

Microscope on the Microfinance Business Environment in Latin America 2007

September 2007

This paper describes the dynamic, weighted model on the microfinance business environment, built by the Economist Intelligence Unit (EIU) and supported with financing and advice by the Inter-American Development Bank (IDB) and the Andean Development Corporation (Corporación Andina de Fomento, CAF).



Table of contents

Executive summary	3
Illustrative graphics	5
Scores and rankings	5
Charts	6
Individual country comments	7
<i>Argentina</i>	7
<i>Bolivia</i>	7
<i>Brazil</i>	8
<i>Chile</i>	8
<i>Colombia</i>	8
<i>Dominican Republic</i>	8
<i>Ecuador</i>	8
<i>El Salvador</i>	8
<i>Guatemala</i>	9
<i>Mexico</i>	9
<i>Nicaragua</i>	9
<i>Paraguay</i>	9
<i>Peru</i>	9
<i>Uruguay</i>	10
<i>Venezuela</i>	10
Details about the Microscope	10
Methodology	10
Individual participants	11
Concept definitions	11
Data sources	13

Executive summary

In this inaugural Microscope on the Microfinance Business Environment in 15 Latin American and Caribbean (LAC) countries, the Economist Intelligence Unit—in association with the Inter-American Development (IDB) and Andean Development Corporation (Corporación Andina de Fomento, CAF,) charts the industry's strengths and weaknesses across the region. The Microscope covers Argentina, Bolivia, Brazil, Chile, Colombia, the Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua, Paraguay, Peru, Uruguay and Venezuela.

Seven major findings emerge from this Microscope. First, there is considerable variation in the microfinance business environment in the LAC region. At the favourable end of the spectrum, Bolivia ranks 79.4 on a scale of 1-100 (with 100 being the most business friendly), followed by Peru at 74.1, Ecuador at 68.3 and El Salvador at 61.5. Only three other countries score 50 or better—Dominican Republic at 57.5, Nicaragua at 53.8, and Paraguay at 52.9. Eight countries are rated below 50—Chile and Mexico at 48.3, Colombia at 46.1, Guatemala at 44.0, Brazil at 43.3, Uruguay at 35.8, Venezuela at 27.4 and Argentina at 26.8.

Second, the Microscope reveals no association between countries' size and wealth, on one hand, and positive or negative microfinance environments, on the other hand. Indeed, smaller and/or less prosperous countries take four of the five top rankings—Bolivia in first position, Ecuador in third, El Salvador in fourth, and the Dominican Republic in fifth. Among the more prosperous and generally larger countries that receive much of the international investment community's attention in the region, microfinance business environments range from mediocre (Chile and Mexico tied in eighth place at 48.3) to subpar (Brazil in twelfth place at 43.3) to poor (Argentina in fifteenth, and last, place at 26.8).

Third, countries' microfinance business environment scores are associated in rough but important ways with their respective ratios of microfinance clients to total population, a key indicator of the relative spread of microfinance services by country. In short, the more favourable the business environment of a country, the higher the share of its population using microfinance tends to be. The same association appears if one examines another widely used country indicator, the number of microenterprises.

Fourth, microfinance environments are distinct in important ways from environments for other business activities. Our Microscope usefully groups the 13 indicators into three categories: 1) the regulatory framework for microfinance, 2) the investment climate, and 3) the institutional development of the microfinance industry (see below for details). This allows us to chart LAC countries' microfinance environments by category. Through this disaggregated analysis we show that microfinance can thrive in countries with what are generally considered difficult business conditions. For instance, Bolivia gains top scores of 100 on its regulatory framework and 75.0 on its institutional development, while it scores only 47.1 (seventh place) on investment climate.

Conversely, countries with strong or above-average investment climates (such as Brazil with the second highest category score at 62.1) can still have overall microfinance environments that are below-average, on the basis of moderate or weak regulatory frameworks and institutional development (43.8 and 33.3, respectively). Brazil ranks twelfth in overall Microscope score. This finding is connected to the earlier observation about the lack of association between a country's size and wealth and the quality of its microfinance environment. It is insufficient to have a sound macroeconomic and political climate without other key enabling conditions that are more specific to microfinance regulation and operations. Of course, countries with strong microfinance environments could still gain by making improvements in their political stability, capital market development, judicial systems and other elements of the investment climate.

A fifth major finding is that ample improvements in microfinance environments have taken place in many countries in recent years—though there is still considerable room for progress, both overall and in particular underperforming countries. Crucial areas where noteworthy gains have been made in recent years, according to expert informants interviewed for the Microscope, are in the development of customised regulatory and examination capacity for microfinance; in the standards of accounting, governance, and transparency of microfinance institutions; and in the degree of competition in national microfinance industries. There is still room for improvement in most LAC countries in the following major areas: regulations allowing for the easy formation and smooth operation of specialised microfinance institutions; the range of services beyond microcredit offered by microfinance institutions; the quality and coverage of credit bureaus; and the effectiveness and speediness of judicial systems.

A sixth major finding from the Microscope is related to the previous one—there is a considerable amount of flux and evolution in microfinance business environments in the region. This is to be expected given the relative youth of the industry. Regulatory frameworks for microfinance are changing, and generally in a positive direction. This evolution is occurring as authorities place more importance on the development of a sustainable microfinance sector, and as both established and non-traditional financial institutions seek to expand their presence and diversify their operations in microfinance. A significant number of countries have enacted promising reforms in recent years, albeit with still uncertain results, and others are considering or implementing reforms designed to promote microfinance.

One cloud on the horizon for some countries, however, is the prospect that current governments could yield to political temptations to undertake counterproductive measures—such as competing directly with microfinance institutions (MFIs) through subsidised public programmes, placing caps or ceilings on interest rates, or allowing the upgrading of non-governmental institutions to formal, regulated status without proper capitalisation, supervision and oversight. It is important to maintain the overall positive reform momentum in the LAC region.

A seventh finding of the Microscope is that important strides have been made toward identifying and disseminating best practices in regulation and supervision, as well as in fostering a culture of greater awareness of the importance of standards of accountability and transparency in the operation of MFIs. This progress has been aided by multilateral development banks and other international funders which operate across multiple countries. The gradual development of greater sensitivity to what works and what does not within the community of microfinance practitioners, funders, and regulators bodes well for the future development of the industry. This Microscope provides, for the first time, a set of clear benchmarks upon which cross-national comparisons can be conducted. Future editions will make it possible to track and measure the progress of the microfinance business environment of individual countries and the region as a whole.

The thirteen scoring criteria, and the categories into which they were subdivided, were as follows:

Regulatory Framework

- 1) Regulation of microcredit operations
- 2) Formation and operations of regulated/supervised specialised MFIs
- 3) Formation and operation of non-regulated MFIs
- 4) Regulatory and examination capacity

Investment Climate

- 1) Political stability
- 2) Capital market stability
- 3) Judicial system
- 4) Accounting standards

- 5) Governance standards
- 6) MFI transparency

Institutional Development

- 1) Range of MFI services
- 2) Credit bureaus
- 3) Level of competition

Illustrative graphics

Scores and rankings

The data for the Microscope, once built into an Excel model, generated rankings and scores for each of the 15 countries. We produced these evaluations for both the overall score and for the three individual category scores. Three Andean countries—Bolivia, Peru and Ecuador—had the highest overall scores and led the field in the category of Regulatory framework as well. These three nations, along with the Dominican Republic, took the top four spots in Institutional development.

The contrast comes in Investment climate, a category that is much closer to classical assessment of countries’ business climates, and to a great extent built upon the EIU’s proprietary country scores. In this category, Chile, Brazil and Mexico lead the field. Only Peru, in fourth place, is also a leader in elements of the microfinance-specific business environment. Bolivia (seventh), Ecuador (tenth) and the Dominican Republic (fifteenth), have mediocre to poor positions in this category.

The full results are shown in the table below.

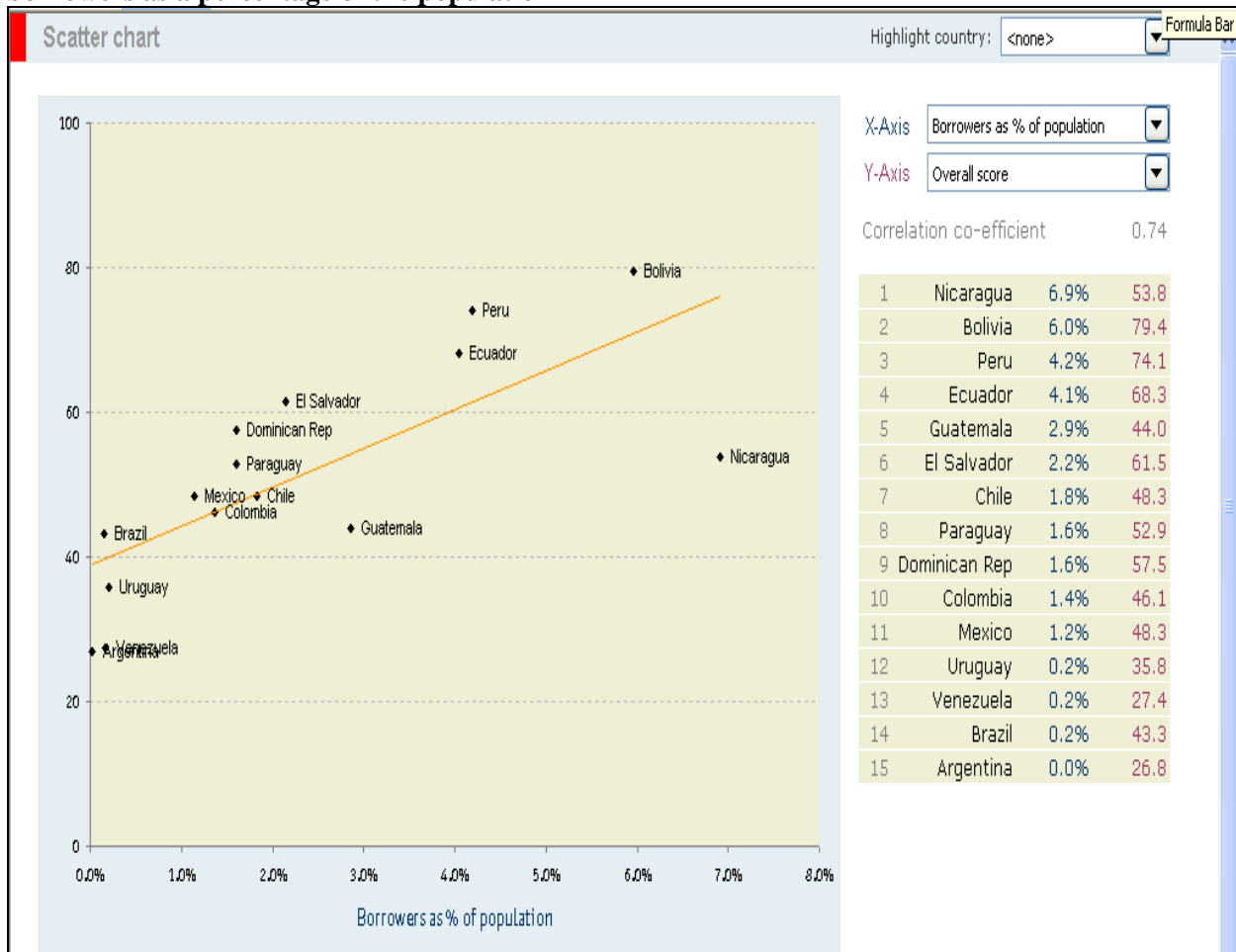
Overall score		Regulatory Framework			Investment Climate			Institutional Development			
1	Bolivia	79.4	1	Bolivia	100.0	1	Chile	75.0	1	Bolivia	75.0
2	Peru	74.1	2	Peru	81.3	2	Brazil	62.1	2	Dominican Rep	75.0
3	Ecuador	68.3	3	Ecuador	75.0	3	Mexico	58.3	3	Ecuador	75.0
4	El Salvador	61.5	4	El Salvador	62.5	4	Peru	57.9	4	Peru	75.0
5	Dominican Rep	57.5	5	Paraguay	62.5	5	Uruguay	54.2	5	El Salvador	66.7
6	Nicaragua	53.8	6	Guatemala	56.3	6	El Salvador	49.2	6	Nicaragua	58.3
7	Paraguay	52.9	7	Nicaragua	56.3	7	Bolivia	47.1	7	Paraguay	50.0
8	Chile	48.3	8	Chile	50.0	8	Colombia	47.1	8	Colombia	41.7
9	Mexico	48.3	9	Colombia	50.0	9	Argentina	46.7	9	Mexico	41.7
10	Colombia	46.1	10	Dominican Rep	50.0	10	Ecuador	41.3	10	Brazil	33.3
11	Guatemala	44.0	11	Mexico	50.0	11	Venezuela	41.3	11	Chile	33.3
12	Brazil	43.3	12	Brazil	43.8	12	Guatemala	40.8	12	Guatemala	33.3
13	Uruguay	35.8	13	Uruguay	37.5	13	Nicaragua	40.0	13	Argentina	25.0
14	Venezuela	27.4	14	Venezuela	31.3	14	Paraguay	39.6	14	Uruguay	25.0
15	Argentina	26.8	15	Argentina	18.8	15	Dominican Rep	37.5	15	Venezuela	16.7

Charts

The partners in this research were interested to see what association would appear between countries' scores in the Microscope and the volume of microcredit activity. Therefore, we gathered data from the IDB on two variables: microfinance borrowers as a percentage of the population and borrowers as a percentage of microenterprises.

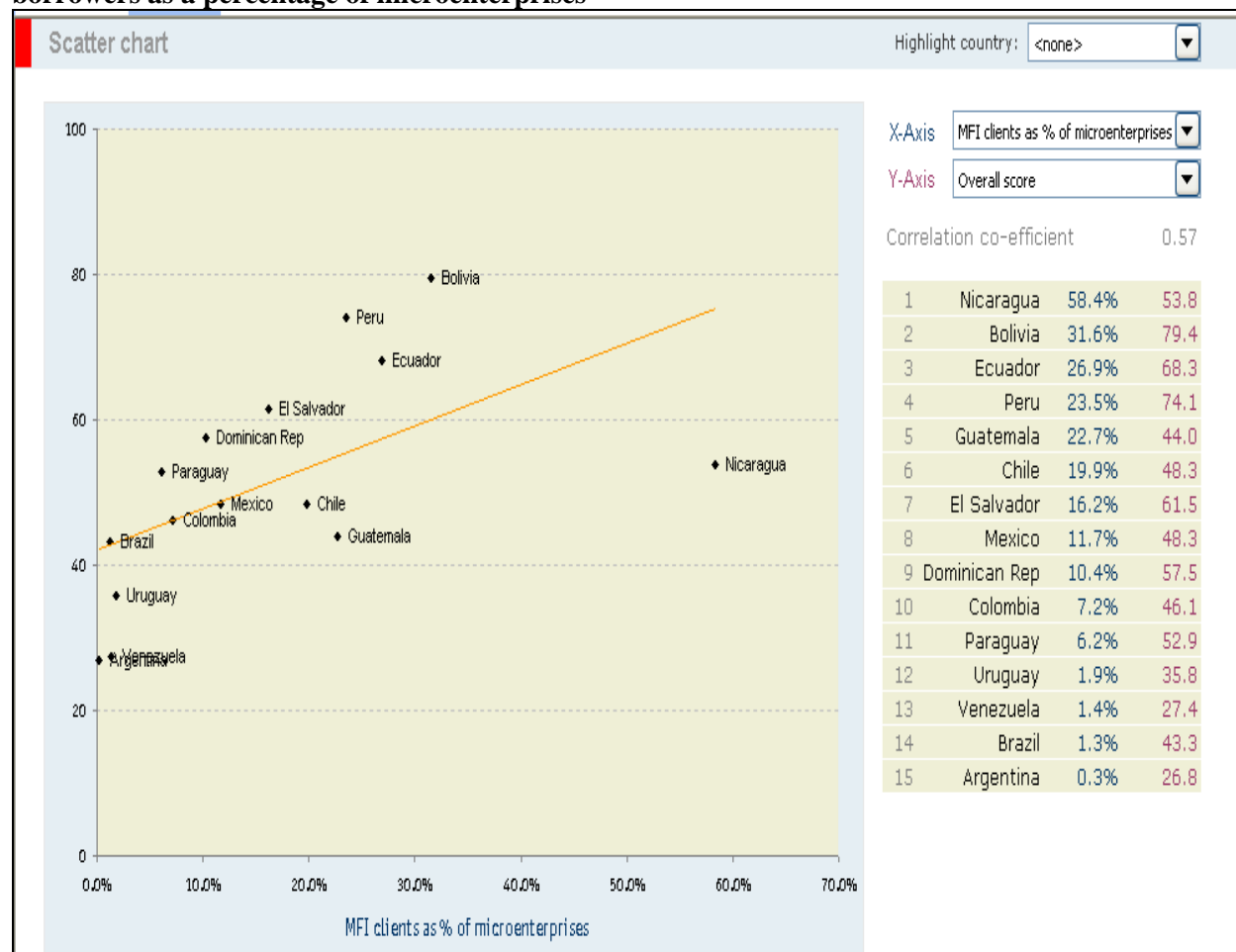
As seen in Figure 1, there was a positive association between countries' scores on our Microscope and the percentage of their citizens who are MFI borrowers.

Figure 1: Scatter chart showing the association between countries' scores and the level of borrowers as a percentage of the population



As seen in Figure 2, there is also a strong positive correlation between countries' scores on our Microscope and the percentage of local microenterprises that are MFI borrowers.

Figure 2: Scatter chart showing the association between countries' scores and the level of borrowers as a percentage of microenterprises



Because this study is a simple snapshot of the microfinance business environment in 15 countries, we do not of course make any claims about correlation or about the cause-effect timing of these associations.

Individual country comments

Argentina

Argentina ranks last among the countries in this study, with a rating of 26.8, on a scale of 100. Its mediocre investment climate (46.7, for ninth place) is exacerbated by its low marks on regulatory framework (18.8, fifteenth) and institutional development (25.0, tied for thirteenth with Uruguay). The fact that authorities have not strongly embraced the notion of microfinance as a commercial activity that should operate according to market criteria has perpetuated the incipient state of the industry in the country.

Bolivia

Bolivia ranks the highest among the 15 countries, with an overall score of 79.4. Its outstanding regulatory framework (100.0, 1st) reflects the proactive, gradualist posture toward fostering the development of microfinance of regulatory authorities. Bolivia's strong institutional development (75.0, tied for first with Ecuador, Peru and the Dominican Republic) is emblematic of the industry's evolution since the late 1980s, from non-regulated, NGO origins toward improved regulation and self-regulation of governance

and transparency practices and toward successive innovations in the range of services. These strengths overshadow weaknesses (47.1, tied for seventh with Colombia) in the country's investment climate. Some concern was expressed by informants that the current government might move to re-institute subsidies or interest rate controls in the near to medium-term future.

Brazil

Brazil scores twelfth overall, at 43.3. Its favourable investment climate (62.1, second) is overshadowed by its tenth position on institutional development (33.3, tied with Guatemala and Chile) and tied for tenth place (43.8) ranking on regulatory framework. Brazil's regulatory framework for microfinance is still evolving, with a heavy dose of direct state involvement in the industry as a first-tier lender. MFIs are still in an incipient phase and not yet widely spread through this large country.

Chile

Despite being a leader in macroeconomic and structural reform in the region, as reflected in a first place investment climate ranking (75.0), Chile lags behind in the development of its microfinance environment (eight overall at 48.3, tied with Mexico). Its regulatory framework is rated ninth (50.0), reflecting general strengths in financial regulation that are not yet matched by specialised rules or capacity to regulate and supervise microfinance. Chile's institutional development ranks twelfth (25.0), based on the limited number, geographic reach and range of services of its still fledgling microfinance sector.

Colombia

Colombia ranks tenth overall (46.1). A moderate score on investment climate (47.1, for eighth place) is outweighed by weaker rankings on both regulatory framework (50.0, eighth, tied with Chile, the Dominican Republic and Mexico) and institutional development (41.7, eighth, in a tie with Mexico). Colombia's basic weakness is the inability to date to fashion a regulatory framework that would allow one of the region's largest non-regulated MFI sectors to become formalised (and thus able to expand), or that would entice significant numbers of traditional institutions to downscale into microfinance.

Dominican Republic

The Dominican Republic's fifth place overall rating (57.5) reflects strong institutional development (tied for first at 75.0 with Bolivia, Ecuador and Peru) and a moderately favourable regulatory framework (eighth place tied with Chile, Colombia and Mexico, at 50.0), despite a poor investment climate (fifteenth place, at 37.5). Areas of solid performance include credit bureaus, competition and a wide range of MFI services. Areas for improvement include development of customised rules and approaches to regulate and supervise microfinance, governance standards of MFIs and the judicial system.

Ecuador

Ecuador ranks third overall (68.3), based on the strength of its regulatory framework (third place, at 75.0) and institutional development (tied for first at 75.0, with Bolivia, Ecuador and Peru), and notwithstanding weaknesses in its investment climate (41.3, tied for tenth place with Venezuela). A robust regulatory approach that carefully defines microfinance and regulates and encourages it as an activity, reliable credit bureaus, and the use of international accounting standards in a dollarised economy are among Ecuador's strengths. Some concern was expressed by informants, however, that the country's progress in microfinance could be undermined, at least in part, by potential moves to widen existing public subsidies.

El Salvador

El Salvador is rated fourth overall (61.5). This rating reflects positive scores in regulatory framework (62.5, tied for fourth with Paraguay) and institutional development (66.7, fifth place) combined with a mediocre investment climate (49.2, sixth place). The country's strengths lie in credit bureaus, the formation and operation of NGO-based as well as specialised MFIs, and use of sound accounting standards in a dollarised economy. Areas for improvement are the development of greater specialised

capacity for regulating microfinance, the governance standards and transparency of MFIs, and the level of competition in the sector, which remains quite weak.

Guatemala

Guatemala ranks eleventh overall, at 44.0. A subpar investment climate (40.8, twelfth place) and weak institutional development (33.3, tied with Brazil and Chile for tenth) are offset in important measure by a positive regulatory framework (56.3, tied with Nicaragua for sixth). The Central American country's strengths lie in a vibrant NGO sector and the absence of major public interference in interest rates and microfinance competition. Areas for improvement in a still nascent and weakly competitive industry lie in the development of specialised laws and regulations (some of which are currently under discussion in the legislature) and transparency and governance standards.

Mexico

The overall ranking of *Mexico* is eighth, tied with Chile (48.3). A solid investment climate rating (third place at 58.3) is counterbalanced by a mediocre regulatory framework (50.0, tied for eighth with three countries) and subpar institutional development (41.7, tied for eighth with Colombia). Mexico's regulatory framework has been in considerable flux in the current decade, with the confusing co-existence of competing juridical vehicles and the long and several times delayed implementation process of promising reforms adopted five years ago. If implementation proceeds smoothly through coming years, however, the level of competition and innovation in a still-only-modestly-developed industry seems poised for significant improvement.

Nicaragua

Nicaragua ranks sixth overall (53.8). An unfavourable investment climate (40.0, rated thirteenth) is somewhat outweighed by positive scores in regulatory framework (56.3, tied for sixth with Guatemala) and institutional development (58.3, sixth place). In many ways, Nicaragua is an "overperformer" or outlier in the trend line indicated by the scatterplot: it has the highest ratio of microfinance clients to population in the region yet only a slightly above average ranking overall, just one place above the regional median. This result is in many ways an anomaly, as the client data—according to Inter-American Development Bank experts—obscure the modest overall range of MFI services. In short, the depth of Nicaragua's microfinance sector does not match its breadth.

Paraguay

Paraguay ranks seventh overall, at 52.9. A poor investment climate (39.6, fourteenth place) is offset by a positive mark for regulatory framework (62.5, tied for fourth with El Salvador) and a modest score on institutional development (seventh at 50.0). Strengths in Paraguay's moderately developed microfinance sector lie in the absence of significant government interference with microfinance interest rates and competition, and in the dynamic operations of non-regulated MFIs. Areas for improvement are to be found in the development of customised regulations (included for specialist MFIs) and standards for accounting, transparency, and governance.

Peru

The overall second place rating of Peru (74.1) reflects consistently strong scores in all three categories of microfinance environment—regulatory framework (81.3, second place), investment climate (57.9, fourth place), and institutional development (75.0, tied for first with Bolivia, Ecuador and the Dominican Republic). The development of a proactive, customised and flexible approach to the promotion and regulation of the sector has helped foster one of the most competitive and innovative industries in the region. Informants and other experts generally rank Peru side by side with Bolivia as the microfinance pioneers and leaders in Latin America.

Uruguay

Relatively prosperous Uruguay is a laggard in microfinance, ranking thirteenth overall with a score of 35.8. Its favourable investment climate (fifth place, at 54.2) is outweighed by poor marks on regulatory framework (37.5, thirteenth place) and institutional development (25.0, thirteenth place, tied with Argentina). Major regulatory weaknesses, which reflect a lack of customised rule-making, hamper the formation of specialised MFIs and the growth or upgrading of non-regulated MFIs. There is a dearth in the number of institutions active in the sector, a lack of scale and a lack of innovation and breadth in the services they offer.

Venezuela

Oil-rich Venezuela is also a clear underperformer in microfinance, ranking next to last overall (27.4). A subpar investment climate (41.3, tied for tenth with Ecuador) is further compounded by poor marks on regulatory framework (31.3, fourteenth place) and institutional development (16.7, fifteenth place). The lack of a market-based, customised approach to microfinance regulation hampers the development of the industry beyond a few commercial banks that have spun off or operate still relatively small microfinance operations. The absence of credit bureaus, weak judicial independence and poor MFI governance standards are other urgent problems that need to be addressed if the country is to begin evolving a competitive, expanding microfinance industry.

Details about the Microscope

Methodology

The criteria used in this study were chosen in close consultation between the Economist Intelligence Unit research team, the Inter-American Development Bank and the Andean Development Corporation (Corporación Andina de Fomento, CAF). The real-world relevance of these indicators was evaluated through in-depth interviews conducted with country experts and microfinance practitioners from the region in late August and early September 2007.

The EIU researchers gathered data for the Microscope from the following types of sources (see the Appendix for a more complete listing):

- Personal interviews
- EIU proprietary country rankings and reports
- Scholarly studies
- Websites of government authorities and international organisations
- Websites of industry associations
- Local and international news media reports

IDB staff provided the data on the basis of which the level of competition scores were calculated, using the Hirschmann-Herfindahl Index (HHI).^{*} For three countries—the Dominican Republic, El Salvador and Nicaragua—there were insufficient data on lenders to use this quantitative approach. We relied instead on qualitative assessments guided by the interviews with our informants.

^{*}The HHI is a specific measurement of market concentration, that is of the extent to which a set of firms account for a proportion of output in an industry. The HHI is used as one possible indicator of market power or competition among firms. It measures market concentration by adding the squares of the market shares of all firms in the industry. Where, for example, in a market five companies each have a market share of 20%, the HHI is $400 + 400 + 400 + 400 + 400 = 2000$. The higher the HHI for a specific market, the more output is concentrated within a small number of firms. In general terms, with an HHI below 1000 the market concentration can be characterised as low, between 1000 and 1800 as moderate and above 1800 as high.

Sufficient, albeit imperfect, data were available to generate reliable qualitative scorings for the other 12 indicators. Ample documentation of the scoring process, methodology, and sourcing are provided in this paper.

Based on the views of these respondents and of senior IDB staff, the categories “Regulatory Framework” and “Institutional Development” were each weighted an aggregate 40% toward the 100 point score while “Investment Climate” was weighted 20%. However, it is important to point out that, even with alternative weighting schemes that assign more weight to the latter category (such as weighting each of the 13 variables equally, or weighting each of the three categories equally), the relative importance of the investment climate in shaping overall microfinance environments consistently emerged as secondary to that of the regulatory framework and institutional development.

The model includes a number of interactive elements including dynamic charts, country comparators that allow head-to-head comparisons, and user-defined weighting schemes.

In the model, each indicator is scored from 0-4, where 4=best.

The three category scores—Regulatory framework, Investment climate and Institutional development—are calculated from the weighted mean of underlying indicators and scaled from 0-100, where 100=best.

An overall score, from 0-100, where 100=best, is calculated from the weighted mean of the three category scores.

Individual participants

- Steven Leslie, Director, Country & Economic Research, Americas, was the project manager for the Microscope. He can be reached at stevenleslie@eiu.com.
- Scott Martin, who teaches in the Graduate Program of International Affairs at New School, was the lead researcher. He can be reached at martinsb@newschool.edu.
- Sergio Navajas is Investment Officer at the Multilateral Investment Fund (MIF) of the IDB. He can be reached at sergion@iadb.org
- William Shallcross, the principal of F1 Research, was the model builder. He can be reached at will@f1research.com.

Concept definitions

For purposes of this study, *microfinance institutions (MFIs)* is defined narrowly as those that provide “microcredit”, ie, loans to non-salaried workers which are typically less than or equal to 250% of gross national income per capita (GNI per capita) in size. *Micocredit operations* are carried out by different types of institutions, some regulated by financial authorities and some not.

Regulatory Framework

(1) Regulation of microcredit operations: “Are regulations conducive to microcredit provision by banks and other established financial institutions? For instance, are banks free to set market interest rates, can they avoid excessive documentation and capital-adequacy ratios, and are they free from unfair competition from subsidised public programmes and institutions?”

- Scoring: 0=No such regulations exist or regulations are prohibitive; 1=Regulations create serious obstacles; 2=Regulations create at least two such obstacles for MFIs; 3=Regulations create minor obstacles; 4=Regulations present no significant obstacles

(2) Formation and operation of regulated/supervised specialised MFIs: “Is the legal framework conducive to the formation and operation of ‘specialised MFIs,’ such as greenfield MFIs and upscaling NGOs transforming themselves into MFIs? For example, are specialised MFIs free to set market interest rates, can they avoid excessive documentation and capital-adequacy ratios, and are they free from unfair competition from subsidised public programmes and institutions?”

- Scoring: 0=No such regulations exist; 1=Regulations exist but multiple obstacles make formation very difficult; 2=Regulations exist though there are significant obstacles; 3=Regulations exist with relatively few obstacles; 4=Regulations facilitate formation

(3) Formation and operation of non-regulated microfinance institutions (MFIs): “Is the legal framework conducive to the formation and functioning of microcredit operations by non-governmental organizations (NGOs)?”

- Scoring: 0=NGOs are barred; 1=NGOs face many obstacles; 2=NGOs face some obstacles; 3=NGOs face only minor obstacles; 4=NGOs face no significant obstacles

(4) Regulatory and examination capacity: “Do regulatory institutions possess a specialised capacity for the examination and regulation of microfinance provision?”

- Scoring: Open-ended, as specific markers are not obvious and emerge from the interviews

Investment Climate

(5) Political stability: “How important are the internal and external threats to the stability of the serving government or the political system in general?”

- Scoring: The EIU’s Political stability rating is a category score in its Risk Briefing. It is the average of five individual scored indicators: Social unrest, Orderly transfers, Opposition stance, Excessive executive authority and International tensions. 0=Extreme instability; 1=Considerable instability; 2=Moderate instability; 3=Stable; 4=Very stable

(6) Capital market development: “Are local capital markets developed?”

- Scoring: This score is based on the average of five scores in the EIU’s Risk Briefing: Depth of financing, Access to local markets, Marketable debt, Banking sector health and Stockmarket liquidity. 0=Capital markets are undeveloped; 1=Capital markets exist but lack depth and breadth; 2=Capital markets are lacking in either depth or breadth; 3=Capital markets are moderately well developed; 4=Capital markets are deep and broad

(7) Judicial System: “Does the judicial system allow for speedy, effective, and consistent resolution of disputes?”

- This score is based on the average of three scores in the EIU’s Risk Briefing: Fairness of the judicial process, Enforceability of contracts and Speediness of the judicial process. 0=Judicial system is extremely poor, corrupt or politicised; 1=Judicial system has several important faults; 2=Judicial system has strengths and shortcomings; 3=Judicial system is basically sound; 4=Judicial system is solid, incorruptible and free of political influence.

(8) Accounting standards: “Are accounting standards in line with international norms (ie, US GAAP, IAS, IFRS)?”

- Scoring: 0=There are no generally established accounting standards; 1=National standards exist but are weak and ineffective; 2=National standards are established but fall short of international best practices; 3=National standards are similar to or moving towards international standards; 4=International standards are followed

(9) Governance standards: “Do governance standards of accountability and independence exist for corporations and institutions?”

- Scoring: 0=Standards do not exist; 1=Standards exist, but are weak; 2=Modest and unevenly effective standards; 3=Significant if imperfect standards exist in law and practice; 4=Standards of high accountability and transparency are followed in law and practice

(10) MFI transparency: “Do microfinance institutions routinely disclose their effective interest rates, conduct external audits and receive external ratings?”

- Scoring: 0=MFIs rarely or never engage in such practices; 1=MFIs follow at best one such practice, and with uneven results; 2=MFIs follow some of these practices, with modest results; 3=MFIs follow most of these practices with generally favourable results; 4= MFIs follow all these practices

Institutional Development

(11) Range of MFI Services: “Do MFIs offer a wide range of financial services to low-income populations in addition to microcredit (eg, insurance, savings, transfer of remittances, etc?)

- Scoring: 0=MFIs do not generally offer additional services; 1=MFIs generally offer only limited services beyond microcredit; 2=MFIs generally offer a modest range of services; 3=MFIs offer a wide range of services; 4=MFIs offer a full, extensive range of services

(12) Credit bureaus: “Are there effective, reliable credit bureaus?” For instance, how comprehensive is the information on prospective borrowers that they provide, how widely accessible is that information (particularly in light of privacy restrictions), does it cover transactions with both regulated and non-regulated financial institutions, and does it provide more than just “negative” information about prospective borrowers (ie, defaults and arrears)?

- Scoring: 0=Credit bureaus do not exist; 1=Credit bureaus are weak and unreliable in most of these ways; 2=Credit bureaus are weak in some of these ways; 3=Credit bureaus are weak in one of these ways; 4=Credit bureaus provide comprehensive information on the whole range of transactions and also include positive information about borrowers (on-time payment history etc)

(13) Level of competition: “How competitive is the MFI sector? Do micro-borrowers have a wide range of institutions from which to choose?”

- Scoring: 0=There is little or no competition with 2 or 3 holding over 30% of the market; 1=There is limited competition; 2=There is a moderate level of competition among MFIs; 3=There is substantial competition; 4=There is a high degree of competition

Data sources

Personal interviews conducted by telephone

Fernando Campero, Inter-American Development Bank, Washington, DC, August 29th, 2007

Alejandro Escobar, Inter-American Development Bank, Washington, DC, August 24th, 2007

Susana García-Robles, Inter-American Development Bank, Washington, DC, August 31st and September 4th 2007

Arno Loewenthal, Independent Consultant, Guatemala City, August 28th 2007

Tomás Miller-Sanabria, Inter-American Development Bank, Washington, DC, August 29th 2007
Juan Uslar Gathmann, Executive Vice President, Bangente, Caracas, Venezuela, August 28th 2007
Maria Teresa Villanueva, Inter-American Development Bank, Washington, DC, August 27th 2007
Fermín Vivanco, Inter-American Development Bank, Washington, DC, August 31st and September 4th 2007
Dieter Wittkowski, Inter-American Development Bank, Washington, DC, August 27th 2007

Bibliography

Specialised reports and studies

- Association of Financial Entities Specialised in Microfinance (Asociación de Entidades Financieras Especializadas en Micro Finanzas [ASOFIN]) (2006). “Regulatory Framework for Microfinance Operations in Bolivia”, La Paz, Bolivia.
- Berger, Marguerite, Alison Beck Yonas and María Lucía Lloreda (2003). “The Second Story: Wholesale Finance in Latin America”. Inter-American Development Bank, Washington, DC, Sustainable Development Department Best Practice Series, MSM-119, March.
- _____, Lara Goldmark, and Tomás Miller-Sanabria, eds. (2006). An Inside View of Latin American Microfinance. Washington, DC: Inter-American Development Bank.
- Curat, Pablo, Jorge A. Lupano, and Luciano Gineste (2007). Microfinanzas en Argentina y en América Latina: Regulaciones, Instituciones y Políticas Públicas. Report Published by Andares-Fundación para el Desarrollo de las Microfinanzas in collaboration with HSBC and the British Embassy, Buenos Aires, August.
- De Janvry, A., E. Sadoulet, C. McIntosh, and B. Wydick (2003). “Credit Bureaus and the Rural Microfinance Sector: Peru, Guatemala, and Bolivia (Assessing the Impact of Credit Referencing on the Poor)”. University of California, Berkeley, FAO: Latin America, BASIS Collaborative Research Support Program.
- Ebentreich, A. (2005). “Microfinance Regulation in Peru: Current State, Lessons Learned, and Prospects for the Future”. Microfinance Regulation and Supervision Resource Center, April.
- Hishigsuren, Gaamaa (n.d.). “Transformation of Micro-Finance Operations From NGO to MFIs”. IDEAS-Institute for Development, Evaluation, Assistance and Solutions, Decatur, Georgia, unpublished paper.
- Jansson, Tor, with Mark Wenner (1997). “Financial Regulation and its Significance for Microfinance in Latin America and the Caribbean”. Inter-American Development Bank, Microenterprise Unit, Washington, DC, December.
- _____, Ramón Rosales, and Glenn Westley (2004). Principles and Practices for Regulating and Supervising Microfinance. Inter-American Development Bank, Sustainable Development Department, Micro, Small and Medium Enterprise Division, Washington, DC

Meagher, Patrick, Pilar Campos, Robert Peck Christen, Kate Druschel, Joselito Gallardo, Sumantoro Martowijoyo (2006). "Microfinance Regulation in Seven Countries: A Comparative Study". Microfinance Regulation and Supervision Resource Center. Report submitted to Sa-Dhan.

Navajas, Sergio, and Luis Tejerina, "Microfinance in Latin America and the Caribbean: How Large Is the Market?" (2006). Inter-American Development Bank.

Padilla, Juan and Marianne C. Gillet (2001). "Lineamientos para el apoyo a la microempresa en Chile". Banco Interamericano de Desarrollo, División de Micro, Pequeña y Mediana Empresa, Washington, DC, borrador de documento de trabajo.

Standard & Poor's (2007). Microfinance: Taking Root in the Global Capital Markets. New York, NY, June.

General Publications

Economist Intelligence Unit, New York, NY, Country Finance and Country Commerce series of annual country reports

Websites

Asociación Interamericana de Contabilidad/Inter-American Accounting Association, <http://www.contadoresaic.org/>

Deloitte/IAS PLUS, <http://www.iasplus.com/country/useias.htm>

European Corporate Governance Institute, Index of Codes, http://www.ecgi.org/codes/all_codes.php

Microfinance Gateway, Microfinance Regulation and Supervision Resource Center, Consultative Group to Assist the Poor (CGAP)/IRIS Center, University of Maryland, http://www.microfinancegateway.org/resource_centers/reg_sup/

The MIX Market, <http://mixmarket.org/>

Organisation for Economic Cooperation and Development (OECD), "Corporate Governance in Latin America", 2003, <http://www.oecd.org/dataoecd/25/2/18976210.pdf>