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The Microfinance Industry in Bolivia

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The microfinance industry in Bolivia

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Index

1. Introduction	5
2. Microfinance, origin and concept	6
2.1 Brief history of microfinance	6
2.2 Microfinance concept	7
2.3 Objectives of microfinance globally	7
3. Microfinances in Bolivia	8
3.1 Emergence of microfinance in Bolivia	8
3.1.1 1982-1985	9
3.1.2 Public banking closing	10
3.1.3 Reluctance of private banking sector to financial inclusion and rural area	11
3.1.4 NGO's ¹¹ incursion in microcredit activities	12
3.1.5 Microcredit as a national option	12
3.1.6 Regulatory Framework	12
3.2 Types and process by which the credit is granted	13
3.2.1 Village Banking	13
3.2.2 Individual credit	15
3.3 Current structure of the microfinance industry in Bolivia	15
3.4 Financial analysis of the industry	18
4. The microfinance industry impact in the Bolivian economy	21
4.1 Hypothesis	21

4.2 Financial Inclusion	21
4.3 Employment creation	25
5. Conclusion	28
6. Reference Section	29
7. Bibliography	31

1. Introduction

In the international context, and particularly in Bolivia, microfinance and microcredit have been the subject of innumerable analyses. The arguments rely on the attributions of these two ways of intervention in financial services, as well as their impact with respect to poverty, their input, and their incidence on economic growth. Bolivia has contributed to the debate in these fields due to its experience with the microfinance system and its relevance to the country's economy. In this aspect, Ohio State University's academic Claudio Gonzales-Vega has stated: "You could not write the recent economic history of Bolivia without highlighting the role of microfinance; and you could not write the history of microfinance in the world without recognizing the Bolivian contributions"¹.

The contributions of the microfinance system to the growth of the Bolivian economy are fundamental for a solid development of the national economy, and it is important to preserve and expand it, especially at the current stage when Bolivian society calls for inclusion and development. The system has an impact on the country by promoting financial inclusion in an innovative and massive manner, which has the challenge to articulate and act according to actual politics and regulations regarding social inclusion and equality. The results show an effective impact on inclusion with a government that aims to drive social equality.

The key builders of microfinances in Bolivia are the banks that specialize in the microfinance industry and the "Fondos Financieros Privados" (private banks, financial entities that are authorized to operate as financial intermediaries and provide financial services to the public). These are regulated by ASFI (Autoridad de Supervisión del Sistema Financiero), which has public right and jurisdiction in the country. Also, both are associated in ASOFIN². In a complementary manner, diverse Financial Development Institutions (FDIs), denominated as Financial NGO in the past, have also contributed to the financial inclusion, primarily in rural areas of the country and women's access to loan services. They are part of FINRURAL³. All these microfinance and microloans institutions are part of the financial system in Bolivia.

The purpose of this project is to describe the process of development and consolidation of the microfinance system in Bolivia. From a description to an analysis that will also be focused on aspects such as profitability, portfolio quality, default ratio, and leverage, it will also approach new challenges that have emerged in the last years for such entities. With all these tools, the goal is to evaluate the microfinance impact on financial inclusion and employment creation in Bolivia.

2. Microfinance, origin and concept

2.1 Brief history of microfinance

The origin of microfinance, as it is known today, can be found in the late seventies. Although its origin is in Bangladesh, microfinance activity rapidly developed in Latin America, where it has acquired great importance in combating poverty and in the financial inclusion of the most vulnerable groups.

Specifically, the first significant action in the field of microfinance activity is associated with the Nobel Prize winner Mohamed Yunus and the creation of Grameen Bank in 1976. Since then, the Grameen Bank in collaboration with other institutions has helped over 11 million people worldwide.

Grameen Bank granted \$5400 million in its first 30 years, with a rate of return of 98.3% supporting 5.9 million people, of which 95 % were women. In the 1970's, most government agencies and development NGOs considered that granting loans to individuals with no collateral or security, no credit record, and living in a poverty situation, had a very high risk of default. It was almost unbearable to execute this self-sufficiently and without subsidies. However, experience has shown that the default rate of the microcredit activity is surprisingly low. Until 1995, both the Grameen Bank as many Microfinance Institutions had subsidies and other types of external aid, but evidenced that their projects could be sustainable, achieving significant social impacts.

Therefore, the growth and maturation of the microfinance activity is a fact, as many institutions have decided to bet on the idea that if poor people are trapped in the vicious circle of poverty⁵ is not due to the lack of ability to work and save, but because they have no access to traditional financial institutions.

Since the 1970's, when only Grameen Bank performed such activities, until the end of 2014, 2,300 institutions that engaged in microfinance activity have been created worldwide, according to the Mix Market⁶. The progress in the institutionalization of the microfinance activity is having a very positive impact regarding the microfinance institutions' solvency and sustainability, allowing these institutions to extend the range of financial instruments they offer to lowest income families. Therefore, the institutionalization of the microfinance activity, allows microfinance institutions to adjust their offers to the real needs of customers who are at risk of financial exclusion. Prospects for the future are promising, both in first-world and developing countries, essentially because the micro financial activity is an increasingly valued and recognized instrument to fight against poverty, as well as financial and social exclusion.

2.2 Microfinance concept

Microfinance can be defined as the provision of financial services to low-income people. It refers to a system that helps low-income households have permanent access to quality and accessible financial instruments, designed to finance income-generating activities, build assets, stabilize consumption and provide protection against risks.

Over time, microfinance activity has evolved, becoming more complex and incorporating a greater number of essential products and services to provide an adjustable offer to the needs of population segments with more problems of poverty and financial exclusion. This has been possible due to the fact that microfinance institutions offer a comprehensive service with microcredit, microinsurance, savings, financial education and technical advice.

2.3 Objectives of microfinance globally

It is important to highlight that poverty is a common third world problem. About 2,800 million people worldwide are below the poverty line, living on less than two dollars per day. However, this is not a homogeneous problem.

The main objective of microfinance is to reduce poverty through financial inclusion. It involves a radically different risk management methodology than conventional or commercial banking. Counseling and financial education are part of its instruments. In many cases, microfinance activity not only involves strictly financial intermediation, but also integrates social intermediation, which is very important in developing countries. They have developed mechanisms of group guarantees that help maintain low late payment levels. This is a new way to generate cross-guarantees between the group members to achieve greater control over the risk of non-payment to the institution granting the loan.

Currently the microfinance industry is in a process of evolution, where most MFIs microcredit as a platform to develop a comprehensive set of financial products that they offer to customers. These complementary services such as micro payments, remittances, savings, financial education and others, are contributing to greater financial inclusion and poverty reduction in countries where this credit model has more relevance.

Credit technologies have mainly developed in Latin America. According to annual reports published by *The Economist*, this is the leading region in microfinance services, with Bolivia and Perú as the major contributors to the system's development. Both countries are characterized by having most of their population in rural and suburban areas, where microfinance institutions have been able to emerge successfully. The strengths of both countries with respect to the rest of the region and other countries in Asian, Africa or Western Europe, where microfinance has a greater importance in the economy, are the wide range of institutions that have developed through time, accompanied by a wide range of products and supported by a regulatory body that affirms the maturity and dedication of these institutions.

3. Microfinances in Bolivia

3.1 Emergence of microfinance in Bolivia

To understand the root of microfinances in the country, it is necessary to highlight four fundamental periods:

1) The economic, political, and social environment as a result of the 1982-1985-crisis period, the National Treasury bankruptcy, and the hyperinflation, 2) The State Bank closing in 1991, 3) The private banking sector reluctance due to financial inclusion, and 4) The non-governmental organizations' inclusion in microcredit activities.

3.1.1 1982-1985

The 1980's crisis in the country, particularly between 1982 and 1985, had a tremendous impact on the Bolivian economy. According to information from the Banco Central de Bolivia (Bolivian Central Bank), the deposits in the country fell 88%. The 32% inflation rate in December 1981 became 11750 % in 1985, the worst year of the crisis. This has been registered as the 7th highest hyperinflation worldwide. The National Treasury went bankrupt, and real interest rates were at negative levels of more than 90%.

The entire situation stemmed from the breakdown of state capitalism, which had prevailed since 1952, and consisted of a strong state intervention into the economy. The strategy was intended to make the state the main driver of the economy, where import substitution and agricultural frontier into lower lands (Santa Cruz, Yungas⁸) intensifies. Also, the creation of Banco Agrícola (Agricultural Bank) and the Servicio de Asistencia al productor (Producer Assistance Service). On the other side, the state also implemented an arduous control in the mining industry, price fixing, quotas implementation to imports, and other measures that virtually controlled the entire national economy.

As previously mentioned, the "Hyperinflation crisis"⁹ damaged the Bolivian economy, the financial system, the fiscal accounts, and the productive system several ways. To put an end to this crisis, the government of President Victor Paz Estenssoro applied the "Decreto Supremo (Supreme Decree) 21060", which was the beginning of a new model for the country's development. It established a flexible and realistic regime to deregulate the market, as well as other measures to improve the state companies' income. In the imports aspect, the government fixed the tariffs to a uniform price. They also implemented a temporary wage freeze in the public sector, and gave the private sector the authorization to freely negotiate wages. With the Supreme Decree, the bank system has the authorization to operate in credits and deposits with

different currencies, foreign trade operations and the purchase and sale of foreign exchange via el Bolsin¹⁰. Lastly, public spending reduction measures and relocation of public employees were taken.

As a result of this neoliberal model, informal economy and massive unemployment took place, reasons that were fundamental to create the conditions for the microcredit in the Bolivian market. These economic weaknesses basically created an opportunity for the microfinance industry to thrive.

3.1.2 Public banking closing

In 1986, the National Financial System (SNF for Spanish) was formed by 25 banks: four state banks, five branches of foreign banks, and sixteen national private banks. Until that time, public banking had worked for more than 50 years.

The first state bank was created in 1936, the Banco Minero de Bolivia (Mining Bank of Bolivia), with the purpose of promoting the mining industry through credit, cooperating small mines and organize companies for exploration and mineral extraction. On the other hand, in 1939 the Central Bank of Bolivia (BCB for Spanish) creates the Rural Credit Department, which later would be the Agricultural Bank of Bolivia, in order to benefit the producers, cooperate in land colonization processes through credits, and complement with machinery importation through credit as well. Public banking had a “Golden Age” during the National Revolution (1952-1955), and from that point they had a consistent growth in terms of clients, portfolio and agencies throughout the country.

During the 1970's, the economic politics of President Hugo Banzer (1971-1978) strengthened the State Capitalism through several programs in the industrial, agricultural and mining sector. Low-cost credits were given to a certain group of businessman to promote development. This debts would eventually be reprogrammed and then forgiven, which was not an effective mechanism to distribute income. In 1989 the Fondo de Desarrollo Campesino (Rural Development Fund) was created to alleviate the extreme poverty in rural areas. This Fund operated through direct credits to the rural producers.

In 1991, five Supreme Decrees closed the public banking cycle in Bolivia. These Decrees dictated: I) The Agricultural Bank of Bolivia dissolution and liquidation. II) The Mining Bank patrimony evaluation, prior to

its liquidation. III) Prohibition to the Rural Development Fund to give direct credit to clients. IV) State Bank operations suspension. V) National Fund of Mining Exploitation liquidation.

There are several reasons for the actions taken against state banking. One of the main reasons was that it was a bureaucratic system, so access to credit took a long time and carried high costs. Additionally, resources were directed to benefit privileged groups. Assigning positions was highly politicized, and the state banking indirectly imposed a no-payment culture, which had repercussions in high levels of payments delays and a low and inefficient credit recovering. Risks were inadequately managed.

All these led to the state banking closing, factors that will be identified as the second big opportunity to the microcredit development in Bolivia. The banking closing generated an immense emptiness, mostly in the rural area, which was a great advantage for the micro financial industry to explore. The situation also increased unemployment, so more people would access to microfinance services.

3.1.3 Reluctance of private banking sector to financial inclusion and rural area

According to the Bolivian Central Bank, in 1991 the private and public banking portfolios were 51% and 49%, respectively. The private banking sector constantly decided to focus on the urban area, where clients had real guarantees. These entities did not show interest to work with clients from a vulnerable sector that did not count with guarantees to access to credit. At that time, 82% of the agencies of the banking system were in urban areas, primarily in the three big cities of the country (La Paz, Cochabamba and Santa Cruz).

The private commercial banking sector had to recover from three shocks: I) Hyperinflation sequels; II) Fast growing in the 1989-1993 period; First phase of banking bankruptcy in 1988. For all these episodes, the sector did not show interest for clients that did not have real guarantees. From the 13 private national banks that existed in 1985, there are only 6 left today.

3.1.4 NGO's¹¹ incursion in microcredit activities

Non-governmental organizations originally arose in Latin-America in the 1970s for religious congregations, in order to promote the development of particular groups through training processes and the organization of the popular sectors. In 1988 in Bolivia , a network of NGOs decided to introduce a change of approach, and began to use the name of “Private Institutions of Social Development” in order to avoid problems of welfarism and continuously propose alternative development projects to traditional ones.

NGOs specialized in microcredit financial activities began their activities in the 1980s, establishing a network of branches and agencies that covered several cities and towns in the rural area of Bolivia. His main line was to deliver microcredit services through new credit technologies. Initially there were no deposits, and over the years they took great importance. Later, they came several natural disasters, with which showed that it was necessary to improve the farmers' productive capacity and that without this financial inclusion alternative it was going to cost a lot.

3.1.5 Microcredit as a national option

In brief, the rise of microfinances as a national option occurred for various reasons, among which are high unemployment, the multiplication of informal subsistence activities and the inability of the productive sector to generate job opportunities. To reverse these problems, the State impulse, through the Emergency Social Fund, the execution of projects that could create jobs, which were insufficient. Moreover, the critical situation of private banks, due to fears after the crisis and closure of the public banking in 1991. The private banking sector acted very cautious despite the great opportunities that existed in the market. So the NGOs were the only ones that could turn a crisis situation into a great opportunity.

3.1.6 Regulatory Framework

It is important to discuss the process of regulating and supervising activity of financial intermediation. This regulatory framework development and supervision of the microfinance system is carried by ASFI

(Financial Supervisory Authority System). The objectives of having a regulatory framework are the following:

I) Promote and maintain the efficiency of the system, II) In the event of a bank fraud, seek to minimize the damage to the system, III) Reduce possibility of transmission of systemic problems, IV) Maintain a competitive and flexible system, and V) Promote transparency of the financial system, through detailed information on the current status of each of the entities of the system.

The regulatory system has positive aspect the Bolivian microfinance industry. For 25 years, it has evolved with the industry, which gives the institutions a tangible support to develop their activities in the best way.

3.2 Types and process by which the credit is granted

The microfinance institutions in Bolivia provide credit in two ways: village banking and individual credit. Previously, institutions also provided credit through solidarity groups. We will not analyze this process, because it is becoming extinct. In December 2014, only 2% of the portfolio was in solidarity groups. Years ago, when financial services were very high, customers went to the institutions to ask them to grant credit. Nowadays, due to market competition and since a large percentage of customers already have financial services, financial advisors go straight to maintain contact with the customers and offer them a range of products that the institutions for which they work have.

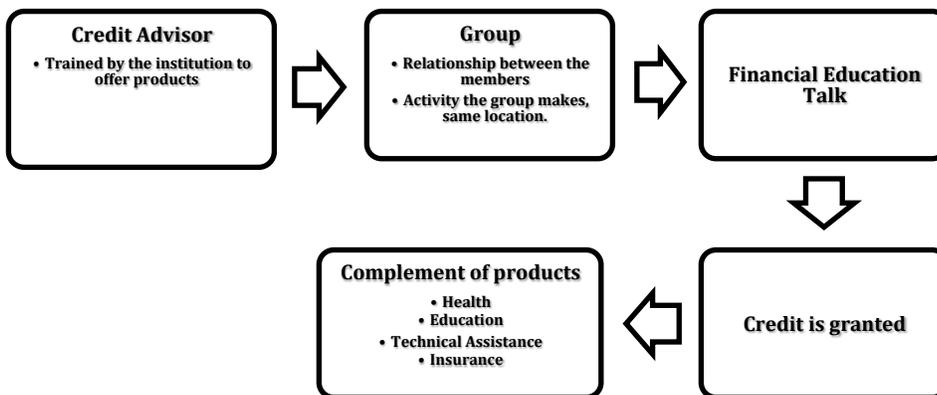
The credit advisor is trained by the institution to offer their variety of products. The advisor has to be experienced in the field. For example, an agronomist who can go directly to the producer and show their knowledge in the area of agriculture, in order to offer the most convenient financial products. It is crucial that the advisor can speak the same language¹² and is part of same culture as the client.

3.2.1 Village Banking

Village banking is a system that was implemented in Bolivia and is currently a model for the rest of the world. This type of credit consists of a loan to a group of eight to sixteen people who belong community, neighborhood, market, but perform different activities. The loan does not have to be uniform, meaning

that people can be given different amounts of the total disbursed from the institution. For example, person A can have USD \$ 500 USD, person B \$ 1,000 ,and person C USD \$ 1,500. The loan being disbursed is a total of USD \$ 3,000, but is distributed differently to each of the participants. The idea of this revolutionary model in the industry is to generate cross-guarantees, so people within the group control each other, so that everyone pays their part to the institution. It is not allowed to have family members in the group. The credit granting process is as follows:

The credit advisor is directed to where it is determined that there are potential customers. His previous training and knowledge of the culture allows the advisor to determine which are potential groups to offer the credit. It is extremely important to get involved with the group, in order to determine the relationship between them. At the same time the various jobs held by members of the group is evaluated. Later comes the financial educational talk: groups are invited to the institution’s agency, where basic financial concepts are explained: credit, savings, productivity, and especially what the commitment to pay consists of. In a case where they do not pay, the consequences are high interests, more payments for the group, and in a worst scenario to get into the credit bureau. Then the credit is granted, without a real guarantee or a previous evaluation. Finally, the institutions offer a full complement of products to improve the



standard of living of the group members. Among these complements there are health insurance, education, credit life insurance, theft insurance and mainly technical assistance to develop their activities in the most efficient manner.

Source: Prepared

This model has delivered excellent results at a national level, mainly because the community culture in Bolivia is part of the country's essence, especially in the western zone where the Aymara and Quechua cultures are predominant.

3.2.2 Individual credit

This is the traditional way of granting credit. Unlike a village banking credit, it has a higher appraisal, in order to reduce the risks incurred by the institution. Generally, an average individual loan is greater than a village banking credit. There is no previous financial education, since it is expected that customers have previously gone through a record of credit through village banking. This does not imply that the credit advisor is fully involved in the process with the client and will offer all a range of complementary products, from which technical assistance stands out.

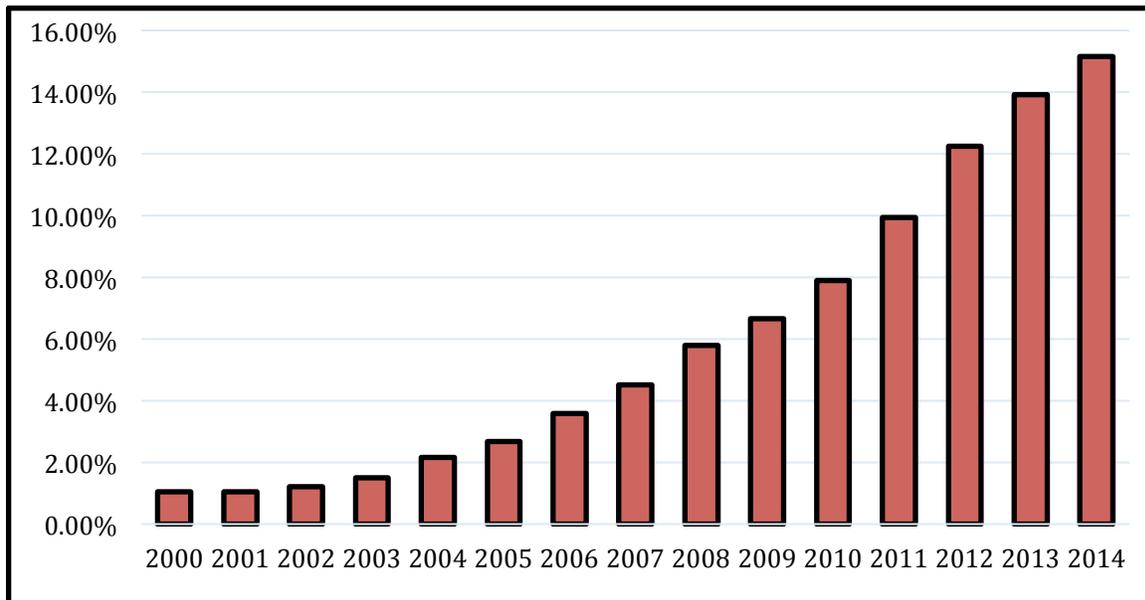
3.3 Current structure of the microfinance industry in Bolivia

Based on information from December 2014, there are two types of institutions within the microfinance industry. On the one hand banks are SMEs and cooperatives, which have a strong market position due to its high levels of portfolio, which in some cases reach \$US 1 billion. These institutions report their financial information to ASOFIN, as previously explained. On the other side are the Financial Development Institutions, which are NGOs, and their participation in the industry is much smaller. As mentioned, these institutions are associated and report your information to FINRURAL, which is directly controlled by ASFI, the supervisory body of financial activities in the country.

Based on data from ASOFIN, FINRURAL and INE (the National Institute of Statistics), among all these institutions the microfinance industry gross portfolio reaches \$US 5.39 billion. Taking into account that the Bolivia's GDP in 2014 was \$US 35,38 billion, the microfinance industry represents about 15.2% of the GDP, which represents the important role of microfinance not only in the financial system but in the national economy.

Chart 2 shows that the participation of the microfinance industry in the Bolivian economy has increased every year since 2000, consequently acquiring a more important role in the financial system each year.

Chart 2: Total microfinance industry portfolio in percentage of GDP



Source: Prepared based on data information from ASOFIN, FINRURAL and INE

Table 2: SMEs and Cooperatives (ASOFIN) and FDI (FINRURAL)

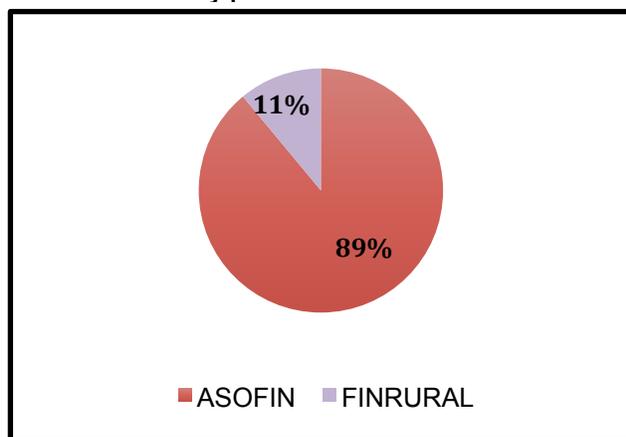
ASOFIN	FINRURAL
BancoSol	Crecer
Banco Los Andes	Pro Mujer
Banco FIE	Diaconia
Banco PRODEM	Emprender
Banco PYME EcoFuturo	FUNBODEM
Banco Fortaleza	IDEPRO
Banco PYME de la Comunidad	IMPRO
Banco Fassil	Sartawi
Cooperativa Fátima	CIDRE
Cooperativa Jesús de Nazareno	FONDECO
	FUBODE
	ProRural

Source: Prepared based on information of ASOFIN and FINRURAL

As shown in Table 2 until December 2014, there were a total of 22 institutions in the industry, according to information from ASOFIN and FINRURAL. 10 of these institutions are considered PME banks and cooperatives. The other 12 are Financial Development Institutions. From the industry portfolio, the PMEs and cooperatives have \$US 4.8 billion rounded, while the Financial Development Institutions have a total of \$US 593 million in portfolio. Although Bunco Fassil, Cooperativa Fátima and Coop. Jesús de Nazareno are SMEs and cooperatives, these institutions do not report their financial information to ASOFIN.

Because of their recent start in the industry, they report directly to ASFI, the supervisory body of financial

Chart 3: ASOFIN and FINRURAL participation in the total industry portfolio



Source: Prepared based on data information from ASOFIN, FINRURAL and INE

activities in the country. ProRural became part of FINRURAL in 2014, so it was not considered in the 2014 reports.

Chart 3 shows the distribution of the portfolio among these institutions. Within the SME's, Banco Solidario (BancoSol) has the greatest portfolio with \$US 1.060 billion and represents 19,7% of the total of the microfinances industry portfolio of the country, followed by Banco FIE with \$US 1.041 billions. The FDI with largest

participation in the market is CRECER, with \$US 161 million in portfolio.

Table 2: Comparative table between ASOFIN and FINRURAL. Portfolio is expressed in \$US millions.

	Institutions	Portfolio	Participation	Costumers	Agencies	Employees
ASOFIN	11	4,789	89%	741,877	588	11,849
FINRURAL	10	593	11%	452,693	326	3,694
TOTAL	21	5,382	100%	1,194,570	914	15,543

Source: Prepared based on information from ASOFIN and FINRURAL

Table 2 shows the importance of the microfinance industry in Bolivia, evidenced by the number of costumers, which is around 15% of the country's population and one out of four Bolivians who are part of the labor force. There is a total of 914 agencies to attend costumers, 64,3% are institutions that report to ASOFIN and 35.7% are Financial Development Institutions. Every ASOFIN institutions has an average of 1007 workers, while those linked to FINRURAL have 369 per institution.

Annual growth of the portfolio has been exponential, reaching over 30% annual growth in several years. From 2010 to 2013, the average growth is 26,9%. Nowadays Bolivia is a leader in microfinances development, characterized by offering a wide variety of products and the credit advisor’s involvement with costumers. The competitiveness between the institutions requires administrative efficiency and promotes the creation of new products in which institutions will specialize to attract more clients. The system presents some weak points, such as the high administrative and operational costs, which will be further explored in this work.

According to the “Global Microscope 2014, The enabling environment for business inclusion”¹³, Bolivia is seventh in the ranking, which shows the regulatory system’s work for financial inclusion in the microfinance industry of the country.

3.4 Financial analysis of the industry

It is important to analyze some of the main financial indicators of the industry to have a more comprehensive idea of their strengths and weaknesses. In order to have a broad picture of the entire industry, it is necessary to take into account the indicators of each institution and average them to see the system as a whole. This based on each institution’s participation in the microfinance portfolio.

Unlike commercial banks, microfinance instituitons have a high percentage of their assets in portfolios. This is determined by their commitment to clients. A bank that is not in the business maintains most of its assets in real estate, foreign investments, stocks and other types of assets.

Chart 4: Percentage of loan portfolio with relation to Assets (FINRURAL)

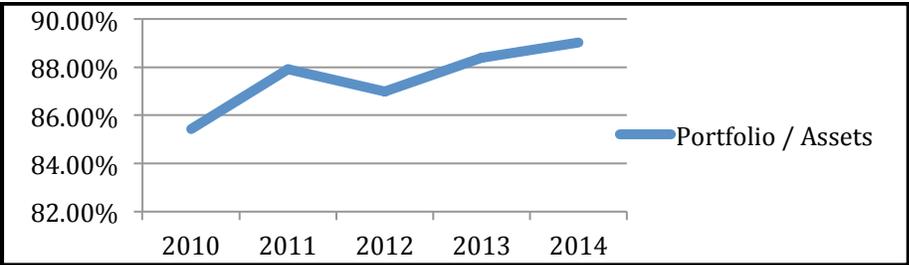
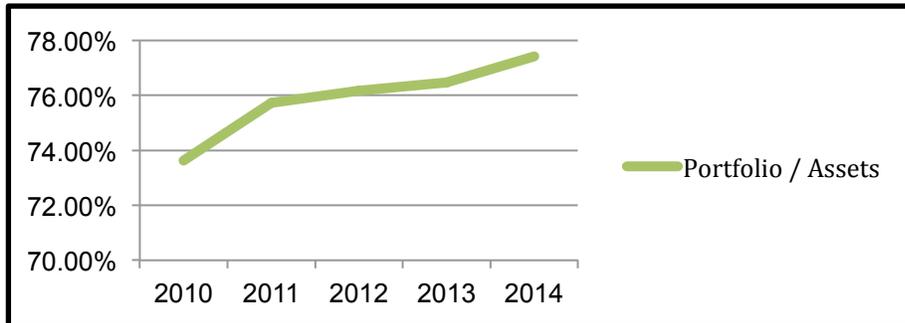


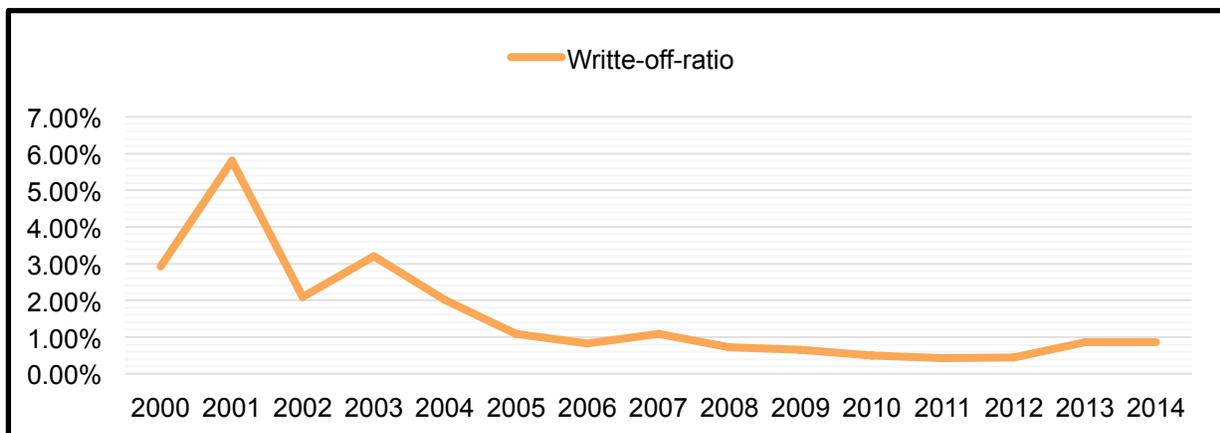
Chart 5: Percentage of loan portfolio with relation to Assets (ASOFIN)



Source: Prepared based on information from ASOFIN and FINRURAL

Charts 4 and 5 show the evolution of the Portfolio/Ratio of the institutions dedicated to microfinance institutions in Bolivia. It has been separated in ASOFIN and FINRURAL to show that Financial Development Institutions have a larger percentage of loan portfolios with respect to their assets. In both cases it has a positive tendency from 2010 to 2014. This is due to the great performance of the microfinance institutions in the country, which leads to the desire to increase loan volumes to customers. In terms of portfolio quality, Bolivia exceeds by a wide margin to most of their global competitors. Bolivia has one of the lowest risk in the microfinance industry worldwide. One indicator has been analyzed to evidence the portfolio quality: Write-off ratio¹⁴.

Chart 6: Evolution of the portfolio quality, based on the write-off ratio.



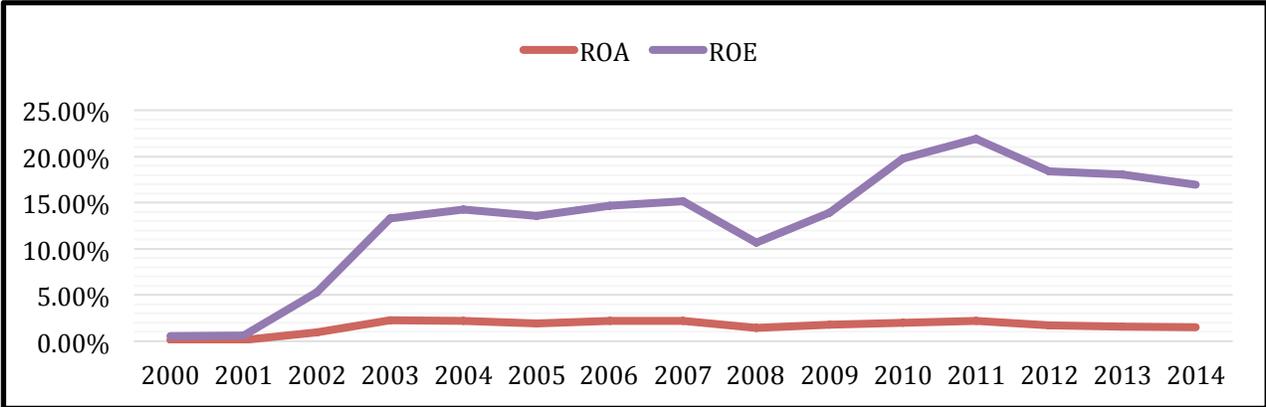
Source: Prepared with information from ASOFIN and FINRURAL

Chart 6 shows that portfolio quality development over the course of the years was very positive, reaching minimum levels of write-offs of 0.4 % of the portfolio in 2012. This is a clear reflection the operational efficiency of many institutions in the field. The innovation in products, guarantees and regulations contribute the Bolivian economy to be one of the less riskier in the microfinance industry worldwide. The fact of being a risky industry, as customers do not have a security, forced institutions to minimize that risk.

The microfinance institutions are funded in different ways. On one side, SME's such as Banco Solidario (BancoSol) and Banco FIE, get most of their funding to borrow money from the public deposits in the institution. It is like a commercial bank system, but with most of their assets in the microcredit portfolio and not in other types of investments and assets. On the other side, FDI's do not have public deposits, so they are funded by different national and international banks, NGO's for development, and other type of institutions that are interested in microfinance investments around the world. This loans have lower rates than the rates that the FDI place in the market. On average, the funds that these institutions receive have a rate of 8% to 10%, while they provide microcredit to the public at rates higher than 22% in most cases.

In terms of profitability, Chart 7 shows that despite high competitiveness in the industry, Return on Equity (ROE) has high levels that are very attractive to potential investors, at the same time that Return on Assets (ROA) have been in stable levels for more than 10 years.

Chart 7: Profitability of the microfinancial industry in Bolivia



Source: Prepared with information from ASOFIN and FINRURAL

4. The microfinance industry impact in the Bolivian economy

4.1 Hypothesis

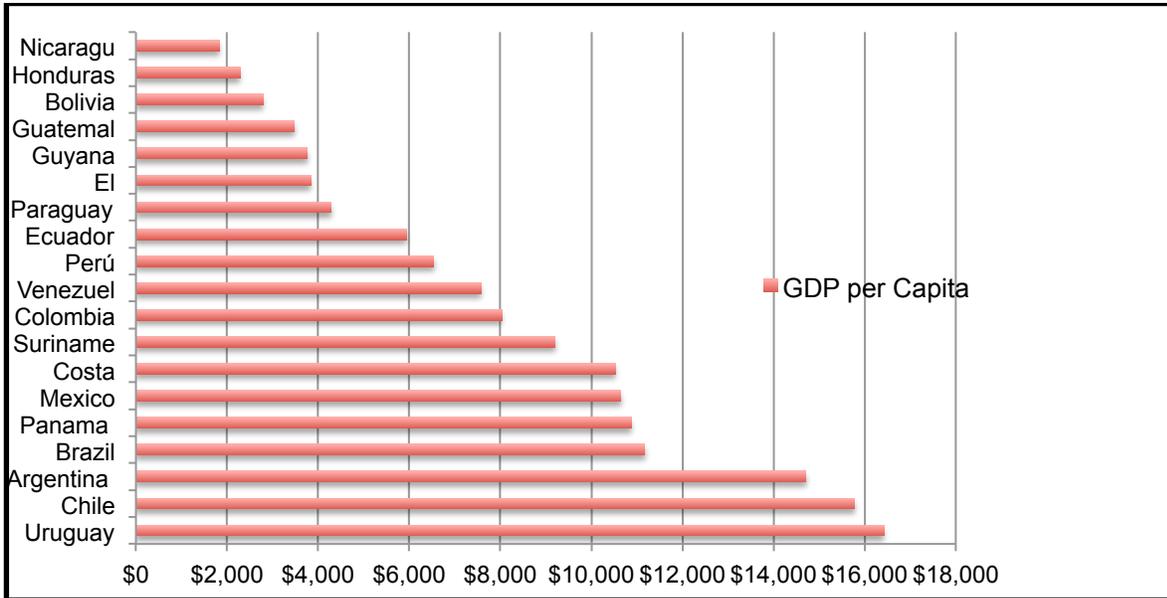
“Microfinance in Bolivia has an essential role in financial inclusion and employment creation”.

4.2 Financial Inclusion

According to the World Bank, about 38% of the adult population in the world do not use financial services and 73% of the people under the poverty line are unbanked. This can be due to several reasons such as costs, travel distance, and different requirements to open a financial account. In its Financial Inclusion overview, the World bank states: “Being financially excluded is linked to income level: The richest 20% of adults in developing countries are more than twice as likely to have a formal account as the poorest 20%. Yet, while the poor don't have the same access to financial products as wealthier individuals, their need for financial services may be even greater. Research shows that access to savings products – and, in particular, to “commitment” savings, in which individuals restrict their right to withdraw funds until they have reached a self-specified goal – can have important benefits beyond simply increasing one's amount of savings: It can also help empower women, increase productive investment and consumption, raise productivity and incomes, and increase expenditures on preventive health”.

It is important to highlight the positive correlation between financial intermediation and poverty. Having access to financial services benefit the population with different opportunities to increase productiveness and income. Chart 8 shows the GDP per Capita in Latin-American countries in 2014. As we can see, Bolivia's GDP per Capita is \$US 2793.00, one of the three lowest of the region. For this reason it could be assumed that the financial inclusion level in the country is one of the lowest within Latin-American countries as well.

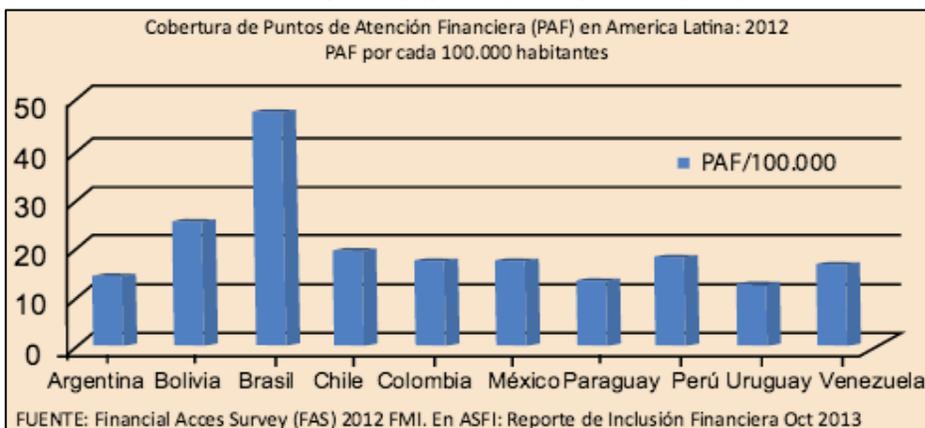
Chart 8: Latin-America GDP per Capita in USD



Source: Prepared based on information from Global Property Guide

However, results are different. ASOFIN bulletin released in October 2013 regarding Financial Inclusion and Penetration shows that the results achieved by Bolivia in that year are remarkable, with the country positioning in the first positions of the continent. As highlighted in the bulletin, the micro financial system has been a determinant factor. To reflect the financial inclusion situation, ASFI has used an index from the Financial Access Survey (FAS) in 2012 from the FMI. It shows the relation between branch offices, agencies and ATMs for every 100,000 habitants in South American countries. The data is presented in Chart 9, where Brazil is in the first position with 47 financial attention points for every 100,000 habitants. Bolivia is in the second place in the region with 25.

Chart 9: Financial attention points (agencies, ATMs) for every 100,000 habitants



Source: ASOFIN bulletin, October 31, 2013.

As shown in the bulletin and based on information provided by ASOFIN and ASFI, the microfinancial participation in the national financial system is a key aspect to achieve these financial inclusion levels. Table 3 shows the majoritary participation of the microfinancial sector in the country. Microfinancial institutions have the largest number of all urban agencies and rural agencies, as well as a considerable amount of the total ATMs in national territory.

Table 3: National Financial System, October 2013

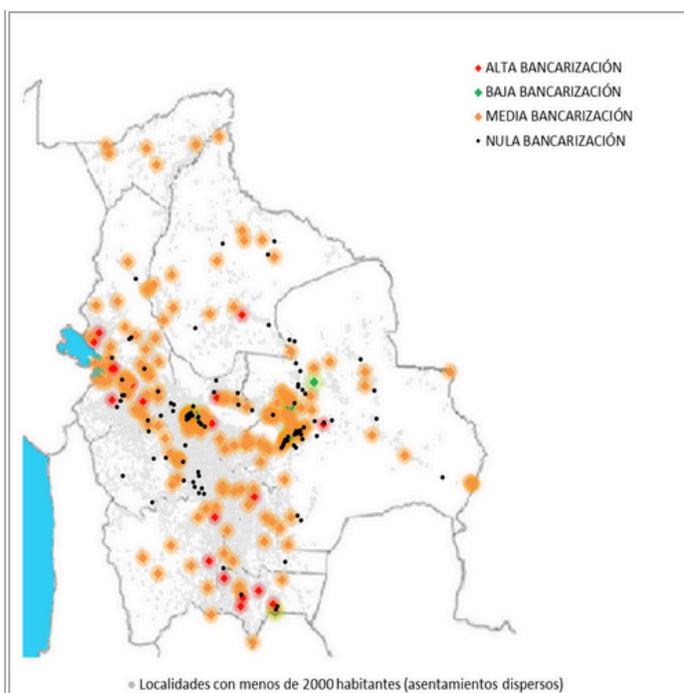
Financial Entity Type	Urban Agencies	Rural Agencies	Urban ATMs	Rural ATMs
Commercial Bank	257	46	1073	54
Public Bank	56	49	229	39
Microfinancial Institutions	418	253	484	119
Cooperatives	74	82	47	15
Mutual Banks	39	4	54	1
Total	844	434	1886	228

Source: Prepared based on information from ASOFIN bulletin

Without this institutions, it would not be possible to achieve this bankization level in the country, specially in the rural sector where microfinancial institutions play such an important role, making financial inclusion more achievable for poor sectors of the country by offering them a wide variety of financial products.

Chart 10 shows a map evidencing the high bankization in Bolivia, measured by the amount of agencies and ATMs across the country. Although Bolivia has a low population density, bankization is high in rural sectors as well. The map shows areas with locations that have more than 2,000 habitants. The north and east side of the country are mostly uninhabited, given that it the amazonic jungle. The south-west part of the country, where it does not appear bankization levels is the Andean mountains.

Chart 10: Bankization in Bolivia, July 2013



Source: ASFI

Red areas in the map show zones with high bankization, and orange areas show areas of the country with medium bankization.

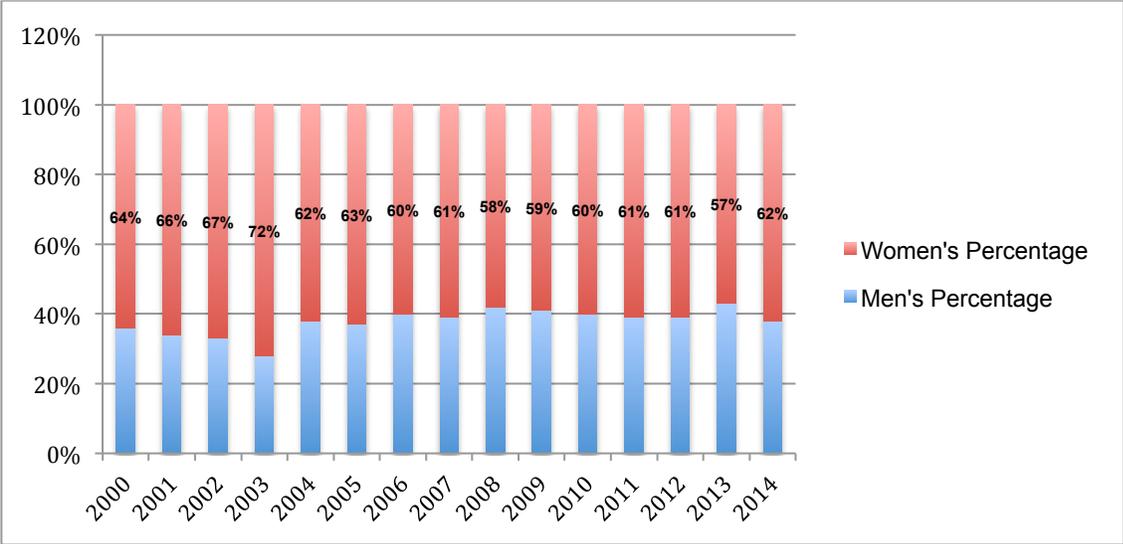
As previously explained, microfinancial institutions offer more services than credit, which explains their impact in financial inclusion as well. Table 4 portrays this with a comparison between commercial banks and microfinancial institutions such as PME's and IFDs, in terms of the products and services that institutions in the national financial system offer to the public.

The wide variety of products offered by PME's and IFDs to the public in savings, credit, payment and additional services, and insurance are a clear demonstration of the microfinancial system commitment with financial inclusion in the country.

Products and Services	Commercial Banks	Microfinancial Institutions (PMEs)	IFDs
Savings			
Savings Account	✓	✓	
Fixed Deposit	✓	✓	
Checking Account	✓	✓	
Credit			
Business Credit	✓		
Home Mortgage	✓		
Home Mortgage with no Guarantee		✓	✓
Microcredit	✓	✓	✓
Village Banking	✓	✓	✓
Consumption Loans	✓	✓	✓
Consumption Loans with No Guarantee		✓	✓
Payment Services			
Utility Payments	✓	✓	✓
External Remittances	✓	✓	✓
Credit Card	✓	✓	
Debit Card	✓	✓	
Electronic Banking	✓	✓	
Additional Services			
Technical Assistance			✓
Financial Education		✓	✓
Insurance			
Life Insurance		✓	✓
Health Insurance		✓	✓
Source: Prepared based on information in ASFI.			

In its Financial Inclusion overview, the World Bank referred to it as a way to employer women in the financial system. As ASOFIN presents, the microfinancial system has succesfully contributed to the women’s inclusion and more opportunities to them in Bolivia, particularly providing great opportunities to women entrepreneurs. This contributes to gender equality. Chart 10 shows the percentage of men and women clients in these institutions.

Chart 10: Women and men clients percentage in the microfinancial industry in Bolivia



Source: Prepared based on information from ASOFIN and FINRURAL.

4.3 Employment creation

Although there is not information available that shows the direct effect of the microfinance industry in the country When we talk about microfinance and its relationship to employment we have to take the informal economy into consideration. The informal economy entails those transactions that are not registered and have no records in the economy. These activities can be illegal as well. Being a third world country, Bolivia’s informal economy is a big portion of the national GDP. According to the INE, about 66% of the employment in the country is a contribution from the informal markets. The informal economy is actively involved in the economic growth of the country and contributes a significant proportion of domestic demand. At the same time, the microfinance industry focuses its on micro and small enterprises (MSEs)

working in the informal sector. Therefore the analysis of employment generation with the collaboration of microfinance automatically leads to a look to the informal economy.

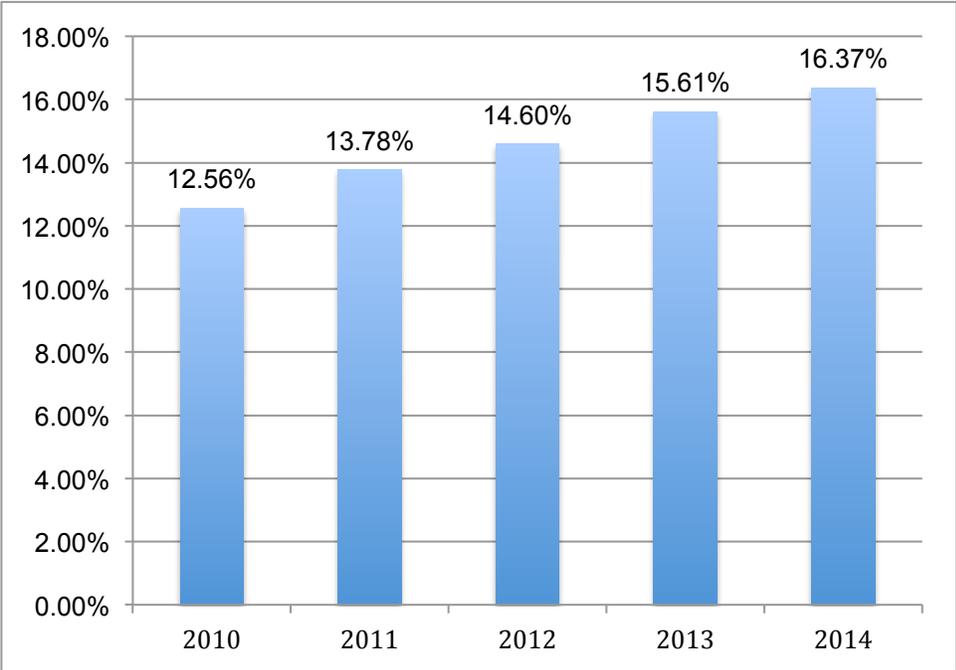
The microfinance industry attend a large portion of the country’s population. According to information from ASOFIN and FINRURAL, it reaches around 1,3 million people, about 12.2% of the population by December 2014. From another perspective, this amount of people attended by the industry represents 17% of the total labor force, which is presented in Table 5.

Table 5: Total Microfinance Clients, Total Population, and Total Labor Force in Bolivia

	2010	2011	2012	2013	2014
Micofinance Clients	919,702	1,026,029	1,111,981	1,214,402	1,284,970
Total Population	9,918,245	10,078,238	10,236,762	10,399,931	10,561,887
Labor Force Participation	73.8%	73.9%	74.1%	74.2%	74.3%
Total Labor Force	7,319,665	7,445,601	7,616,151	7,779,148	7,847,482

Source: Based on information from World Bank, ASOFIN and FINRURAL

Chart 11: Microfinance clients’ participation in Labor Force

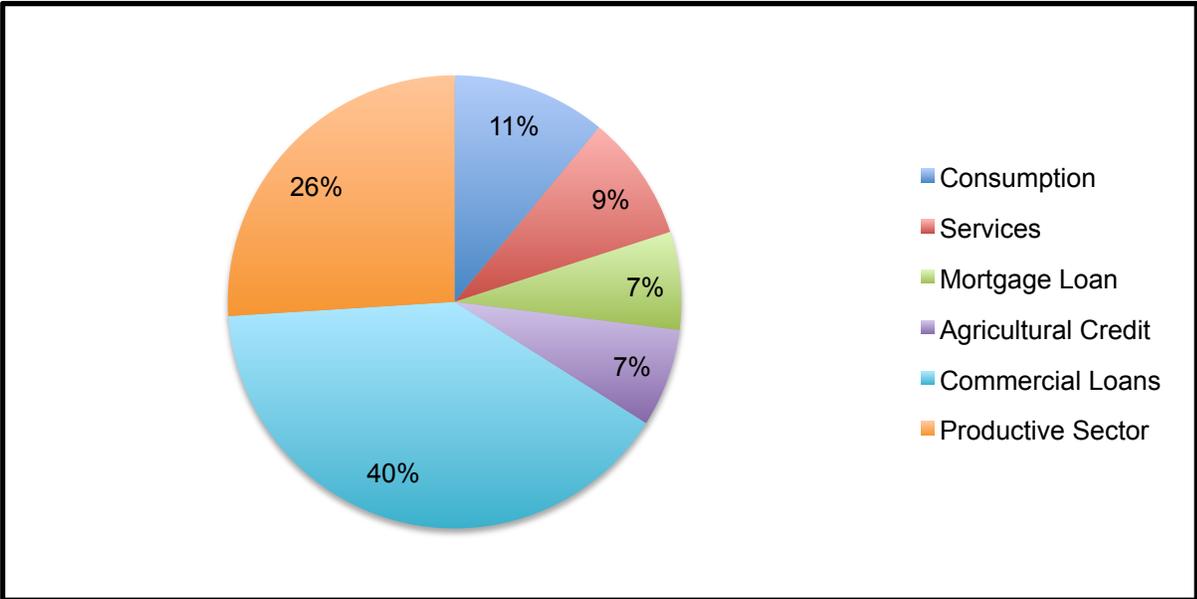


Source: Based on information from World Bank, ASOFIN and FINRURAL

With the information in Chart 11 that shows the microfinance institutions clients' participation in the labor force, it is evidenced that microfinance represents a large part of the labor force and therefore has a significant importance in employments.

However, not all the services offered by the microfinancial institutions enable their clients to have an occupation. As an example, there is credit to consumption, which is a small percentage of the portfolio. Chart 12 shows a percentage average of the portfolio by type of credit of the microfinance institutions. It is assumed that each individual that has some type of credit, wether commercial, agricultural or the productive sector, will have an occupation and will execute it efficiently to pay their credits and interests. Credits that do not have incidence in job creation represent a small percentage. This assumption can be valid considering the portfolio quality and the low write-off ratio. Which evidence the efficiency these institutions have. Although this shows the important participation of the microfinancial system in employment, we did not consider the multiplication effect that job creation can have in this situation, so the impact of microfinance in employment might be bigger than what we consider now.

Chart 12: Clients' distribution by credit type



Source: Based on information from ASFI

5. Conclusion

The evolution of the Bolivian microfinance system is a very successful process that has been developing over the past four decades. It can be taken as an example worldwide of how a situation of crisis, characterized by an informal economy, unemployment, hyperinflation and a weak financial system, can become an opportunity for the development of microcredit as a viable option for the country.

The system has a base and solid structure with institutions seeking efficiency through mechanism that aim to contribute to the Bolivian society in aspects such as poverty reduction, employment, and financial inclusion. It is important as well to emphasize the fundamental role of microfinance in the Bolivian economy. A large segment of the national financial system is represented by microfinancial institutions. The number of clients who have some type of services that these institutions offer represents 12,2% of the total population and 16.4% of the total labor force, evidencing its importance to the country.

With regard to financial inclusion that the microfinance system generates in the country, it is clear that these institutions have focused in vulnerable groups with no guarantees, providing them with better conditions and benefits. This ideas came with the intention of expanding services to rural areas, which has also been a key determinant to succeed in making a positive impact in Bolivia with respect to financial inclusion.

With a very conservative assumption and not considering the multiplication effect that microcredit can have in job creation, that each of the credit for the productive sector, it is clear that microfinance in Bolivia plays a big role in employment and is a key participant of the labor force.

The system has the challenge to link its enormous potential and its current stability with government regulations and be flexible to economic changes, in order to continue being an example of how microfinance can have a positive impact in a national economy. It is a responsibility of the whole financial system in Bolivia to facilitate the microfinance growth, given the enormous contribution it has provided to the whole economy.

6. Reference Section

¹At the III Jornada sobre Inclusión Financiera y Desarrollo, celebrated on October 27, 2011 in Madrid, Spain.

²It is an Association of financial entities specialized in microfinances. It is the maximum authority of representation in the regulated microfinances sector in Bolivia. The regulated institutions are those under ASFI's supervision, and for that reason they have the ability to catch deposits from the public.

³It is the Association of Financial Institutions for Development, specialized in microfinances that entails the Bolivian FDI that have been incorporated to the regulations of such entities (Regulación de Bancos y Entidades Financieras) in 2008.

⁴Information at www.grameen-info.org, institution's official website.

⁵"Vicious circle of poverty" theory of Estonian economist Ragnar Nurkse (1907-1959), explained in his book "Problems of Capital Formation in Underdeveloped Countries" (1953).

⁶mixmarket.org develops several studies about the micro finance sector. It is important to notice that many microfinance institutions do not publish their data in Mix Market. However, it is the best data source for this purpose.

⁷Figure proposed by the United Nations Program for Development (UNDP).

⁸Subtropical forest area, located at La Paz department, sparsely populated during the first half of the twentieth century.

⁹Crisis during the 1982-1986 period, popularly named "Hyperinflation crisis".

¹⁰ Particular auction system to determine the nominal exchange rate, where the buyer offers a price for the dollars they want to buy and the Bolivian Central Bank makes available to the public the amount of foreign exchange and fixes a base price. 'El Bolsin' is part of the Central Bank and is controlled by members of the institution.

¹¹ NGOs are legally constituted as civil associations and non-profit foundations. They are registered with the Ministry of Finance.

¹² There are 40 different languages in Bolivia. Spanish, aimara, quechua and guarani are predominant, but the rest are official as well and spoken in different regions of the country.

¹³ An Index and study by 'The Economist' Intelligence Unit, in cooperation with OMIN (Multilateral Investment Fund Member of the IDB Group), CAF (Development Bank of Latin America), Accion (Center for Financial Inclusion) and Citi Microfinance (Citi).

¹⁴ Write Off Ratio: $\text{Write Offs} / \text{Loan Portfolio}$. According to www.mixmarket.org, write offs are the total amount of loans written during a period. It is a procedure that removes the outstanding balance of the loan from the loan portfolio when these loans are recognized as uncollectable.

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