

Microenterprise

Development Review December 1998, Vol. 1 No. 2

Inter-American Development Bank

Microfinance Guarantees: Is There Another Model?

Microfinance institutions (MFIs) have until recently been almost entirely dependent upon donor funding for their expansion. As a result, they have concentrated their efforts on *improving the asset side of their business* by developing lending products, refining credit technology, and reducing arrears and administrative costs associated with lending to microenterprises. Now these same institutions—some of them recently transformed into regulated for-profit entities—are looking for ways to capitalize themselves and *improve their leverage* by borrowing from formal financial institutions and raising funds from capital markets.

So far, most MFIs have found it difficult to access commercial sources of finance. In response to this problem, organizations with interest in microenterprise development have designed and deployed various guarantee schemes to mitigate

(continued next page)

IN THIS ISSUE

Microfinance Guarantees

Regulating Microfinance

Inside:

The LA-CIF Approach	3
Value-At-Risk Models	6
Loan Loss Provisions: The Bolivian Model	7
IDB Project on Regulatory Reform	8

Regulating Microfinance

The center of gravity of microfinance in Latin America and the Caribbean is shifting from the world of non-profit foundations to one of regulated financial entities. Commercial banks are making persistent inroads into the microfinance market and an increasing number of unregulated microfinance institutions are choosing to incorporate themselves as finance companies, banks or, if the regulatory framework in the country provides for it, as specialized microfinance institutions.

The reason for a non-profit foundation to become a shareholder-based and chartered financial institution varies, but it is generally related to the organization's desire to expand. By submitting to the supervision of the coun-

try's bank superintendent, the organization gains access to new resources in the form of shareholder investments, bond issues and, perhaps most importantly, savings deposits. It also allows the organization to expand the *range* of financial services it offers. Meanwhile, for commercial banks, the microenterprise market represents a largely under-served market with significant potential for repeat customers and future profits.

Regardless of whether the institutions originated in the world of non-profits or commercial banks, their interest with respect to regulation is the same: that it permits them to serve their target market in a cost-efficient and prudent manner. Regulation should enable financial entities to effectively control their risk exposure at a reasonable cost. If transaction costs are too high,

(continued on page 5)

Table 1. Selected Guarantee Funds Operating in Latin America and the Caribbean

Fund	ACCION LA Bridge Fund	Women's World Banking	RAFAD	Fondo Nacional de Garantias	Corpomicro	LA-CIF
Headquarters	USA	USA	Switzerland	Colombia	Ecuador	Costa Rica
Model	Intermediary	Intermediary	Intermediary and portfolio	Intermediary	Intermediary and individual	Intermediary
Coverage	Up to 90% Avg: 84%	Up to 90%	20–80% Avg: 30%	Up to 50%	Up to 100%	Up to 100%
Duration	1 year renewable	1 year, renewable for 2 additional years	Up to 3 years	Same as credit+120 days	Same as credit	6–12 months, on average
Fees	3% per year of credit guaranteed	1% of guarantee per year	5% of guarantee per year	1% of guarantee per year	4% per year of credit guaranteed	Negotiated
Size	\$6 million	\$6 million	\$3.3 million	\$19.5 million	Max \$9.1 million (11 times equity)	\$7.1 million
Default and Losses	\$525,000 since inception in 1984	~3% per year of guarantees	~5% per year of guarantees	8.4% of guarantees in 1997	No default or losses reported to date	–
Guarantees Outstanding	\$2.6 million	\$200,000	\$2.3 million	\$14.3 million	\$3.2 million	–

Source: 1997 annual reports and telephone interviews. In \$US dollars.

lender's risk (see Table 1). In a guarantee scheme, an external guarantor makes an irrevocable commitment to honor the debt of the borrower in exchange for a fee.

2

The use of such schemes has been an issue of continuing and sometimes heated debate. Proponents of guarantee schemes point to a number of potential benefits:

- Expanded access to commercial financing for MFIs
- Increased participation by the private sector in microfinance, including downscaling by commercial banks
- Diversification of funding instruments and sources for microfinance institutions
- Leverage of scarce donor resources
- Development of professional liability management among MFIs through exposure to sophisticated lenders and investors

Opponents of guarantee schemes argue that this type of arrangement is fraught with risks, does not really offer any additionality, and is unlikely to be sustainable over the long run.

To date, the experience with microfinance guarantee schemes has been mixed. Some schemes have failed; few have succeeded. Even among those that can be categorized as successful, the success has been dependent upon certain conditions and moderated by some important weaknesses. A newly created guarantee fund—the Latin American Challenge Investment Fund (LA-CIF)—may point the way to another way of structuring the business of microfinance guarantees (see Figure 1 and discussion, below).

Existing Guarantee Models

To date, three types of guarantee schemes, or “models,” have been used

to attempt to enhance the flow of finance to the microenterprise sector:

- Individual/retail model
- Portfolio model
- Intermediary/wholesale model

In the *individual/retail model*, individual borrowers of commercial banks and NGOs are screened and approved for coverage by the guarantor, who charges a fee for this service. The lender is reimbursed by the guarantor up to a certain amount or percentage for any losses arising from nonpayment by the borrower. This type of guarantee is being offered by SEBRAE in Brazil and FOGAPE in Chile, for example.

The *portfolio model* reduces the involvement of the guarantor in the specific credit decisions taken by the lender. Instead of guaranteeing each individual borrower, the guarantor provides a guarantee that automatically covers all loans made by the lender within

certain criteria (such as loan size and borrower assets) and up to an overall portfolio amount. This type of guarantee scheme has been used by Fondo Nacional de Garantías in Colombia and the Small Business Administration in the United States.

Unfortunately, neither the individual model nor the portfolio model has proven very effective in enhancing lending to the microenterprise sector. In spite of the guarantees, commercial banks and other regulated financial entities have found the transactions costs and perceived risks too high for seriously entering the microenterprise market. In addition, it has been difficult for guarantee funds to fully cover their costs under these types of arrangements.

As the individual and portfolio models have largely failed in enhancing the flow of finance to the microenterprise sector, the *intermediary/wholesale model* has emerged as a potentially viable alternative. In this model, the guarantor typically guarantees a loan or a line of credit from a local bank to a non-bank microfinance institution. This arrangement is clearly more attractive to the commercial lender, who does not need to employ new lending methodologies to reach a relatively unexplored and unfamiliar market segment. A number of microenterprise networks, including Acción International and Women's World Banking, have provided this type of guarantee services to their affiliates.

A more advanced version of this type of guarantee scheme involves the guaranteeing of capital market instruments, such as bonds or securitized assets, issued by microfinance institutions. For example, in April 1996, the U.S. Agency for International Development provided a 50 percent guarantee for two 2-year coupon bonds with face values of US\$ 1 million issued by BancoSol, a Bolivian bank specializing in microfinance.

Key Issues: Information, Risk and Price

Three fundamental considerations in guarantee schemes are information, risk and compensation. A successful

guarantee scheme should incorporate the following characteristics:

- Tasks associated with information gathering, analysis, and monitoring should be structured to minimize overall costs.
- Risk should be distributed among participants so as to minimize the overall required risk premium; less risk-averse participants should hold more risk.
- The risk premium should be shared *pro rata* by the entities assuming risk.

How does the intermediary/wholesale model measure up to these criteria?

Although the model has had some relatively satisfactory results, it tends to suffer from the following weaknesses.

First, in most intermediary guarantee schemes, some *duplication of work* occurs since both the lender and the guarantee fund are expected to gather information to analyze and monitor the borrower.

Intermediary guarantees are part of an important process of institutional development in the microfinance industry—the development of liability management among MFIs.

Second, by protecting the lender against loan losses, the scheme effectively diminishes the lender's interest in carefully screening clients and following up on delinquent loans; this presents a *moral hazard*.

Third, the management of the guarantee fund is often better able than the local bank to obtain and analyze information about potential clients. As a result, the guarantee fund is able to exploit arbitrage opportunities arising from its ability to gain a more accurate view of the credit-worthiness of the potential borrower. Such *asymmetry of information* can arise where guarantee funds are based on some sort of network of institutions.

Finally, current intermediary guarantee schemes have been unable to employ a *fee structure that is based on the risk each party is assuming*. For a variety of reasons, including administrative simplicity, appearance of fairness among affiliates, or inability to assess risk, guarantee funds targeting the microfinance sector have so far tended to charge a flat percentage rate based on the loan or guarantee amount. This rate structure not only ignores differences in risk among potential beneficiaries, but it may easily allow banks to capture a larger share of the risk premium than justified by their exposure—all to the detriment of the guarantee fund.

A Different Model? The LA-CIF Approach

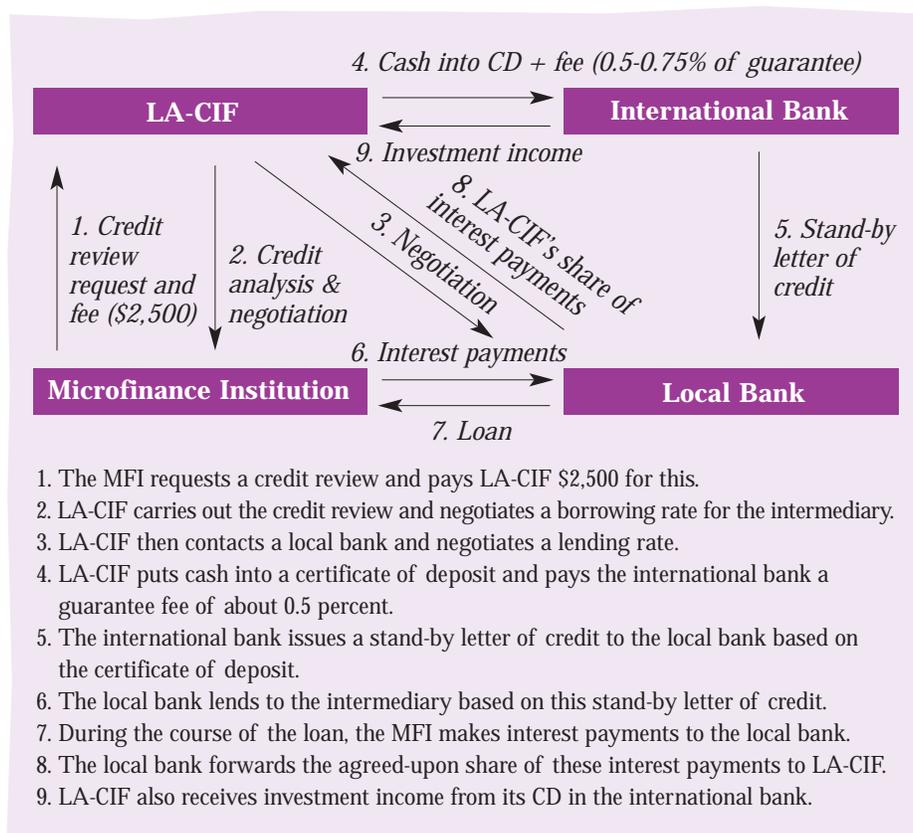
The newly created Latin American Challenge Investment Fund (LA-CIF) will operate under a logic quite distinct from previous intermediary guarantee funds.

This fund is starting out with approximately \$7.1 million in equity and long-term debt from both private for-profit and international NGO sources, including the Inter-American Development Bank, which helped design the fund. LA-CIF will offer guarantees, re-guarantees, loans, and other credit enhancement products to MFIs in Latin America and the Caribbean.

The LA-CIF model has several distinct characteristics. First, instead of having both the guarantee fund and the local bank perform credit analysis and monitoring of the borrower, these tasks will be the sole responsibility of the guarantee fund. Although LA-CIF may as a result incur greater analysis costs than other guarantee funds, this structure will eliminate the problem of moral hazard, avoid lengthy negotiations over proportional risk sharing, and lower the overall administrative costs of the scheme by avoiding duplication of tasks.

Second, since LA-CIF does not belong to any network of microfinance institutions, it will not have the advantage of a naturally occurring situation of

Figure 1. The IA-CIF Model



asymmetric information. However, in the judgment of the future Executive Director of LA-CIF, Gil Crawford, this is not a crucial obstacle: "There is little doubt that a specialized management team has the potential to gain an edge on most local banks in assessing the credit worthiness of microfinance institutions."

4 Third, the LA-CIF will negotiate the overall borrowing rate directly with the borrowing microfinance institution. The rate will include both interest and guarantee fees. At the same time, LA-CIF will also negotiate a lending rate directly with a local commercial bank, based on the risk, if any, the bank is taking. In effect, LA-CIF's revenues will be based on the difference between what it can negotiate with the microfinance institution and what it can negotiate with the local bank.

Fourth, in addition to paying for its funding and administrative costs, the all-in rate charged by LA-CIF will compensate for the risk assumed by the fund. Since the local commercial bank will presumably not capture any compensation for risk that it is not

assuming, LA-CIF expects to generate enough revenue to be sustainable and, in the long run, profitable.

Further Challenges

While the LA-CIF model holds promise, a few remaining issues need to be resolved. This includes the pricing of its products. Although the supply and demand for credit in the market will undoubtedly help LA-CIF determine appropriate rates, it is doubtful whether market conditions alone will always provide sufficient guidance for the fund. As noted, the logic of a guarantee fund builds partially on the claim that markets are imperfect and that information is not necessarily evenly distributed or readily available. If markets were perfect, commercial banks would already be lending to all credit-worthy microfinance institutions.

Consequently, although LA-CIF may sometimes be able to rely on market conditions to price its products, at other times it will need to use the cost and the (credit) risk of the operation as the basis for its pricing. Determining

the overall credit risk of an operation can be difficult.

Basically, the credit risk of the operation can be divided up into three components: specific institution risk, industry risk, and country risk. While the specific risk of the institution can be reasonably assessed by a careful analysis and the country/currency risk can be obtained from various rating agencies, the industry risk of microfinance is much harder to assess. As of now, there is simply not enough historical data to do so. Consequently, pricing will remain a challenge for LA-CIF and any other guarantee funds that price their products based on risk.

Future Prospects

Intermediary guarantees are part of an important process of institutional development in the microfinance industry—the development of liability management among MFIs.

For MFIs, this means that they will need to know the liabilities side of their business as well as they do the asset side. Furthermore, they will need to understand the markets they are hoping to access for financing: what instruments exist in these markets, their terms and conditions, and the structure of the markets. Finally, the MFIs will need to make themselves attractive not only to potential borrowers, but also to potential creditors and investors by knowing what these actors are looking for and the implications of alternative sources of financing for the institution.

One major improvement that MFIs will be forced to make to attract investors and creditors concerns the transparency of information about their institutions. They must conform to standard accounting and reporting principles, and they must demonstrate sound financial performance. Thus, the development of information systems and reporting on performance indicators, including ratings, has become extremely important to the development of the liabilities side of the microfinance business. These developments will make intermediary guarantees less costly, but they may also make them less necessary. ■

Regulating Microfinance

(continued from page 1)

the microenterprise market will remain under-served.

As a result of this development, the question of why or why not microfinance should be regulated has already to a large extent been settled by the industry itself: Commercial banks *must be* supervised and many of the non-profits *want* to be supervised. Now the question is...how?

The Regulators' View

For bank supervisors, who are charged with guaranteeing the safety and soundness of all chartered financial institutions, the increasing formalization of microfinance is giving rise to some new challenges. Suddenly they are expected to extend their limited resources to supervise institutions involved in an activity that is quite distinct from normal banking:

- Microenterprise portfolios typically contain thousands of very small loans.
- The periodic repayment of microenterprise loans typically takes place on a weekly or biweekly basis.
- There is usually no tangible collateral or relatively assured income (such as salary) backing microenterprise loans.
- Loans in microenterprise portfolios typically exhibit a relatively high covariance due to low geographic (and sometimes sectoral) diversification.

These distinct characteristics of microfinance imply that existing regulatory standards and requirements may not be entirely adequate in assessing and controlling the risk exposure of institutions involved in microfinance. A close-up examination of these standards exposes their shortcomings and suggests some ways they could be improved.

Two Central Instruments of Supervision

Regulators have a variety of tools at their disposal to ensure that financial

institutions do not take on excessive risks and that they have enough capital and reserves to absorb both expected and unexpected losses. Two of the most important tools are minimum standards for capital adequacy and loan loss provisions/reserves.

Capital Adequacy...

Capital adequacy is a basic measure of the institution's financial strength and its ability to absorb losses. It refers to the ratio of capital to assets, with assets weighted according to their risk.¹

The current guidelines for capital adequacy stem from the 1988 Basle Capital Accord, which recommends a minimum 8 percent capital adequacy

The question of why or why not microfinance should be regulated has already to a large extent been settled by the industry itself. Now the question is...how?

ratio (or, alternatively viewed, a maximum leverage of 12.5). The Basle Accord, to which most Latin American and Caribbean countries adhere, assigns one of five risk-weights (0.0, 0.1, 0.2, 0.5, 1.0) to all assets. Assets with high perceived risk (such as unsecured loans and credits) receive a higher risk weight than assets with low perceived risk (such as loans to central government). As a result, risky assets must be backed by more capital than less risky assets. In other words, an institution with a large amount of risky assets will not be permitted to leverage itself as highly as an institution with less risky assets.

...and Microfinance

Under the Basle Capital Accord, assets and investments in real estate,

plants, or equipment, as well as all loans not 100 percent secured by residential property or guaranteed by the central government will be placed in the highest risk category (1.0). This means that practically all portfolio assets of microfinance institutions will receive a risk-weight of 1.0, and that microenterprise loans are not treated (weighted) differently than most other commercial or consumer loans.

Given the low-income level of microenterprise clients, the general lack of explicit or implicit collateral, and the small degree of geographic diversification of microenterprise portfolios, it is open for question whether this is an appropriate treatment. Due to their particular characteristics, microenterprise loans might be more sensitive to a downturn in the local economy than normal consumer and commercial loans. This would imply a need for a higher capital ratio.

Apparently many microfinance institutions realize this. IDB-funded research shows that many microfinance institutions indeed keep relatively conservative capital ratios (see Table 1).²

In addition to its inability to take into account the particular traits of microfinance, the 1988 Basle Accord has two generally recognized shortcomings. First, the regulatory measures of "capital" may not represent a bank's true capacity to absorb unexpected losses. Deficiencies in loan loss reserves, for example, could mask a deterioration in a bank's economic net worth. Second, the discrete risk-weights assigned to different assets under the 1988 accord provide only a very imperfect measure of the underlying risk. To address these problems, financial institutions are developing new methods of estimating capital requirements (Box 1). Ultimately, these new methods will help ensure that microfinance portfolio assets are assigned appropriate risk weights and backed by sufficient capital.

¹Capital = equity + retained earnings + loan loss reserves not ascribed to particular assets + limited amounts of subordinated long-term debt.

²This "conservatism" could in some cases be explained by the institution's inability to borrow, rather than any explicit policy to maintain a certain capital ratio. Nevertheless, the numbers do suggest that the industry is aware of the risk of its activities.

Loan Loss Provisions...

Loan loss provisions are established to build up reserves for loans that fall into arrears. The basic logic of the provisions is that they should correspond to the value at risk in a loan portfolio. In many cases, financial institutions also establish a general loan loss reserve for problem loans that have not yet been identified, but that it knows from past experience may materialize. As the establishment of loan loss reserves impacts both the institution's income statement and its balance sheet, it is important that regulations in this area require and enable financial institutions to accurately assess and manage their portfolio risks.

In most countries in Latin American and the Caribbean, guidelines for setting aside provisions against delinquent loans distinguish between loans classified as commercial (business) loans and those classified as consumer loans. While microenterprise loans could arguably be classified in either one of these two categories, the implications for loan loss provisions are quite different—and in both cases, rather inappropriate. (See Box 2 for a discussion of how a leader in the region, Bolivia, is handling this issue.)

...and Microfinance

Generally, the classification of a loan as "commercial" implies that guidelines for loan loss provisioning are fairly complex and reliant on a number of factors, including an assessment of the client's willingness to pay, days past due, and the existence of guarantees and tangible collateral. These requirements can pose a problem for a microfinance institution with 25,000 or more loans, of which perhaps 500-1,000 become delinquent during a year. In addition, loan documentation requirements for commercial loans are relatively demanding.

If, on the other hand, the loan is classified as a consumer loan, minimum loan loss provisions are generally based only upon the number of days the loan is past due, without consideration of collateral or other factors. Provisions typically start with 1-5 percent of the balance after 30 days of

Table 1. Capital Ratios of Selected Microfinance Institutions

Institution/Type/Country	Actual Capital Asset Ratios ¹	Minimum Required ²
BancoSol (specialized commercial bank, Bolivia)	14%	8.0%
Caja los Andes (private financial fund, Bolivia)	13%	8.0%
FIE (NGO in transformation to private financial fund, Bolivia)	16%	8.0%
Women's World Banking (NGO, Colombia)	50%	9.0%
Caja Municipal Arequipa (Caja Municipal, Peru)	12%	9.1%
Genesis (NGO, Guatemala)	29%	8.0%
FED (NGO, Ecuador)	47%	9.0%
FUCAC (NGO, Uruguay)	9%	8.0%
Financiera Calpia (finance company, El Salvador)	27%	8.6%

Source: IDB-funded research conducted by Private Sector Initiatives Corp. (PSIC).

1. The capital ratios are approximations and do not include possible unspecified loan loss reserves as part of the capital. For NGOs, which do not have shareholder equity, net worth is used to calculate capital.
2. The minimum capital adequacy requirement is subject to change by the countries bank superintendencies and/or central banks.

Box 1. Value-At-Risk Models: Possibilities and Pitfalls

In response to the perceived inadequacy of the 1988 Basle Capital Accord, financial institutions in many industrialized countries are increasingly turning to internal statistical models to determine appropriate capital requirements. These models, commonly referred to as value-at-risk models, are based on options and portfolio theory. They seek to estimate with a specified degree of certainty the maximum loss that the institution could suffer in adverse circumstances.

The increased use of value-at-risk models has led to calls for securities and banking regulators to recognize the output of these models for regulatory purposes. In fact, the Basle Committee on Banking Supervisions has recently acknowledged the importance of internal value-at-risk models for calculating appropriate capital requirements, and has stipulated that the calculated value-at-risk should be multiplied by a factor of 3 to indicate the minimum required capital.

Although internal value-at-risk models are likely to increase in use and importance, they nevertheless pose a few significant challenges. For example, if the primary motive for the utilization of value-at-risk models becomes compliance with certain regulatory standards rather than internal risk management, there is a possibility that firms will seek out models that are better at lowering capital requirements than assessing risk. As a result, regulators will find themselves compelled to set some of the basic parameters of the value-at-risk models, such as the observation period, the confidence level, and the assumed minimum holding period for the portfolio. This type of involvement will require a high level of expertise and information on the part of supervisory authorities.

non-payment and reach 100 percent at about 12 months.

The great advantage of consumer loan classification is its simplicity. The drawback is that the schedule may be too lax for microenterprise loans. The lack of

collateral and salary backing most microenterprise loans imply that the probability of recuperating all or part of a microenterprise loan, *once it falls into arrears*, may be lower than for conventional loans. Provisioning requirements should take this into account.

Box 2. Loan Loss Provisions for Small Loans: The Bolivian Model

In a few Latin American countries, including Bolivia, Costa Rica and Paraguay, bank superintendencies have introduced special provisioning schedules for small loans. In Bolivia, which has the most refined system of the three, loan loss provisions depend both on the *amount* of the loan and its *term*. The smaller the loan and the shorter the term, the higher the provisions in case of delinquency. Thus, both the size of the loan and its term structure are taken as proxies for the risk of the loan.

Table B-1. Loan Loss Provisions for Small Loans in Bolivia (%)

Days past due	US\$ 5,000 – US\$ 20,000 ¹	Loan < US\$ 5,000 & loan term ≥ 1 month	Loan < US\$ 5,000 & loan term < 1 month
1–15	0	0	0
16–30	0	0	10
31–60	10	10	50
61–90	10	50	100
91–120	50	100	—
121–180	50	—	—
181–360	100	—	—

Source: Bolivian Resolución SB No. 062/94

¹Guarantees are taken into account for loans larger than US\$ 20,000.

For the smallest and most short-term loans, provisions start after two weeks past due and reach 100 percent after 90 days. Although the Bolivian guidelines for provisioning provide a model to follow, only experience will tell whether the *levels* of provisions stipulated therein are appropriate. As discussed, some of the most well-known microfinance institutions in Latin America keep loan loss reserves that exceed the balance of the loans more than 30 days past due. These institutions thus apply a standard that is even stricter than required in Bolivia.

Another feature of microenterprise loans that argues for relatively strict provisioning requirements is their normally short repayment frequency. Microenterprise loans are typically serviced in weekly or biweekly installments, which corresponds to the economic cycle of many microenterprise borrowers. In contrast, commercial or normal consumer loan borrowers have monthly cycles of income and expenses. Given this difference, two month's delinquency arguably indicates a larger problem for a borrower whose repayment frequency is seven or fourteen days than for one whose repayment frequency is a month. Consequently, the risk assessment of delinquent microenterprise loans would be better served by basing required provisions on past due *installments* rather than a generic number of days or months.

As Table 2 indicates, the industry is well aware that it needs to be conservative when establishing loan loss provisions.

Table 2. Loan Loss Reserves for Selected Microfinance Institutions, Dec. 1997

Institution	Percentage of portfolio more than 30 days delinquent (balance)	Loan loss reserves/ Year end portfolio (%)	Coverage of reserves (%)
BancoSol	1.1	2.2	200
Caja los Andes	0.6	1.7	283
FIE	1.7	1.8	106
Women's World Banking	1.6	1.5	94
Caja Municipal Arequipa	2.4	1.7	71
Genesis	2.5	1.9	76
FED	5.3	7.7	145
FUCAC	7.6	6.1	80
Financiera Calpia	2.7	3.0	111

Source: IDB-funded research conducted by Private Sector Initiatives Corp. (PSIC).

Implementing the Standards

Capital adequacy and loan loss provisions are central tools for regulators in assessing and controlling the risk exposure of financial institutions. Based on the particular characteristics of microfinance, it is not unreasonable to argue that these tools should be conservatively applied to microfinance activities. While strict requirements in these areas may marginally reduce the return on assets and equity of microfinance institutions, it is imperative to the industry as a whole that bankruptcies and other failures are avoided to the largest extent possible. Conservatively set standards will do this and convince investors, depositors and regulators that microfinance is an industry that has come to stay.

Although technical standards and their formulation are important for institutions involved in microfinance, another equally important issue concerns the question of how the supervision should be organized. This issue has gained in visibility as more and more microfinance institutions are declaring their intention to enter the regulated financial system at the same time as many Latin American and Caribbean regulatory authorities claim that they will not have the capacity to effectively supervise them. As a result, alternative frameworks of supervision, perhaps based on some degree of self-regulation, will have to be developed. Reconciling effective supervision with low cost, however, will remain a challenge in microfinance for a considerable time to come. ■

Microfinance Policy and Regulatory Reform:

Upcoming IDB Research and Analysis

Early next year, the IDB Microenterprise Unit will be launching an in-depth research project and analysis of how financial regulation and supervision affect financial intermediaries involved in microfinance. This \$375,000 technical cooperation will also finance a region-wide survey of regulatory and supervisory practices in Latin America and the Caribbean. The results from these undertakings will serve to develop recommendations for how the regulatory and supervisory frameworks in Latin America and the Caribbean can be improved to benefit microfinance while still effectively ensuring the safety and soundness of financial systems as a whole.

Three Latin American countries will serve as case studies: Colombia, Paraguay, and Peru. These countries are experiencing a diverse set of challenges in the areas of regulation and supervision of microfinance activities, and their bank superintendencies have committed themselves to actively assist the execution of this technical cooperation.

The analytical work of the project will focus on two key areas: (1) identifying appropriate regulatory stan-

dards and requirements for microfinance activities; and (2) identifying effective and cost-efficient methods of supervision of microfinance activities. The exact focus of the analytical work will depend upon country conditions and will be developed in cooperation with the three bank superintendencies.

The concrete outputs will include a Supervisory Manual on microfinance for regulators and supervisors, and the organization of a forum where the results from the project can be discussed and disseminated among regional policy makers. Recommendations derived from the project will also be presented to the Association of Banking Supervisory Authorities of Latin America and the Caribbean. ■

Estimated Approval Date: January 1999
Estimated Completion Date: March 2000

Contacts:

Mr. Mark Wenner
Tel: (202) 623-3218; Fax: (202) 623-2307;
E-mail: markw@iadb.org

Mr. Tor Jansson
Tel: (202) 623-3725; Fax: (202) 623-2307;
E-mail: torj@iadb.org

In Future Issues...

Social investing

Microenterprise leasing

Marketing microenterprise products

Microenterprise taxation

Usury laws



Microenterprise Development Review

Editor: Tor F. Jansson

Other contributors to this issue: Marguerite Berger, Lara Goldmark, Fernando Lucano, and Nancy Morrison