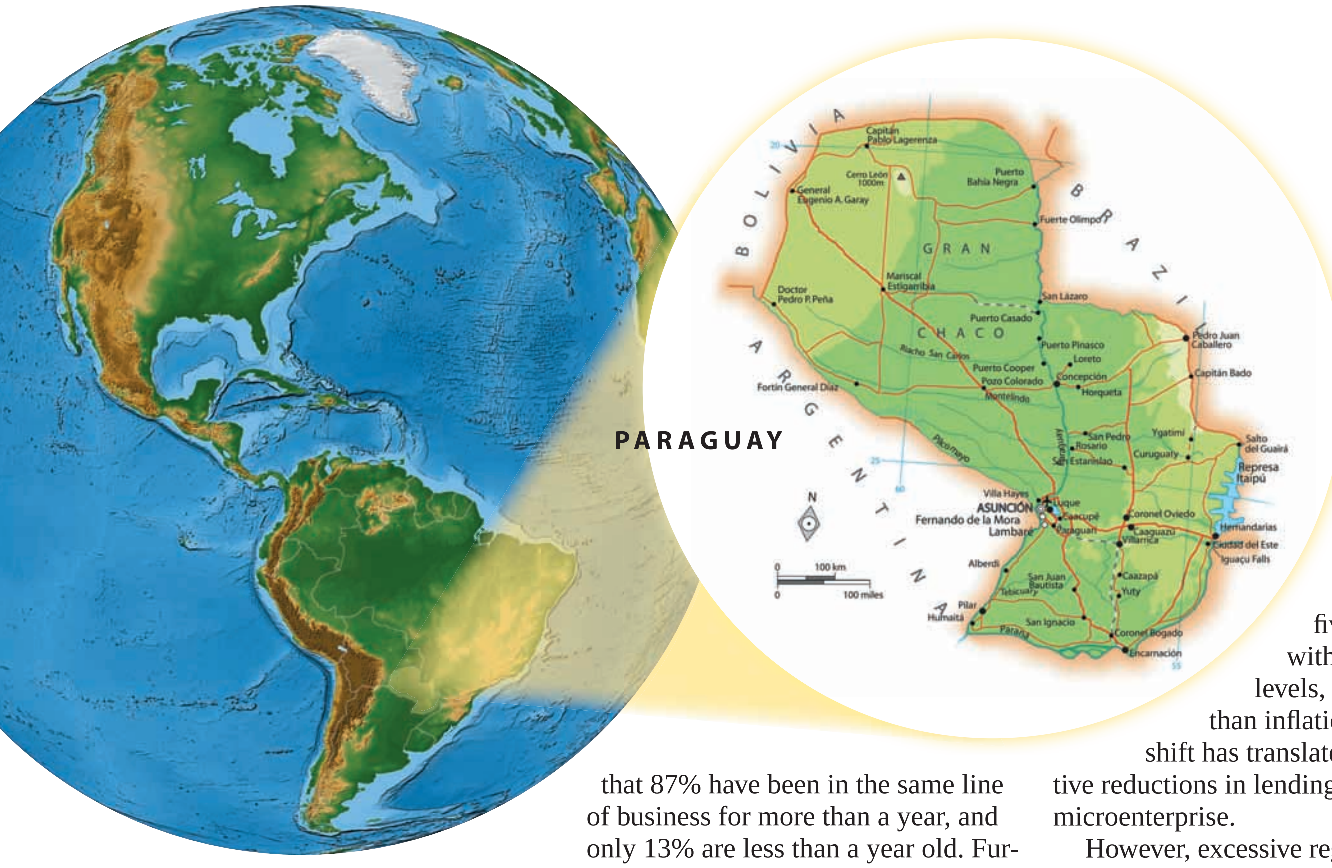
Most microenterprises are run by a single person working alone (63.1%), followed by those in which two to five people work (35.8%). Only 1% of microenterprises employ six to 10 workers.

Microentrepreneurial activities are diverse. In urban areas, commercial businesses are common (43%), including small grocery stores, food vendors, street vendors, stalls in streets or in markets (clothing, electronics, telephones and accessories, vegetables, fruit, medicinal herbs, and refreshments), and hardware stores, among others. Service microenterprises include mechanic shops, electronics repair shops, garden

Paraguay's microfinance industry is distinctive because of its valuable experience with technology developed to expand microcredit into rural areas.

GETTY IMAGES

DANNY ADORNO



DORLING KINDERSLEY/GETTY IMAGES

shops, laundries, beauty parlors, pawn shops and construction contractors, among others. The goods produced in productive microenterprises include construction material, crafts, ironwork, and carpentry. In rural areas, agricultural activities predominate (76%).

In terms of potential growth, a large number of microenterprises survive at the subsistence level (85% in the rural area); the rest earn above the minimum salary. Approximately 87% of urban microenterprises do not save, the majority due to lack of capacity—after the monthly bills are paid, nothing is left over. Only 28.7% of microentrepreneurs are in the position to save, investing their money in the business or in their home.

Higher profits are more common in service microenterprises, compared with those dedicated to commercial activities, the majority of which register income levels of less than 50%. Productive enterprises, however, show an equitable distribution among the different income levels in the sector.

The stability of Paraguayan microenterprises is reflected in the fact that 87% have been in the same line of business for more than a year, and only 13% are less than a year old. Furthermore, the majority of microenterprises operate 10–12 months per year. However, the high proportion of low-skilled workers is a concern. Many take in low earnings and work long days, and most workers lack access to services that could help protect them in times of illness, incapacity, or old age. An estimated two-thirds of the country's microenterprises operate informally, although in legal activities.

Microenterprise has traditionally been an employment-generating resource. Despite recent economic growth rates of nearly 7%, employment has risen at a slower rate. As a result, one in three Paraguayans has employment problems, either being unemployed or underemployed.

In recent years the macroeconomic environment has undergone some critical changes. The reevaluation of the national currency (or 35% depreciation of the dollar) in the last three years has had a negative impact on exports. However, commercial microenterprises have been more dynamic, especially those that work with imported products. Another key macroeconomic variable, the financial interest rate, has dropped from 35% to 20% over the last five years, with constant levels, even higher than inflation. This shift has translated into relative reductions in lending rates for microenterprise.

However, excessive regulations are unfavorable to competition, and the problem is growing worse with inconsistencies in how the regulatory framework is implemented. The consequences for entrepreneurs are high costs in money and time. The situation is also fomenting a source of corruption, since the regulatory agency has significant discretionary power. The regulations do not suit the vast heterogeneity of businesses in the sector and lack the flexibility needed to adapt to the shifting conditions that

A publication on Paraguay's microenterprise sector will be available at the XI FORUM. For more information on how to get a copy, contact the IDB Country Office in Paraguay.

are indicative of an open market economy. The result has been that Paraguay has received low marks in various rankings on "business climate," even though the last issue of FORBES Magazine advanced Paraguay from 98th place to 70th among the 121 countries analyzed.

While non-financial enterprise development services may be limited, credit for microentrepreneurs has generated a portfolio of nearly US$200 million and more than 150,000 borrowers over the last 10 years. However, microenterprises continue to lack access to these services, especially those located at the bottom of the pyramid, where only 15% have any kind of loan.

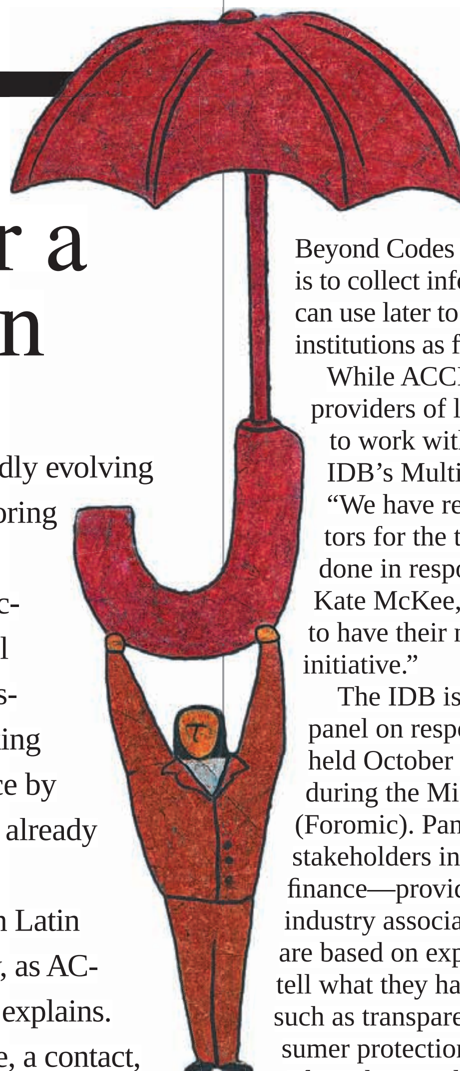
The institutions regulated by branch management (banks and financial institutions) reach just over 60% of the market with loans that average US$1,200. Cooperatives cover one-quarter of the market with a similar average balance but wider variation in amounts (from US$200 to US$3,000). Non-regulated institutions cover the remaining 10% with credit levels slightly below US$400.

DANNY ADORNO

Paraguay's microfinance industry is distinctive because of its valuable experience with technology developed to expand microcredit into rural areas, along with a strong and growing presence of savings and loan cooperatives with microcredit programs. And though low coverage persists, at the same time it offers broad market potential and poses new challenges to serve this segment with technologies and instruments that respond to the tremendous needs existing in the country.

Link:
www.forbes.com/

Responsible Finance:
The Need for a Shared Vision



In microfinance, a field that is still rapidly evolving in Latin America, key players are exploring responsible finance and trying to find frameworks in which products and practices work for both clients and financial institutions. Providers, regulators, investors and industry associations are working to achieve more sustainability in finance by making it more responsible. And some already have stories to tell.

The notion of consumer protection in Latin American microfinance is in its infancy, as ACCION's Vice President Robin Ratcliffe explains. "It's one thing for people to have a code, a contact, a customer protection reference," she says, "but how to implement them is a whole different ballgame."

ACCION launched its pioneering Pro-Consumer Pledge in 2004, based on nine specific principles of fairness. It is currently leading the Beyond Codes project, a worldwide initiative that seems to be right on target. "Their idea is to work with microfinance institutions that already have a code of conduct," says CGAP's Kate McKee, "so we can move from code to procedures, compliance, and staff training." Beyond Codes is scheduled to launch simultaneously in four countries around the world by October 2008. Mexico is the only Latin American country participating in the initial phase with several MFIs partaking in the project. "We will go to the MFIs and work with them on self-assessment of their consumer protection practices, see what does or does not work, and help them with an action plan," says Elisabeth Rhyne, who heads the Beyond Codes project. The initial goal is to collect information that ACCION can use later to help certify microfinance institutions as followers of good practices.

While ACCION takes steps with the providers of loans, CGAP has decided to work with investors, including the IDB's Multilateral Investment Fund. "We have reached out to some investors for the things they have already done in responsible finance," says Kate McKee, "and we are asking them to have their name associated with our initiative."

The IDB is organizing a plenary panel on responsible finance to be held October 9 in Asunción, Paraguay, during the Microenterprise Forum (Foromic). Panelists will include leading stakeholders in the new field of microfinance—providers, investors, regulators, industry associations, whose perspectives are based on experience. Their stories will tell what they have learned on key issues such as transparency with clients, consumer protection, business ethics, codes of conduct, and corporate governance.

Which issues are most important and why? As markets get more competitive and lower-income consumers gain access to formal financing, what types of questionable practices tend to surface? What are the best tools to ensure the right balance between access and protection? What types of regulatory measures have already been tried and with what results? What are voluntary codes of conduct? What about demand-side interventions such as consumer education? Can regulation support voluntary market-friendly initiatives? Can policy stimulate self-regulation?

The synergy between these initiatives should be obvious. "You throw a pebble in the water and watch the ripples grow," explains Kate McKee.

BY SAMUEL SILVA

Link:
www.accion.org/center
www.cgap.org

Finance

Credit Crunch:
The Domino Effect

Microfinance is expanding in Latin America. Economies are growing and stabilizing and commodity exports are selling at good prices. International capital markets have opened up, and everything seems possible. Ladies and gentlemen, welcome to Wall Street, where we have discovered the most ingenious financial instruments engineered by Citigroup, Morgan Stanley, Deutsche Bank and Standard & Poor's. Why do we have to worry about the mortgage crisis with our great partner to the North? The honest answer—–"CLO."

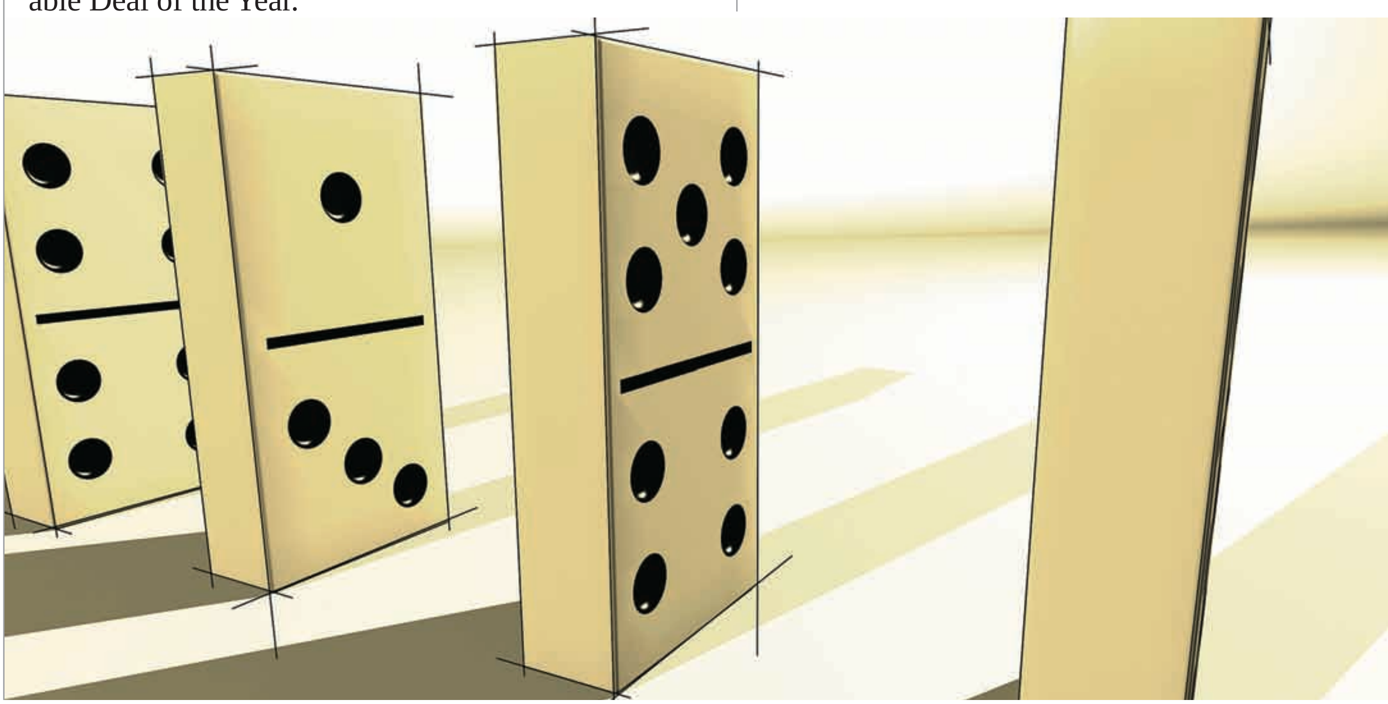
The mood was one of pure celebration on June 3, 2008, at the administrative headquarters of BlueOrchard Finance in Geneva, Switzerland. The *Financial Times* and the International Finance Corporation were hosting the Sustainable Banking Awards ceremony, and a venture by BlueOrchard and investment bank Morgan Stanley to loan money to the microfinance industry had just won the award for "Sustainable Deal of the Year."

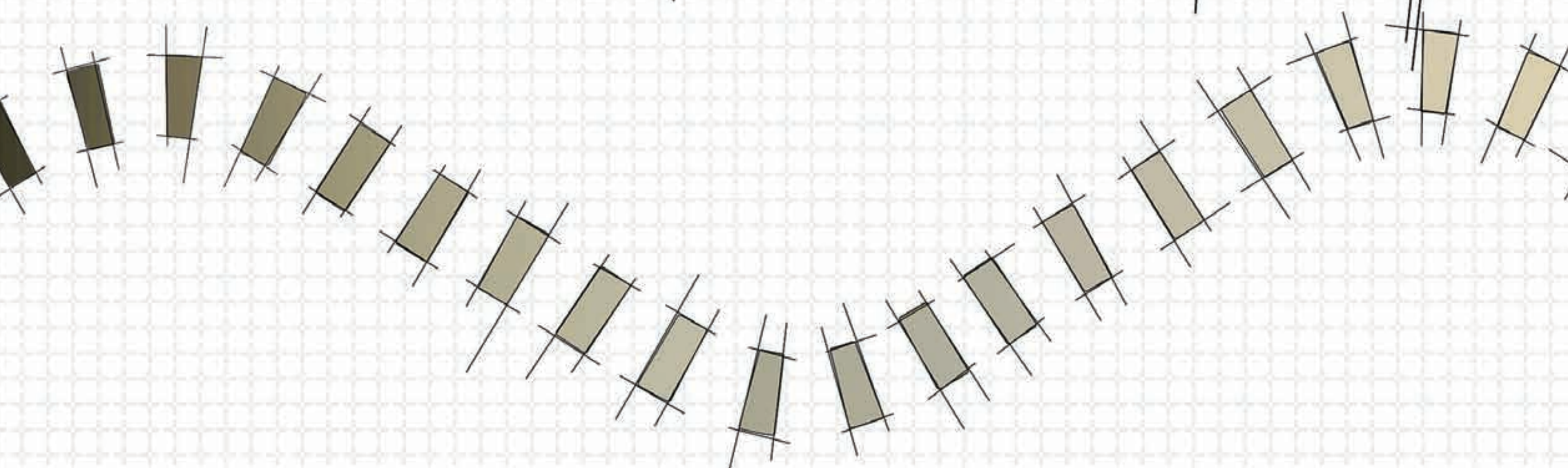
The transaction known as BOLD2 (for BlueOrchard Loan for Development), made a big splash when it was launched in April 2007. The Collateralized Loan Obligation (CLO) was structured by Morgan Stanley to loan almost US$110 million to 20 microfinance institutions selected by BlueOrchard in 12 countries around the world, including Colombia, Nicaragua and Peru.

This was not the first time that a group of microfinance institutions had come together under the umbrella of a CLO to obtain financing in international capital markets. Nor was it the first CLO for microfinance, or even the first BOLD transaction for Morgan Stanley and BlueOrchard. Both firms had previously joined forces to structure a similar securities-backed loan to microfinance institutions in 2006.

But this time Morgan Stanley had crafted a "currency swap" mechanism that would allow more than 60% of the obligations to be placed in local currencies, including Peruvian *soles* and Colombian *pesos*. It was also the first time that a major international rating agency—Standard & Poor's—ranked a debt issued for microfinance. This fact alone was enough to attract top institutional investors.

And so it happened again. The BOLD2 securities were issued in less than a month, backed by 21 investors, among them banks,





insurers and mutual funds—the cream of the crop of corporate finance. But in truth, that night in Geneva, just as BOLD2 was receiving the award for Sustainable Deal of the Year, its business was no longer sustainable—and had not been for several months.

The Innocent Pay for the Guilty

Ironically, the market began to dry up almost immediately after the BOLD2 notes were issued. "We are no longer investing in debt papers," said Paul DiLeo, managing partner of Grassroots Capital Partners and CEO of the microfinance investment fund, Gray Ghost Fund, adding that this policy had been in place at his firm for 18 months. A source close to Morgan Stanley said that BOLD2 could not be established today, nor would it have been set up in the second half of 2007.

"The market froze abruptly," said DiLeo. Several CLOs scheduled for early 2007 never materialized, and at least one, which was launched and placed in the market, was open for several months without success.

The truth is that BOLD2, the greatest success of financial engineering in microfinance, was also among the last, along with the initial public offering (IPO) of the Mexican microbank Comportamos. Both enterprises were launched in April 2007, and 16 months later, there were still no takers.

Morgan Stanley created a microfinance unit when it realized the opportunity presented by its BOLD transactions. More recently, however, the unit began to explore new products, recognizing that the CLO opportunity had drawn to a close.

If the giants collapsed, who would invest their trust and money in unknown microfinanciers in the emerging markets?

What happened? By and large the over-indebted mortgage crisis in the United States became evident in the second half of 2007 and within a few months led to the resignation of the presidents of Citigroup and Merrill Lynch and the collapse of Bear Stearns, the fifth-largest investment bank in the United States.

Mortgage loans saved the U.S. financial system after the high-tech investment bubble burst in late 2000. "The houses that saved the world," read a headline of *The Economist* magazine. But the excess of money in the hands of banks and the sustained increases in the cost of housing provoked a new bubble that replaced the previous one. Banks began offering high-risk mortgages—known as *subprime* loans because they are offered to low-income clients—with high interest rates and hefty bank commissions. Clients became indebted thinking they could pay their mortgages by selling their homes at profits similar to what they had seen in previous years. And since mortgage debt can be sold in the form of bonds or securitization of credit, a high volume of subprime obligations was transferred into investment funds and other institutional investments.

The 2007 mortgage crisis was unleashed when investors noticed the increase in delinquency and default rates. But they were slow to realize it, due to the growing automation of the securities market and an unprecedented abundance of liquid assets. It did not help that when the banks began to feel funds tighten, they turned to mechanisms such as CLOs—similar to the microfinance transaction launched by Morgan Stanley and BlueOrchard, but backed by housing.

The repercussions were evident. Banks and investment funds had compromised their assets in high-risk mortgages and caused a contraction of credit (the now famous credit crunch) and a downward spiral in investors' confidence. By the end of 2007, Citigroup announced losses of US$6 billion and Merrill Lynch recognized that it had unrecoverable loans of almost US$8 billion. If the giants collapsed, who would invest their trust and money in unknown microfinanciers in the emerging markets?

The Other Side of the Coin

Experts and investors agree that the contraction of microfinance lending markets has no relation to the quality of the industry's assets. "The truth is that microentrepreneurs and microfinanciers are not subprime clients—they're *prime* clients," stresses Tomas Miller, microfinance specialist at the Multilateral Investment Fund (MIF) of the IDB.

The underlying assets of the indus-

try remain as strong as ever, agrees Paul DiLeo of Grassroots Capital Partners. The primary hesitation for investing in microfinance is the same across all investments because *all* markets are contracting, irrespective of the quality of assets in a particular industry. The relative increase in interest rates occurring today, DiLeo adds, is a product of diminished global liquidity after a number of very liquid years.

"Simply put, a perception of greater risk exists on the part of investors," a source close to Morgan Stanley concurs. "Those who could have been content with a 12% profit margin yesterday now want a 25% margin, and microfinance institutions are not willing to pay such high interest rates."

CLOs and other financial instruments structured by the magicians of Wall Street helped build up the brand image of the industry, explains DiLeo. They gave visibility and legitimacy to microfinance as a sector capable of playing on equal footing in international capital markets. They may have been useful public relations tools, yet their sudden end has not had a visible impact on the industry. Microfinance institutions continue to have access to the capital needed to carry on their business. "Most funding comes from local sources," explains DiLeo. A participant in BlueOrchard and Morgan Stanley's award-winning operation shares his opinion: "MFIs had received local funds and many were already well-funded when they contracted the credit," he says. "The CLOs can help diversify financing sources and stimulate cross-border investments, but microfinance institutions in the region have not lacked capital."

Not all was rosy during microfinance's fleeting surge in international capital markets. While some microfinance institutions offered shares on the stock market or complex financial transactions on Wall Street structured by wealthy investment bankers, donor agencies and social investment funds urgently began examining how they were handling their own funds. Had they become irrelevant? Would they have to reinvent themselves? Had they donated resources to institutions that were seeking profit rather than development, while charging higher interest rates than commercial banks?

The rise and fall of microfinance's structured debt during 2006 and 2007 "makes us refocus on the basis of the industry," says Kate McKee, of CGAP. "Perhaps now it will be good to refocus on the underlying assets and directly buy corporate debt from microfinance institutions."

But another CLO? "If the markets return," sighs one participating investment banker nostalgically, "that's my dream."

BY SAMUEL SILVA

Finance

Technology and Networks: A Perfect Fit

The cell phone and the Internet are doing wonders for many micro-businesses. But watch out: Projects can only succeed with a support network and critical mass.

Upload your own music onto the Internet, bypassing the record companies. Make a call from a mobile phone using Telefonica's network but without joining the giant. Sell handicrafts at a decent price without getting ripped off by a middleman. And why not seek funding from European or U.S. investors for your microenterprise from the comfort of your living-room sofa? No, Aldous Huxley has not returned to usher in a "brave new world," but technology is creating one that is profoundly streamlined—and, who knows, perhaps more fun.

Microentrepreneurs have been viewed for the most part as retailers and providers of traditional services, yet today a wide range of innovators are pursuing small but well-founded projects. The above examples are, in fact, the products of inventive microentrepreneurs intersecting with new technology platforms that are becoming more accessible and less expensive, a phenomenon that is undeniably becoming global.

Independent experts and the Multilateral Investment Fund (MIF) have begun to study business models that support these activities to determine the pros and cons. Is this a paradigm shift for microentrepreneurs? "The idea is to look at how and why these phenomena arise, and not to judge them," says Jaime Garcia Alba, a MIF expert in innovation and knowledge management. "It is interesting to observe how new technologies lead to the development of new business models, and analyze whether these bring risks and innovation with them, and see how microentrepreneurs can benefit."

The key to these enterprises lies in one small but significant word: *networks*. Obviously projects cannot prosper without a critical mass of user-client-consumer groups and networks. Financial resources will not ensure sustainability without a market or niche in which capital can resonate. On the other hand, there needs to be respect for intellectual property—which is facilitated by users becoming involved in generating products or services—and, more specifically, with participant involvement and adaptation.

The following practices have been developing in the region and throughout the world for some time. In all cases, the models are considered replicable to scale.

Musicians, tourists, and artisans

In the study "Cultural Industries on the Web 2.0," expert David Casacuberta presents four typical and compelling examples of how the Internet can be used to support microenterprise. The decreasing costs of technology have led to shifts in the industry from mass production to mass personalization, allowing the Internet to be used as a channel for pro-

moting, distributing, and marketing traditional products and services.

Examples are cropping up throughout the region. In Jamaica, for instance, some artists are trying to sell their music through social network sites like MySpace and producing songs for mobile phones and download sites like Apple's iTunes.

In Casacuberta's study, published by Trànsit Projectes and the IDB, he and his team identified 45 entrepreneurial practices that use technology to disseminate their services, and selected four examples described below. Three are from Latin America and one is from Europe, although it would be replicable in Latin America.

Techno Brega: This Brazilian network brings together Brega-style DJs and musicians who perform at parties and weekly concerts to finance their operations. They distribute their music to make their network known and give street vendors the rights to sell their personalized CDs. For independents, they enjoy widespread popularity. Techno Brega reflects the philosophy of Brazil's Minister of Culture, Gilberto Gil, who supports new policies that have made copyright more flexible, such as the Creative Commons, a free tool for licensing intellectual property. Since Techno Brega does not have a Website, the network has not been able to expand further.

Trama Virtual (TV): This is another Brazilian project that is somewhat complementary to Techno Brega. Founded in 2004 as part of Trama, one of the largest recording studios in Brazil, Trama Virtual is a "net-label," a Web-based distributor for independent musicians. TV allows free music downloads and pays artists directly through advertising revenue from Banco Real and Cerveza Sol. Trama Virtual has uploaded more than 35,000 songs by 14,000 Brazilian artists. "Everyone wins: users, artists, and sponsors," explains Casacuberta.

Gran Canaria Trip (Europe): This social and business tourism network on Spain's Grand Canary Island allows businesses, tourists, and residents to make contact for direct sales and purchases. The network provides users with a platform on their website for doing business. Information is reviewed by participants. The project is an example of community

Interview with **Wenceslao Casares**, Co-CEO of Bling Nation

"Technology is the easy part of mobile banking"

The story of Argentine Wenceslao Casares, and his technology-based financial businesses, has been retold as many times as a literary classic. In 1997, the 33-year-old created Patagon, an online brokerage firm that he sold three years later to the Spanish bank Santander for US$528 million. Next he created Wanako Games, which he also sold, this time to the French conglomerate Vivendi. He then stopped selling. In 2002, together with a former colleague from Patagon, Venezuelan Meyer Malka, he founded Lemon Bank in Brazil to offer inexpensive distance banking. They installed ATMs in more than 6,100 bakeries, gas stations, and pharmacies, and turned Lemon into the biggest non-traditional microfinance institution in Brazil.

Casares now divides his time between California, Buenos Aires, São Paulo and Santiago because his latest creation is in the United States, not Latin America. Bling Nation (BN) is an open payment platform he will soon launch with Meck, his investment company, and once again, the Venezuelan Malka.

BN is the progeny of an unusual leap from a developing market to a developed one, drawing on experiences at Lemon. The Brazilian bank, which already has 20 million clients and will invoice more than US$100 million in commissions this year, taught Casares how to operate within automated markets. As a result, Bling is focused on the more than 17,000 small banks in the USA. "Those small banks have an enormous resource disparity with the big ones," says Casares. "They don't have information technology departments. They have a perceived disadvantage for innovation and technological services, and so they lose the youngest customers, who are very technology dependent."

How would you define Bling Nation's services?

Since we focus on the U.S. market, the product assumes that customers meet certain requirements that you cannot always count on in Latin America. The platform allows any financial institution, especially small ones, to reach a customer segment that has not previously used banks.

Those banks need to innovate and provide technological services in areas where they are losing out with young customers, especially Generation Y. Those people have an adverse relationship with banking, unlike decades ago, when they would celebrate opening a bank account. Now young people prefer not to have one. And since the small banks are having trouble reaching that customer segment, [when they do reach them,] those young people already have an account with Capital One or another big bank, and they've

commerce, which facilitates the delivery of services and is rapidly growing on Web 2.0. Countries such as Costa Rica, Peru, and Ecuador are starting to adopt similar models for tourism and handicrafts. Entrepreneurs benefit from being interconnected and are able to reach a broad community of clients, who are served by information, social networks, and direct transactions. As a multi-level sales tool, the site offers its users discounts for online purchases, which help attract new participants to the network.

Novica: Founded in Los Angeles by Peruvian-American Roberto Milk and Brazilian social entrepreneur and former United Nations official Armenia Nercessian, this network is already a well-established enterprise. The platform allows artisans in isolated rural areas to offer their products more widely, and has won support from National Geographic, which promotes the project. Novica works with 132 artisan entrepreneurs in seven regions of the world, including the Peruvian Andes, Brazil, and Mexico. The artists use Novica's regional offices for free Internet access, while the network sends professional photographers to document their products and lifestyles. "What we are doing with Novica is revolutionary," says Nercessian. The founder is quick to point out that beyond the economics, Novica gives artisans a sense of dignity and pride from international exposure that is invaluable. "When artisans become successful and recognized, their children and other youth in the community begin to respect the traditions," she says.

Family Financing

Kiva (www.kiva.org) and Microplace (www.microplace.org) are two sites that channel investments directly to microentrepreneurs. Both use the Web as a vehicle to connect lenders with borrowers. The concept is new and still in its early stage.

Kiva is focused on philanthropy. Through the site, people can loan money to finance commercial and productive projects that support microentrepreneurs around the world. In Latin

Wenceslao Casares

WENCESLAO CASARES

been tainted [by another corporate culture].

Now, this same customer segment is part of a generation that is highly dependent on technology, especially the cell phone and iPod. The mobile phone is an interesting channel for developing businesses, but the banks don't know how to engage young people, nor what role the telcos [telecommunications companies], which are indirectly linked to the business, will come to play.

The Bling Nation platform allows them to reach any customer who has a cell phone and to connect, regardless of which carrier or phone they use. It manages services ranging from account information to payments to practically all bank services. It's up to the bank to decide what it wants to offer.

In the past, mobile banking didn't catch on because, among other things, the technology was expensive and the bandwidth was slow. These issues have been resolved. So, if tomorrow you go into the region, would consumers be ready to use all the mobile banking services?

Yes. Even though there are many customers who appear to prefer not to use banks, they *would* use them if the opportunity were properly packaged. We saw it with Lemon. People were asking the same thing then: Is the potential consumer prepared for this service? The answer was also yes, maybe people do want banking services, but in a different way than the traditional banks have offered them. This is why, in addition to Generation Y, the other important customer segment for Bling Nation is the immigrant population, at least in the first stage.

But can these models be replicated in the region? Has any other project proposed the same thing that you have in the United States?

There are a lot of things going on in mobile banking and, like everything, there are some that are irrelevant but get lots of fanfare, and there are a few interesting cases. In mobile payment the situations for the consumer are extremely different. At one extreme you have the richest users in the world in Asia and Europe, on the other, Africa and Latin America. In the middle, nothing. In Africa in particular there's a little of everything. You'll find offers of little substance that come up a lot in conversation, but also the experience of Vodafone in Kenya, which is very interesting and is working well. [Through its affiliate Safaricom, Vodafone offers M-Pesa, a money-transfer service performed using mobile phones.] In Latin America there are regulatory barriers to offering that kind of service, despite its convenience. You charge your cell phone with money, as you do with minutes, and send it to another cell phone where it becomes cash. It's like electrifying and de-electrifying cash, and adding value.

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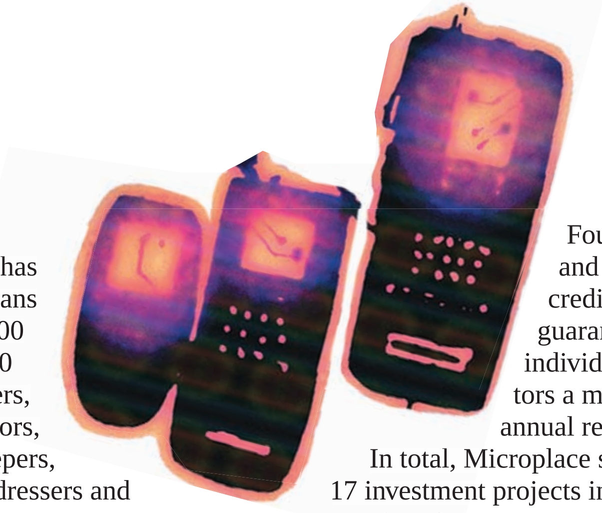

America and the Caribbean, Kiva has financed microloans of US$500–$1,200 for more than 110 taxi drivers, bakers, dressmakers, tailors, artisans, shopkeepers, bricklayers, hairdressers and truck drivers in Peru, Nicaragua, Bolivia, Paraguay and Guatemala.

Kiva works with institutions such as FINCA, CrediMujer, and IMPRO, among others, and could be scaled up and have more international reach, since there are fewer constraints on charitable operations than on return-based investments, as is the case for Microplace. Launched by the online auction site eBay in early 2008, Microplace administers funds from organizations such as the Calvert Foundation and Oikocredit, which guarantee individual investors a minimum annual return.

In total, Microplace sustains 17 investment projects in Latin America. Organizations such as ProMujer in Mexico and Bolivia, Banco Solidario in Ecuador, the CHISPA Foundation in Nicaragua, Banco de Familia in Brazil, and the Paraguayan Cooperation and Development Foundation are financing entrepreneurs with restaurants, stores, repair shops, and cottage industries that produce piñatas, bricks, and baby clothes, among other products.

In each case, it is interesting to see how Web 2.0 provides visibility for microentrepreneurs in emerging economies and puts them in contact with such improbable associates as European and U.S. investors.

Connecting Calls

Telecom entrepreneurs are helping connect extremely remote areas with big cities in Latin America, although efforts are still in the embryonic phase. Thanks to their diligence in reaching thousands of people in small villages scattered across the mountains, deserts, and jungles of Latin America and the Caribbean—markets considered unprofitable by the big telecommunications companies—the region's least fortunate are beginning to have access to these services.

What may not be good business for big companies can be great business

You'll have prepaid card providers as customers. Could that also be reproduced in Latin America where prepaid telephones are essential?

The important thing about the prepaying public in the United States is that they are banking without bank accounts. The prepaid bank cards are very popular among groups with greater financial needs than the rest. But it's in outer space, no institution is involved. And in the end, you don't have the capacity to access all the information and services [of a bank account]. This access could be encouraged, but not while regulation continues to be so important in Latin America.

Usually technologies are designed in developed markets and then move down. It is rare that they move up, as is happening with Bling Nation, which is building on the experience of Lemon Bank.

That's true. Lemon definitely enabled us to create Bling Nation. Its platform made us think of ways to process payments more efficiently in general and how to use cell phones to cover gaps in those payments. What also excited us is that the United States is behind the curve in the mobile phone-payment relationship, which presents a great opportunity.

What did you adapt?

In Brazil we tried to use technology to reach a market segment that couldn't be reached affordably any other way. The back office can be used for many other things. We rebuilt and Americanized that platform. Many of the basic principles are identical and we learned them in Brazil: how to process in real time; how to do it at no cost; how to take advantage of information; and how to help the user take full advantage of the transaction.

What lessons did Lemon teach Bling and what lessons can be transferred to the region?

The cell phone is an ideal medium for connecting clients and services. You don't have to be a genius to realize this. The science, the difficult part, is how to structure the business. Now, this doesn't happen quickly, or develop more value or more business because the ecosystem is very complex. [Financial systems] are a bunch of elephants that move slowly and aren't terribly efficient at implementing technology in highly regulated environments.

The most important players are banks, which are typically very comfortable with the money they earn and don't have the same aggressiveness of other industries. On the other hand, [you have] the telcos, which are enormous monsters too. And on top of this is a huge layer, even more complex, of regulations.

I guarantee that mobile banking isn't a problem of technology. That's the easy part. What needs to be better resolved is the ecosystem, the value propositions, the business models. This is what will add value for the client and the financial institutions.

BY DIEGO FONSECA

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for local micro-operations, such as Oportunet, MicroTelco and NanTelco. Founded as part of the U.S. Agency for International Development's Last Mile Initiative, Oportunet offers telecommunications services based on WiMax and WiFi technology to small agricultural communities in Guatemala, Paraguay, and Colombia. In small corners of Chaco, Jujuy, Salta, and Catamarca provinces in north and northeast Argentina, for example, cooperatives are taking charge of interconnecting tiny settlements. The same thing is happening in Bolivia, even in large slum districts.

These companies buy wholesale "megas" of bandwidth and distribute them in local communities. To succeed, the model needs a minimum critical mass to ensure sustainability. Agreements with schools, communal farms, and municipalities, for example, allow microentrepreneurs to offer new services that cover or compensate for their intermediary costs.

The enterprise has expanded dramatically, and actors as diverse as telecommunication companies (for example, Avantel in Colombia), municipalities in Brazil and Argentina, and community social networks in Peru have embraced this model with increasing interest. Hernan Galperin and François Bar, researchers at the University of Southern California, have published an in-depth study titled, "The Microtelco Opportunity: Evidence in Latin America."

This is happening because large telecommunications companies are not interested in consumers with little purchasing power. Yet if micro-telecommunications companies can amass enough small customers from widely dispersed areas and provide them with communications services, they can offer attractive packages in volume. The IDB's Garcia Alba explains the magic formula: "The concept is based on the lower cost of technologies based on WiFi, 3G (third-generation cell phones) and WiMax (greater bandwidth) combined with innovative business models." People who had previously been isolated from the world of modern networks are gaining a substantial increase in access, which in turn provides them with greater access to the marketplace as well.

BY DIEGO FONSECA

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Innovations in Tourism

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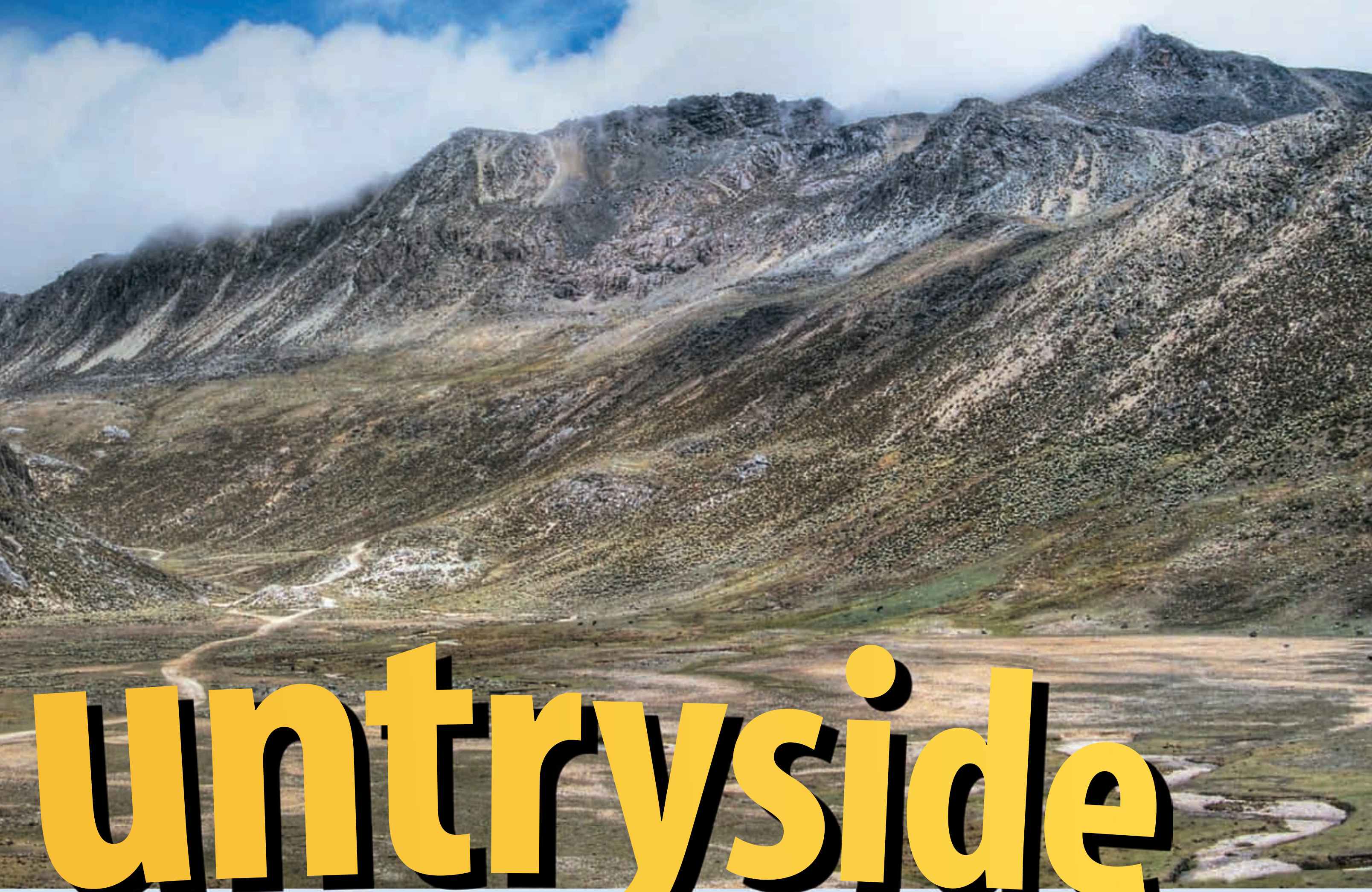

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Rural community tourism is not just another option for travelers eager for a new experience. It also can help reduce poverty in communities with microenterprises. For now, it is revolutionizing tourism in rural communities throughout Latin America.

By Diego Fonseca

In 2004, Heloisa Barros was convinced that her only option was to sell her farm, *Engenho Velho* (“Old Mill”), a 10-acre property in São Bento do Sapucai, 200 kilometers from Sao Paulo. Although the farm had been in her family for more than 100 years, it now seemed likely that Heloisa, her mother, brother, sister-in-law, and nieces and nephews would end up in the street. Then she found out about a rural tourism program called “Adding Value to Your Property,” an initiative of the National Rural Training Service (SENAR), a Brazilian para-statal training institution for rural workers.

Heloisa signed up for the program and found a way to save her farm: rural tourism. Under SENAR’s guidance, the family invested US$1,000 to restore the property and receive visitors. They set a daily price of US$70 for room and board. When neighboring inns began referring guests to her, Heloisa knew that she had succeeded. She then returned to SENAR for training in marketing in order to launch a store where her mother would sell coffee, homemade sweets and breads, tablecloths, and napkins.

Engenho Velho is a success story for rural community tourism (RCT) that has been recognized by the International Labour Organization’s Inter-American Centre for Knowledge Development in Vocational Training (CINTERFOR). RCT is growing in many remote communities throughout Latin America. By 2006, at least 5,000 micro businesses were operating in Brazil alone, and in Costa Rica more than one tourist in 10 had a rural experience.

RCT includes a series of sustainable activities planned and coordinated by the local residents, who preserve their rural culture and focus the benefits on the community, promoting

conservation practices for forests, energy and water, along with the intelligent use of biodiversity. The idea is that the so-called "new millennium tourist" not only visits rural areas, but also lives with families, partaking of country life, from planting and harvesting to milking cows and preparing feasts. Simply put, the visitors get involved.


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RCT is seen as a social activity that organizes flexible, varied and trained groups of self-managed communities, which is particularly fertile ground for microlending. According to Gonzalo Freiria, director of Rural Tourism at the Faculty of Agricultural Sciences of the Business University (UDE) in Uruguay, the expansion of micro and small service companies enhances rural business "since entrepreneurship development includes products identified with local areas and subsidiaries of programs tailored to consumer interest and demand."

The World Tourism Organization views RCT as "key" for diversifying subsistence economies through providing employment to idle workers and capital to family-run micro-services. Under sustainable management, jobs are created by generating local value chains with no need for further investment or infrastructure other than water, electricity, and roads.

Sprouting From the Ground Up

RCT started in Europe in the 1950s and came to Latin America in the 1980s as a survival mechanism in response to the crisis in the countryside. At first, it depended on resources from international aid; the United States recently became affiliated in the 1990s.

The Inter-American Development Bank (IDB), through its Multilateral Investment Fund (MIF), now finances a cluster of 24 projects in the region involving more than 6,500 micro, small, and medium-sized enterprises. It is the largest laboratory for RCT in the region and includes the creation of self-guided tours, sustainable development programs, and labor skills training in Ecuador, Peru, Bolivia, Colombia, Guatemala and Argentina. The MIF also provides resources to the Local Ethnotourist Business Network in Honduras, southern Belize, the southern macro-region of Peru, and 30 communities in Costa Rica through the National Ecotourism Consortium Cooperative (COOPRENA), the country's leading RTC developer.

Although experiences are plentiful, not all countries have a clear policy for promoting RCT. Mexico is a case in point, although it is home to the most powerful tourism machine in Latin America. Mexico's rural and semi-rural communities, which encompass some 40 million people, do not participate in tourism activities. In fact, 24 culturally valuable sites in the country are on UNESCO's World Heritage list, and the preservation of some, like the Mayan cities of Chichen-Itza, Uxmal, and Calakmul, could be achieved through rural projects.

But Mexico has not gotten there yet, and could perhaps take note of the successful case into Quindio, Colombia, to plan its entry in this promising field. In 1991, Colombia took four coffee farms in crisis and transformed them to host tourism. The project generated a cluster of businesses, and 15 years later, the area is now home to 600 rural microenterprises. Quindio has become the second-largest tourist destination in Colombia.

Leaders and Emerging Leaders

The regulations, policies and experiences that help create a sustainable RCT industry are most evident in Peru, Costa Rica, and Ecuador, the rising star. In 2007, the Microenterprise Tourism project (MET)—an alliance forged by the World Tourism Organization, Ecuador's Tourism Ministry, the Netherlands Development Organization, and the Rainforest Alliance to integrate tourism microenterprises, microcredit, and poverty reduction—identified 100 microenterprises along tour routes or circuits with tourism potential. Nearly 30 were certified as sustainable by the Rainforest Alliance, and several more are being studied by MET to determine their need for microcredit.

In Costa Rica, RCT is being consolidated. Approximately 20 of the 35 groups affiliated with the Mesa Nacional Campesina, the country's main labor organization, have decided to merge agriculture with tourism. Currently some 1,500 families in nearly 70 rural communities and villages provide room and board in family homes, organized by the Actuar, Grupo Jazon, and Cooprena networks.

In 2004, these networks formed an alliance to strengthen RCT, which made Costa Rica one of the most organized systems. In 2007, the government officially endorsed RCT, and next to ecotourism, sun and surf tourism, and adventure travel, it is the fourth macro-product offered to international visitors. RCT, which is in a special category based on the visitor's experience rather than traditional hotel standards, "has begun to seek sustainability in its initiatives and consolidation of the sector," says COOPRENA manager Lelia Solano.

What Costa Rica represents in terms of institutionalization, Peru has in critical mass. At the World Tourism Organization's 2007 summit in Cartagena (Colombia), Peru reported that 60% of the 1.7 million tourists visiting the country each year have a rural experience. In Costa Rica, the proportion is 12% of 1.8 million tourists. With these statistics the Peruvian government is promoting the country as a destination for experiential tourism. The country has even designed a "cultural tourist" profile and rural tourism guide, in addition to resources that have been mobilized to make services in rural communities more competitive, adapting best practices from Costa Rica. Peru now has quality standards for services in inns and shares information on business models with establishments that are included in this system. The government has also launched a non-reimbursable investment fund to finance rural community tourism.

Already Achieved … and Yet to Do

The backstory of RCT now seems to promise a happy ending. The authorities have taken concrete steps to get involved. Brazil's SENAR, for example, which helped *Engenho Velho*, is the leading authority in training rural entrepreneurs. In Argentina, the agriculture faculty at the University of Buenos Aires (UBA) offers a postgraduate degree in Rural Tourism Management, and many champions of RCT have graduated from the program.

The experiences are beginning to produce results in the communities, too. A survey by the Business University of Uruguay shows that RCT has generated employment in villages and towns and repositioned rural businesses in the country. In Costa Rica, tourism organizations realize that the hourly wages of rural tourism workers are 50% higher than for other occupations in the countryside.

Of course challenges remain. "Some of the biggest problems [to resolve] are the low participation of local stakeholders in profits, the lack of tourism development planning

Proven Examples

- **Albergue Ecoturístico Tomarapi ("Tomarapi Ecotourism Inn") (Bolivia).** Created in 2003, it is the first RCT microenterprise in Sajama National Park, in Oruro. At an altitude of 4,600 meters, it can lodge some 500 middle-income tourists. Before Tomarapi, 34 families in the area subsisted on single-crop farming and cattle.
- **Programa por los Andes Tropicales ("Tropical Andes Program") (Venezuela, Bolivia and Argentina).** The program provides microloans to families to improve their homes in Salta and Jujuy (Argentina), Tarija and Potosi (Bolivia), the central Andes, and Gran Sabana (Venezuela). Since 1997, it has been sponsored by the Andean Development Corporation (CAF), Spain's Codespa Foundation, Grupo Planeta, Repsol YPF and the Madrid Community, the European Community, and the UNDP.
- **Techos de México ("Mexican Roofs") (Mexico).** In Chacala, a town with 30 inhabitants near Nayarit on the Pacific coast, the construction of six eco-sustainable time-share houses was financed. The microentrepreneurs also manage stores and dining halls.
- **Pueblos Mancomunados ("Communal Towns") (Mexico).** Eight communities in the Sierra Norte Mountains of Oaxaca, in the south of the country, manage a tourism circuit in four municipalities. They conserve rituals and customs of their ancestors. Guests lodge in adobe houses with *Zapotec* families. Microenterprises offer dried mushrooms and fruit, bottled water, and silver wares, certified under kosher rules and fair trade.
- **Finca Esperanza Verde ("Green Hope Farm") (Nicaragua).** Some 160 kilometers north of Managua, this eco-lodge has the capacity for 26 guests on the edge of the forest reserve, and includes an organic coffee plantation and a butterfly farm. Founded in 1998, it lets tourists participate in planting, harvesting, and processing coffee, as well as preparing butterfly pupae for export. Approximately 10% of the income finances community education and health projects. In 2005, the farm was presented as a successful case study at the World Tourism Organization's VI Sustainable Tourism Conference.
- **Federación Plurinacional de Turismo Comunitario ("Multi-Country Community Tourism Federation") (Ecuador).** The federation includes 60 indigenous and Afro-Ecuadorian microenterprises in 45 communities in the mountains, along the coast, and in the Amazon. As part of the World Tourism Organization's institutional strengthening and marketing project, it has its own tour operator, the Community Tourism Information and Marketing Center.
- **Vacaciones con Familias Campesinas ("Vacation with Campesino Families") (Costa Rica).** Poised to become tour operators, these 80 microentrepreneurs live in 12 communities near Nicaragua. Visitors pay up to US$60 a day and can work as volunteers, painting schools or churches, clearing trails, participating in open-air markets, and cultivating palmito and macadamias.

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at the regional, local, and product levels, and a focus on product development that lacks more precise information on markets and their trends," explains Santiago Soler, MIF expert and coordinator of the sustainable tourism cluster. "There is also a loss of the large profits to the developed countries, mainly due to prepaid packages."

In addition, community participation is limited. Low levels of education, training and business management, along with a lack of access to technology and financing and ignorance about marketing, are still huge challenges that need to be addressed.

Long-term commitment is also essential, since RCT does not have quick results. At this stage, public monitoring can be crucial. In Costa Rica, the Sustainable Tourism Development Plan 2002–2012 has attempted to regulate microentrepreneurs. One difficult area to reconcile is the balance between generating economic benefits and the parallel commitment of investors to local development.

It is not easy. Community activities need consensus that can be difficult to forge, while a booming business requires rapid decisions. The World Tourism Organization estimates that RCT will grow significantly in the next 15 years. Approximately 3% of tourists worldwide are drawn to the experience, which is growing about 6% annually, above the average growth of worldwide tourism.

The demand exists and infrastructure and services are needed in order for facilities to make realistic business projections. Expectations are high: CINTERFOR estimates that farmers could capture up to 8% of the aggregate spending of the tourist industry with their projects. This would be US$114 million–$384 million per year for peasants in Peru alone. Another US$360 million could reach Costa Ricans if their rural community tourism captures 5% of the tourism market, and some US$4 billion would go to Mexican community farmers if they corner 8% of the market.

The problem is to move the money to the countryside. Investment is needed, too. But above all, RCT needs programs such as "Tourism for All," launched in Ecuador in 2007 to train some 4,500 microentrepreneurs in interdisciplinary knowledge drawn from Project MET.

The IDB is also contributing. The MIF cluster of 24 enterprises supported by the Bank is professionalizing the process and expanding the social base. "The support ranges from rural tourism projects to operations that can take part in the flow of mass tourism on cruise ships and re-route it toward tangible benefits for local communities," says Yves Lesenfants, the cluster's technical advisor. "The cluster researches innovative uses of information and communications technologies to open new markets, such as working with virtual communities or improving the technology infrastructures of destinations."

The IDB's goal is to discard some of the romantic and empirical notions of tourism development at the micro, small, and medium-sized business levels and generate strategies at various levels that begin with proponents and implementers. According to Lesenfants, a steady supply of rural services quickly falls into place as demand for RCT grows. And because of its nature, the supply must be managed through a specialized marketing chain. "This market is not passive; it interacts with the product and is a participant in social development efforts," he says. "This is the marketing hook, and in the cluster we pay attention to the marketing chain due to its obvious role in the process's sustainability."

The point is to open the field, and open it wide. "Promoting RCT in the region, as a strategy to reduce poverty and generate employment, is a political strategy that needs to be taken to the superstructure level, since such a wide cross-section of skills is involved," says Ernest Barrera, director of the postgraduate agriculture program at the UBA and head of the CINTERFOR study. "Without an active rural tourism policy, spontaneous development lets producers with greater business capacity edge out the small farmers, *campesinos*, and indigenous people, and then their participation will be marginal."

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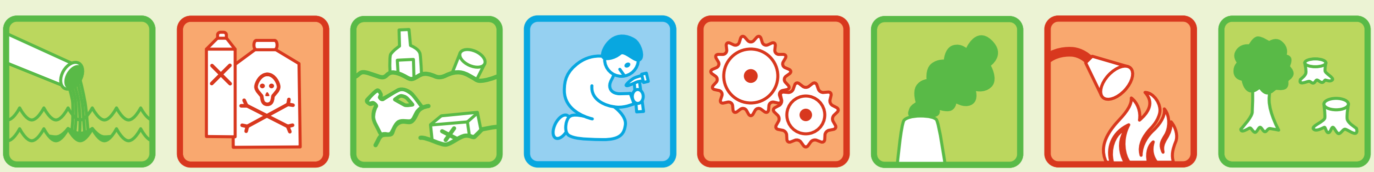
Environmental and Labor Practices:

Clean, Green & Safe

By Lucy Conger

Microenterprise and the informal economy often go hand-in-hand. When people consider microenterprise, they tend not to focus on issues that concern larger businesses such as corporate governance, environmental impact, and fair treatment of labor.

Clearly, microenterprises are not subject to the pressures corporations face from shareholders and public scrutiny that demand principled treatment of employees and adjacent communities and minimal damage to the environment. But that is beginning to change. Microfinance institutions (MFIs) are pressing microentrepreneurs to run clean businesses and treat their workers fairly. The aim is to reduce the so-called social and environmental risks of microenterprises—activities that may have an adverse impact on human health, social equity, or the environment.



The Inter-American Development Bank (IDB) through its Multilateral Investment Fund (MIF) is supporting initiatives to promote awareness of harmful practices and provide training for practical problem-solving for thousands of informal businesses in Latin America and the Caribbean. "Many funders like the IDB and the Netherlands Development Bank (FMO) require that their contracts take these issues into account and that organizations develop a strategy to address them," says Tomas Miller, senior investment officer in MIF.

Problems that are being addressed include use of forced labor and child labor and production on lands owned by indigenous peoples without their consent. Activities such as trade in protected wildlife, commercial logging in virgin forests or areas rich in biodiversity, and production and trade in weapons and ammunitions are also considered off-limits. Other risks slated to be eliminated include production or trade in illegal products and in hazardous or banned products such as unsafe pesticides and herbicides.

In the microenterprise world, the most widespread social risks are child labor and faulty labor conditions such as noisy, dirty or dangerous working environments. Many small-scale enterprises such as brick-making, metalworking, auto repair and painting tend to involve handling dangerous machines, chemicals, solvents and pesticides. A number of handcrafts trades such as glass-blowing, textile dying and leather tanning cause water pollution. According to studies by the IDB, businesses with the highest environmental risks include dry cleaning, chemical industries, jewelry-making, mining, charcoal-making, farming with pesticides, and unregulated forestry.

These problems typically occur on a small scale with microenterprises, but need to be resolved even when only one family is affected. "For an individual farmer the incorrect use of chemicals is dangerous for himself and his farm," says Anton van Elteren, senior environmental specialist with FMO, the Netherlands Development Bank.

In urban areas, hazardous practices occur on a larger scale. Microenterprises in cities are often located close together, and the environmental impact of each business is compounded because they are so concentrated.

Donors have targeted managers for training in risks because "there must be a commitment by the senior management of the microfinance institution and sufficient incentives for it to permeate the organization," says the IDB's Miller.

Persuading small businesses—often operating on a shoestring—to hire only adult workers, upgrade their machinery and workshops, and halt the use of toxic chemicals is a challenge. "Short-term goals often are of paramount importance, but practical suggestions can be made, explaining, for example, that if machinery is dangerous for the hands and you lose your fingers, the business will be hurt," says van Elteren.

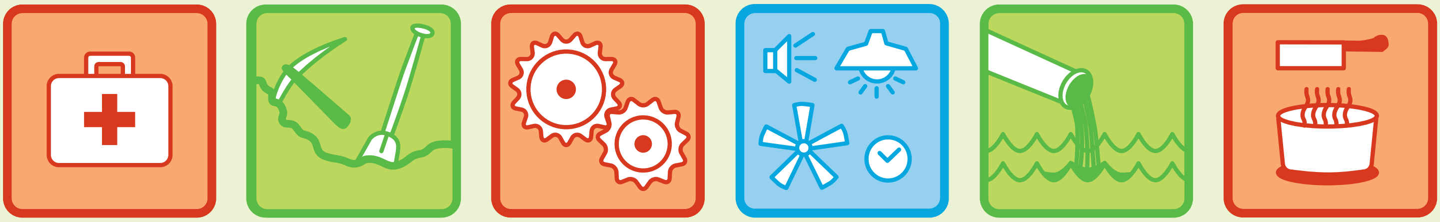
Loan officers at MFIs are the key to success in the effort to improve the business practices of microenterprises. A typical loan officer is in direct contact with some 300 microentrepreneur clients and makes frequent on-site visits to their businesses. These professionals can advise businesses on how to treat employees, conserve water, handle toxic waste, and tackle other social and environmental risks in their enterprises.

FMO has developed an innovative toolkit specifically for MFIs that provides practical guidance for environmental and social risk management. FMO is also providing training in developing countries to the senior management of MFIs who are expected to train loan officers in how to persuade and teach microentrepreneurs to combat social and environmental risks. "We hope the loan officer can help the individual businessperson become aware of environmental and social risks, and learn how to tackle the problems," says van Elteren.

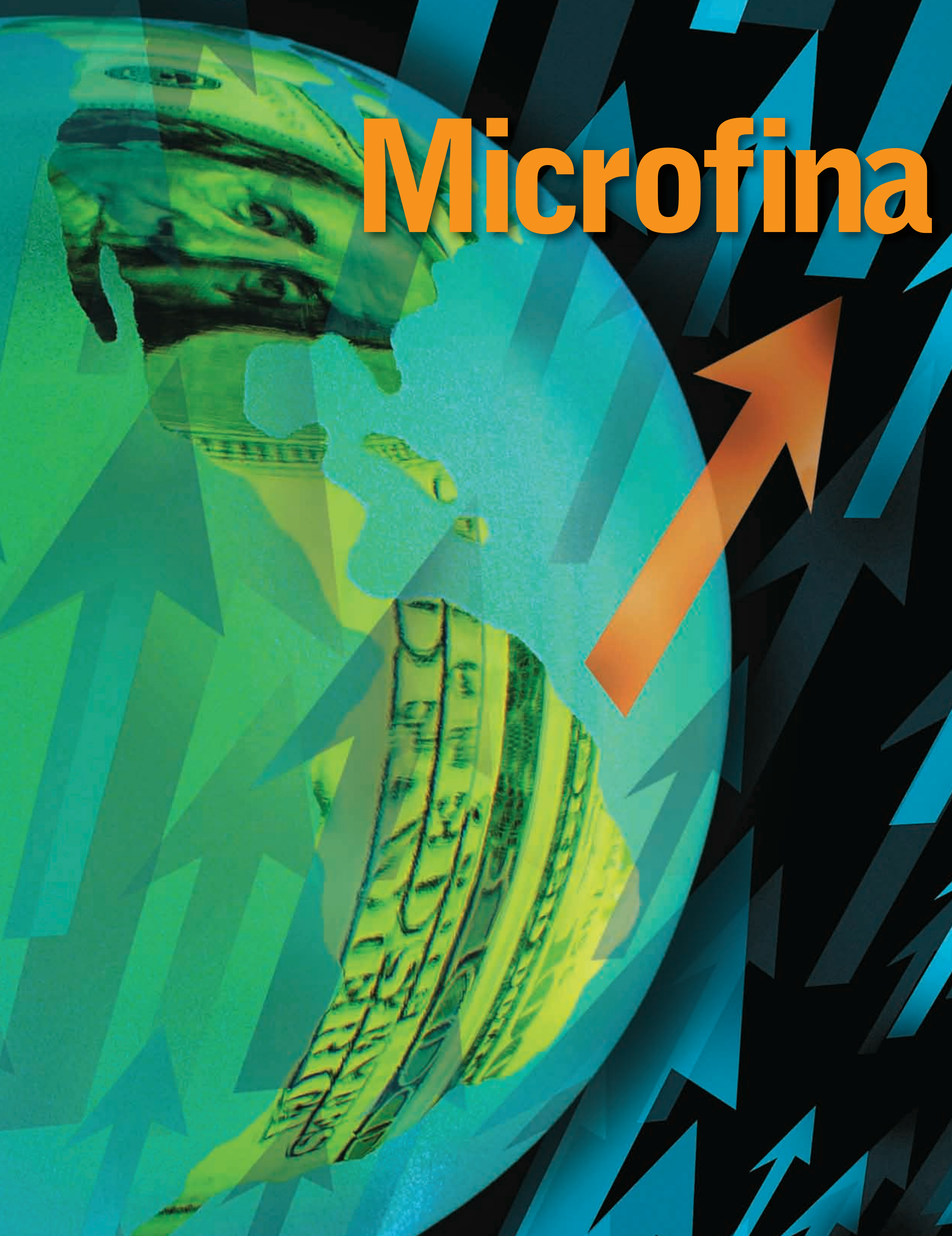
FMO training courses began in 2007, but it is still too early to assess whether microenterprises are turning around their practices, says van Elteren. Nonetheless, FMO's approach has been received as a valuable tool by many MFIs.

MFIs have strong incentives to develop strategies that incorporate the education of microentrepreneurs in environmental and social risks. "In the contracts we sign with MFIs, there is a list of exclusions of activities that pose a high social or environmental risk and that should not be financed," says Miller.

Investment funds that work with MFIs are also under pressure to support policies and strategies for coping with environmental and social risks in microenterprise, notes FMO's van Elteren. "If we finance an investment fund that finances MFIs, we expect the fund to drive this policy."



Link:
www.fmo.nl


Microfina

nce: Key to Expanding Remittances

By Robert Meins

Over the past decade remittances have emerged from relative obscurity to become a key factor in the well-being of millions of families throughout the world. In 2007 the Latin American and Caribbean (LAC) region received US$66.5 billion, surpassing the total Foreign Direct Investment (FDI) and Official Development Assistance (ODA) for the fifth consecutive year. The importance of these transfers from migrant workers to their families also has enormous implications at local and national levels. Seven countries in the region receive 12% or more of their GDP through remittances, generating an estimated US$4 billion in revenues for the businesses that provide transfer services.

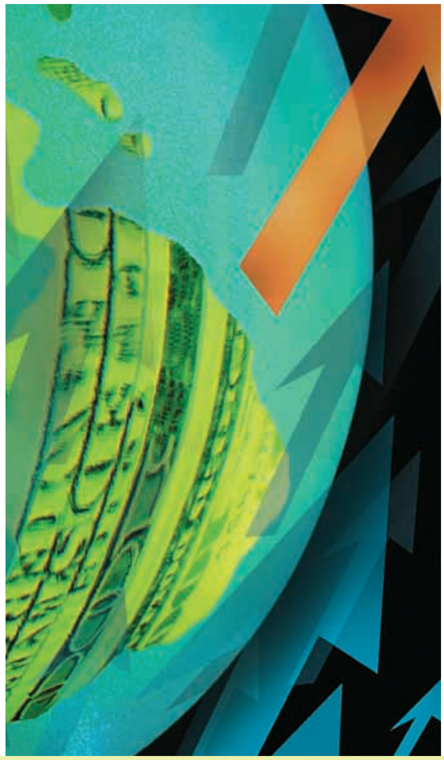
Yet the percentage of migrants' families with bank accounts remains unacceptably low due to historic distrust of the banking system by the most disadvantaged or the banking sector's reticence to tap this market. In spite of the fact that banks are the primary payers of remittances, they have failed to turn recipients into account holders. Traditionally, banks have focused on generating revenues by facilitating transactions, rather than expanding their base of depositors or cross-selling financial services. As a result, the bottom lines of financial institutions are not being maximized. More significantly, the benefits to migrants' families and their communities back home are limited.

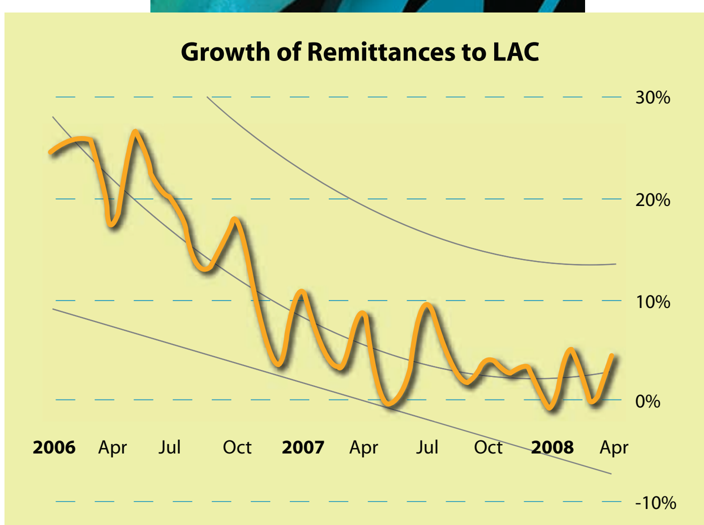
The Natural Advantage of Microfinance Institutions

Microfinance institutions (MFIs) are particularly well placed to fill this gap, since many of them already serve large numbers of remittance-receiving households. MFIs understand the needs and capabilities of their clients and benefit from a high degree of client trust because they are focused on the concerns of customers normally not served by the banking system. Leading financial institutions are often geographically limited in their scope, while many MFIs extend their services into the rural areas where financial services are less available. MFIs can serve as a conduit for financial education, providing essential information to new customers, while providing migrants' families with services that can help ensure financial independence.

One example is Haiti's Fonkoze, a financial institution that is extending financial services to challenging areas. Despite the barriers of poor energy and communications infrastructures, this institution uses satellite phones to reach out to areas that would otherwise lack direct access to financial services. While the costs of remittances are usually perceived to be limited to upfront fees and exchange rates, the real "cost" is often far higher for a recipient living in rural areas. The time and money spent to travel to the nearest financial institution can increase the cost substantially. In times of rapidly rising fuel prices, these costs represent a sizable drain on the benefit of remittances to a recipient's income.

Fonkoze is aware of this problem. By operating close to its customers, this innovative MFI offers remittance senders a low-cost and convenient way to transfer funds through the formal financial system. In this way, it maximizes the impact of funds to remittance recipients, while using additional revenue to simultaneously increase the growth potential of its loan portfolio. The institution also uses the opportunity to cross-sell other financial services.





The Power of Innovation and Competition

Ten years ago remittance senders were charged transaction fees as high as 15% of the amount transferred. This rate has dropped by almost two-thirds over the past decade, allowing hard-earned dollars to remain in the hands of those who need them most. As competition has increased, a variety of new transnational financial services has been developed. Remittance-linked health insurance for migrants' families, cross-border mortgages (see story on page 47) and loans based on remittance receipt are just a few examples of how this flow of money is helping to create services that meet the needs of transnational families.

Increased competition and a new wave of innovation are reshaping the remittance market. Credit and debit cards, along with business models that make use of the Internet and mobile phones, have fundamentally changed the way many immigrants send money home. Traditional means of transmitting money, such as cash-to-cash remittances in which an operator transfers money on the sending side and a bank pays out on the receiving side, have numerous disadvantages that are gradually giving way to a new range of services. Microfinance companies are also increasingly looking to remittances as an opportunity to expand their services, increase revenue and cross-sell more traditional lending services.

Challenges

Recent IDB publications have shown that the growth of remittances to the region has slowed markedly in 2008. Growth in remittances to Mexico was negative in the first quarter of this year and Brazil was the first country to experience a drop in 2007. Fortunately, the news is not all negative for companies working in the remittance sector. Despite the economic slowdown in the United States and stricter enforcement of immigration laws, most money transfer companies continue to report an increase in remittance flows. In the long run, there

is not only an economic rationale for Latin American migrants to seek a better future north of the border, but also a vital demographic need for new young workers in the United States. This logic suggests that the slowdown in remittances is only temporary, and that remittances will continue to grow in the future.

Despite the slowdown in Mexico and Brazil, Central America continues to experience above-average growth in remittances, while the Andean region is seeing an influx of euros due to the currency's appreciation against the dollar. Even with changes taking place in the remittances marketplace, opportunities remain strong for MFIs willing to broaden their services.

Nonetheless, providing remittance services is a challenging enterprise for MFIs. As a rule, every branch of an MFI should be capable of processing at least 10 remittance transfers a day, which requires about US$2,000 cash be available at each location, exclusively for paying remittances. This can present a cash flow problem, especially at rural branches and those with small revenue streams. On average, MFIs in Latin America and the Caribbean have 12 branches. As a result, an MFI seeking to provide reliable remittance services in each of its branches should be able to pay out US$24,000 per day. If underutilized, holding these funds also implies a significant opportunity cost. Together with the required investments in software and compliance issues, the cost of providing remittance services can be significant in proportion to the revenue stream of many MFIs. Thus, these services are offered most economically by larger MFIs and/or networks that can achieve scale and guarantee the timely availability of funds to their clients. Unfortunately, this limits the geographic reach of an essential service.

The Multilateral Investment Fund (MIF) at the Inter-American Development Bank has long been at the forefront of the issue of remittances to Latin America. The MIF has contributed to the understanding of this field through research, outreach and, most importantly, the funding of innovative projects that have pushed the marketplace forward. Technology continues to help reduce the cost of sending money home while entrepreneurial microfinance institutions develop new services to help those who have traditionally been underserved. In doing so, MFIs are maximizing the impact of remittances on the development of surrounding communities and playing a vital role in the lives of migrants and their families.

Links:
www.fonkoze.org
www.migrantremittances.org

Another Brick in the Wall

Microfinance institutions, aid workers, donors, governments and private companies form a huge spinning wheel trying to extend more microcredit and reduce the region's housing deficit.

By Diego Fonseca

In June 2007, the news about the U.S. economy was grim. In California, Florida, Arizona, and Nevada, mortgages on some 400,000 homes faced foreclosure. Homeowners, unable to keep up with payments, were in debt up to their necks, stretched beyond their means, as their dreams turned upside down.

The lesson is that aiming too high can backfire. But sometimes a little aspiration is a good starting point. At least that is how it is for Latin American families, whose situation is just the opposite of that in the United States. Latin American houses may not cost a million dollars and are far from having so many features and amenities. But they have solid foundations and, more important, are paid for through long-term microloans with reasonable interest rates. No one is throwing their money around, but many families are currently realizing the dream of building their first homes. Organizations such as Habitat for Humanity, CARE, and Un Techo para mi País ("A Roof for My Country") are lending a hand, along with aid from donors like the Swedish International Development Cooperation Agency (SIDA), and help from projects that finance building materials such as the Mexican cement company CEMEX.

These activities are part of a growing phenomenon—the involvement of governments, civil society groups, and international companies working to solve the housing shortage in Latin America and the Caribbean. According to estimates by the Economic Commission for Latin America and the Caribbean (ECLAC), more than 50 million homes are needed in a population of 600 million. Every year five million new homes must be built to replace declining and lost housing.

Historically, efforts to put a roof over the heads of the lowest-income families have received support, to varying degrees, from national governments, international organizations like the Inter-American Development Bank (IDB), and international donors. These same players continue to participate, but with the surge of microfinance institutions (MFIs) and businesses that embrace corporate social responsibility as a core strategy, new winds are blowing through the region. The convergence of microcredit with the push from foreign aid workers, civil society groups, MFIs, and private businesses is a new driving force in the battle to achieve decent living conditions.

Diverse Tendencies

Maria Victoria Saenz-Samper, an expert in microfinance and microinsurance for housing, says that there are two major schools of thought on housing and microcredit. Saenz-Samper calls the first "minimalist." This notion is based on the distribution of housing resources that families manage themselves and excludes coinciding assistance from urban, technical, or construction services. "The assumption is that the clients are known, they understand construction [microcredit applicants who belong to a group of self-builders], and they know what they want," explains Saenz-Samper.

The second school is defined by

MICHAEL AUSTIN

what the first lacks; its loan officers offer technical assistance for construction. This school has two branches: those who believe that technical support should be provided by engineers or architects, and those who believe in establishing a microfinance product for housing that includes technical assistance from a trained loan officer. "The assumption here is that [microcredit] costs can be reduced, and that clients can relate more easily to a loan officer than to an engineer."

Both schools, and other variations in between, have had noteworthy successes in the region, all under different circumstances. ACCION International and its affiliates—MiBanco in Peru, BancoSol in Bolivia, and Compartamos in Mexico, among others—subscribe to the minimalist approach. Cooperativa Salcajá in Guatemala, which uses resources from the Fideicomiso para el Desarrollo Local ("Local Development Trust Fund"), is part of the trend that supports the use of construction professionals. International organizations such as Habitat for Humanity are in the third group.

Private Companies Arrive

In 1998, CEMEX, Latin America's largest cement company and one of the three largest in the world, launched a pilot project to supply materials in northeast Guadalajara in an area known as Mesa Colorada. Essentially, families generated savings in prepaid allocations that enabled them to acquire materials from the Mexican company's local cement distributors and receive guidance from professionals in designing additions to, remodeling, or constructing their homes.

The project was called Patrimonio

The Swedes Come Marching In


CEMEX

On the map of international cooperation, there is a leading pioneer in housing, urbanization, basic services, and infrastructure: the Swedish International Development Cooperation Agency (SIDA). SIDA has broken new ground by combining microloans for home improvements with microcredit for business activities, co-financing the introduction of basic services and infrastructure, and providing state-subsidized mortgage loans.

The organization has made a difference by supporting activities that have later been scaled up to multilateral banks, such as the IDB and the World Bank. An example is their project in Honduras with Fundevi, co-financed with the German development bank KfW. Their strategy? Being there, hands on, pushing the limits. "Donors should not expect a complete change in the regulatory environment before starting pilot projects that can show how things can be done in a different way," says SIDA's Per Fröberg. "SIDA has shown others that change is possible on a practical level that can be sustained by changes at the policy level."

SIDA's history is long and marked with successes. In 1995, it began a five-year program to train 1,000 engineers, architects, and decision-makers in Central America, Bolivia, Ecuador, and Peru. Upon completion in 2000, it joined with the IDB to co-finance access to basic services and infrastructure for poor families in Honduras, Nicaragua, El Salvador, and Guatemala.

Two years later, together with the Fundación para la Promoción del Desarrollo Local ("Foundation to Promote Local Development," or PRODEL), SIDA launched a microfinance program for housing in Nicaragua that has subsequently won international awards. Families receive US$700 in credit and have an advisor who visits their homes to help them determine a realistic budget, select practical uses for the money, and devise a spending plan.

By 2006, PRODEL, with SIDA's assistance, had helped some 20,000 families improve their homes, a figure equal to 6% of the housing deficit in the country. Something similar occurred in Costa Rica between 1988 and 2007, where the assistance given to 27,000 families in the Fuprovi program helped reduce the country's housing needs by 11%.

PRODEL and Fuprovi were a platform for expansion in Guatemala, Honduras, and El Salvador, providing solutions for more than 90,000 families in the first 10 years. Since 2005, SIDA has expanded its co-financing programs based on experiences in Nicaragua, Guatemala, Honduras, El Salvador, and Costa Rica.

Link:
www.sida.org

Mexican Equity

This year marks Patrimonio Hoy's 10th anniversary since it established its presence in Mexico, where it was founded, and later expanded to Colombia, Venezuela, Nicaragua, and Costa Rica. Patrimonio Hoy ("Equity Today," or PH) is an emblem of corporate social responsibility and the star program of the global cement giant CEMEX, based in Mexico.

PH was formed to address the needs of low-income Mexican self-builders and those of the Monterrey company, which sought to enter more decisively into the bottom of the pyramid. The conditions for both were ripe. "Mexico has some 20 million homeless people and almost half of its population lives in ramshackle dwellings, poorly assembled over decades with their own hands," says Israel Moreno Barcelo, PH's founder and general manager. These people consume 35% of the total cement used in the country. But they are not big customers. They buy when they have money, sporadically, and in small quantities. They are scattered and fragmented, and providing them with materials is costly and inefficient. This situation persisted until 1998, when CEMEX decided to invest in an interdisciplinary research project to determine first-hand the behavior of this sector of consumers. Researchers were stationed in Mesa Colorada, a community of 90,000 people in eastern Guadalajara, where the pilot project began.

CEMEX

CEMEX

There they studied the sector in detail: A house with five rooms can take an average of 20 to 25 years to build under conditions with scant access to technical know-how; supplies were based on the prices of various providers (unwanted result: low volumes raise costs and delay delivery); single-family constructions had no community collaboration.

Those families who received their pay every week or two lacked a strong culture of savings or credit needed to pay stores or be accepted by local storekeepers.

CEMEX took note and designed PH accordingly, explaining each step to the community. Finally, they assembled groups of 10 to 12 neighbors to save money together for 70 weeks. Each community chose an organizer to collect and deliver the money. In 18 months the pilot working groups were operating.

Over time, PH turned into a progressive savings program for housing in low-income communities. PH provides technical assistance to meet the particular needs of each family and designs a modular construction plan. The materials, which are ordered sequentially based on need, are paid for with family micro savings. Each family must save the first 20% of the capital needed to buy materials for the entire project, then CEMEX will guarantee funds for the remaining 80%. Every week, families pay around US$15 for materials and another US$2 for the services of consultants. Prices are frozen for the duration of the project's 70 weeks, including one year of storage for materials, home delivery, and CEMEX's financing cost.

It took about six years before PH's collaborative network in Mexico quickly spread to other countries in the region. Now the company wants to replicate it in other international markets (Asia, Oceania and Europe) that have needs similar to those in Latin America. The strategy has enabled networks to integrate the strong bonds between families, local CEMEX distributors, and the company itself.

By late May 2008, when it reached its 10-year mark on the scene, PH had already helped 205,000 Mexican families build 105,000 square meters of housing, which corresponds to the lavish sum of US$94 million in financing, repaid by 99% of the borrowers of PH.

Link:
www.CEMEXmexico.com/se/se_ph.html

Hoy (“Equity Today”—see p. 41) and is now considered a world-renowned case that illustrates how a private company addressed the needs of its customers at the bottom of the pyramid. CEMEX’s ability to adapt new business models to its value chain enables it to fill certain gaps in the quality and quantity of housing for low-income families.

CEMEX created one of the most well-established projects in microloans for housing, although the company prefers to categorize them as “advance payments for materials.” And while private-sector participation is the last big step in efforts to understand how business transactions at the bottom of the pyramid can be a mechanism for economic sustainability, the delay does not mean they have little to contribute.

In fact, quite the opposite. Experts in the field have determined that the participation of private sector providers contributes significantly to the value chain. Microinsurance, for example, has already demonstrated that companies can design products for which civil society organizations can function as distribution channels. This approach has generated new products in housing and increased the institutional capacities of NGOs as they learn to use private capital to negotiate, purchase, sell,

ACCION and Habitat: Welcome to the Big House

Habitat for Humanity, a Christian organization that has built more than 250,000 houses around the world in just over 30 years, is also stepping into microfinance. Recently the organization launched a microcredit program in Panama for homeowners who want to expand and/or build. Habitat is active in 22 countries throughout Latin America and the Caribbean. In Guatemala and Honduras, for example, the organization has helped build more than 25,000 and 6,500 homes, respectively. In Bolivia, it has been building approximately 600 houses per year.

In 2007, Habitat took a more concrete step with microcredit, linking with the largest investor in Latin American microfinance, ACCION International, to conduct a study of 10 institutions affiliated with ACCION in the region. The objective? To examine in depth the scope of microfinance for housing in order to take further action.

The involvement of both Habitat and ACCION coincides with the development of housing microfinance in the region. The 10 Central and South American ACCION affiliates account for 90% of the network’s investment in remodeling, additions, and construction. The network has been actively seeking to analyze its approach to the business.

The behind-the-scenes reality of housing was and is obscure. In Nicaragua 62% of the 1.3 million homes are makeshift. In countries like El Salvador, 200,000 new houses are needed and 400,000 homes urgently need repair. But the Central American financial markets do not have products for those living in basic housing.

Companies linked with ACCION, however, do have such products. When the ACCION-Habitat study began, half of the MFIs in the group (BancoSol in Bolivia, Mario Santo Domingo Foundation in Colombia, Integral in El Salvador, FAMA in Nicaragua, and MiBanco in Peru) had been providing housing microcredit for more than five years, and the others were studying whether to begin as well.

ACCION focuses the business of microfinance credit away from the subsidies of government agencies, and adapts to the needs of low-income families. The network finances microloans of US$1,000–$1,500 that build progressively with 18–24-month terms. The terms are somewhat higher than for productive microloans but less than for mortgages, which are never less than 10 or 15 years. The ACCION MFIs ask for the same guarantees required for working capital microloans.

CEMEX

The organization represents a philosophy for microfinance in housing that provides long-term financing without technical assistance in construction. ACCION is inclined more toward this option after testing different pilots with its affiliates Financiera FAMA in Nicaragua and Integral in El Salvador.

or transfer services, products and knowledge.

Businesses are adapting and changing quickly, which in turn allows for an increase in the supply of value beyond the initial minimum needs of any construction project. For example, after construction or expansion of a house is completed, Patrimonio Hoy helps self-builders move into a second phase: design improvement. CEMEX (along with the irrigation system manufacturer Amanco, the Brazilian cosmetic company Natura, the Spanish bank BBVA, and a long line of traditional financial institutions, among other private companies) has been inspired to cross-market other products (see p. 41). "Private entrepreneurs know that the market is huge and they have found a way to promote their products," says Saenz-Samper. "Their profits will be based on volume, not cost, which is a win-win situation."

Sustaining the Bet

The crucial issue now is that these kinds of initiatives, both public and private, comply with mandates for sustainability: They need to succeed as independent business entities, and do so over time. The demand for housing is so great that there is a market for whoever wants to enter.

But sustainability requires a clear and stable game plan: a strong commitment among governments to create

In 2004, the first offered technical assistance in construction; the second followed the traditional model, limited to reviewing budgets. The difference at year-end was that FAMA placed more credit (at a ratio of 3 to 1), ensuring a more profitable product. In terms of quality of construction, there was no difference in home improvements financed by one or the other.

What finally reinforced ACCION's "minimalist" approach was that the need for technical assistance—drawing up plans, calculating construction costs, or supervising labor—varied from one person to the next, and to include it or not made the difference in costs. In the case of El Salvador, Integral would take two years to turn a profit on a product that FAMA optimized in less than half that time. "The assistance in construction included with an MFI's housing credit, if there is one, should be customized depending on each borrower," says Richard Shumman in the study, "The Development of Microfinance Products for Housing in Central America," published by ACCION International.


PRODEL NICARAGUA

Habitat's study recently shed light on how beneficial housing microfinance can be for MFIs. For example, the portfolios of seven ACCION affiliates showed enormous surges in the number of customers in a short time, from 15,000 in 2002 to 38,000 in 2005. In terms of market share, housing microfinance also grew more rapidly than other options. With US$117 million placed in 2005, housing microfinance accounted for 11.5% of the total loan portfolio. Three years earlier, the figure was just above 6%. Moreover, the repayment rate was even better than that for productive credit. In other words: good business.

Now housing microfinance is quickly becoming a leading product of ACCION's MFIs, which are drawing on lessons learned from Integral and FAMA. Finamérica in Colombia and Banco Solidario in Ecuador, for example, followed the lead of their Nicaraguan partner. And when ACCION applied the experience internationally in Africa, Uganda Microfinance Union adopted Integral's model. These lessons have also been applied to new undertakings in Haiti, Paraguay, Ecuador, and other African countries.

"The appeal of housing microfinance as a business opportunity has to do both with the size of the potential market and with the fact that it is a relatively low-risk product that creates a stronger bond with the customer than a typical microenterprise loan," write Nino Mesarina and Christy Stickney in a study for ACCION examining housing microfinance. "It could be attributed to the emotional and practical ties clients have with their home and its priority as one of their most valuable assets."

Links:
www.habitat.org/lac
www.accion.org

CEMEX

an environment that facilitates partnerships between different players, along with effective decentralized administration that can shift decision-making back to the municipality and community levels. "We have proactively promoted a dialogue between government and civil society to change housing policies for low-income communities and involve the private sector, NGOs, local and central governments, and international donors," explains Per Fröberg, Senior Advisor for Latin America in SIDA's Department of Urban Development, in Sweden. "Involving MFIs in the development of new products [is also necessary], especially for small rotating home improvement loans accompanied by technical assistance."

In general, these projects are sustainable. It is noteworthy that the CEMEX project has been running for 10 years, international cooperation more than 30 years, and MFIs for almost a decade. The pioneering MFIs and their followers have had the sensitivity to understand that, on occasion, the working capital solicited by their clients was an investment for needs such as improvements to workspaces. A handful of MFIs have redesigned their products to address these needs, which they in fact already covered, by creating well-designed instruments available to clients they already know.

Beyond working capital, another mutual need is better housing for families and an expansion of MFI products. Without a doubt, this has led to the design of more housing products and relevant market research to better meet demands. Currently, microfinance housing products are a consolidated branch of the sector. They primarily aim at housing improvements, incremental upgrading, and in some cases, new construction. According to experts, the demand is generally based on the need to separate business from personal activities.

In general, the terms are longer than those for other microloans. They can be up to three years, compared to the one-year maximum for working capital loans. These longer terms are due to the fact that the loans do not have a productive activity to leverage them.

In addition, the amounts are significantly larger. If a productive microcredit borrower averages US$1,000, a family seeking housing funds can average US$5,000, and there are cases of loans up to US$15,000. What about the interest rates? "Nothing is in writing," says Saenz-Samper. "In some cases rates are lower than for working capital, and in other cases not."

At higher volume per loan, the housing microfinance products also need a different scale for financing. Regulated MFIs do not have major problems in setting terms, but nonregulated MFIs tend to run into difficulties with matching terms between the short-term funds and those with terms greater than three years. So, not all MFIs have turned to housing financing. And that is why many have turned to longer-term financing sources from governments, such as the Sociedad Hipotecaria Federal ("Federal Mortgage Society") in Mexico, the Fondo MiVivienda ("MyHousing Fund") in Peru, or PRODEL in Nicaragua.

At the end of the day, sustainability depends on products being clearly defined in financial terms and in the market, along with strict control of arrears. Although not all guarantees have been perfected, a good number of MFIs require some real collateral in housing loans. "Perhaps this is why delinquency is under control," says Saenz-Samper. "When I have spoken with loan agents and program managers, they tell me that clients don't play around with their houses—after all, it is the main and only asset of value they have."

Links:
www.habitat.org/lac
www.care.org
www.untechoparamipais.org
www.sida.se
www.accion.org
www.mibanco.com.pe
www.bancosol.com.bo
www.compartamos.com
www.coopesalcaja.com
www.shf.gob.mx
www.mivivienda.com.pe
www.prodel.org.ni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A Boom in Homeownership

Who said that you have to be rich to own a home?

By Lucy Conger

Last year, Isabel López moved into a spacious apartment with three bedrooms and three baths in a new building on Avenida República, in the northern part of downtown Quito. The apartment was offered and sold in New York at a local office of Mutualista Pichincha, one of Ecuador's two largest mortgage lenders. The buyer, Raúl López, a successful stylist and beauty salon owner based in the New York metropolitan area, made the purchase without ever seeing the apartment. He did not even travel back to his home country to sign the papers. "They offered the house on the Internet, my relatives saw it, I liked it, and I bought it," says López. After the sale closed, the only son of Isabel López had his mother move into the apartment. "I came to this country [the United States] to get ahead, and you want to see your relatives in a good situation," he says. In fact, his own business has done so well that he has prepaid much of the loan and reduced his balance to US$20,000.

Mutualista Pichincha, a pioneer in the field, sells mortgages like this through brokers that publicize the financing in the United States and Spain, the leading destinations for migrant workers from Ecuador. Its branches are located in the Queens borough of New York, and Madrid, Murcia and Lorca in Spain.

The savings and loan enterprise began 10 years ago and today manages a portfolio of US$29 million in mortgages for migrants. The loans are in dollars and euros, and are paid by depositing remittances in branches of financial companies, or through transfers from other banks abroad or at home.

"The key to success in selling housing to migrants is to identify two people: the migrant and his relative here," says Patricio Maldonado, risk manager for the housing division of Mutualista Pichincha. Telephone booths and video conferencing equipment are available at Mutualista's offices abroad so that families in both countries can discuss their choice of housing. "The final decision is made jointly," says Maldonado. Migrant borrowers typically sign over power of attorney to relatives so the transaction can be completed in their home country.

The financing that allowed López to buy the apartment is an example of a niche lending product called "transnational mortgage loans," or mortgages granted to migrant workers living outside their country for the purchase of a residence in their home country. Over the past 10 years, banks and financial businesses specializing in mortgages in Latin America have built up portfolios of transnational mortgages that exceed US$50 million for some institutions.

The main drivers of this rapidly expanding loan product are two major financial trends in Latin America and the Caribbean: the continued growth of remittances and the development of affordable housing for middle- and low-income households,

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says Takatoshi Kamezawa, Investment Officer at the IDB's Multilateral Investment Fund (MIF). During the past two years, financial institutions in the region have intensified their efforts to connect these two trends by offering mortgage loans to migrants who send money back home to purchase housing in their country of origin. The MIF helped boost transnational mortgage loans by working with financial institutions in the region. Since 2005 it has been granting loans for technical assistance and the development of transnational mortgages.

Remittances to Latin America and the Caribbean now total at least US$60 billion a year, and projections show that the flow of remittances to the region during this decade will increase to about US$500 billion. The vast majority of these resources are spent on consumption of staple foods and household goods. Only a small portion of the funds are directed to investments such as education or housing. "The transnational mortgage loans will help leverage remittance flows to investments that have productive outcomes," says Kamezawa. The strong earning capacity of migrant workers makes them financially solvent, and therefore good credit risks.

Transnational mortgages also help stimulate construction, which not only generates a multitude of jobs, but ultimately stimulates the development of capital markets, making more money available for mortgage lending. Construction now accounts for an investment of US$100 billion a year in the region, and is growing at double digit rates in Peru and other countries and accounts for as much as 5% of GDP in Mexico. This dynamic industry creates employment for many low-skilled, low-income workers.

The main objective of the MIF is to stimulate private sector development in Latin America and the Caribbean in the form of grants, loans and targeted investments in innovative pilot projects. The expansion of the housing market is an integral part of this strategy. In the past four years, the MIF has vigorously promoted the development of inclusive housing markets in the region. Accordingly, the MIF is also actively promoting other segments of the housing market, providing technical assistance, loans for mortgage finance associations, and home improvement loans run by microfinance institutions (MFIs) (see story p. 51).

MIF loans for inclusive housing markets totaling US$23.3 million have been granted to nine financial institutions in the region to help them expand their lending aimed at remodeling or buying houses and apartments.

The loan program is not focused exclusively on low-income housing. "Many immigrants become very successful by working hard in another country, and we should support them so they can buy houses in their home country, and that includes providing funding to local lenders that can offer mortgages over US$50,000," says Kamezawa.

By a wide margin, Mexico receives the largest amount of remittances in the region. As a result, transnational mortgages there are expected to grow considerably. Su Casita, Mexico's first specialized mortgage finance company, has established a solid base—107 offices in 28 of Mexico's 32 states—to develop a product aimed at this niche. Since its founding in 1994, Su Casita has grown so much that it currently manages a portfolio of over US$1.6 billion in mortgage loans.

Four years ago, Su Casita entered into the business of transnational mortgages with the launch of a pilot program backed by a US$5 million loan and technical assistance from the MIF. Su Casita has worked with Mexican consular authorities to facilitate cross-border transactions by simplifying procedures and reducing the costs of assigning power of attorney necessary for family members to carry out home purchases, says Gonzalo Palafox Rebollar, business development director at the mortgage company.

On average, a transnational mortgage amounts to US$41,000. Clients make a down payment of between 10% and 20% and pay an interest rate of 11% with a repayment period of 20 to 25 years. Su Casita introduced a new product, transnational mortgages in dollars, which has been well received in the market, Palafox Rebol-

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lar confirms. The interest charged on mortgages in dollars is 9.5%.

Mortgages are promoted in the United States through four subsidiaries of Su Casita, one in Denver, one in Dallas, and two in Chicago. They are also marketed through a nationwide call center and by agents who promote transnational mortgages in other states with a large Mexican population such as New York and California. The portfolio has grown to encompass 2,000 mortgages valued at US$95 million.

Transnational mortgages constitute "one of the fastest growing programs we have, and we will continue supporting it," says Palafox Rebollar. Despite the current recession in the United States, "there is an enormous market potential and no similar products," he adds.

The growth of transnational mortgages is part of an increasingly pronounced trend in Latin America: boom in homeownership. In countries like Mexico and Peru, regulations that help establish housing loan associations and government support for low-income housing have made mortgages more available to millions. Throughout the region, economic stabilization has brought lower interest rates, while pension funds have invested in mortgage financing, and ensured that the reserve of loans be extended. Home ownership is now within reach for many who had never dreamed of buying an apartment or house.

Oscar Pacheco was about to turn 32, and had always lived with his parents. In fact, Pacheco and his wife, Mayre Zulueta, had lived all five years of their marriage in his parents' home. Last year their son, Oscar Alonso, was born and the family became a three-generation household.

But all that changed last November. Today the young Pacheco family lives in an apartment with three bedrooms and two bathrooms in a housing complex in Chorrillos, a residential community at the southern edge of Lima. The Pachecos became homeowners with a loan from Mi Casita, Peru's first financial agency dedicated exclusively to mortgage lending.

CEMEX

"The paperwork for the loan, from when I first contacted them, took 20 days. It was very efficient, and I moved in less than a month," says Pacheco. He put up US$3,000 as a down payment, and Mi Casita lent him US$27,000 backed by his property deed as collateral. His salary as a civil engineer in a mining company qualified him for mortgage payments of US$270 per month. "Before we had to be millionaires to buy," says Pacheco.

Mi Casita distributes mortgages backed by the Peruvian government's Fondo Mivivienda, a fund for lower middle class housing that offers subsidized rates to borrowers and a reduction in payments for those with good credit history. So far, no borrower has made a late payment or defaulted, says Roberto Baba, general manager of Mi Casita. With an investment of US$300,000, the MIF is a founding shareholder of the agency.

Mi Casita's impeccable lending record can be attributed to the careful screening of loan applicants seeking to buy homes, says Baba. Mi Casita's methodology is to conduct home visits, a strategy successfully developed by MFIs to reduce portfolio risk. "We send loan officers into the field and they put together a monthly cash flow that realistically reflects the applicant's capacity to pay," says Baba.

In just one year of operation, Mi Casita has built a mortgage portfolio totaling US$3 million. This year the company expects to triple its mortgage loans to a total of US$9 million.

Growth rates in mortgage lending can soar because of the huge backlog in housing throughout Latin America and the Caribbean, along with improving economies that make it possible for investors to develop housing. The enormous market for homes and apartments, both domestically and abroad, will be financed not only by mortgage lenders but also by selling mortgage-backed securities to the large pools of capital held by pension funds and insurance companies.

Links:
www.mutualistapichincha.com
www.sucasita.com.mx
www.micasita.com.pe

Credit, Technical Assistance and Self-Building

"The Combo, Please!"

By Lucy Conger

Most homes in Latin America and the Caribbean are not bought ready-made. Owners acquire a property and gradually build a livable space. The hard-earned savings of families in low-income neighborhoods and rural areas are visible in the form of bricks, lumps of cement or iron rods stacked up outside of homes under construction.

Over the years, financial institutions have created products and programs in response to the needs and prospects of families that take on this common form of construction. A growing number of microfinance institutions (MFIs) are granting home improvement loans tailored to these low-income self-builders. According to María Victoria Sáenz, senior project specialist in housing programs in the MIF, "They get loans for progressive building; that is the essence of microfinance for housing."

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As part of its new initiative to grant housing loans, MIF has earmarked US$1.7 million as a technical cooperation grant to two organizations: Habitat for Humanity and the Nicaraguan MFI, Foundation for the Promotion of Local Development (PRODEL). Both will open financial markets for housing loans in MFIs. Habitat for Humanity has successfully built low-income housing in almost 100 countries around the world and works in partnership with MFIs to assure that loans are available for housing. "Habitat's specific mission in housing microfinance is to ensure that products reach the lowest income sectors," says Christy Stickney, Habitat's director of housing finance.

In Central America, Habitat aims to create home improvement products appropriate for households that have a family income of one to three minimum wage salaries, or a monthly income between US$150 and US$450. With a grant from the MIF, Habitat will develop home improvement loan products ranging from US$300 to US$1,500, repayable in three to five years. Habitat will work with seven MFIs in Honduras and Peru to design small housing loans, test the products and train the participating MFIs in market research, product design and planning for product launch.

An important feature of this project is that it develops both a financial product and provides customized building assistance to help borrowers achieve the best possible results. Assistance is simple and straightforward, and the project ensures that credit agents in the targeted MFIs get the training necessary to work with their clients to build solid structures that are cost-effective without requiring the added assistance of engineers or architects.

In Nicaragua, PRODEL is poised to take its successful pilot program


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for housing loans and basic services to rural areas nationwide. Municipal governments will get loans from PRODEL to install infrastructure for electricity, water and sewage. In a typical rural community, the cost of installing municipal utilities ranges from US$20,000 to US$70,000, and a family can borrow between US$500 and US$2,500 to pay for connecting their home to these services, says Marlon Olivas, Executive Director of PRODEL.

With a loan of US$2 million from the MIF and US$3 million in investment from PRODEL, Habitat will expand its rural housing and services program to 30 municipalities. The organization will work with 11 institutions located in three different regions: the food crop areas in the north, the central livestock region, and the southern Atlantic coast fishing region. The product is considered a sure sell. "In the pilot program we had higher demand than expected," says Olivas. PRODEL expects to make a total of 3,000 housing loans valued at US$3.5 million, supplemented by US$1.5 million in credit for rural housing infrastructure.

PRODEL's loans for rural housing offer flexible payment plans to meet the income level and earning cycle of customers. The monthly payment will not exceed 25% of the monthly income of borrowers. On average, PRODEL's loans to rural households total US$1,400 and are repayable over 36 months, although the repayment period may stretch to 72 months. The payment schedule is adjustable to agricultural production cycles. Farmers who grow basic grains make one payment each year after the harvest, while vegetable producers pay every four months, and ranchers pay monthly, says Olivas. PRODEL's loans also include customized technical assistance from architects and engineers who help borrowers plan projects for progressive self-building and home improvements. This technical assistance is fully paid for by PRODEL clients, who are charged a fee of 2%–3% of the value of their monthly loan disbursement to cover costs. PRODEL has developed methodologies to maximize the efficiency of the architects and engineers with special software that generates budgets for building projects.

Housing loans are expanding and will continue to grow because they are good business, as demonstrated by ACCION International, a network of 23 MFIs. They are an exceptionally "safe" product because customers will not risk losing their main asset. That is why most institutions that have implemented this product so far, have focused on clients with proven creditworthiness and solid credit history. The repayment record


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During


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After

Housing loans are a "safe" product because customers will not risk losing their main asset.

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for housing loans is somewhat better than for loans for small business and microenterprise, says Mery Solares, home improvement product developer for ACCION International. "There is a high degree of commitment when a customer acquires a property and is satisfied with the loan," says Solares. For MFIs offering these loans there is another benefit. "Housing loans work as a strategy to build client loyalty," Solares says.

The boom is just beginning. The number of institutions that want to enter this new niche is growing. MFIs need to advance their search for new products and offer their clients a wider range of financial services. And housing is one of crucial importance.

Links:
www.prodel.org.ni
www.accion.org

Creating Business: It's Never Too Late … or Too Early

Mauricio Flores, a resident of Tijuana, Mexico, is the founder and managing director of Children's Corporation, an organization that offers elementary-school courses to train students to be leaders and entrepreneurs. Children participating in the program have set up their own businesses designing printed T-shirts, making chocolate bars and selling coffee from push carts.

Inspiring children from ages 6 to 12 to learn about business may seem like an unusual way to make a living. But for Flores, 32, what is even stranger is that he himself is now an entrepreneur, heading up a 4-year-old organization with four full-time employees and four part-time teachers.

"I never saw myself as an entrepreneur; businessmen were my clients," says Flores, recalling his previous work with a government program that trained small businesses to improve their competitiveness. His job at a consulting firm was to recruit managers of small and medium-sized businesses to participate in the training.

Six years ago, Flores attended a business training program for youth offered by the Tijuana chapter of the Mexican Confederation of Employers (known by its Spanish acronym Coparmex). He took a workshop in leadership for young entrepreneurs and learned about social responsibility, the importance of financial management and the value of networking with other businesses.

"I made a 180-degree turn with the experience at Coparmex," says Flores. He affiliated with Coparmex and soon became an officer in its youth program, and is now president of the Tijuana chapter of Young Entrepreneurs. Within a few years, he was managing his own business.

Children's Corporation offers weekly classes during the school year that teach children how to save money, design products, manage businesses, handle finances and promote products by designing posters and writing jingles. Short intensive courses also are offered at several schools. Private schools pay for the courses and Children's Corporation secures donations from commercial businesses to finance the cost of training in public schools. So far, more than 7,000 children have participated in the program, which continues to expand.

The Coparmex program in Tijuana is one of 60 in Mexico's leading cities, and it has launched 320 businesses in the past four years, including a day spa, an organic food café, a business law journal, and a distributor of potable water. The youth-run businesses are considered stable when they have more than six months

The IDB program gives priority to stimulating the entrepreneurial spirit of youth.

IDB

with profitable income and have created an average of three to four jobs each.

Courses that nurture entrepreneurship among youth, like those developed by Mauricio Flores, are available throughout Latin America and the Caribbean, especially for adolescents and young adults up to age 30. The Multilateral Investment Fund (MIF) of the Inter-American Development Bank has channeled nearly US$50 million in grants to initiatives that expand economic opportunities for young people. These funds support approximately 35 programs in job placement, employment training, corporate social responsibility and entrepreneurship for youth, among others.

IDB

Unemployment among Latin American and Caribbean youth is even more widespread than among adults. Tackling this problem and helping young people develop skills for jobs or self-employment is one of the four pillars of the IDB's youth initiative.

"The IDB youth program places a priority on encouraging an entrepreneurial spirit among young people, imparting useful knowledge, and linking young entrepreneurs with each other and vital resources," explains Fabián Koss, Youth Development Coordinator in the IDB's Office of External Relations.

Across the region, many non-governmental organizations offer training in social skills for job interviews and the workplace, as well as administrative, financial and management training. Most of the programs have several phases, including training in a classroom-like setting to explain the basics of holding a job and running a business, workshops for technical skills, professional internships and mentoring for young people who establish businesses. Tutorials are provided by experienced students, business owners and managers. "We support microentrepreneurs who have not had a formal education and connect them with university volunteers and entrepreneurs who share their knowledge and expertise," says Isabel Alvarez, Youth Network Coordinator at the IDB.

Gabriela Rondeau, 26, of Bariloche, Argentina, is a case in point. As a result of training provided through the FUNDES Foundation, Rondeau boosted her skills and subsequently moved into a higher-level office job. A critical first step was the initial training in social and job skills. "They taught us how to interact with people, how to behave in an interview and prepare a resume," says Rondeau.

In computer classes Rondeau learned the latest versions of Word, Excel and graphic design software. "It helped me because I had forgotten many computer skills I learned in high school," she says. Before taking the courses she had never worked. FUNDES helped her land an office job five years ago where she has worked ever since.

In the industrial city of Soyapango on the outskirts of San Salvador, the FUNDES Foundation gives students at the technical university training in practical skills such as marketing, accounting and strategic planning. University students also work as interns in companies at a nearby industrial park where they connect with mentors who guide them in designing business plans, recounts Carlos Moreno, MIF specialist in El Salvador. FUNDES El Salvador is part of a network of similar foundations that promote entrepreneurship in nine Latin American countries.

"After basic training and an internship, the young people must have a sound business plan for submission to a financial institution," says Moreno. The MIF helps make the critical link between a business plan and funding by providing seed capital for up to 50% of the cost of launching a business, and by ensuring that business plans are developed well enough to merit a loan.

FUNDES aims to train 600 university students, foster the establishment of 40 new businesses and create a total of 500 jobs through the pilot program in Soyapango, says Moreno. Later the program will be replicated in Santa Tecla, another suburb of San Salvador, and at the La Unión port.

In Colombia, the Corona Foundation has trained 10,000 youth across the country in entrepreneurial skills. "Our methodology needs to go beyond training and use a model based on business development skills," explains Pablo Vanegas, who directs business development and the Youth Enterprise program of the Foundation.

The training package begins with workshops on the philosophy of entrepreneurism, continues with sessions on business concepts and concludes with business plans. Less than one-third of the students complete the training in business plans.

Those who develop a business plan are provided with a series of follow-up services that include advice from instructors and consultants, access to contests and financial backing. "The

services that accompany the training are our primary concern—creating businesses is easy, but it is difficult to sustain them," says Vanegas.

Young people who have completed the Corona Foundation training have established businesses that produce clothing, frozen food, sensor technology for the blind, and cinema and television programs. Initial investments of US$8,000 to US$10,000 were needed to launch these businesses.

For successful entrepreneurs, knowledge is essential, but so is confidence.

IDB

Raising that kind of money is difficult due to a lack of resources and the reluctance of commercial banks to offer loans to a novice. Corona Foundation is finding "angels" to invest in the fledgling businesses. So far, the angels have been foreigners from the United States and Holland. "We hold travelling exhibitions to encourage networking among Colombian angel investors," says Vanegas.

In Chile, Acción Emprendedora (Entrepreneurial Action) provides training for small business owners and microentrepreneurs, many of whom are under 35 years old. The training model incorporates business administration skills, financial and technical training, and access to computer technology such as the Internet, fax and Skype. With a grant from MIF, Acción Emprendedora is expanding its program to train an additional 1,000 entrepreneurs, says Aníbal Pinto, founder and president of the organization.

After completing a 12-week course in business administration, entrepreneurs develop business plans and are then introduced to one of two microfinance institutions (MFIs) with Acción Emprendedora's training serving as a recommendation. The entrepreneurs are offered more favorable terms than other clients, including lower interest rates and faster loan disbursement. Only two of the Acción Emprendedora entrepreneurs have been late in repaying their loans.

Young people in rural areas are an important target group for the Paraguaya Foundation, which runs an agricultural school and also provides business training in rural schools. At the Foundation's agricultural school, students study business management and agriculture, including organic farming, vegetable cultivation, raising goats and pigs, and administration of rural hotels. After completing their training, the students receive microcredits to develop rural enterprises, explains Claudia Pompa, Paraguaya Foundation's project director.

In rural schools, both public and private, the Foundation provides students with business training to help them create their own microenterprises "as a way out of poverty," says Pompa.

The magic of programs that help people become entrepreneurs revolves around building confidence and gaining technical knowledge. Aspiring entrepreneurs are acquiring basic tools such as how to make a business plan. "Having an idea is not enough; you have to put it down on paper," says Ariosto Manrique Moreno, 31, a former leader of Coparmex's Young Entrepreneurs program in Tijuana and owner-manager of a market research firm.

Without this knowledge, it is easy to underestimate the importance of business plans. "About 80 percent of businesses in Mexico don't last more than two years if they don't have a business plan," says Manrique Moreno.

Knowledge is important, but confidence is also essential for hopeful entrepreneurs, young and old alike. In the southern part of Santiago, Chile, Valentín Navarro's tire service shop, MaxLine Servicios, is thriving. After taking Acción Emprendedor's classes in accounting and marketing, he put his knowledge into practice by offering free brake inspections and attracted new customers for his services in changing and balancing tires. The redesign of his company's signs also helped draw new customers.

The best aspect of training was the psychology classes, says Navarro. "The psychological training is the most important because they teach you it is never too late to start a business," he says. Three previous businesses run by Navarro, 48, had gone broke. "When you hear them say that failing is also experience, you get much stronger," says Navarro.

BY LUCY CONGER

Links:
www.childrenscorporation.com
www.coparmex.org.mx
www.iadb.org/bidjuventud
www.fundes.org
www.fundacioncorona.org.co
www.accionemprendedora.cl
www.fundacionparaguaya.org.py

Entrepreneurship Cannot Be Improvised

Ten years ago, Ricardo Antonio Rotta's business repairing electrical appliances in Ivoti, a town in Brazil's far southeast state of Rio Grande do Sul, was successful enough. But Rotta, then 36, was burned out. Something was missing. "I wanted to switch businesses, but I didn't know how," he says.

Rotta turned to Sebrae, an agency that provides support for micro and small businesses in Brazil through a wide range of courses, workshops, online learning and consulting services. Sebrae is a private non-profit organization funded by an obligatory tax paid by all businesses in Brazil. Last year it provided training to more than 700,000 entrepreneurs from 170,000 businesses and offered consulting services to 404,000 individuals in 318,000 companies. Sebrae's staff of 4,000 has been expanded to include an additional 10,000 certified consultants. Its courses and consulting services are inexpensive (some courses cost around $50), and in poor regions training may be free.

PRÓ-ATIVA COMUNICAÇÃO

Rotta is living his dream as owner-operator of Bioplanta Hidroponia.

Rotta took courses through Empretec, a United Nations program designed by the UN Conference on Trade and Development (UNCTAD) that helps entrepreneurs establish innovative and competitive small enterprises. The program targets both new and experienced businesspeople, and emphasizes the development of entrepreneurial traits such as taking initiative, collecting information, planning and persevering (see chart on page 58). In Brazil, Sebrae is responsible for providing training to Empretec.

The training helped Rotta move into an entirely new line of work. "The seminar enables merchants to open businesses, but also motivates them to seek happiness and realize their dreams," he says. "People learn through stages of exploration and research."

Today Rotta is living his dream as the owner-operator of Bioplanta Hidroponia, which grows and distributes fresh produce such as lettuce, watercress and arugula to Carrefour supermarkets and smaller outlets in the state capital of Porto Alegre. But first he did meticulous research on his prospects.

A magazine story set the course as he read about a man who changed careers at age 65 and launched a new business growing hydroponic vegetables. Rotta got in touch with the entrepreneur and visited his business where he learned about the technique of growing produce in water. He went home inspired and began studying hydroponics.

After defining the business he wanted to establish, Rotta began developing a business plan, as he had learned to do in Sebrae courses. To research the market for hydroponic produce, Rotta visited Carrefour stores to learn about the demand for lettuce and greens. Although he had intended to grow greens that were new to the market, he learned that there was a considerable scarcity of lettuce. "On top of that, crops would be more stable if I started with lettuce and then gradually shifted to others according to market demand," Rotta recalls.

Bioplanta Hidroponia began small in 1998, first selling to groceries and some small restaurants. Five years later, Rotta cre-

ated more modern packaging and began distributing to Carrefour, even though production remained low. Now the company has six employees, and continues to grow. Rotta is satisfied. “Producing food is noble,” he says.

The knowledge and skills that launched and developed Bioplanta Hidroponia are within reach for thousands of micro and small enterprises in Brazil through the courses and consulting services offered by Sebrae. “Developing the traits of entrepreneurship is essential for a business to stabilize,” says Mirela Malvatestiti, Sebrae’s business training manager. The formulation of business plans is one of the most common services offered by Sebrae. “The failure rate for businesses is a big problem. We work hard to make sure people open businesses that are viable,” says Malvatestiti.

Sebrae offers a wide range of courses and consulting services for all stages of business development geared toward budding entrepreneurs, new businesses and more advanced enterprises. One of the more popular courses for aspiring business owners focuses on entrepreneurship, financial analysis, cash flow, market research and market structure. Course modules are offered online or in televised classrooms with instructors providing additional guidance.

In sectors as diverse as farming, hotels and inns, textiles and clothing, and petroleum and gas, Sebrae offers training in business administration, planning and risks, and quality control. For entrepreneurs who have succeeded in operating a business for at least two years, more specialized courses are offered in areas such as product development, partnerships to increase sales and business, and improving energy efficiency and optimizing equipment use. Over the last three years, Sebrae introduced courses in how to use the Internet and e-commerce for micro and small businesses. “Sebrae provides practical courses to show entrepreneurs how to apply this knowledge in their daily operations,” says Malvatestiti.

Entrepreneurial Traits

1. Identifying initiatives and opportunities
2. Establishing goals
3. Showing persistence
4. Demonstrating commitment
5. Demanding efficiency and quality
6. Systematic planning and monitoring
7. Conducting information research
8. Creating and maintaining contact with networks
9. Operating with calculated risks
10. Exhibiting independence and self-confidence

Business planning is essential both before a launch and when preparing to expand. Totosinho, a family enterprise that produces snack foods is a case in point. Totosinho’s hot dogs, hamburgers and empanadas are packaged in thermal bags and distributed throughout Porto Alegre.

Although the company had brisk annual growth for 10 years, a Sebrae consultant guided the firm in developing a marketing plan, according to Marcia Moreira Faria, Totosinho founder and co-owner. “We were advised to establish partnerships with party spaces and develop an annual marketing plan,” says Faria. With the plan, sales have continued to grow at a rate of 15% each year, she says.

Totosinho is poised to grow even more and will likely expand its workforce of 65 employees. In recent years, the company began selling its hot dogs and hamburgers in packaging for refrigerated supermarket counters. This product line is sold at Wal-Mart and already accounts for 20% of current sales, but could expand enormously. “We intend to sell that line throughout Brazil,” says Faria. In October, Totosinho will launch a new product: a low-calorie hot dog.

A process of ongoing learning characterizes many successful entrepreneurs, and Neide Sosvianin is no exception. She is president of Versátil Andaimes, a family business founded 21 years ago that manufactures various types of scaffolding for construction projects. The company is owned by Sosvianin, a lawyer, and her engineer husband. Sosvianin began taking basic courses with Sebrae 21 years ago. She then moved on to more specialized courses and later sought advice from consultants in financial administration. “I still use Sebrae; I was there last week for training in how a company can be creative and innovative even when it is small,” says Sosvianin, 46.

Versátil Andaimes has 120 employees and has benefitted from Brazil’s recent construction boom, which has grown 40%–50% annually since 2002. This period of rapid growth created the need for new skills and management systems.

To meet the demands of expansion, Sosvianin took advantage of a coaching service offered by Sebrae. “Coaching teaches you how to delegate, to stay informed out of the sight of your employees,” she says. The company set up a system of measurable objectives to monitor monthly progress and quality of services.

Micro and small businesses change over time and experience the ups and downs of business cycles. Businesses and entrepreneurs, both new and experienced, can benefit from training courses and targeted consultancies that help smooth out the difficulties of running a business and put the company on a path toward growth.

BY LUCY CONGER

Links:
www.sebrae.com.br
www.empretec.net
www.bioplantahidroponia.com.br
www.andaimes-versatil.com.br

Leaders

The Land of Tulips and Small Loans

Mention the Netherlands to foreigners and many are likely to picture the traditional Dutch icons of tulips, windmills and wooden clogs. Cheese lovers will yearn for Gouda and Edam; sports fans will surely visualize orange football jerseys. The Dutch themselves probably prefer to be known as Europe's foremost polyglots and the inventors of the microscope and the compact disk. A less well-known fact about the country with the world's tallest people is that it also is a powerhouse in the promotion of microfinance.

Like other European countries, the Netherlands has a huge and sophisticated financial services industry, with major banks and insurance companies doing business literally around the world. There are also many Dutch foundations, social investment funds and development organizations working on microfinance.

In 1997 several institutions and their main funder, the Dutch Ministry of Foreign Affairs, started to coordinate their microfinance activities, in order to avoid duplication, learn from each other's experience and gain from their particular strengths and specialization. By 2003, when the initial group numbered a dozen financial companies, development agencies, NGOs and philanthropic institutions, they formalized their collaborative efforts by establishing the Netherlands Platform for Microfinance (NPM). To date, there are 15 members in this alliance, which is open to any Dutch organization involved in microfinance as a practitioner, advisor, investor or donor.

"The Dutch have traditionally been a nation of traders, merchants, pastors and teachers," said NPM Chairman Frank W. Bakx. "Equity and justice are widely held values. The open economy and culture of tolerance resulted in intensive global relationships. Development cooperation came in the wake of commerce, to help uplift poor, less-advantaged fellow people. Providing credit is seen as more egalitarian than giving a dole-out."

Current NPM members include the commercial banks ABN Amro and Rabobank, sustainable banking organizations ASN Bank and Triodos; insurance companies ING and Interpolis; faith-inspired groups Cordaid, ICCO and Woord en Daad; economic development agencies FMO and SNV; microfinance specialists Hivos, Oikocredit and Triple Jump, the NGO Oxfam Novib; the DOEN Foundation, which is supported by the Dutch charity lotteries; and the Ministry of Foreign Affairs.

While the platform's members have diverse focuses and approaches, they share a common mission: to expand access to financial services for the poor, offering them more

choices to improve their lot through their own efforts and better tools to protect themselves against economic risks.

Their collective clout in the microfinance industry is significant. By the end of 2006, NPM members had an aggregated microfinance portfolio of loans, equity investments and guarantees worth more than €560 million (about US$875 million), reaching hundreds of NGOs, cooperatives and banks involved in microfinance in nearly 100 countries in Africa, Asia and Latin America. That year Dutch organizations also provided more than €29 million (about US$45 million) in grants to microfinance-related projects and initiatives.

NPM members also offer know-how on building more inclusive and efficient financial sectors. While the Dutch government has long been a leader in advising developing countries on how to improve the business climate to expand financial sectors, other NPM partners work with their counterparts to help them access local and international capital markets, develop new financial products and services, strengthen management, governance and reporting, train loan officers to better serve micro and small businesses, and assist microfinance institutions in extending their services to underserved areas and groups.

Lastly, but certainly not least, the Dutch coalition uses its influence at the international level to urge regulators to set rules conducive to more inclusive financial systems, ensuring that prudent regulations designed to foster sound banking practices do not end up scotching microfinance.

BY PETER BATE

Link:
www.microfinance.nl

Members of the NPM

- ABN Amro
- ASN Bank
- Cordaid
- DOEN Foundation
- FMO
- Hivos
- ICCO
- ING
- Interpolis
- Ministry of Foreign Affairs
- Oikocredit
- Oxfam Novib
- Rabobank Foundation
- SNS Assets Management
- SNV
- Triodos Bank
- Triple Jump
- Woord en Daad

The Princess of Microfinance

If the United Nations had not invited her to join the advisory group for its Inclusive Financial Systems Initiative, Princess Maxima of the Netherlands would have gladly volunteered to promote microfinance as a tool to reduce poverty.

The Argentine-born princess is the only member of a royal family on this committee numbering prominent bankers and academics who, under the UN banner, provide advice to governments, central banks, regulating agencies and the private sector on the obstacles preventing the poor from gaining access to financial services and what steps could be taken to eliminate such barriers. In the world of microfinance, however, Princess Maxima is well regarded for her knowledge of and commitment to the business of providing financial services to the poor.

Princess Maxima of the Netherlands

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Like other young royals, Princess Maxima is a familiar figure to the readers of glossy European magazines. But before she married the Dutch crown prince, she obtained a degree in economics and worked for major financial institutions in Buenos Aires, New York and Brussels. One big difference from her days as a junior investment banker, as she once noted with humor to Dutch journalists, is that important people now return her phone calls more quickly than before.

Since the UN appointed her a special advisor to the Year of Microcredit, in 2005, Princess Maxima has used her expanded access to decision-makers to advocate for microfinance. One measure of the progress achieved by the UN advisors is that more than 80 countries have established national committees to promote microfinance. "Nobody any longer denies the effect of microfinance on a country's development. The issue now is how to achieve greater scale," she said in an interview with a leading Argentine newspaper.

During a recent visit to Buenos Aires, Princess Maxima met Argentine President Cristina Fernandez de Kirchner, the minister of economy and the governor of Argentina's central bank. She also addressed commercial bank executives, whom she urged to extend financial services to the poor, noting how little microfinance has developed in her homeland. At the end of 2004 there were no more than 25,000 microcredit clients in Argentina. In contrast, she added, Mexico's microfinance institutions had already reached more than 200,000 clients.

Princess Maxima also holds strong views on issues that generate heated debates in the microfinance industry, such as the quest for profits, interest rate levels and the appropriate role for governments. As a UN special advisor, she has spoken often and forcefully about the need to expand access to financial services to a scale where they make a macroeconomic difference and reach hundreds of millions of people who remain without banking services. To achieve that goal, she maintains, microfinance must become commercially viable, rather than depend on donations. Profitability will be a crucial factor for the industry's development, as suc-

cessful lenders can serve more people with greater efficiency. “Good financial services come at a cost, no matter what the social objective,” she said in a speech at UN headquarters.

In Argentina, the princess highlighted the potential pitfalls of government-run microcredit programs as well as the risks of imposing ceilings on interest rates. “It is extremely important that government policies focus on strengthening the microfinance sector rather than turning them into social policy tools, no matter how good the intentions may be,” she added.

Many famous people, ranging from former U.S. President Bill Clinton to Hollywood stars such as actress Natalie Portman, have helped raise the profile of microfinance and attract more support for an industry that generates economic opportunities for countless families and empowers millions of women around the world. But few are likely to expound on arcane financial regulations as Princess Maxima did at a conference organized by the Bank of International Settlements.

In a speech to central bank governors, regulators and supervisors, the princess delved into the adverse consequences of subjecting microcredit to the same risk weighting criteria applied to traditional retail banking loans unsecured by collateral and without a credit rating. This rule effectively acts as a barrier for banks interested in working in microfinance. Not only did she point out how such a rigid approach makes microcredit more expensive; she also distinguished the differences for banks that follow the simple standardized approach and the advanced internal ratings based approaches of Basel II.

Microcredit borrowers, Princess Maxima argued, may lack formal credit ratings and physical collateral, but their loans are underpinned by substantial social collateral, which puts group pressure on individuals to repay loans in a timely manner. Furthermore, banks can employ

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Princess Maxima in discussion with the Governor of the Banque des Etats de L’Afrique Centrale (BEAC), Mr. Philibert Andzembe, in Cameroon in 2008.

incentives developed by microfinance institutions to promote prompt loan repayments—incentives with a proven success reflected in remarkably low levels of at-risk portfolios.

“We need commercial banks to increase microcredit where it counts!” she urged the members of the audience. “Therefore, I am asking you, central banks and other relevant regulators and supervisors, to reflect on my words. There are clear risk mitigation criteria for microcredit that you could acknowledge when determining the appropriate risk weight for such credit. Unnecessarily high risk weighting makes this business overly expensive,” she concluded.

Princess Maxima acknowledges that microcredit is not a panacea against poverty, which is influenced by numerous factors such as access to good quality health and education services, better nutrition, basic infrastructure, transportation, security and employment. But she never misses an opportunity to underscore microfinance’s power to dignify. “I firmly believe that giving people loans is to offer them an opportunity to get out of poverty by leveraging their own efforts,” she told the Buenos Aires daily *Clarin*. “This will often be the greatest vote of confidence that these persons will have received in their lives. And it will translate into dignity, which is also very necessary.”

BY PETER BATE

For more information on the UN Advisors Group on Inclusive Financial Sectors, visit: www.uncdf.org/english/microfinance/advisors_group

Link:
www.uncdf.org/english/microfinance/advisors_group

ARLETTE PEDRAGLIO, IDB

Warning Signs in the Midst of the Storm

SANDRA DARVILLE
Chief of the Access to Finance Unit

The year 2007 has been a tough year in global financial markets. The crisis reminded us that one swamped ship can create dangerous waves for others plying the economic seas.

Consistent with its scrappy origins, however, the microfinance sector in Latin America and the Caribbean continues to motor on at a healthy pace. Leading institutions in the region have focused on mobilizing domestic savings, thereby easily funding growth, with robust overall portfolio quality and performance. Funding has continued to increase and buoy the sector's growth. In fact, the past 12 months saw both the healthy expansion of existing MFIs and the birth of start-ups in countries such as Honduras, Mexico, Colombia, Panama and Brazil.

The year 2007 also marked the transition of an adolescent industry into adulthood. Earlier concerns over the problems of youth (e.g., sustainability, credit methodologies, and governance) have given way to a healthy identity crisis, with concerns over rapid growth, the supply of high quality managers, the need for new technologies and products, ethical standards, and continued controversies over interest rates and profits.

Investors such as Procredit, Fundación BBVA and Planet Finance have put money into start-ups, and leading institutions (e.g., ACP in Peru) ventured outside their home country with cross-border investments. The growth of the industry has blurred definitions, and analysts debate which institutions are MFIs, while donors and MFIs debate the social impact of various models. MFIs that spent their early years desperately seeking resources now face multiple, competing offers for funding. The influence of private donors and investors like the Gates Foundation and Omidyar Network was significant and greatly contributed to the dialogue on measuring results, success and impact. Banking regulators across the region have encouraged this growth, fine-tuning the regulatory environment in some countries and making major changes in others (e.g., Mexico, Colombia, and Peru). Going forward, the microfinance industry will be increasingly product-based—rather than institution-based. In other words, microfinance will be provided by a range of companies, NGOs, for-profit entities, banks, insurance companies and others that do not work exclusively in microfinance. Credit is the first microfinance product to make this transition, but as the industry continues to grow, other financial services will surely follow suit.

Given that the sector is well on its way, what next? In fact, much remains to be accomplished. The success stories of a few may mask the exclusion of the vast majority of microenterprises and low-income households from credit, savings and other financial services. Moreover, while the sector is highly advanced in some countries, it barely exists in others that lack enabling regulatory and institutional frameworks. As shown in the Economist Intelligence Unit's *Microscope on the Microfinance Business Environment*, major obstacles remain in the way of improved innovation and scale. More work is needed in the areas of financial transparency, regulation and supervision, and in expanding the supply of financial services (e.g., the "rural gap"). Intraregional investment and collaboration will require greater harmonization of standards and prudential regulations. Just as regulators and policymakers are beginning to collaborate on these issues, the region's MFIs and other actors will also need to keep working more closely together toward a shared regional system. The creation of an organization such as a federation for microfinance for Latin America and the Caribbean could be a useful means of encouraging these regional partnerships.

Going forward, the MIF will leverage trends in microfinance to help expand innovation and scale in the industry. Increasingly, microfinance will include many types of financial services provided by myriad institutions using a broad array of technologies.

Under President Moreno's leadership, MIF intends to promote this evolution. Our goal is to see the sector reach US$20 billion by 2012. With the dynamism in the market to date, this goal is well on its way.

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Promoting inclusive growth through private sector development