Microscope on the Microfinance Business Environment in Latin America 2007 – Country Profile[*]

Prepared by the Economist Intelligence Unit (EIU) and commissioned by the IDB/MIF and the Andean Development Corporation (CAF).

ARGENTINA

Overall score	26.8
Regulatory Framework	18.8
Investment Climate	46.7
Institutional Development	25.0

Regulatory Framework		
Regulation of microcredit operations	1.0	The Central Bank's Superintendency of Financial Institutions, a partially autonomous entity, is the main formal regulator. Although public institutions are in principle second-tier, they introduce distortion into market interest rates and competition by requiring institutions to which they on-lend to apply administratively determined rates (currently 6%). The Central Bank reduced the capital-adequacy ratio for banks from 11.5% to the Basle international standard of 8% in June 2003, though very few banks comply with this rule; the Central Bank has extended the deadline for meeting Basle requirements to 2008. Regulatory obstacles to established institutions also exist in the form of labour laws and contracts, particularly regarding the longer and more flexible working hours that would be required to cater to microfinance clients, and a high tax burden (such as a tax on banking operations for internal administration). Documentation requirements are not problematic. (Curat et al, 2007; Personal interview; EIU, Country Finance, October 2006).
Formation and operation of regulated/supervised specialised MFIs	1.0	There are no specialised juridical vehicles for microfinance in Argentina. Although the figure of cajas cooperativas de crédito (credit co-operatives) has been created as a means to channel credit to micro, small and medium-sized enterprises (and one that could also capture deposits), implementing regulations have not been adopted and no applications have been received. The vehicle appears unattractive to NGOs and sociedades anónimas (SAs) seeking to upgrade because of its co-op (closed) status, geographical restrictions and lack to date of any customised risk management and credit evaluation system for low-income clients. For their part, the two principal types of non-regulated institutions (NGOs and SAs) face considerable difficulties in upgrading (minimum capital, lack of more specific risk categories etc). (Personal interview, August 2007; Curat et al, 2007).
Formation and operation of non-regulated MFIs	1.0	Administratively, it is not easy to form an NGO, which can take up to one year. While NGOs can set market interest rates, they face subsidised competition in the form of second-tier loans to competitors that required fixed interest rates (6% currently). Although NGOs are exempt from value-added tax—which SAs, the other type of regulated institution, do face—their credit operations are taxed, as they in effect must transfer the VAT to the customer or make provisions for this expense. These two categories of non-regulated institutions also face a 30% withholding tax (encaje) for one year on funds received from abroad (with exemptions for foundations and civil associations—NGOs—that are primarily engaged in microcredit and whose average external credits are two years or more in length). (Curat et al, 2007; personal interview, August 2007).

[*] This file contains the tab 'Country Profile' of *The Microscope* scoring model. See http://www.iadb.org/mif/microscope for the full scoring model and report.

Regulatory and examination capacity	0.0	Specialised expertise and methodologies for microfinance are completely lacking, and three institutions compete with each other in shaping the sector in practice—the Central Bank/Financial Superintendency, Ministry of Finance and Ministry of Social Development. This creates considerable confusion, and the latter Ministry is tied to an approach involving heavy use of subsidies. The only initiatives to try to disseminate best practices come from efforts by groups of institutions engaged in microfinance themselves, not from regulators. (Curat et al, 2007; personal interview, August 2007).
Investment Climate	**46.7**	
Political stability	2.2	Argentina has suffered episodes of political instability in the recent past, usually triggered by extreme economic stress. With the economy now much more robust, the risk of an unforeseen change of government or serious political crisis is low. Néstor Kirchner has strengthened his position since his inauguration in May 2003. Mr Kirchner has succeeded in significantly weakening his opponents within his own party and has built a broad political alliance. His control over Congress was evident in 2006: several highly controversial bills have been approved by comfortable majorities, entailing the support of legislators and provincial governors previously opposed to him. Mr Kirchner's wife, Cristina, is well-positioned to win election in October 2007, but this would raise concerns about transparency and institutions given the tendency to concentrate power in the presidency. (EIU, Risk Briefing, September 2007).
Capital market development	2.0	The fall-out from the financial collapse of 2001-02 will be reflected in a lingering credit squeeze. Though profitability returned in 2005-06, banks' balance sheets remain weak and their solvency is linked to that of the public sector as government bonds still account for just over 20% of the system's total assets. The full rehabilitation of the financial system will be a protracted process and the availability of loans for productive activities, scarce even in the 1990s, will be restricted in the main to short-term working capital. The government may try to revive the role of state-owned banks in providing credit to productive sectors although fiscal constraints will restrict the amount of resources available. There is still some uncertainty over whether banks will receive compensation for having followed court judgements and reimbursed some investors who had savings in dollars before the crisis. The level of dollarisation in the financial system is low, reducing the risks of currency mismatches. (EIU, Risk Briefing, September 2007).
Judicial system	1.0	In 2002 the abandonment of the currency board and its associated dislocations, including the conversion into local currency of dollar deposits, shattered confidence in the rules of the game built up over the previous decade. Restoring confidence and rectifying the setbacks of recent years will be a gradual process. Mr Kirchner will seek to reconcile the demands of maintaining strong political support with undertaking reforms needed to lay the basis for sustainable economic growth. Moves to reform the Supreme Court and the police were early examples of a drive to reform institutions which has since lost momentum. The government will move slowly to re-establish permanent contracts with owners of privatised utilities. Currently, the most immediate regulatory risk to business comes from government intervention in the form of compulsory price agreements, which the government began to use to combat inflation in late 2005. The government is bent on enforcing price controls until October 2007 and perhaps beyond. (EIU, Risk Briefing, September 2007).
Accounting standards	3.0	National accounting standards are used, though they are similar to IAS. IFRS are not permitted. For financial reporting, banking regulatory authorities typically demand stricter and more internationally oriented norms than tax authorities. Money laundering and the black economy generate many unrecorded transactions. (Deloitte/IASPLUS; EIU Country Commerce, July 2007; personal interview, August 2007).

Governance standards	2.0	For listed firms in the economy as a whole, the capital market reform of 2001 provides for charters, information to shareholders, voting rights, minority rights, mandatory tender offers once 35% of shares acquired by single purchaser, rights to fair price in de-listings and squeeze-outs, and independent audit committees. But some firms have de-listed to avoid these rules, and enforcement of them through the judicial system remains lengthy and cumbersome. Argentina receives a 4.7 out of 10 score on the World Bank's Doing Business (2006) investor protection index, compared to a 5.1 regional average and a 6.0 OECD average. It scores at about the regional average for shareholder ability to sue (6.0), above the average for disclosure (6.0), and well below the average for director liability (2.0). The two classes of non-regulated institutions—NGOs and SAs—face only minimal regulation and supervision: they are required to submit financial statements and reports to the General Inspectorate of Justice and Provincial Directorates of Juridical Persons. (OECD, Latin America CG Roundtable, 2005; Curat et al, 2007; EIU, Country Finance, 2005, 2006, 2007).
MFI transparency	1.0	There is no requirement to publish effective rates, and the practice is not common. Regular external audits (and in some cases external ratings) are required of regulated institutions; for non-regulated institutions, the pressure for external audits comes from international funders, though self-regulation through MFI networks such as RADIM is also diffusing best-practice norms. External ratings are less common among non-regulated institutions—of the seven MFIs listed in MIX Market (all SAs or NGOs), only one is externally rated. The expense of undergoing such ratings is a large obstacle for a small organisation. (Curat et al, 2007; Personal interview, August 2007).

Institutional Development	**25.0**	
Range of MFI Services	1.0	Microfinance is mostly a "mono-product" industry, though a few regulated institutions are beginning to expand into additional services such as savings and insurance. Of the seven MFIs listed in MIX Market, only one offered an additional service (fund transfer). (Personal interview, August 2007).
Credit bureaus	2.0	Argentina's Credit Information Index score stands at 6.0 out of 6.0 on the World Bank's Doing Business (2006) scale, compared to a 3.4 regional average and a 5.0 OECD average. The survey reports that the public registry (sistema veraz) covers 25.4% of adults (compared to 7.0% and 8.4%, respectively), and private bureaus cover 100% (compared to 27.9% and 60.8%, respectively). The public registry is very rudimentary. Information from private bureaus is often dated and does not cover many types of small-scale transactions, however. (Personal interview, August 2007).
Level of competition	0.0	There is very little competition among MFIs, with an HHI score of 4702.6, according to figures contained in a dataset supplied by Sergio Navajas and Luis Tejerina of the IDB. Competition is beginning to arise, but only in regional pockets (eg, the province of Buenos Aires, Mendoza, Salta). Many provinces are served by only one institution. (Personal interview, August 2007).

BOLIVIA

Overall score	79.4
Regulatory Framework	100.0
Investment Climate	47.1
Institutional Development	75.0

Regulatory Framework		
Regulation of microcredit operations	4.0	The Law on Banks and Financial Entities (1993), Central Bank Law (1995) and their subsequent amendments provide the main juridical anchors for microfinance regulation. The main supervisory agency is the Superintendency of Banks and Financial Entities (SBEF, in Spanish). The regulatory framework permits commercial banks, private financial funds (fondos financieros privados, or FFPs), and mutual benefit savings and home loan societies to undertake large, active microfinance operations. They do not face interest rate restrictions or excessive documentation requirements. Capital-adequacy ratios (10%) are not burdensome. Direct competition from state-subsidised microlending programs has been non-existent, though there is a threat of such programmes being adopted in the short to medium term. (Microfinance Gateway; Meagher et al, 2006; personal interview, August 2007).
Formation and operation of regulated/supervised specialised MFIs	4.0	The SBEF created FFPs in 1995 as an attractive vehicle to encourage NGOs with strong lending operations to transform themselves into regulated, specialised MFIs. They are allowed to take deposits, can more easily access wholesale funds and commercial capital, and spur more efficient management. Some NGOs have created or transformed themselves into FFPs. (Microfinance Gateway; Meagher et al, 2006; personal interview, August 2007).
Formation and operation of non-regulated MFIs	4.0	Under various Supreme Decrees (22409 of 1990, 26140 of 1991and 26973 of 2003), not-for-profit private institutions or juridical persons—whether domestic or foreign, religious or secular—that undertake development- or aid-oriented activities using government or external funding, may provide unlicensed financial services. Many NGOs have unregulated microfinance operations. In addition, under the General Law for Cooperative Societies (1958), Regulations of Financial Activities for Credit Unions (1993), and Supreme Decrees 24439 (1996) and 25703 (2000), closed cooperatives may provide member-only financial services. This particular type of cooperative constitutes a supplemental liability credit and savings unions that only performs financial operations for its members, lacks a financial operating license, and is regulated by the SBEF. The National Institute of Cooperatives (INALCO) authorises and supervises closed cooperatives. NGOs face no taxes on their MFI operations. (Microfinance Gateway; personal interview, August 2007).
Regulatory and examination capacity	4.0	Since the late 1980s the SBEF has pursued a gradual market-based approach to building an MFI sector, based on considerable technical expertise and professionalism, setting of high and transparent standards, and development and refinement of advanced methodologies for evaluating solvency and risk management that are appropriate to particular types of lending institutions, borrowers and services. Activity-specific, rather than institution-specific, provisioning requirements (by type of borrower and loan status) create a flexible and nimble framework. The SBEF's Administration for Non-Banking Entities (IENB) has developed field inspection and supervision policies customised for microfinance (including for the BancoSol, which is technically a bank but is also under its supervision). The SBEF has a subdepartment for microfinance and specific reporting requirements for microfinance. Bolivia is widely considered a model of successful, innovative regulation and supervision. (Meagher et al, 2006; Microfinance Gateway; de Janvry et al, 2003; personal interview, August 2007).

Investment Climate	**47.1**	
Political stability	1.2	Two decades of democratic government and peaceful transitions of power ended in a turbulent period which saw the resignations of two presidents in 2002-05. This underlined the fragility of the political system and the discontent among indigenous people who, despite accounting for the majority of the population, have been underrepresented. Governability has deteriorated recently; as clashes between the government of the president, Evo Morales, from the Movimiento al Socialismo (MAS), who took power in January 2006, and the opposition have increased markedly. Tensions are likely to rise as a delayed process of constitutional reform, which is expected to be completed by end-2007, gets underway. Constitutional reform may lead to new general elections in 2008, in which case Mr Morales, whose popularity remains high, is likely to be the frontrunner. But this would not prevent the emergence of isolated conflicts that may threaten governability, as interests in domestic politics will remain extremely polarised. (EIU, Risk Briefing, September 2007).
Capital market development	1.4	Despite consolidation and improved regulation, the financial sector remains small and inefficient and the local stock market mainly trades fixed-term government bond issues. However the lack of deep financial markets provides a cushion from the risk of sudden currency swings caused by external shocks. Since mid-2005, the Central Bank has widened the spread between the buying and selling rates of US dollars, contributing to a reduction in the level of economic dollarisation. By end-May 2007, around 80% of all long-term bank private deposits were held in foreign currency, still a very high percentage but less than the 88% registered in December 2005. The monetary authority is expected to continue pursuing measures that lead to a reduction in economic dollarisation. The level of past-due loans also remains high, but decreased from 16.7% at end-2003 to 8% in May 2007. (EIU, Risk Briefing, September 2007).
Judicial system	0.7	Judicial reforms implemented since 1998 have increased judicial independence and improved the reliability of verdicts. The creation of a Constitutional Tribunal has provided a second appeals body through which decisions by the Supreme Court can be challenged. The introduction since 2000 of new criminal and civil codes has increased the efficiency and transparency of legal proceedings. However the public prosecution service and police are under resourced and legal actions are slow. Corruption and political interference with judicial processes have been reduced, but remain pervasive. Despite agreements with the US and other countries on intellectual property rights enforcement, it remains poor. (EIU, Risk Briefing, September 2007).
Accounting standards	2.0	Economy-wide, Bolivia's accounting and auditing standards are limited in scope and, on those technical areas where they exist, diverge from IFRS and International Standards of Auditing (ISA). The IMF and other multilateral agencies are currently providing technical assistance to the government to speed the development of IAS, the professional capacity of auditors and accountants, and the use of IFRS by Bolivian companies. However, the SBEF has and enforces somewhat stricter standards among financial institutions, and there is considerable self-regulation among NGOs through voluntary associations. (Deloitte/IAS PLUS; Heritage Foundation, Index of Economic Freedom; MIF Donor Memorandum, November 2006; personal interview, August 2007).
Governance	3.0	Economy-wide, general requirements are weak to non-existent, except for in some recently privatised companies. But banking regulations include governance requirements for regulated financial institutions, including creation of audit committees, participation of directors on credit committees, regulation of activities of internal supervisors and rotation of external auditors. There is good awareness among regulated MFIs of the importance of observing these standards. Among non-regulated MFIs the NGO voluntary association plays an important role in promoting self-regulation and spread of best practices. (OECD, White Paper on Corporate Governance in Latin America, 2003; personal interview, August 2007).

MFI transparency	3.0	All regulated institutions are legally required to be externally rated and audited, while many NGOs are similarly scrutinised as a matter of practice. Effective interest rates could be more widely disseminated, however. Under the Law on Banks, reporting and disclosure requirements for regulated institutions are high, and graduated by type of institution. Banks, FFPs, mutual benefit societies, and open cooperatives/credit unions must all submit annual financial statements with an external auditor's report to SBEF; must publish financial statements twice per year in nationwide newspapers; and internal auditors must disclose any non-compliance with standards or legal provisions to shareholders, partners, associates, and the SBEF. FFPs and open cooperatives/credit unions must also provide more detailed and timely information: monthly portfolio recovery statistics; portfolio classification; anticipated payments; pending accounts; costs to recover; assets and liabilities; deferred charges; items pending charges; obligations with financial entities; and subordinated obligations. As regulated MFIs, FFPs, open cooperatives and mutual benefits societies must each submit about 500 statements annually to the SBEF. For non-regulated MFIs, legal requirements are somewhat weaker. Closed cooperatives/credit unions must provide members with access to designated financial information updated every three months, while NGOs must report, as part of their registration renewal, every three years on loan portfolio (current, late and lost) with respect to region, branch, target population and credit methodology, as well as financing, goals and objectives for past and future projects. Of the nine NGOs listed in MIX Market, seven are externally rated. (Microfinance Gateway; personal interview, August 2007)

Institutional Development	**75.0**	
Range of MFI	4.0	Regulated institutions have innovated in expanding services (savings on the part of regulated institutions, fund transfer, health insurance, hazard insurance, financial leasing etc). NGOs offer more limited services. (Personal interview, August 2007; MIX Market).
Credit bureaus	3.0	Since the debt crisis of 1998-2001, the SBEF has issued regulations for opening private credit bureaus to allow regulated MFIs to access credit information provided by unregulated MFIs, and vice-versa. Also, private bureaus now share information with the central public registry (CIRC). Clear regulatory distinctions have been drawn since 1999 between microcredit and consumer lending (which is based on formal wages as the basis for credit and repayment, longer tolerance for arrears and garnishing of wages for default). There also continues to be some use of informal credit bureaus, information vendors and blacklists, though much less so with the increased prominence of private bureaus and increasing quality of data on prospective borrowers. World Bank's Doing Business (2006) gives Bolivia a 5.0 out of a possible 6.0 on its Credit Information Index, compared to a 3.4 regional average and a 5.0 OECD average; the public registry covers 11.5% of adults (compared to 7.0% and 8.4%, respectively), while private bureaus cover 32.3% (compared to 27.9% and 60.8%, respectively). (ASOFIN 2006; de Janvry et al, 2003; personal interview, August 2007).
Level of competition	2.0	There is moderate competition among MFIs, with an HHI score of 1459.6, according to figures contained in a dataset supplied by Sergio Navajas and Luis Tejerina of the IDB. There is a well-developed market with considerable competition among regulated institutions, among non-regulated institutions, and between the two types of institutions. (Personal interview, August 2007).

BRAZIL

Overall score	43.3
Regulatory Framework	43.8
Investment Climate	62.1
Institutional Development	33.3

Regulatory Framework		
Regulation of microcredit operations	2.0	The Central Bank is the main regulator, under specific laws and regulations for banks, development banks and non-banking financial institutions, such as credit unions. The principal established institutions engaged in microfinance are banks and credit unions/cooperatives. The microfinance operations of banks have increased under new regulations adopted in 1999 and 2000 to increase access to financial services on the part of the general population, especially lower-income sectors. Banks were allowed to establish "banking correspondents" (eg, in post offices or pharmacies) in order to widen access to financial services. With these changes, a number of commercial banks have rushed into the market and begun offering a wide range of services to poorer households. Like other institutions engaged in microfinance, commercial banks face competition from a range of government-subsidised or semi-subsidised programmes, such as the many institutions funded by the national development bank BNDES and the Banco do Nordeste's Crediamigo programme. Usury laws do not apply to banks or other regulated institutions, though BNDES funding (eg, for non-banking financial institutions or credit unions) does come with interest rate caps. Capital-adequacy standards (maximum debt-to-liquid assets ratio is five times for banks, with gearing ratios only for credit unions) and documentation requirements are not burdensome. (Meagher et al, 2006; personal interview, August 2007).
Formation and operation of regulated/supervised specialised MFIs	2.0	In the late 1990s and early 2000s, new regulations enabled the formation of two distinct type of microcredit organisations—public interest civil societies (OSCIPs), which are a particular type of financially non-regulated NGOs (but supervised by the Ministry of Justice), and microenterprise credit societies (SCMs), which are regulated for-profit entities. There is a generous public subsidy for the creation of new organisations, though limited availability of funds restricts the licensing of new institutions in practice. SCMs have high interest rates, profits, loan delinquency and write-offs, making them in practice similar to well-run consumer finance companies than to microfinance institutions (even though they can not make consumer loans, by law). Their rate of creation levelled off after the first few years. OSCIPs and SCMs enjoy exemption from usury laws (which apply to all other non-regulated microcredit providers, including NGOs that do not obtain OSCIP status), fiscal benefits and access to certain public second-tier programmes. Both OSCIPs and SCMs are limited to microcredit. (Meagher et al, 2006; Curat et al, 2007; personal interview, August 2007).
Formation and operation of non-regulated MFIs	2.0	"Traditional" NGOs that have not turned into OSCIPs or SCMs face constraints such as usury laws (including a 1% cap on monthly interest charges) and lack of access to many public funds. They undergo little official oversight and no financial supervision. (Personal interview, August 2007; Meagher et al, 2006)

Regulatory and examination capacity	1.0	Although the Central Bank has strong general regulatory capacity for the financial sector, it is weak in specialised knowledge, procedures and staff for microfinance (eg, special risk provisioning and credit scoring methodologies). Even with regulatory innovations in the current decade such as OSCIPs, SCMs and correspondent banking, microfinance regulation remains underdeveloped. (Meagher et al, 2006; personal interview, August 2007).

Investment Climate	**62.1**	
Political stability	3.0	Brazil is a stable democracy. Since two decades of military rule ended in 1985, transitions between elected governments have generally been smooth. In October 2006, the president, Luiz Inácio Lula da Silva, was re-elected to a second four-year term, which began in January. Tensions within his leftist Partido dos Trabalhadores (PT) between "developmentalists" (who advocate a bigger role for the state) and their opponents create uncertainty in some areas but do not threaten cross-party support for disciplined fiscal and monetary policies. Although politicians are discredited, institutions are strong, but reforms are needed to improve effectiveness and transparency. A new corruption scandal has helped put reform back on the agenda, but far-reaching changes are not expected. Executive power is checked by a strong legislature. Brazil has a professional diplomatic corps, enjoys generally good relations with its neighbours and global trading partners, and plays a leading role in conflict resolution in the region. (EIU, Risk Briefing, September 2007).
Capital market development	2.2	The availability of investment finance has long been restricted by tight monetary policy and high lending rates. Nevertheless, real interest rates now appear to be on a sustainable downward trend, and the domestic capital markets are gradually deepening. Even so, most local-currency loans are expensive and short-term. The private banks are well managed, well capitalised and profitable, but heavily exposed to government paper. The equity and corporate bond markets have strengthened in the past five years and in the long term will offer alternative financing opportunities for local and foreign companies. For now, however, they remain small and relatively illiquid. (EIU, Risk Briefing, September 2007).
Judicial system	1.7	Legal & regulatory risk arises largely from the slow and complicated judicial process. Although the system is considered to be generally fair, delays reflect the ease with which legal injunctions can be obtained. The risk that a contract will not be enforced is low, but it may be subject to interpretation by state legislatures. There is little risk of expropriation of assets, and protection of private property is fair. Some improvements introduced in a 2004 judicial reform that included the introduction of a case law system to make Supreme Court decisions binding will speed up final resolution of contested cases. (EIU, Risk Briefing, September 2007).
Accounting standards	3.0	Companies listed on Novo Mercado section of the stock market must use GAAP. Elsewhere, international standards or transparent local standards that are readily interpreted and moving in direction of international norms are used. Starting in 2010, all listed companies and financial institutions must use IFRs, which are not permitted for non-listed corporate entities. (EIU, Country Commerce, August 2007; Deloitte/IAS PLUS).

Governance standards	3.0	Pursuant to the revised Corporate Law of 2001 (which also covers financial institutions), the Securities Commission (CVM) published voluntary governance standards in 2002. Corporate entities (sociedades anônimas—SAs) are requested, but not required, to report on their non-compliance, which is not punishable. Many have begun to do so. The World Bank's Doing Business (2006) scores Brazil a 5.3 out of a maximum 10.0 on its investor protection index, compared to a regional average of 5.1 and an OECD average of 6.0. The country is rated above the regional average on disclosure and director liability (5.0 and 7.0, respectively), but below average on shareholder ability to bring suits (4.0). (EIU, Country Commerce, August 2007).
MFI transparency	2.0	Among regulated institutions (banks, credit unions and SCMs) external audits and ratings are required on a regular basis. Among OSCIPs and traditional NGOs, practices vary (three of the four NGOs listed in MIX Market are rated). Effective interest rate disclosure is not required, and not common across the range of institutions. (Microfinance Gateway; Meagher et al, 2006; personal interview, August 2007).

Institutional Development	**33.3**	
Range of MFI Services	2.0	Development and commercial banks can legally and typically do offer (in some combination) such services as loans, check-cashing, savings, insurance and housing loans. SCMs, OSCIPs and NGO MFIs are limited legally to microcredit and simple services such as check-cashing. Credit unions typically engage in accepting savings deposits and making loans, but they are restricted from additional activities. (MIX Market; personal interview, August 2007; Meagher et al, 2006).
Credit bureaus	2.0	The public and private bureaus do not cover microfinancial and other transactions by the lowest income borrowers. The World Bank's Doing Business (2006) gives Brazil a 5.0 out of 6.0 score on its Credit Information Index, compared to a regional average of 3.4 and an OECD average of 5.0. The study reports that 9.2% of adults are covered by the public registry (compared to 7.0% and 8.4%, respectively) and 43.0% by private bureaus (compared to 27.9% and 60.8%, respectively). (Personal interview, August 2007).
Level of competition	0.0	There is very little competition among MFIs, with an HHI score of 4541.6, according to figures contained in a dataset supplied by Sergio Navajas and Luis Tejerina of the IDB. The level of competition has grown in recent years, but is still quite low. (Personal interview, August 2007).

CHILE

Overall score	48.3
Regulatory Framework	50.0
Investment Climate	75.0
Institutional Development	33.3

Regulatory Framework		
Regulation of microcredit operations	2.0	The Superintendency of Banks and Financial Institutions (SBIF), which functions independently from the Central Bank, is the chief regulator. Law 252 of 1960 is the primary legal instrument. The main regulated institutions are state and commercial banks (of which three large ones operate in microfinance), credit unions/cooperatives (of which the country has over 2,000, are limited to members and may be for-profit or non-profit from 2003), and mutual societies (cajas de compensación), of which there are two large ones. Pursuant to usury laws, the SBIF sets an annual maximum interest rate, as well as maximum monthly rates (based on the average rates of the previous months X 1.5); there are different maximum rates for each credit segment. There are some indirect and direct subsidies for public programmes that compete with private institutions, though they have decreased over time and institutions have moved toward commercial criteria. Neither capital adequacy ratios (10%, and in transition toward Basel II norms) nor documentation requirements are burdensome. (Padilla and Gillet, 2001; personal interview, August 2007; EIU, Country Finance, May 2007).
Formation and operation of regulated/supervised specialised MFIs	1.0	There is no specialised microfinance vehicle for greenfield or upgraded operations. Although it is possible for NGOs to upgrade, in practice their ability to meet the minimal capital, provisioning and other requirements is low. (Padilla and Gillet, 2001; personal interview, August 2007).
Formation and operation of non-regulated MFIs	3.0	NGOs mostly operate in the capital, Santiago, and they are very small. They enjoy certain fiscal advantages vis-à-vis regulated institutions, and if they meet certain conditions (accounting standards, audits etc) can access state funding lines. They are lacking in the capital and expertise to upgrade to regulated status, and do not have strong incentives to do so. (IDB internal project document, n.d.; personal interview, August 2007; Padilla and Gillet, 2001).
Regulatory and examination capacity	2.0	The SBIF does not treat microfinance as a separate activity with different rules. For instance, microlending portfolios are lumped together with consumer loans in the "non-evaluated category" for each regulated institution. The SBIF tends to have greater regulatory capacity and knowledge of banks than other financial institutions. (Padilla and Gillet 2001; personal interview, August 2007).

Investment Climate	75.0	
Political stability	3.2	The political environment is stable. The rules governing transfer of political powers are clearly established and accepted, and will continue to operate smoothly. The governing Concertación coalition retained the presidency in January 2006, and will remain in power for a four-year term. Internal debate within the two main political coalitions has always been vigorous, but there are signs that dissent within the ruling Concertación might lead in the long term to a shift in the political make-up of the country. If such a change does happen, it would not herald a change in governability or policy direction, but in the relative composition of the main coalitions. The armed forces are subject to the democratic authorities, and a coup attempt is very unlikely. Labour organisations have been strengthened as a result of labour reforms, but there is little risk of violent demonstrations. International relations are peaceful, although relations with Bolivia, Argentina and Peru have been strained in recent years. (EIU, Risk Briefing, September 2007).
Capital market development	3.8	Chile will remain one of the few emerging countries where companies with good credit ratings have access to a range of medium- and long-term local currency borrowing options. Simplified tax treatment has allowed the creation of a commercial paper market, while the elimination of taxes on crossborder intermediation will enable local banks to expand their operations abroad, particularly in foreign trade financing. The banking system is well capitalised and prudently managed, and surpasses Basle capital adequacy norms. Although banks are well placed to withstand a moderate deterioration in credit conditions, a combination of global risk aversion and Chilean banks' net foreign asset position could weigh on their financial soundness indicators. Corporate and consumer lending growth will slow as domestic interest rate rises take effect. With a market capitalisation rate of around 120% of GDP, the stockmarket is very liquid. (EIU, Risk Briefing, September 2007).
Judicial system	3.0	There is little risk of interference in the judicial process, whether from government or private interest groups. Contract rights are generally upheld and recognised. The judicial process is usually efficient. Neither the courts nor the government tend to favour domestic companies over foreign ones, and there has been no expropriation of foreign assets. The government is a keen promoter of competition (foreign and domestic) and will continue to lift barriers to entry into new markets. Intellectual and private property rights are guaranteed and protected by law, though enforcement can be slow and expensive. Accounting standards are clear and enforced, and business statements can generally be trusted. There are few price controls and, even in a crisis, the government is unlikely to impose them. (EIU, Risk Briefing, September 2007).
Accounting standards	3.0	Chile uses national standards that are converging toward international norms. EIU's Risk Briefing ranks integrity of accounting practices as medium-high. in January 2006 the SBIF issued detailed instructions for the adoption by banks of full IFRS, which became mandatory for all their accounts from the start of 2007. All other companies are due to follow suit from the start of 2009. Among non-regulated institutions, those that receive funds from the state development agency CORFO are subject to stricter accounting regulation and thus have more consistent standards. (IAS PLUS/Deloitte; personal interview, August 2007; EIU, Country Finance, May 2007).
Governance standards	3.0	Economy-wide, laws passed in 2000-02 for traded corporate entities (sociedades anónimas abiertas) strengthened minority rights, allowed for formation of audit committees, strengthened management responsibility for ensuring fair market prices for transactions, set limits for stock options and purchase of own shares, and established other corporative governance norms. There have been periodic discussions of a national corporate governance code that would encompass non-listed firms as well, but no concrete action. The current and previous governments have sought to strengthen minority rights further, but much remains to be done particularly with respect to non-listed firms, where the issue in practice is dealt with through shareholder agreements. A capital markets reform package pending in the congress should tighten protection of minority shareholders. Institutions regulated by the SBIF have higher and more uniform governance standards than non-regulated institutions. On the World Bank's Doing

		Business (2006) Investor Protection Index, Chile scores 6.3 out of 10, compared to 5.1 for the region and 6.0 for the OECD. Chile scores well above the regional average for disclosure (8.0) and director liability (6.0), but slightly below average on shareholder ability to sue (5.0). (EIU, Country Commerce, September 2006; Personal interview, August 2007; Padilla and Gillet, 2001).
MFI transparency	2.0	Banks must undergo external ratings and audits. Credit unions must be audited, but ratings are not required and not common. NGOs are seldom rated, but some may undergo audits as a form of self-regulation or under pressure from funders. Only one of the five Chilean institutions listed in MIX Market is externally rated. Effective interest rate disclosure is better among regulated institutions than among non-regulated, though there are no strict legal requirements. (Personal interview, August 2007).

Institutional Development	**33.3**	
Range of MFI Services	2.0	Banks offer services beyond microcredit, including savings, though it is sometimes difficult to assess the degree to which the poorest clients are receiving services that are targeted generally at lower-income populations. Both credit unions/cooperatives offer savings as well, as tends to be the case for this category of institutions. Fondo Esperanza, the sole MIX-listed NGO in a country universe of few and small NGOs, offers only savings. (Personal interview, August 2007).
Credit bureaus	2.0	Both public and private bureaus exist, though information is sometimes incomplete. Institutions do consult them, and it typically takes 2-3 working days to receive information. Information tends to be good for formal-sector, regulated transactions, but not for other types of transactions. The World Bank's Doing Business (2006) gives Chile a 6.0 out of 6.0 rating on its Credit Information Index, compared to a regional average of 3.4 and an OECD average of 5.0. The public registry covers 31.3% of adults (compared to 7.0% and 8.4%, respectively) and private bureaus 19.3% (compared to 27.9% and 60.8%, respectively). (Personal interview, August 2007; Padilla and Gillet, 2001).
Level of competition	0.0	There is very little competition among MFIs, with an HHI score of 4165.8, according to figures contained in a dataset supplied by Sergio Navajas and Luis Tejerina of the IDB. There is reportedly good access for formal microentrepreneurs, but poor access for informal microentrepeneurs and the under- and unemployed. (Personal interview, August 2007).

COLOMBIA

Overall score	46.1
Regulatory Framework	50.0
Investment Climate	47.1
Institutional Development	41.7

Regulatory Framework		
Regulation of microcredit operations	2.0	Regulated institutions involved in microfinance, supervised by the Financial Superintendency, are banks and, to a lesser extent, non-banking financial institutions (commercial finance companies, leasing companies and family compensation funds [cajas de compensación familiar]), and finance cooperatives/credit unions. Under Law 964, passed in July 2005, and Decrees 4347, 4328, 4329 and 4330, passed in November 2005, the Financial Superintendency was created, merging the bank regulator (Superintendencia Bancaria) and the securities and insurance commission (Superintendencia de Valores y Seguros). There is an interest rate cap for microcredit operations by regulated institutions in the form of a usury law; under Decree 519 of March 2007, the Superintendency now calculates the rate quarterly for consumer and commercial loans, and annually for micro-business loans. The rate was set at 25.12% for consumption and commercial loans for April-June 2007, and at 33.93% for micro-business loans for the April 2007-March 2008 period. Documentation requirements and compliance costs are high. Public programmes and institutions are mostly limited to second-tier operations and generally do not compete directly with first-tier institutions. Capital-adequacy ratios (of 9% for all regulated institutions) are appropriate. (Microfinance Gateway; EIU, Country Finance, May 2007; personal interview, August 2007).
Formation and operation of regulated/supervised specialised MFIs	1.0	There is no special-purpose microfinance vehicle. Some finance companies place a significant portion of their portfolio in microfinance, but still tend to operate well beyond microfinance. In principle, NGOs can upgrade to become finance companies and eventually banks. Yet very few (such as Banco Caja Social) have done so among Colombia's numerous NGO-based MFIs. Costs to comply with corporate tax and regulatory burdens and non-prudential regulation are high; the required minimum capital is restrictive (about US$27.5m for banks and US$7.1m for finance companies, at August 2007 exchange rates); and usury restrictions on interest rates at regulated institutions do not apply to NGOs. (Microfinance Gateway; personal interview, August 2007).
Formation and operation of non-regulated MFIs	3.0	Colombia has one of the largest non-regulated MFI sectors in the region. The one significant hurdle is that non-regulated institutions face a 40% withholding tax (encaje) on external loans for 180 days. NGOs face no significant regulatory barriers in forming and becoming active in microcredit. Pursuant to the Civil Code and Decree 1529/90, NGOs register as non-profit associations with the respective Chamber of Commerce and territorial government (departamento). Sources of funding including international philanthropy, socially responsible investment, and even—if standards are sufficiently high—local bank loans and bond issues. Several specific types of non-finance cooperatives also operate on a non-regulated basis: full-service cooperatives with a savings and credit section, multipurpose cooperatives with a savings and credit section, and specialised savings and credit cooperatives. Like regulated finance co-ops, they register with the Chamber of Commerce, but unlike them they are licensed by the Superintendency of Mutualistic and Cooperative Societies, a non-financial governmental entity. (Personal interview, August 2007; Microfinance Gateway; Curat et al, 2007).

Regulatory and examination capacity	2.0	In general, the Financial Superintendency is known for being very strict and professional in its regulation and enforcement. Regulated institutions must file daily, weekly, monthly, quarterly, semi-annual and annual reports. Annual audited financial statements must be published. However, it lacks specialised procedures, personnel, and knowledge to regulate and supervise microfinance in a more effective, tailored manner. (Microfinance Gateway; personal interview, August 2007).

Investment Climate	**47.1**	
Political stability	2.2	Despite the high level of security risk, the political system functions adequately and the mechanism for transfers of power is well established. Alvaro Uribe enjoys high approval ratings, thanks to improvements in public security, economic recovery and strong leadership. His re-election by a comfortable margin in May 2006 gave a mandate for policy continuity. Victory for his political allies at the March 2006 congressional election supports governability. Human rights groups continue to express concerns over the potential for abuses in the government's democratic security strategy. Mr Uribe and other public figures will remain assassination targets for the guerrillas. Ideological differences between the Colombia and Venezuelan governments may impede efforts to coordinate measures to curb border incursions by Colombian rebels into Venezuela. (EIU, Risk Briefing, September 2007).
Capital market development	1.8	The financial sector is recovering well from the crisis of 1998-99. It is still affected by distortions such as compulsory lending to favoured sectors, special deposits, surcharges and a tax on financial transactions. Following the crisis, regulatory changes have been made and supervision has improved. Banks have returned to profitability and are fully provisioned against bad loans, but their heavy holdings of government debt are a concern. The stock market boomed in 2003-06 and is vulnerable to a fall. Firms fear enhanced tax scrutiny that a listing brings; while demand from local private pension funds is restricted. The local-currency bond market is dominated by public-sector debt, leaving little room for corporate issues. (EIU, Risk Briefing, September 2007).
Judicial system	1.3	There is little danger of expropriation or confiscation, and it is official policy to encourage foreign investment by creating a clear, stable and favourable regulatory framework. Although the Supreme Court is impartial and well respected, the lower levels of the judiciary and civil service are susceptible to corruption and intimidation. Drugs money and the power of vested interests have contributed to the contamination of the legal system. In regions with a high level of guerrilla and paramilitary activity private property is threatened, and extortion by both guerrillas and common criminals is widespread. (EIU, Risk Briefing, September 2007).
Accounting standards	2.0	Efforts to transition to IAS have met with continued delays and roadblocks. IFRS are not permitted for either listed or non-listed firms. Inflation-adjusted accounting for tax purposes was, however, eliminated by Law 1111 of 2006. EIU's Risk Briefing scores Colombia low on integrity of accounting practices. (Deloitte/IAS PLUS; EIU, Country Commerce, January 2007).

Governance standards	2.0	Law 964, approved in mid-2005 pursuant to IMF commitments, includes new provisions to improve financial institutions' governance practices, adding to those enacted by a 2002 decree for securities firms. The new law, whose effectiveness remains unclear, aims to extend the same self-regulation rules to all players in the financial sector. It required all institutions involved in financial intermediation to implement corporate governance codes by July 8th 2006. Also, self-regulation committees, one for each type of financial services company, are to issue self-regulation codes, which are supposed to include specific penalties for employee violators. The law also created several measures to protect shareholders (especially minority ones), including compulsory disclosure of agreements among stockholders, the ability of minority shareholders to request information from the board of directors, the incorporation of independents on the boards of directors and the establishment of an auditing committee. However, it remains to be seen if these measures will actually be enforced or if majority shareholders will find a way to avert them without breaching the law. Law 964 and subsequent implementing regulations also required listed companies to appoint at least one independent director by mid-2006, and to reach the 25% independent directors threshold by July 2007 (it is not clear how many met that timetable). There are unspecified sanctions applicable by the Financial Superintendency if firms do not meet that timetable. By October 2006, it reported that only 5% of listed firms lacked independent directors (down from 29% in its own survey four months earlier), while 45% of companies had 26% or more of independents, 12% had a quarter, and 4% had 15-24% independents (34% of firms were non-reporting). While there are no norms for unlisted firms, discussions continue on a voluntary national corporate code of conduct. Among NGOs, though formal requirements do not exist, governance standards are often solid, due to self-regulation in part to meet the concerns of potential foreign and domestic lenders and investors. (Personal interview, August 2007; OECD Roundtable, 2005; Diario La República, 2005; EIU, Country Finance, July 2007).
MFI transparency	2.0	The Superintendency requires regulated institutions to publish annual audited financial statements. Some non-regulated institutions, while under no legal requirement, conduct external audits so that they can be eligible for bank loans, receive socially responsible investment, and for other motives. Of the 15 Colombian institutions listed on MIX Market (including 13 NGOs, a bank and a non-bank financial institution), six are externally rated. Disclosure of effective interest rates is not required, though regulated institutions must disclose nominal rates and fees. The degree to which MFIs, regulated and not, disclose effective rates varies in practice. (Microfinance Gateway; MIX Market; personal interview, August 2007).

Institutional Development	**41.7**	
Range of MFI Services	2.0	The few banks involved in microfinance so far have begun to innovate somewhat beyond savings and credit, in part helped by the fact that the Superintendency now allows them to operate non-branch "corresponsales", providing financial services (such as bill payment and fund transfer) through drugstores or other entities. The numerous NGO MFIs are mostly restricted to lending. Of the 13 NGO MFIs listed in MIX Market, all offer services that are limited to loans or loans plus business development services. (Personal interview, August 2007; Microfinance Gateway).
Credit bureaus	2.0	Although there is no public registry, private credit bureaus track both individuals and firms. Positive and negative data are distributed, and the bureaus collect credit information from financial institutions as well as retailers and utility providers. Non-regulated institutions do not appear to be covered, however. The World Bank's Doing Business (2006) gives Colombia a 4.0 out of a maximum 6.0 on its Credit Information Index, compared to a regional average of 3.4 and an OECD average of 5.0. Private bureau coverage is 28.3% of adults, compared to a regional average of 27.9% and an OECD average of 60.8%. (Microfinance Gateway).
Level of competition	1.0	There is little competition among MFIs, with an HHI score of 2207, according to figures contained in a dataset supplied by Sergio Navajas and Luis Tejerina of the IDB.

DOMINICAN REPUBLIC

Overall score	57.5
Regulatory Framework	50.0
Investment Climate	37.5
Institutional Development	75.0

Regulatory Framework		
Regulation of microcredit operations	3.0	The Bank Superintendency regulates the sector under the authority of the General Banking Law of 1965, and subsequent amendments. In principle, banks, credit and savings banks, credit corporations, savings and loan associations, and savings and credit cooperatives (credit unions) can all engage in regulated microlending, though banks, such as Banco ADEMI and Banco ADOPEM, are most important regulated actors. Capital-adequacy ratios (10% for banks, credit institutions and non-banking financial institutions) are not burdensome, nor are documentation requirements. There are no interest rate ceilings. The one public institution that engages in non-collateralised, non-regulated lending to "microenterprises" and "subsistence microenterprises," PROMYPYME (under the auspices of the Secretariat for Industry and Commerce), operates on what it claims are "strictly commercial terms"; its interest rates (currently between 14.5% for manufacturing and handicrafts and around 18% for other activities) seem to be broadly within market norms. (Secretariat for Industry and Commerce; Personal interview, August 2007; Microfinance Gateway).
Formation and operation of regulated/supervised specialised MFIs	2.0	Although it is possible for microcredit NGOs to upgrade into banks or non-banking financial institutions (sociedades financieras) in principle, in practice none has done in the last few years because it is costly (eg, taxes, paperwork, lost opportunities for some public funding, all depending on the precise circumstances). Around 2004, ADOPEM, the Dominican affiliate of Women's Worldwide Banking, did complete the transition to becoming a bank. (Personal interview, August 2007; Microfinance Gateway).
Formation and operation of non-regulated MFIs	3.0	NGOs are among the most numerous (though not largest) microfinance providers. It is not difficult to open an NGO or a microcredit operation in regulatory and legal terms, though practical limits may exist in terms of fundraising prospects. (Personal interview, August 2007).
Regulatory and examination capacity	0.0	There is a lack of trained personnel in the use of specialised microfinance methodologies. The Superintendency does not have a microfinance unit or other form of specialised regulatory capacity. (Personal interview, August 2007).

Investment Climate	**37.5**	
Political stability	2.0	After a period of political turmoil and heightened social tensions in 2002-04, the country has regained stability under the leadership of Leonel Fernández. The presidency wields excessive discretionary power and reforms to strengthen government and electoral institutions are needed. After the May 2006 congressional election, the ruling PLD has a majority in Congress. Relations between the executive and the opposition PRD and PRSC should be workable in the medium term, but may deteriorate as the 2008 presidential election approaches. Despite efforts to strengthen the electoral authorities, a close result could lead to a dispute. Social unrest has receded but deterioration in the economy or government attempts to increase electricity prices or crack down on electricity theft may cause protests. The potential for spillover from the chronic crisis in neighbouring Haiti will continue to pose challenges. (EIU, Risk Briefing, September 2007).
Capital market development	1.0	The availability of finance from the domestic banking system is limited and foreign companies (as well as large domestic companies) tend to rely more on external financing through correspondent banks. The market for investment financing is shallow and expensive, and companies needing to borrow for an extended period tend to seek dollar financing. Access to external financing has eased since 2003-04 in the wake of a banking crisis and associated currency and price instability. Amid an easing of local interest rates, credit to the private sector picked up in 2006, growing by 16%, and has accelerated further in 2007. Despite improvements in regulation and supervision since 2005, concerns prevail over corporate governance and asset quality at private banks. The country's very small stockmarket is unlikely to grow significantly until the very long term. (EIU, Risk Briefing, September 2007).
Judicial system	1.0	The slow and ineffectual judicial process and weaknesses in the regulatory framework are the main contributors to legal and regulatory risk. The risk that a contract will not be enforced is moderate. The national business lobby has won tax and regulatory concessions, but overt discrimination against foreign companies is minor, and is likely to recede further with the entry into force of DR-CAFTA in March 2007. There is little risk of expropriation of assets, and protection of private property is fairly effective. The judiciary is weak and prone to corruption, though the Supreme Court is regarded as being reasonably independent. However, the regulatory framework in sectors such as energy is subject to changes, and political interference in regulatory bodies, as evidenced by the handling of the 2003 banking crisis, prevails. The practice of dual accounts in companies for tax evasion purposes is common. Protection of intellectual property rights is poor, but likely to improve. (EIU, Risk Briefing, September 2007).
Accounting standards	2.0	In the economy as a whole, the Institute of Certified Public Accountants adopted IAS in 1999. IFRS are required for both listed and non-listed firms economy-wide. Accounting and auditing standards for the financial sector, in line with international norms, are set by the Superintendency, and were strengthened in recent years. A 2004 IFC report on Dominican accounting found problems with financial groups (eg, lack of consolidated financial statements), a need to strengthen the accounting profession, some slowness in adopting the latest international standards, and weak enforcement. Closures of several banks in recent years have raised concerns about the quality of financial reporting. Standards at NGOs are uneven, though there is some self-regulation. (IFC, Report on Observance of Standards and Codes, December 2004; Deloitte/IAS PLUS; Interamerican Accounting Association; Personal interview, August 2007).
Governance standards	1.0	Independent auditors may attend annual shareholders' meetings but are not required to do so, meaning minority board members do not always have access to timely financial information. The legal oversight figure of legal representatives (comisarios) have conflicting responsibilities of external oversight and internal provision of advice. Financial reforms have improved regulation, but concerns persist over corporate governance and supervision. The World Bank's Doing Business (2006) rates the Dominican Republic 4.0 on a scale of 10.0 in terms of its Investor Protection Index, compared to a regional average of 5.1; it received an average score on disclosure, an above-average score on shareholder ability to bring suits, and a zero score on director liability. (EIU, Country Risk Summary, August 2007; IFC, Report on Observance of Standards and Code, December 2004).

MFI transparency	2.0	Annual external audits are required for banks and other regulated financial institutions; ratings are not required, and the one bank listed in MIX Market, Banco Ademi, has not been rated in recent years. Regulated institutions must publicise financial statements in the media and must also display interest rates, expenses and commissions applied to different transactions and the price of their financial services in all offices. NGOs do not face these requirements, and their practices on interest rate disclosure and external ratings and audits vary more widely and depend largely on the strength of self regulation and pressures from funders. Of the five NGO MFIs listed in MIX Market, two are externally rated. (Microfinance Gateway; Personal interview, August 2007).

Institutional Development	**75.0**	
Range of MFI Services	3.0	A fairly wide range of services beyond microcredit are offered (eg, remittances and bill payment), more so in regulated institutions (which are also the only ones that can offer savings and term deposits). (Personal interview, August 2007; Microfinance Gateway; MIX Market).
Credit bureaus	3.0	Both a public registry and private bureaus exist, and are widely used. Efforts are being made to integrate the information, though much more needs to be done. The country receives the highest score (6.0 of 6.0) on the Credit Information Index of the World Bank's Doing Business (2006); the public registry covers 51% of adults (compared to 7.0% average for the region and 8.4% for the OECD), and private bureaus cover 11.9% (compared to a 27.9% average for the region and 60.8% for the OECD). (Personal interview, August 2007).
Level of competition	3.0	Due to a lack of comprehensive data, we have relied on qualitative impressions. The country has a fairly good level of penetration of microfinance, and interest rates have come down. For consumption and working capital, the market is even saturated. Where it is underserved is in the rural sector. (Personal interview, August 2007).

ECUADOR

Overall score	68.3
Regulatory Framework	75.0
Investment Climate	41.3
Institutional Development	75.0

Regulatory Framework		
Regulation of microcredit operations	2.0	The Banking Superintendency (Superintendencia de Bancos y Seguros) regulates banks, financial associations, savings and credit mutual associations for housing, savings and credit cooperatives/credit unions, and investment and development corporations. Under the new Law of Financial Regulation approved in August 2007, there was a partial liberalisation of previous interest rates caps and a wider and higher fluctuation band was established. Based on the new formula the Central Bank set the minimum interest rate for credit at 23.9% and the maximum rate at 41.86%. Several public programmes with high subsidies and non-market criteria compete with private microfinance providers. Capital-adequacy ratios for regulated institutions (9%) are appropriate and documentation is not excessive. (Personal interview, August 2007; Microfinance Gateway; El Mercurio, August 23, 2007).
Formation and operation of regulated/supervised specialised MFIs	3.0	By carefully defining microcredit, risk categories, and provisioning requirements, the regulatory framework facilitates the formation and operation of significant number of specialised institutions among all the major formal categories (ie, banks, financial associations, credit unions etc). Upgrading of NGOs is also possible, and some NGOs have recently becomes financial associations (sociedades financieras). Since the legal framework regulates the activity of microfinance rather than specific types of institutions, the promotion of a specific juridical vehicle to promote microfinance specialistion is unnecessary. (Personal interview, August 2007; Microfinance Gateway; Microfinanza, July 2006).
Formation and operation of non-regulated MFIs	4.0	Many NGOs operate in microcredit; MIX Market alone lists 15. Other non-regulated institutions providing microfinance are savings and credit cooperatives under the control of the Social Welfare Ministry, private informal lenders, and popular organisations that provide savings and credit services for their members. (Personal interview, August 2007).
Regulatory and examination capacity	3.0	There is substantial specialised capacity for regulation, as the activity of microfinance is regulated (with specific risk categories, credit methodologies, provisioning requirements etc) rather than specific types of insitutions. However, there are sometimes weaknesses in the political independence and credibility of the Banking Superintendency as a financial regulator more generally. (Microfinance Gateway; personal interview, August 2007).

Investment Climate	41.3	
Political stability	0.8	After a convincing win in the run-off presidential election held in November, the populist left-winger Rafael Correa took office in January 2007. Although electoral uncertainty has abated—at least for the time being—political risk is likely to remain high in the outlook period. Mr Correa has promised sweeping reform and is attempting to establish a constitutional assembly with powers to dissolve Congress and restructure the judiciary. This will heighten policy instability during 2007-08. Strong rivalry between coastal and highland political and economic elites, and strong demands for regional autonomy, especially in Guayaquil, will also undermine stability. (EIU, Risk Briefing, September 2007).
Capital market development	0.8	Dollarisation has improved market confidence and banks are gradually re-establishing themselves as financial intermediaries following the systemic collapse of 1998-99 but credit will remain scarce for most businesses. Public confidence in the banking system has improved in recent years and deposits have picked up. Having been overcrowded, the market is now dominated by four big banks and suffers from a lack of competition. Credit availability is stunted because private banks must maintain high liquidity levels, due to the absence of a lender of last resort in the dollarised financial system. Most deposits are in instantly accessible current accounts, so a dip in confidence in the financial system could prompt a run on deposits. (EIU, Risk Briefing, September 2007).
Judicial system	0.3	The judiciary is highly politicised and bribery is a major problem. Property rights are protected by legislation but enforcement is weak. There is effectively no competition or anti-trust law enforcement. Regulators are subject to political pressure. Many sectors of the economy are monopolistic, although there are recent signs of improved competition in some sectors such as telecoms and brewing. There are practical barriers to foreign competition, and many foreign investors have received unfair treatment. Following a long-standing dispute, the government announced in May 2006 the annulment of US oil company Occidental's contract. Intellectual property protection is improving, although serious deficiencies remain. (EIU, Risk Briefing, September 2007).
Accounting standards	4.0	International standards have been required in Ecuador's dollarised economy since 1996. IFRS are mandatory for all listed companies. The Banking Superintendency has established and enforces strict standards for regulated institutions. Since accounting standards at NGOs depend more on self-regulation and the requirements of external funders, there is more variation and unevenness (Inter-American Accounting Association; IAF PLUS/Deloitte).
Governance standards	2.0	Economy-wide, minority rights are covered in the corporate governance norms that CAF has developed and for which it, along with other international agencies, is providing Ecuadorian firms training and technical assistance over a four-year period. But this is a voluntary undertaking for firms. Ecuador scores low in the World Bank's Doing Business Investor Protection Index (2006), earning a score of 4.0 out of a maximum of 10.0 (compared to a 5.1 average for the region and a 6.0 average for the OECD). Governance standards tend to be higher in the regulated sector, where some norms are enforced by the Superintendency, than in the non-regulated sector. (Personal interview, August 2007).

MFI transparency	2.0	External audits and ratings on an annual basis are required for regulated institutions. Some NGOs are "self-regulating," under such organisations providing technical services as the Rural Financial Network (Red Financiera Rural). Such NGOs undergo external audits and in some cases external ratings. Of the 15 NGO-based MFIs in Ecuador listed in MIX Market, seven received at least one external rating in 2005-06. Dissemination of effective market interest rates has been uneven and unregulated, though a recent loosening of interest rates restrictions in principle mandates greater transparency. (Microfinanza, July 2006; Personal interview, August 2007).

Institutional Development	**75.0**	
Range of MFI Services	2.0	Many MFIs in Ecuador offer a moderate range of services beyond microcredit, particularly savings, fund transfer, and in some cases insurance. There is still room for more innovation. (MIX Market; Personal interview, August 2007).
Credit bureaus	4.0	Credit bureaus, both public and private, are well developed and regulated. On the World Bank's Doing Business Credit Information Index (2006), Ecuador is rated 5.0 out of 6.0, equal to the OECD average (5.0) and well above the regional average of 3.4. The public registry covers 15.2% of adults (compared to 7.0% in the region and 8.4% in the OECD), while private bureaus cover 43.7% (as opposed to 27.9% in the region and 60.8% in the OECD). (Personal interview, August 2007).
Level of competition	3.0	There is sustantial competition among MFIs, with an HHI score of 561.7, according to figures contained in a dataset supplied by Sergio Navajas and Luis Tejerina of the IDB. This is the lowest HHI score, indicating the lowest level of industry concentration, among the 15 countries in this study. Ecuadorian microfinance has had one of the highest rates of growth in recent years (even more than Bolivia and Peru). It still needs more specialisation in product supply and operators. (Personal interview, August 2007).

EL SALVADOR

Overall score	61.5
Regulatory Framework	62.5
Investment Climate	49.2
Institutional Development	66.7

Regulatory Framework		
Regulation of microcredit operations	2.0	The Financial System Superintendency (SSF) is the main regulatory body, and it operates primarily under the 1999 Banking Law and subsequent amendments. There is no formal cap on interest rates. Capital-adequacy ratios are strong if perhaps somewhat conservative—12% for all regulated institutions except savings and credit co-operatives (credit unions) and savings and credit associations, for which they are 15%. There is some subsidised competition in the rural sector (but none in the urban sector) from public institutions; it comes in the form of Banco de Fomento Agropecuario, which has also been marred by corruption allegations and a high rate of non-performing loans. There is a movement to reduce its functions, but no political action has been taken on this front. Documentation requirements are not burdensome. (EIU, Country Finance, December 2006; Personal interview, August 2007).
Formation and operation of regulated/supervised specialised MFIs	3.0	In February 2004 the first Reciprocal Guarantee Society (Sociedad de Garantía Recíprocas—SGR) was created. These financial institutions are supervised by the Financial Superintendency and have minimum capital requirements. Their main task is to accept the debt of and grant credits to microenterprises and small and medium-sized companies. NGOs can transform themselves into savings and credit associations under the Financial System Commission's supervision, though they must meet fairly strict requirements (capital, provisioning by risk category etc) (Microfinance Gateway; personal interview, August 2007).
Formation and operation of non-regulated MFIs	3.0	NGOs face no legal or regulatory restrictions in forming and operating. Fundraising can in practice be an issue, though there is a second-tier public institution that on-lends to non-regulated MFIs. (Personal interview, August 2007; Microfinance Gateway).
Regulatory and examination capacity	2.0	Although banks are generally well-regulated, the range of non-banking financial institutions often face problems, as do potential upgraders who are currently non-regulated. Specialised knowledge and procedures are often lacking (eg, on provisioning), as are laws that would give greater regulatory guidance on microfinance. (Personal interview, August 2007).

Investment Climate	49.2	
Political stability	2.8	Antonio Saca of Arena, who assumed the presidency in June 2004, will provide policy continuity and political stability. Nevertheless, some public demonstrations against the pro-US, pro-free-trade stance of the Arena government are likely to persist. Public frustration with levels of violent crime and public-sector corruption could all generate a rise in social unrest. Rising anti-privatisation sentiment, which largely reflects a failure of privatised utilities to reduce prices as expected, could do the same. Taxes could be increased in the forecast period to help close the fiscal gap, providing another potential trigger to social unrest. (EIU, Risk Briefing, September 2007).
Capital market development	2.0	Following the passage of a law legally fixing the exchange rate to the US dollar at c8.75:US$1 from January 2001, exchange-rate volatility is a function of US dollar volatility. The local financial market remains fairly illiquid, but low financing rates have been available to large foreign corporations. The financial system is generally sound, although smaller institutions' higher operating costs mean that consolidation in the banking sector is likely to continue in the next several years. If this consolidation process goes too far, borrowing costs may rise as competition declines. Equity finance is scarce; most companies raise capital through debt issuance. (EIU, Risk Briefing, September 2007).
Judicial system	1.0	The judiciary is inefficient and politicised, which means that contractual agreements are often not respected and the protection of property rights is not guaranteed. Efforts to make the judicial system more effective will be constrained by the lack of political will and weak institutional capacity. The system is also extremely slow. The time required to prosecute and pass judgement on a case can be many years. The regulatory system remains opaque, despite some advances in transparency in recent years. Private property rights are respected, and intellectual property protection should improve under the terms of the Dominican Republic-Central America Free-Trade Agreement (DR-CAFTA) with the US. Company accounts are frequently unreliable. (EIU, Risk Briefing, September 2007).
Accounting standards	3.0	IAS have been used in El Salvador's fully dollarised economy since 2000. IFRS were phased in over 2000-06. However, in some cases, IFRS are dated, and enforcement is often weak and overstretched. (Inter-American Accounting Association; IAS PLUS/Deloitte; EIU, Country Commerce, July 2007; IFC, Report on Observance of Standards and Codes, June 2005).
Governance standards	1.0	Economy-wide, only minimal requirements are in place for corporations, such as holding annual meetings, publishing annual financial reports, allowing minority shareholders to call a meeting, and registering companies in the commercial registry. Beyond experience requirements for directors and CEOs, the Financial System Commission imposes no significant governance requirements for financial institutions. The World Bank's Doing Business (2006) scores El Salvador at 4.7 out of a maximum 10.0 on its Investor Protection Index, compared to 5.1 for all of Latin America and 6.0 for the OECD. The country scores above the regional average on disclosure (6.0), well below the average on director liability (2.0), and close to the average for ability of shareholders to bring suit. Associations and foundations must have publicly available internal statutes, which include a description of the administering body's functions; procedure for elections; and a responsibility and accountability plan. (Microfinance Gateway; EIU, Country Commerce, July 2007; personal interview, August 2007)

MFI transparency	2.0	Banks must submit quarterly statements, publish audited financial statements in two newspapers during the first 60 days of the year, and publish a balance sheet and provisional liquidity three times a year. They also must be annually classified by a risk-classifying agency registered in the Public Stock Exchange Registry with the Securities Commission. Savings and credit co-operatives must submit annual external audits, and publish audited financial statements in a newspaper during the first 60 days of the year, and publish a yearly balance sheet in a newspaper. Federations must have an auditing committee who reports to the Commission. Cooperative associations must submit monthly financial statements to the Salvadoran Cooperative Development Institute. SGRs must disclose their financial statements to the Superintendency in the manner in which the Commission sees fit. NGOs must formally account for their capital using established accounting standards and submit an annual audited balance sheet to the Ministry of Interior's Registry; auditors are obligated to inform the organisation's general assembly and the El Salvador's Court of Accounts if there is an irregularity in the administration of capital. External ratings do not appear to be common among co-operatives or NGOs, though they are more common (albeit not obligatory) among banks. Disclosure and dissemination of effective interest rates is voluntary, and practices vary across institutions. (Microfinance Gateway; MIX Market; Personal interview, August 2007).

Institutional Development	**66.7**	
Range of MFI Services	2.0	Regulated institutions often have a modest to wide variety of other services, such as savings, insurance and fund transfer/remittances. Cooperatives primarily conduct only savings and loan operations. NGOs generally offer only microcredit. (MIX Market; personal interview, August 2007).
Credit bureaus	4.0	There are separate private bureaus used by regulated and non-regulated institutions, respectively. There is also a public registry, though it tends not to cover transactions by and with small and micro-businesses. Measuring the extent of information available, the World Bank's Doing Business (2006) gives El Salvador a maximum 6.0 out of 6.0 on its Credit Information Index, compared to a regional average of 3.4 and an OECD average of 5.0. It reports that 30.5% of Salvadoran adults are covered by the public registry (compared to 7.0% and 8.4, respectively) and 79.6% by private bureaus (compared to 27.9% and 60.8%, respectively). (Personal interview, August 2007).
Level of competition	2.0	Due to a lack of comprehensive data, we have relied on qualitative impressions. El Salvador is considered to be more competitive than most of its Central American neighbours, though somewhat behind Nicaragua. (Personal interview, August 2007).

GUATEMALA

Overall score	44.0
Regulatory Framework	56.3
Investment Climate	40.8
Institutional Development	33.3

Regulatory Framework		
Regulation of microcredit operations	3.0	The Law on Banks and Financial Groups (2002) provides the main regulatory framework, and the Superintendency of Banks (Superintendencia de Bancos—SB) is responsible for the day-to-day oversight of all financial institutions. The main regulated institutions engaged in microfinance are banks (which often have specialised microfinance units) and co-operatives/credit unions. Laws covering regulation of microfinance and microfinance associations and non-regulated financial institutions have been pending since 2002 and face uncertain prospects of legislative approval. Capital-adequacy ratios for regulated institutions (10%) are reasonable. Public programmes and institutions, which are generally lacking, do no constitute unfair competition. There are usury rates setting maximums, but they are not overly restrictive as they allow for a reasonable range of rates. Documentation requirements are reasonable. (Personal interview, August 2007; Microfinance Gateway; EIU, Country Finance, December 2006).
Formation and operation of regulated/supervised specialised MFIs	1.0	Although in principle it is possible, regulated greenfield NGOs have not emerged and it is difficult for NGOs to upgrade. High minimum capital requirements and the lack of specific risk categories and provisioning requirements for microfinance are among the multiple obstacles. Pending laws would address some of these obstacles, but passage is highly uncertain. Savings and credit cooperatives are regulated institutions, but they are not specialised in microfinance. They engage in a great deal in consumer lending, and for members only. (Personal interview, August 2007; Microfinance Gateway).
Formation and operation of non-regulated MFIs	4.0	Some 35 NGOs operate in Guatemala. Of the 16 Guatemalan MFIs evaluated by MIX Market, 15 are NGOs. It takes no more than four months and 3,000-5,000 quetzales to register an NGO. Those that receive only private funds are not subject to the supervision of the fiscal authorities. (Personal interview, August 2007; Real Instituto Alcano, April 15, 2004).
Regulatory and examination capacity	1.0	Specialised capacity has increased somewhat in recent years. In June 2004 the Monetary Council passed Resolution JM–64–2004, which introduced significant changes in the way a bank's risk exposure is calculated. In classifying, evaluating and calculating reserves, the new legislation separates big business creditors from smaller creditors (micro-credit, consumer loans, mortgages and other business loans), in order to enable a more rigorous analysis of the most substantive part of a bank's credit portfolio. The Mexican commercial bank, Banco Azteca, was given authorisation in February 2006 to operate in Guatemala, specialising in micro credit for the low-income population with minimal credit backing; the bank began operations in early 2007. Despite such developments, specialised supervisory and regulatory capacity remains weak in the absence of a law on microfinance that would require the SB to develop such capacity. State support for microfinance activities through second-tier institutions is sorely lacking. (EIU, Country Finance, December 2006; Personal interview, August 2007)

Investment Climate	40.8	
Political stability	1.6	The fragmentation of political forces in the unicameral legislature hampers governability. Political jockeying ahead of the end-2007 elections increase the risks of instability and effectively rules out any chances of much-needed reforms being enacted before then. We expect Álvaro Colóm of the left-of-centre Unidad Nacional de la Esperanza (UNE) to lead the next government, which will take office in January 2008. However, it is unlikely that he will command a majority in Congress, meaning the need to build and maintain an unwieldy coalition from a fragmented party spectrum will continue to weigh on governability, impeding reforms. Soaring violent crime rates and widespread corruption will continue to test the authorities. Dealing with pressure groups will become increasingly problematic and could spark unrest. (EIU, Risk Briefing, September 2007).
Capital market development	1.2	The quetzal has appreciated in real terms against the US dollar since 2001, but could weaken suddenly: economic fundamentals are not particularly favourable, with only modest improvements in exports, economic growth and the terms of trade. Guatemala offers an extremely shallow market for corporate finance. Even so, financial deregulation in the early 1990s has allowed lightly regulated finance houses to flourish, increasing the availability of credit for consumers. Weak regulation allows financial groups to engage in connected lending. Non-performing loans remain high (5.8% in January 2007) and are under-provisioned, but they are down from 15.1% in May 2002. The stockmarket is highly illiquid, dealing almost entirely in government debt. (EIU, Risk Briefing, September 2007).
Judicial system	1.0	Guatemala's courts are slow and inefficient with a large backlog of cases. The system is poorly administered and frequently corrupt. Efforts to make the judicial system more effective are part of the government's agenda, but progress is constrained by weak institutional capacity. Protection of intellectual property rights is improving following the tightening of legislation, but breaches remain frequent and are hard to prosecute. Most price controls have been abolished, but many goods and activities receive government subsidies. The legal code outlaws expropriation and practices that discriminate against foreigners, and is generally respected. There is no anti-trust legislation, permitting monopolies to operate in some sectors. (EIU, Risk Briefing, September 2007).
Accounting standards	3.0	Economy-wide, IFRS are required for all listed and unlisted companies, and IAS were adopted as mandatory in 2002. A small amount of legislation affecting the banking sector was passed in 2005 and 2006 to implement regulatory measures passed in 2004 intended to improve transparency and supervision of the financial sector. However, the impact remains uncertain, as the SB's supervision of the accuracy of annual financial statements has been placed into question by the recent failure of several banks. (EIU, Country Commerce, December 2006; Deloitte/IAS PLUS; Personal interview, August 2007).
Governance standards	1.0	The governance structure of many financial institutions remains more familial than corporate. The World Bank's Doing Business (2006) gives Guatemala a score of 4.0 out of a possible 10.0 on its Investor Protection Index, below both the 5.1 regional average and 6.0 OECD average. The country receives low scores on disclosure and director liability, and a medium score on shareholder ability to sue. The numerous NGOs in Guatemala have widely varying governance structures and norms. (EIU, Country Finance, December 2006; Personal interview, August 2007).

MFI transparency	2.0	Publication of effective interest rates is not required for regulated institutions, and neither they nor NGOs commonly divulge such information. Annual external audits are required for regulated institutions, and NGOs have made increasing strong efforts at self-regulation and transparency. Only two of the 16 MFIs listed in MIX Market (nearly all of them NGOs) are externally rated (FUNDEA and Genesis Empresarial). (Personal interview, August 2007).

Institutional Development	**33.3**	
Range of MFI Services	2.0	The range of services, while it has grown somewhat, remains limited. Of the 16 Guatemalan institutions listed in MIX Market, only three offer products beyond microcredit (sometimes accompanied by business development services like consulting and training): savings in two cases, and fund transfer in the other. BANRURAL offers a wide range of services in the countryside. (Personal interview, August 2007).
Credit bureaus	2.0	Regulated lenders choose whether or not to grant credit on the basis of information supplied by the public Credit References Corp (CREDIREF) about credit standing, financial situation, payment capacity and level of indebtedness. Bank, cooperatives and commercial lenders, however, are often weakly integrated into CREDIREF data, which also do not reflect transactions with non-regulated institutions. Bureaus are not allow to publish long-term credit history due to out-dated legal restrictions. Private bureaus have not been very active (though a recent Central American regional bureau set up by Trans Union, TUCA, plans to operate there). Nonetheless, the World Bank's Doing Business (2006) gives Guatemala a 5.0 out of a possible 6.0 on its Credit Information Index (compared to a regional average of 3.4 and an OECD average of 5.0). The public registry covers 16.1% of adults (compared to 7.0% and 8.4%, respectively) while private bureaus cover 9.2% (compared to 27.9% and 60.8%, respectively). (de Janvry et al, 2003; Personal interview, August 2007).
Level of competition	0.0	There is a very low level of competition among MFIs, with an HHI score of 2962.9, according to figures contained in a dataset supplied by Sergio Navajas and Luis Tejerina of the IDB. According to an informant, competition is still in a "basic stage of formation", and "lacking in market entrants". (Personal interview, August 2007).

MEXICO

Overall score	48.3
Regulatory Framework	50.0
Investment Climate	58.3
Institutional Development	41.7

Regulatory Framework		
Regulation of microcredit operations	2.0	The National Commission of Banks and Securities (CNBV) is the principal regulator. Commercial banks, the main financial institutions in Mexico, have shown little interest in microfinance. The relatively small number of banking licenses granted in recent years, together with strict prudential standards, have discouraged banks from "downscaling" into microfinance, with a few notable exceptions. Another disincentive for both banks and other regulated MFIs has been the growth of programmes providing directed or subsidised credit to rural areas, though such programmes have undergone significant rationalisation in recent years. Popular savings and credit cooperative societies (SCACPs) have long existed in the form of member-based cooperatives (SAPs) but were first legally recognised as part of the financial system in the 2001 Popular Savings and Credit Law. By 2008 (after several deadline extensions), they must obtain licences as EACPs (popular savings and credit entities) to offer microfinance services, especially deposit taking. The 2001 Law, which aims to rationalise regulation of the diverse institutional forms that traditionally carried out the same activities, also created space for non-member-based institutions called popular financial societies (SOFIPOs) to gain a license to provide savings and credit services to poor households. This was intended as a vehicle for NGOs and other institutions (like finance companies, or cajas de credito) to upgrade. However, the 10-person minimum for the number of owners is proving an obstacle for institutions wishing to obtain such licenses. There are several other types of regulated non-banking financial institutions, including savings and loan societies (which must be replaced by EACPs or SOFIPOs by 2008), credit unions which do not capture savings, and limited-purpose financial societies (SOFOLEs, which are not authorised to capture savings). One of the Mexican states attempted to impose interest rate caps in recent years, but the federal government forced the repeal of the measure based on exclusive national authority over financial policy. Capital-adequacy ratios (8% for banks, 8-11% for non-bank financial institutions, with higher ratios the greater the capital) are not burdensome for established institutions. Documentation requirements are not excessive. (Personal interview, August 2007; Meagher et al, 2006; Microfinance Gateway).
Formation and operation of regulated/supervised specialised MFIs	2.0	In principle, the 2001 law, with the creation of two deposit-taking institutional forms (EACPs and SOFIPOs), provides a promising upgrading vehicle. Since institutions have until 2008 to make conversions, some of the impact remains to be seen. However, fewer SOFIPOs have been created to date than had been hoped; some NGOs and finance companies that had wished to transform have found unattractive the equity structure and the federation governance structure (a form of delegated governance through a federation of institutions with a single committee of financial supervision). These forms are not intended for greenfield MFIs per se, though in principle they could be created. (Meagher et al, 2006; personal interview, August 2007).
Formation and operation of non-regulated MFIs	2.0	NGOs have traditionally been difficult to form because of the dominance of the Mexican state. However, numerous small NGOs have come to operate in microfinance, primarily limited to microcredit (though, on a more limited basis, some can and have offered savings). NGOs exist under diverse legal forms, and one prominent MFI, Compartamos, is a former NGO that has upgraded to become a bank. NGOs are subject to some taxes that some of their regulated competitors are not. This is one incentive for them to upgrade. (Personal interview, August 2007; Meagher et al, 2006).

Regulatory and examination capacity	2.0	CNBV is strong as a general banking regulator, having helped restore the health of banks after the financial crisis of the mid-1990s. However, its admitted incapacity for regulating and fostering microfinance led to the delegate supervision structure that builds on traditional cooperative federations for the specialised MFIs now being created (some are existing federations, some are being newly created). Although microcredit regulation advanced after the 2001 law, it is still confusing, with different rules for different institutions, a confusing array of institutions that causes many entities to work simultaneously under different juridical forms, difficulties in distinguishing consumer lending and microcredit, and several successive deadline extensions for status transformation. CNBV and BANSEFI, the transformed state bank created to oversee the upgrading of institutions and promote their activities under the 2001 law, have also experienced conflicts, most recently over the speed of authorisations. BANSEFI has favoured the more rapid approval of new entities. Despite less take-up of the SOFIPO form than had been hoped, the World Bank has opined that the law's implementation is “ahead of schedule", based in part on the numbers of finance companies achieving financial self-sufficiency ratings. One of BANSEFI’s most important tasks as a non-supervisory development bank for microfinance is linking EACPs to information technology, service points and transfer services via L@Red de la Gente. (Meagher et al, 2006; personal interview, August 2007).

Investment Climate	**58.3**	
Political stability	2.6	The transition to multiparty democracy is relatively recent. The one-party rule of the Partido Revolucionario Institucional (PRI) ended peacefully in 2000 with the election of President Vicente Fox of the Partido Acción Nacional (PAN). But while the transition from excessive executive authority to a more effective separation of powers will be beneficial for democracy in the long term, adapting to this shift will be a slow process. In the meantime, the agility of policymaking will be impaired. Also of concern is lack of public confidence in political institutions, as shown by doubts about the voting process and the electoral authority, IFE, since the 2006 presidential election. The intransigent stance taken by the losing presidential candidate, Andres Manuel Lopez Obrador, lost him support among moderate voters, but there is still a risk that hard-core supporters of the PRD leader will become increasingly radical in their opposition to the government, particularly when controversial reforms are presented. (EIU, Risk Briefing, September 2007).
Capital market development	2.4	The reduction of Mexico's external vulnerabilities in recent years has been reflected in greater currency stability. Although a modest peso depreciation is likely, broad stability will be underpinned by a sizeable reserves cushion, strong export earnings and buoyant inflows of worker remittances. Mexican companies have increased their default risk by borrowing substantially from abroad since the start of the decade. The banking sector has recovered from its 1995-96 crisis, and is now growing rapidly, following restructuring, the entry of foreign players and the overhaul of the legal framework. But at less than 20% of GDP, lending to the private sector is still underdeveloped. In the past two years, banks' emphasis has been on consumer and mortgage credit, but improvements in bankruptcy legislation are starting to result in an expansion of bank exposure to the productive sector. (EIU, Risk Briefing, September 2007).
Judicial system	2.0	The principles of respect for private property, protection of copyright and free operation of the markets in setting prices are fairly well established in Mexico, and a consensus exists around consolidating them. Foreign companies receive the same treatment in most respects as local ones, and the danger of expropriation is negligible. Nevertheless, where disputes do arise the judicial system is extremely slow and inefficient in dealing with them, and sometimes corrupt. The government's efforts to institutionalise transparency and to reduce the scope for discretionary action involve complex challenges but slow advances are being achieved. But in the meantime, the performance of regulatory bodies is patchy largely because they tend to lack effective autonomy. (EIU, Risk Briefing, September 2007).

Accounting standards	3.0	Economy-wide, Mexico is converging toward international standards but still makes use of national standards, including inflation-adjusted accounting (which is mandatory for listed firms). IFRS are permitted (not mandatory) for listed firms, but not permitted for non-listed firms. Bank accounting practices generally follow US standards since their overhaul in the 1990s. (Deloitte/IAS PLUS; EIU, Country Finance, March 2007; personal interview, August 2007).
Governance standards	2.0	Corporate governance practices remain a concern, though there have been legal improvements in the last five years or so for publicly traded firms: a requirement of 25% independent directors, the ability of a majority of independent directors to form audit committees, some violations now treated as criminal offences and the strengthened of minority rights. Also, a private institute and a voluntary code for corporate governance have been established. Lingering concerns remain weak oversight and reporting requirements (firms must report annually on non-compliance but with no clear penalties), little regulation of non-traded firms, and the prevalence of tight family and personal networks in running business. The World Bank's Doing Business (2006) gives Mexico a 6.0 out of 10.0 on its Investor Protection Index, compared to a regional average of 5.1 and an OECD average of 6.0. Mexico scores above the regional average on disclosure (8.0), close to the average for director liability (5.0), and slightly below the average for ability shareholders to bring suits (5.0). The federated governance structure of the newly created microfinance-specific legal forms remains untested in practice for this activity. NGOs are self-regulating, with varying standards and efforts at benchmarking. (EIU, Country Finance, March 2007; OECD, Latin American Corporate Governance Roundtable; personal interview, August 2007).
MFI transparency	2.0	Institutions regulated directly by the CNBV must be externally audited on a regular basis. Audits are also required of institutions upgrading to new status under the 2001 law, though it is not clear if federations subsequently will require them on a regular basis. External ratings are uncommon—only 7 of the 28 MFIs (including non-bank financial institutions, NGOs, cooperatives and a bank) listed in MIX Market are externally rated. Disclosure of effective interest rates is limited, as there are no consumer protection norms for the major categories of institutions. (Meagher et al, 2006; Microfinance Gateway; personal interview, August 2007).

Institutional Development	**41.7**	
Range of MFI Services	2.0	The range of services is limited, with savings accounts offered by a variety of regulated and even non-regulated institutions as the main activity other than microcredit. Of the 27 MFIs listed in MIX Market, only six offer services beyond microcredit (primarily one or two additional products, such as fund transfer, savings and insurance). The few banks engaged in microlending tend to offer modest services beyond microcredit. The transformation of institutions by 2008 under the 2001 law should expand the range of services, as upgraded institutions would in many cases be able to move into savings (if they are not already deposit-takers) and also, with the help of BANSEFI, into fund transfer (Personal interview, August 2007).
Credit bureaus	2.0	A former public registry covering mostly middle- to- upper-income Mexicans no longer operates, though there is a private bureau that works with MFIs. The quality of the information is limited and uneven. Mexico scores 6.0 out of 6.0 on the World Bank's Doing Business (2006) Credit Information Index, compared to a regional average of 3.4 and an OECD average of 5.0. The study reports that private bureau coverage is 69.5% of adults (compared to the 27.9% regional average and the 60.8% OECD average). (Personal interview, August 2007).
Level of competition	1.0	There is little competition among MFIs, with an HHI score of 2417.4, according to figures contained in a dataset supplied by Sergio Navajas and Luis Tejerina of the IDB. According to an informant, competition was still low, but growing. Interest rates and costs remain high. (Personal interview, August 2007).

NICARAGUA

Overall score	53.8
Regulatory Framework	56.3
Investment Climate	40.0
Institutional Development	58.3

Regulatory Framework		
Regulation of microcredit operations	2.0	The General Banking and Financial Institutions Law (Law No. 314) came into effect in September 1999 and was revised in November 2005 by Law No. 561, the General Law of Banks, Non-banking Financial Institutions and Financial Groups. The latter law is based on recommendations from the IMF/World Bank under its Financial Sector Assessment Programme (FSAP) and attempts to bring national financial legislation in line with international best practices as outlined in the Basle II accords. Capital-adequacy ratios were raised in a gradual process begun in 1998 from 8% to 10%. The Superintendency of Banks and Other Financial Institutions established in 1991, functions as an independent financial regulator. The legislature passed a general framework for regulating microfinance companies in January 2004, which would include NGOs, but the specifics of this Special Law of Micro-Finance Associations were still being debated in the National Assembly as of September 2007 and prospects for passage were uncertain. Regulated institutions providing microfinance are currently banks and non-banking financial institutions (credit unions are regulated separately by an agency of the Ministry of Labour under the General Cooperative Law of 1971 and the Agricultural and Agroindustrial Cooperative Law of 1990). However, of the 28 Nicaraguan MFIs evaluated by MIX Market, only one is a bank and only one other is a non-bank financial institution. There is no unfair competition (public institutions are limited to second-tier lending). An interest rate ceiling applies to NGOs, but tends to lead them to obscure rates and fees. Documentation requirements are not excessive. (EIU, Country Finance, February 2007; Microfinance Gateway; Personal interview, August 2007).
Formation and operation of regulated/supervised specialised MFIs	2.0	Upscaling has not been as widespread as in some other economies, as minimum capital, loan-loss provisioning and other standards must be met. However, PROCREDIT recently upgraded from a financiera (a regulated non-banking institution) to a bank; FINDESA from an NGO to a financiera to a bank; and FAMA from an NGO to a financiera. No regulations currently exist to promote specialised MFIs, though the pending microfinance law might create such a figure in the future. Financieras are still limited in the range of services they are allowed to offer, which make them less than ideal vehicles. (Microfinance Gateway; Personal interview, August 2007).
Formation and operation of non-regulated MFIs	3.0	NGOs face no significant obstacles in formation and operation, though they have sought legislation that would enable them to mobilise savings. (Microfinance Gateway; Personal interview, August 2007).

Regulatory and examination capacity	2.0	The Superintendency has improved its general financial regulation and supervision. After intervening in or closing several insolvent banks in the early 2000s under international pressure, the Superintendency has tightened accounting rules, strengthened loan provisioning standards and beefed up its inspection regime. It pushed domestic banks to adopt US best-practice accounting rules for asset valuation when making loans and to adhere to tighter rules for loan provisioning. However, it lacks considerable specialised capacity or expertise in regulating microfinance, or—pending the passage of long-delayed microfinance regulations by the legislature—a specific legal mandate to develop such capacity and expertise. (EIU, Country Finance, February 2007; Microfinance Gateway; Personal interview, August 2007)

Investment Climate	**40.0**	
Political stability	2.0	Governability will improve under president Daniel Ortega whose party controls 38 out 92 deputies in the National Assembly (his predecessor, Enrique Bolaños, controlled just four). Nevertheless, the FSLN will be in a minority position and need the support of the centre-right PLC, with whom it has had an informal cooperation agreement, or the centre-right ALN. It is not certain that the FSLN-PLC alliance will hold. The FSLN obtained support from the ALN to postpone until January 2008 the implementation of constitutional reforms passed in 2005 which curtail the powers of the executive in favour of the legislature. Progress on judicial and political reforms will be very slow. Political institutions will remain corrupt and weak. (EIU, Risk Briefing, September 2007).
Capital market development	1.6	Reaching completion point under the HIPC initiative has bolstered international reserves and the currency as it entails balance of payments support. The risk of a devaluation and debt default have therefore diminished. Borrowing costs in Nicaragua are high because the financial markets are shallow. There are few banks, all owned by local interest groups, and the quality of borrowers is poor. The financial system has suffered a number of bank collapses over the past few years, including the forced intervention of one of the largest banks, Banco Nicaragüense (Banic). Bank assets are predominantly in the form of central bank paper. (EIU, Risk Briefing, September 2007).
Judicial system	0.0	The judiciary is inefficient and highly politicised, which means that contractual agreements are often not respected and the protection of property rights is limited. The Supreme Court's judges are affiliated to either the PLC or the FSLN. Supreme Court judges appoint judges to lower courts. Despite the implementation of the new criminal code at the end of 2002, the judiciary remains politicised—the judicial career law was amended in such a way by the legislature to justify the control of the FSLN and the PLC over the judiciary. Moreover, the renewal of the PLC-FSLN pact in 2005 has left the judiciary firmly under the control of the two parties. It is unlikely that the Ortega government will act to reform the judiciary. Red tape is pervasive and likely to remain a constraint on investment. (EIU, Risk Briefing, September 2007).
Accounting standards	3.0	Economy-wide, IAS were adopted in 2003, applicable to financial statements issued from July 2004 onward. IFRS are required for all listed and unlisted corporate entities. After it intervened in and closed several banks in the early 2000s under international pressure, the Superintendency has pushed domestic banks to adopt US best-practice accounting rules for asset valuation when making loans and to adhere to tighter rules for loan provisioning and strengthened its on- and off-site inspection regime. Although neither NGOs nor credit unions are subject to these standards, self-regulation through voluntary associations and in response to international funders has made for some progress toward international norms. (IAS PLUS/Deloitte; Interamerican Accounting Association; Personal interview, August 2007; EIU, Country Finance, February 2007).

Governance standards	2.0	A general meeting of shareholders is the highest authority of a corporation (sociedad anónima), the legal status held by regulated institutions. There must be periodic meetings of the shareholders (usually at least once a year). The assembly is empowered to draft or modify the company's charter or issue shares. Any shareholder or group of shareholders representing a minimum percentage of the capital stock may convene a shareholders' meeting. Corporate charters must be registered in the Mercantile Register (Registro Mercantil). Government authorities may require firms to present financial statements or minutes of board meetings, but they do not do so systematically. The Superintendency has, however, strengthened information reporting and disclosure requirements for regulated institutions in recent years. Nicaragua scores slightly below the regional average (5.0 out of 10 as compared to an average of 5.5) on the Investor Protection Index of the World Bank's Doing Business survey (2006), with average to below-average scores on disclosure, director liability and the ability of shareholders to sue. Awareness of the importance of independent and transparency is somewhat lacking. (EIU, Country Finance, February 2007; Personal interview, August 2007).
MFI transparency	1.0	Interest rate ceilings exist for NGOs, but their existence encourages the hiding of effective rates on the part of all institutions engaged in microfinance, including those that are regulated. Regulated institutions are frequently rated and audited. Both banks and non-bank financial institutions must submit annual financial statements to the Superintendency, and must have an annual shareholder meeting to discuss the audited financial statements and publish these statements in a widely circulated newspaper. Credit unions must submit annual financial reports to the Ministry of Labour, though they need not be audited. Practices are uneven across NGOs—half of the NGO MFIs listed in MIX Market were externally rated on at least one occasion in 2005-06. (Personal interview, August 2007; Microfinance Gateway; EIU, Country Finance, February 2007).

Institutional Development	**58.3**	
Range of MFI Services	2.0	The "big two" regulated institutions—Banco ProCredit Nicaragua and Financiera Nicaragüense de Desarrollo SA (FINDESA)—have portfolios that exceed the combined portfolio of all NGOs, and they do offer a wide range services (savings, CDs, remittances, payment services etc) The numerous but small NGO segment generally only offers microcredit, as is the case with the 20 listed in MIX Market. The same is generally true of non-banking financial institutions. Credit unions take deposits and make loans, but only for their members and not always restricted to a firm size or income level that could be readily classified as microfinance. (Personal interview, August 2007).
Credit bureaus	2.0	There are both public and private credit bureaus, though the latter are incipient. The World Bank's Doing Business survey (2006) gave Nicaragua a favourable 5.0 out of 6.0 rating on the Credit Information Index. It reported that 12.5% of the adult population was covered by the public registry (compared to a regional average of 7.0% and an OECD average of 8.4%), but only 3.4% by private bureaus (compared to a regional average of 27.9% and an OECD average of 60.8%). There continue to be problems in the integration of data from public and private bureaus as well. (Personal interview, August 2007).
Level of competition	3.0	Due to a lack of comprehensive data, we have relied on qualitative impressions. It is considered among the five most competitive markets in the Latin American region, but probably toward the lower end of that category. (Personal interview, August 2007).

PARAGUAY

Overall score	52.9
Regulatory Framework	62.5
Investment Climate	39.6
Institutional Development	50.0

Regulatory Framework		
Regulation of microcredit operations	3.0	The main regulatory authority is the Banking Superintendency and its authority stems from Chapter III of Organic Central Bank Law 489 (1995) and subsequent amendments. Obstacles are only minor, mainly in the form of some residual competition in rural and agricultural areas from state financial entities like BNF and CAH. These lenders are now being restructured, along with three others, into a single entity that will likely operate without subsidies for microfinance. Banks and finance companies can charge market interest rates, and documentation requirements and capital adequacy ratios (10% for banks and finance companies) are adequate but not excessive. A half dozen finance companies have microfinance operations. Despite the absence of any regulatory hurdles, no banks engage in microcredit. (Personal interview, August 2007; Berger et al, 2003; Jannson, 1997; website of the Central Bank of Paraguay).
Formation and operation of regulated/supervised specialised MFIs	2.0	Unlike in some other countries, there are no special laws or provisions for single-purpose, regulated MFIs, and no such MFIs exist. Such specialist MFIs are not expressly prohibited, and some semi-regulated credit companies (cajas de crédito) were able to upgrade into regulated (and non-specialised) finance companies in the 1990s. The finance companies active in the sector do not have more than 20% of their portfolios in microfinance, however. NGOs and credit unions (co-operativas de ahorro y crédito) active in the sector are not financially regulated and would need US$5m in minimum capital to become finance companies. Practical, non-legal, fundraising constraints in capital markets have prevented NGOs, in particular, from upgrading (Personal interview, August 2007; Berger et al, 2003; website of the Banking Superintendency).
Formation and operation of non-regulated MFIs	3.0	The legal framework permits NGOs to engage in microfinance as non-regulated institutions. However, with this status they cannot take deposits backed by government deposit insurance, and in practice they also face non-regulatory obstacles in raising sufficient funds in capital markets for expansion. One NGO (Fundación Paraguaya) was the country's sixth largest microcredit lender as of 2006, according to MIX Market, and a handful of smaller NGOs have begun or are trying to begin microlending operations. (Personal interview, August 2007; website of the Banking Superintendency).
Regulatory and examination capacity	2.0	With technical assistance from multilateral agencies, the Banking Superintendency has developed in recent years a small group of staff with specialised knowledge of the sector within its oversight office for non-banking institutions. There is no special microfinance office or department per se. Supervisory capacity, including development of appropriate methodologies for evaluating microcredit, is modest but improving. (Personal interview, August 2007).

Investment Climate	39.6	
Political stability	1.8	The lack of an alternation of power has been the main feature of the political scene for the past six decades. The Partido Colorado (PC) has governed the country uninterruptedly for 60 years (including General Alfredo Stroessner's 35-year dictatorship which ended in 1989). For the first time since the return to democracy, there is an opposition candidate—Fernando Lugo, a highly popular former priest—with strong chances to defeat whoever is the ruling party's candidate in the April 2008 presidential election. The president's, Nicanor Duarte Frutos, plans to reform the constitution to end a ban on presidential re-election were dropped as a result of a strong antagonist stance from the opposition towards him. This has weighed on governability because the PC has a majority in the Chamber of Deputies, but not in the Senate. The government has progressed on parts of its economic agenda, but has avoided unpopular measures in the face of social protest. Paraguay is involved in no major international disputes. (EIU, Risk Briefing, September 2007).
Capital market development	1.4	Poor banking regulation has brought several banking crises since the deregulation of the sector in 1991. Regulation has improved modestly, but banks remain reluctant to lend. Credit to the private sector has been stagnant, at around 13% of GDP, since 2003, despite a substantial fall in the level of past-due loans. Although the costs of financial intermediation have declined since 2003, spreads in local currency remain high. Increased confidence in the guaraní has been reflected in a smaller proportion of credit to the private sector issued in US dollars (47% of the total in April 2007, from 60% at end-2002). However, the sector is still vulnerable to the risk of currency devaluation. Efforts to reform the state banking sector will be hampered by the political opposition's increasingly antagonistic stance towards the government. The Asunción stock exchange is expanding, but further growth will be constrained by family enterprises' fear of losing majority control of assets in public offerings. (EIU, Risk Briefing, September 2007). Lack of fund-raising opportunities in capital markets is one obstacle preventing non-regulated institutions from upgrading into finance companies. (Personal interview, August 2007).
Judicial system	1.3	A complex bureaucracy causes substantial delays in most legal procedures. In recent years, governments have taken steps to modernise the judicial system and curb widespread corruption. Six of nine Supreme Court judges were removed or resigned. Legal codes were reformed, leading to changes, such as the establishment of oral arguments and more modern investigations. However, these efforts will continue to be partly offset by remaining problems such as understaffed courts, lack of proper training and political patronage. Protection of intellectual property rights is poor. The risk of private property expropriation remains low, but may increase as pressure from peasant groups for land reform increases. There is no legal discrimination against foreign companies, but regulation of unfair competitive practices remains weak. Regulatory agencies for most sectors are still being established. (EIU, Risk Briefing, September 2007). There have been some recent efforts to streamline procedures for dealing with bad debts, and to improve contract enforcement. (Personal interview, August 2007).
Accounting standards	1.0	Though IAS are in principle obligatory for banks and finance companies as regulated corporate entities, IFRSs are optional. However, a 2006 IFC study found that "Paraguay has an incomplete, fragmented, and loosely enforced statutory framework for accounting and auditing." It also found that "within the supervised sector, the quality of standard setting, compliance with standards, and supervision of compliance is uneven and the regulation in place is fragmented." Most corporate entities resort to tax reporting norms (which are laxer) rather than IAS. As non-regulated institutions, credit unions and NGOs are not bound by any standards or enforcement mechanisms, and have uneven practices. (IFC, Report on the Observance of Standards and Codes in Paraguay, June 1st 2006; Deloitte/IASPLUS; Inter-American Accounting Association; personal interview, August 2007).

Governance standards	2.0	Formal norms and legal enforcement are generally considered weaker than those of neighbours, particularly in minority rights, though Paraguay is party to the voluntary corporate governance norms of Mercosur. Yet, with an average 5.7 out of 10 in the World Bank's Doing Business 2006 survey, the country still rates above the regional average for "investor protection" (5.1) but below the OECD average (6.0). The World Bank survey contemplates director liability, information disclosure and ability of shareholders to bring suits, on all of which the country scores moderately. (Personal interview, August 2007).
MFI transparency	2.0	Of the six MFIs covered by MIX Market through 2006, the sole NGO was externally rated, the one co-operative was not, and two of the four non-banking financial institutions were rated. In regulated institutions, external audits (though not necessarily ratings) and disclosure of effective rates are standard and mandatory. Among NGOs and credit unions, there are no legal requirements, practices vary and disclosure is typically weaker. (Personal interview, August 2007).

Institutional Development	**50.0**	
Range of MFI Services	2.0	MFIs offer a limited to modest range of additional services, varying by institution and institution type. All but the NGO-based institutions offer savings accounts, while some additionally offer fund transfer/remittances or insurance. (Personal interview, August 2007; MIX Market).
Credit bureaus	2.0	For regulated institutions, there are established and fairly reliable credit bureaus, which provide both positive and negative information about borrower transactions and disseminate it reasonably widely. Information about dealings with non-regulated institutions is generally not available. Credit unions have their own, more unevenly effective credit bureau, while NGOs lack such a system. The World Bank's Doing Business survey (2006) gives Paraguay the maximum score of 6.0 on its Credit Information Index, compared to a 3.4 regional average and a 5.0 OECD average. The study reports public registry coverage at 10.6% of adults (compared to 7.0% and 8.4%, respectively), and private bureau coverage at 52.2% (compared to 27.9% and 60.8%, respectively). (Personal interview, August 2007).
Level of competition	2.0	There is a moderate level of competition among MFIs, with an HHI score of 1719.3, according to figures contained in a dataset supplied by Sergio Navajas and Luis Tejerina of the IDB. According to an informant, there is a moderate level of competition in the sector, with one important area for improvement being high interest rate spreads, particularly at finance companies. The level of penetration of microfinance in terms of potential clients who access it has grown from a figure in the range of 5% (or slightly less) around 2000 to about 10% (or slightly less) in 2007, by one recent estimate. (Personal interview, August 2007).

PERU

Overall score	74.1
Regulatory Framework	81.3
Investment Climate	57.9
Institutional Development	75.0

Regulatory Framework		
Regulation of microcredit operations	4.0	The umbrella regulatory framework is spelled out in the General Law of the Financial and Insurance Systems and Superintendency of Banking, Insurance, and Pension Funds-SBS (Law Nº 26702 of 2004). The SBS is the principal regulator. This framework applies to banks, a specialised institution category called EDPYMEs (see below), rural savings and loans, and municipal savings and loans, the last of which are additionally regulated under Supreme Decree No. 157-90-EF (1990). There are several commercial banks in microfinance. Aside from these, in Peru there are two other types of regulated MFIs that fall in the traditional-institution category: municipal savings and loans (cajas municipales de ahorro y crédito, or CMACs, which are deposit-taking institutions originally owned by city or provincial governments and specialising in the financing of small and micro enterprises and rural savings) and rural savings and loans (cajas rurales de ahorro y crédito, or CRACs, which are usually privately owned deposit-taking institutions specialising in the financing of small and micro enterprises in rural areas). There are no interest rate restrictions under Law 26702. There is no direct competition from subsidised public retail finance institutions (except CMACs, which have increasingly been privatised and operate according to market criteria). Documentation requirements are not burdensome. And capital-adequacy ratios (9.1% for all types of regulated institutions) are reasonable. Minimum capital requirements (US$289,000) for non-bank institutions are arguably low, though they reflect in part the fact that these institutions cannot capture savings. (Microfinance Gateway; Ebentreich, 2005; Personal interview, August 2007).
Formation and operation of regulated/supervised specialised MFIs	3.0	EDPYMEs, also regulated by the SBS under the same umbrella legislation, are entities for the development of small and micro enterprises (entidades de desarollo de la pequeña y micro empresa, or EDPYMEs). They are non-deposit-taking institutions—their one obstacle—that are often owned by NGOs. Most of the currently existing EDPYMEs were formerly credit NGOs. These organisations transformed into regulated MFIs because they wanted to be regulated (with advantages like greater access to wholesale finance) and/or they wanted to avoid paying VAT on interest earned on their loans, as NGOs do. NGOs that have remained in that status have a regulatory pathway to upgrade into EDPYMEs if they fulfil certain steps outlined in the General Law, related to loan provisioning, risk management, information disclosure, and the like. EDPYMEs may also upgrade over time to offer wider services; in practice, some have moved into credit and debit cards but not none have into savings. (Ebentreich, 2005; Microfinance Gateway; personal interview, August 2007).
Formation and operation of non-regulated MFIs	2.0	Credit NGOs and credit cooperatives/credit unions continue to operate as non-regulated MFIs; the latter are member-only (closed) institutions that specialise in consumer loans. There are still many NGOs that offer credit to their clients, and are not regulated nor supervised by the SBS. As a practical matter, NGOs that wish to engage in microfinance need—in addition to being already constituted as civil associations registered with the National Superintendency of Public Registries (SUNARP)—to be registered with the tax authorities, labour authorities, the municipality in which they operate and the Peruvian Agency for International Cooperation's registry of NGOs receiving international assistance. Although these are comparatively easy requirements to fulfil, NGOs face a tax on interest income and a cap on interest rates—in both cases unlike regulated institutions—and do not have access to some second tier funds; this provides an important incentive for them to try to meet the various requirements needed to up grade into EDPYMEs. (Microfinance Gateway; Risolidaria Solidaridad en Internet 2004 [www.risolidaria.org.pe/manuales/manualong.pdf]; Personal interview, August 2007).

Regulatory and examination capacity	4.0	The SBS enjoys a good reputation and was rated 96.6 out of 100 in 2005 by a combined World Bank-IMF mission for the quality of its general financial regulations and supervision. In microfinance, specific regulations and methodologies have been developed for regulated MFIs, such as loan-loss provisioning based on loan status (rather than institution type); increasingly thorough on-site inspection procedures; and increasingly stringent requirement for internal controls in MFIs. Under a "modular scheme", Law 26702 allows MFIs to apply for authorisation to perform additional non-savings operations besides microcredit if they meet certain conditions and undergo an evaluation for that purpose. SBS has a well-trained, professional microfinance department and specific reporting and risk provisioning requirements for microfinance. (Ebentreich, 2005; Microfinance Gateway; Personal interview, August 2007).

Investment Climate	**57.9**	
Political stability	2.2	Political stability risk will remain elevated in the coming years. The government, which took office at the end of July 2006, lacks a legislative majority; governability will be low. In comparison with unrest-prone neighbours Ecuador and Bolivia, there has been little development of organised anti-establishment social movements, and Peru's intra-regional tensions are less acute. Alan García will be helped by solid economic growth, but will face difficult decisions in the face of popular protest, particularly if the poor do not see the benefits of the country's rapid growth in the form of higher public investment. The armed forces do not pose a threat to stability; they are being investigated for abuses under the Fujimori administration (1990-2000). (EIU, Risk Briefing, September 2007).
Capital market development	2.4	Corporate finance is widely available, but costly. Banks' lending portfolios have strengthened since 2002, and non-performing loans had fallen to 1.6% of commercial banks' portfolio by June 2007, according to the banking regulator. However, banks remain wary of lending to small and medium-sized businesses, and will continue to remain cautious until they build up their capacity to assess credit risks. It is difficult for informal sector businesses to access bank lending. There are few restrictions on foreign-owned firms gaining access to the domestic market. The risk of a crisis in the banking system is low: the banking sector has proved resilient in the face of several shocks in recent years as supervision has strengthened and as foreign banks have become more involved. Three-quarters of all bank deposits are in the hands of four banks, and consolidation has helped to shore up the strength of the sector. (EIU, Risk Briefing, September 2007).
Judicial system	0.3	Judicial corruption was endemic under the Fujimori regime, and efforts to clean up the system will take years, with the judiciary the least trusted of all public institutions. Although the legal system is less politicised now, domestic courts still lack impartiality and strength. A judicial reform commission was set up in 2004 but its recommendations have largely been ignored. Many judges are open to bribery, the justice system is ineffective and increases in spending have brought little result because money has been absorbed by the bureaucracy and in higher salaries. Litigation to recover debts can cost up to half the amount being contested, leading businesses to prefer trusted suppliers and customers, and discouraging competition. Decentralisation should lift transparency and accountability in the political process. Despite solid legislation, intellectual property rights are still violated, due to under-policing. (EIU, Risk Briefing, September 2007).
Accounting standards	3.0	IAS were adopted by Peru economy-wide in the late 1990s, and IFRS are required for all listed firms. With enforcement in the hands of SBS, IAS are generally in use in regulated financial entities. The SBS has developed detailed accounting standards for financial institutions for both regulatory and general-purpose financial reporting; though they are generally in line with international standards, a few of the standards adopted for the latter purposes are out of line with IFRS. In non-regulated institutions, accounting standards are subject to considerable self-regulation and dissemination through best practice via voluntary NGO microcredit associations; in practice, they vary somewhat. (Deloitte/IAS Plus; Procapitales; CONASEV; IFC, Report on the Observances of Standards and Codes, June 2004; Personal interview, August 2007).

Governance standards	3.0	Relatively strict financial disclosure requirements exist for publicly traded companies (by law, banks and financial institutions must be listed). As open corporations (sociedades anónimas abiertas), such corporate institutions must disclose non-confidential information at the request of shareholders representing at least 3% of capital. Board composition and decision-making are only partially regulated. Conasev, the securities regulatory, set up a voluntary code in 2002, and in 2005 for the first time companies were required to report on their compliance with it. Peru scored 6.7 out of a maximum 10.0 on the World Bank's Doing Business Investor Protection Index for 2006. This score was above the regional average of 5.1 and the OECD average of 6.0, and reflected above-average ratings for ability of shareholder to bring suits and information disclosure and an average rating for director liability. Among non-regulated institutions, there is wide awareness of the importance of observing good standards as a result of self-regulation through voluntary NGO associations. (IFC, Report on Observance of Standards and Codes, June 2004; EIU, Country Commerce, May 2007; Personal interview, August 2007).
MFI transparency	3.0	Regulated institutions are required to disclose effective interest rates on a frequent basis via the internet. Non-regulated institutions often do not do so in practice (and face no legal obligation) since they face interest rate ceilings and thus compensate with hidden fees. Annual external audits and ratings are required of regulated institutions. NGOs have varying practices, with pressures for self-regulation coming from voluntary associations and from international funders; six of 16 NGO MFIs listed in MIX Market are externally rated. (Ebentreich, 2005; De Janvry et al, 2003; Microfinance Gateway; Personal interview, August 2007).

Institutional Development	**75.0**	
Range of MFI Services	3.0	Regulated institutions have innovated a fair amount in providing savings, checking, ATM, fund transfer and other services. CRACs and CMACs offer both savings and microcredit. Although not allowed to accept deposits, EDPYMEs can gain permission to offer additional services (eg, credit cards) by increasing their minimum capital base and passing an ad hoc evaluation by the SBS. Non-regulated institutions are more limited in the services they can legally and practically offer, often being limited to just microcredit. (Ebentreich, 2005; Microfinance Gateway; Personal interview, August 2007).
Credit bureaus	3.0	The SBS collects information from all debtors of the financial system, and consolidates it in its credit bureau. It also sells the information to two private credit bureaus (Infocorp and Certicom), which complement that information with other sources (utilities, tax collector, retail stores etc). Both positive and negative information on prospective clients is reported, and information on all clients of regulated financial institutions is reported, though the timeliness of information is sometimes wanting. The World Bank's Doing Business (2006) gives Peru its highest ranking (6.0 out of 6.0) on its Credit Information Index; 19.2% of adults were covered by the public registry (compared to a 7.0% average for the region and 8.4% for the OECD); and 28.6% of adults are covered by private bureaus (compared to a 27.9% average for the region and 60.8% for the OECD). Regulated institutions use the public credit registry consistently, but non-regulated institutions vary in their usage. At both types of institutions, there tends to be continued reliance on informal contacts at other institutions and banks to check on prospective clients. (Ebentreich, 2005; De Janvry et al 2003; Microfinance Gateway).
Level of competition	3.0	There is considerable competition among MFIs, with an HHI score of 781.1, according to figures contained in a dataset supplied by Sergio Navajas and Luis Tejerina of the IDB. An informant noted that Peru is comparable to Bolivia. Both are among the five most competitive MFI markets in the region. There is substantial competition among and between regulated and non-regulated institutions. (Personal interview, August 2007).

URUGUAY

Overall score	35.8
Regulatory Framework	37.5
Investment Climate	54.2
Institutional Development	25.0

Regulatory Framework		
Regulation of microcredit operations	3.0	The Central Bank is the main regulator, though it does not regulate microfinance per se. Regulated institutions are mainly banks, finance companies, and savings and credit co-operatives (credit unions). Financial statements are not required for credits less than US$15,000, though in practice, in the absence of specific risk analysis methodologies, institutions ask for credit information. Documentation requirements and capital-adequacy standards are not burdensome. Interest rates are set freely. However, there is possibly an element of indirect subsidy or an uneven playing field for public institutions, particularly in the first-tier operations of Banco de la República (which has opaque finances and problems with loan defaults). (Personal interviews, September 2007; IDB internal project document, August 4th 2005).
Formation and operation of regulated/supervised specialised MFIs	1.0	Uruguay has no specialised legal vehicle for microfinance. Co-operatives (both regulated and not) were initially specialised in what could be called microfinance, but they are now less so (eg, they are oriented toward consumer finance and a broader client base in socio-economic terms). There are no regulatory inducements for them to focus on microfinance. (Personal interviews, September 2007; IDB internal project document, August 4th 2005).
Formation and operation of non-regulated MFIs	1.0	The NGO sector consists of very small organisations, has not grown much, and has been hit hard by financial crises and by the lack of international funding for Uruguay. It is virtually impossible for these organisations to accumulate enough capital and a large enough client base to upgrade into regulated institutions, and the lack of a specialised vehicle to which they could turn is an additional obstacle. Non-regulated co-operatives face similar obstacles. (Personal interviews, September 2007).
Regulatory and examination capacity	1.0	There is practically no specialised knowledge or development of methodologies, whether at the Central Bank or Office of Planning and Budgeting (OPP) of the Ministry of Finance, which has begun to take on a larger role in microfinance promotion. (Personal interviews, September 2007).

Investment Climate	54.2	
Political stability	2.8	Democracy has been firmly in place since the military dictatorship ended in 1985, and the abuses committed during that period are being investigated. One source of friction is a reinterpretation of the amnesty law, which enables some former military commanders to be brought to trial, but there is a low risk of this provoking political instability. Elections are free and fair. Years of dominance by two centre-right parties (except during military rule) ended in March 2005 when the left-wing Frente Amplio (FA) coalition took office. The FA government will not undermine political stability, since its leadership is experienced and pragmatic, and it is pursuing a largely orthodox policy path in order to safeguard the recently restored economic stability. President Tabaré Vázquez is in a fairly good position to pass important and long-delayed structural reforms but is having to balance this against occasional opposition from radical sectors within the government coalition and from some unions. (EIU, Risk Briefing, September 2007).
Capital market development	1.2	The government is focusing on completing the reforms of the Banco de la República Oriental del Uruguay (BROU), the state commercial bank, and the Banco Hipotecario del Uruguay (BHU), the state mortgage bank. These reforms made significant progress under President Batlle but were held up by opposition from the bank employees union and lack of political support in parliament. The government has also divested its stake in the Nuevo Banco Comercial (NBC) and is improving the supervisory framework. Despite the progress made, confidence in the sector remains fragile—witness the temporary closure in 2006 of cooperative bank Cofac owing to inadequate capitalisation—and further delay to these reforms will leave the financial sector vulnerable to future shocks. (EIU, Risk Briefing, September 2007).
Judicial system	2.0	Uruguay's judiciary is independent, but the trial process is slow and decisions are often opaque. Regulatory risk is high because productive activity is heavily influenced by large state-owned institutions with substantial sway over regulatory policy. The practice whereby regulators sometimes give domestic companies preference over foreign ones will probably continue. Intellectual property rights are recognised, but weakly enforced. (EIU, Risk Briefing, September 2007).
Accounting standards	3.0	By law, all Uruguayan companies must follow IFRS existing as of May 19th 2004. The auditor's report refers to conformity with Uruguayan GAAP, which is similar to IAS. The general integrity of Uruguay accounting standards is rated by EIU Risk Briefing as intermediate. (IAS PLUS/Deloitte; EIU, Country Commerce, April 2007).
Governance standards	2.0	In the corporate sector as a whole, including among financial institutions, there is limited transparency in finances and decision-making. Minority shareholder rights are generally weak in law and practice, even among listed firms. The investor protection index of Uruguay stands at 5.0 out of 10.0 according to the World Bank's Doing Business survey (2006), compared to an average 5.1 in the region as a whole and an average 6.0 in the OECD. Uruguay scores well above the regional average for shareholder ability to file suit (8.0), but below average for disclosure (3.0) and director liability (4.0). There is no regulation of NGO governance norms and they vary in practice across organisations; there is little self-regulation. (EIU, Country Commerce, April 2007; Personal interviews, September 2007).

MFI transparency	2.0	Regulated institutions are required to undergo audits and ratings, and also to publish effective interest rates. Non-regulated institutions do not face these requirements, and their practices vary in practice. (MIX Market; Personal interviews, September 2007).

Institutional Development	**25.0**	
Range of MFI Services	1.0	This is generally a mono-product industry, with institutions offering micro-credit only or savings and loans providing slightly wider services (regulated institutions can and often do offer savings). Only a few of the larger institutions offer any services beyond these. (Personal interviews, September 2007).
Credit bureaus	2.0	Uruguay receives a 6.0 out of 6.0 in the World Bank's Doing Business Credit Information Index, compared to a regional average of 3.4 and an OECD average of 5.0. The study reports that the public registry covers 13.2% of adults (compared to 7.0% and 8.4%, respectively), and private bureaus coverage 85.3% (compared to 27.9% and 60.8%, respectively). However, the quality and breadth of that information is very questionable, as many transactions are excluded. (Personal interviews, September 2007).
Level of competition	0.0	There is very little competition among MFIs, with an HHI score of 5662.5, according to figures contained in a dataset supplied by Sergio Navajas and Luis Tejerina of the IDB.

VENEZUELA

Overall score	27.4
Regulatory Framework	31.3
Investment Climate	41.3
Institutional Development	16.7

Regulatory Framework		
Regulation of microcredit operations	1.0	The Banking Superintendency (Sudeban) supervises banks, which are the main regulated institution involved in microcredit. The General Law on Banks and Other Financial Institutions of October 1993 and the November 2001 Reform to the General Law on Banks and Other Financial Institutions are the guiding regulations. Capital-adequacy ratios for regulated financial institutions are arguably conservative, at 12%, but intended to ensure the solvency of institutions; full implementation of the Basle II Accords on capital adequacy is not expected before 2010. The 2001 law established a minimum capital requirement of Bs16bn for commercial banks. Regional banks, which are commercial banks with head offices in the interior of the country, have a minimum capital requirement of Bs8bn. Proposed changes to the 2001 banking law—not yet passed as of September 2006—would permit commercial banks that engage only in micro-finance (broadly defined) to have as little as Bs3bn in capital. Savings and loan associations (cajas de ahorro y crédito) are regulated by Sudeban, the Superintendency of Savings and Loan Associations and the National Savings and Loan Bank; most of their portfolios fall outside microcredit. Approximately one-third of banks' lending portfolios must by law be directed to various sectors of the economy favoured by the government (such as small business and agriculture). Micro-businesses (broadly defined as those with up to 10 employees) must by law receive 3% of all loans made by banks; it appears that this mostly benefits small and medium-sized enterprises in practice, however. This requirement, along with a desire to remain in good standing with the regulatory and political authorities and some perception that microfinance may be becoming profitable, explains why banks are showing increasing interest in microcredit. Interest rates are regulated: the Mortgage Debt Law passed in January 2005 requires banks to set aside 10% of their lending portfolios for mortgages that carry interest rates ranging from 8.75% to 11.4%, which is far below the prevailing rate of inflation. The Central Bank of Venezuela also ruled in March 2005 that banks could charge no more than 28% interest on any type of loan and must set a minimum interest rate of 6.5% for all deposits. Even with these artificial limits, market conditions have in the short term kept most lending and deposit rates within this range. There is substantial direct competition between regulated and non-regulated sources of microfinance, on one hand, and a variety of heavily subsidised public programmes, which are able to charge interest rates that may be as much as 6-8% lower. (EIU, Country Finance, July 2007; Personal interview, August 2007).
Formation and operation of regulated/supervised specialised MFIs	1.0	There are several recent cases of greenfield banks focused on microfinance (albeit defined overly broadly), and the government appears eager to license them. There are also cases of existing banks that have created separate microfinance entities, sometimes for a mixture of commercial and political reasons. However, these regulated entities face high tax rates, and this together with competition from subsidised public institutions are reasons why portfolios remain limited and the number of institutions active in the sector remains relatively small. (Personal interview, August 2007).

Formation and operation of non-regulated MFIs	1.0	It is difficult to form and operate NGOs in microfinance, in part due to the lack of availability of international financing for such activities in Venezuela. The government also fills directly some of the most logical niches for such organisations. Consequently, there is very little NGO activity in microfinance. (Personal interview, August 2007).
Regulatory and examination capacity	2.0	In general, Sudeban is viewed as a well-run banking regulator, and Venezuela has not suffered any banking failures since the closure of Cavendes, a small investment bank, in 2000. The General Law on Banks and Other Financial Institutions made Sudeban autonomous and gave it a guaranteed budget, which it has used to expand its staff and improve training. The bank's specialised capacity for microfinance regulation is modest but improving, in terms of trained staff, customised standards and procedures (eg, allowance for non-collateralised credits), and the like. Technical assistance is being received from the IDB and CAF to this end, and a pending new "enabling law" for microfinance would likely improve the regulatory framework. Sudeban is somewhat institutionally constrained, however, in that it must administer politically determined interest rate regulations, quotas for lending to microenterprises and other sectors, and other measures that sometimes distort competition. (EIU, Country Finance, July 2007; personal interview, August 2007).

Investment Climate	**41.3**	
Political stability	1.4	President Hugo Chávez's total control of the legislature—and approved powers to rule by decree for 18 months—gives him a free hand in policymaking. However, in light of a striking degree of political polarisation and policy radicalisation, potential for destabilisation of the political scene is high. The decay of political institutions, which do not command the respect of voters, also heightens the risk of political instability. The 2006 presidential election passed uneventfully, with Mr Chavez's large margin of victory precluding any claims of electoral fraud. However, the president's evident commitment to radicalising policy in his new term of office is likely to create renewed opposition, and possibly periodic outbreaks of violence. Mr Chávez's often confrontational stance towards neighbouring Colombia and towards the US, which serves to channel nationalist sentiment into support for the government, will keep the potential for dispute with these countries high. However, the risk of armed conflict is low. (EIU, Risk Briefing, September 2007).
Capital market development	1.2	Notwithstanding the current boom in lending resulting from captive liquidity, government borrowing will continue to crowd out productive lending. In 2006, commercial bank lending to the private sector was estimated at less than 10% of GDP, low even by regional standards. Even for the most creditworthy corporations long-term finance will remain hard to secure. The government will attempt to enforce the expansion of credit to certain sectors, such as agriculture. But financial intermediation is not set to develop in a sustainable fashion until confidence in macroeconomic prospects is underpinned by a track record of reform and stability. In the past, large companies have raised finance internationally but this is now more difficult, as exchange controls hamper access to foreign currency for the payment of interest and amortisation obligations. The Caracas stock exchange is small and illiquid and likely to remain a poor source of corporate finance. (EIU, Risk Briefing, September 2007).
Judicial system	0.3	The legal and regulatory system is weak and deteriorating, with an inefficient judiciary, an unstable regulatory framework, and government encroachment on contract and property rights. Acceleration of land reform, the recently announced nationalisation of utilities, and the development of "co-management" demonstrate the risks to property rights. Revision of mining and oil agreements will sustain uncertainty over contract rights. There is a risk that foreign companies will be discriminated against, or a contract will not be enforced, and in the event of a dispute, effective means of arbitration are few. Without progress on judicial reform, the court system will remain inefficient. Protection of intellectual property rights is poor, as is regulation of unfair competitive practices. Competition will be undermined by the acceleration of the state-led development model. Price controls on a broad range of goods (first imposed in 2003 as an emergency measure) will stay in place for the foreseeable future. (EIU, Risk Briefing, September 2007).

Accounting standards	3.0	National standards are used economy-wide, with IAS used on a supplementary basis. However, among financial institutions, two sets of books are required, one following national standards (eg, inflation accounting) for tax treatment and another following IAS for disclosure and reporting. IFRS are required for all listed companies, and beginning in 2007 they are also required for unlisted companies. Since 1996, Sudeban requires banks to distinguish between short- and long-term investments, classify investments based on risk, readjust investments to reflect market value each month, and bolster their provisions for bad loans. Since most microfinance activities are run by banks or bank affiliates, accounting standards are thus generally solid and uniformly regulated in the microfinance sector (Deloitte/IAS PLUS; Interamerican Accounting Association; EIU, Country Finance, July 2007).
Governance standards	1.0	Economy-wide, corporate governance standards are strong on paper (obligatory minority board representation, shareholder approval of share issues, shareholder decisions on dividends etc). However, they are quite weak in practice due to lax enforcement and the government's emergence as a major player on the stock market. The World Bank's Doing Business survey (2006) rates the country a very low 2.7 on a scale of 10 on its Investor Protection Index, compared to a regional average of 5.1 and OECD average of 6.0. It receives low scores on all three dimensions: shareholder ability to bring suits, director liability and disclosure. In the banking and financial sector, Sudeban enforces somewhat stricter standards. (EIU, Country Finance, July 2007; Personal interview, August 2007).
MFI transparency	3.0	Annual external ratings and evaluations are required for regulated institutions, and monthly financial statements must be published in newspapers. There is no obligation to advertise effective interest rates, and it is not common practice. The few, small NGOs operating in the sector do not follow such standards or face any particular requirements. (Personal interview, August 2007; MIX Market)

Institutional Development	**16.7**	
Range of MFI Services	2.0	Since the majority of institutions, and most microcredit provision, is by banks or bank-related institutions, a fairly broad range of services is offered beyond microcredit (eg, insurance, savings, banking cards and domestic fund transfers). Exchange controls make international fund transfers impossible. (Personal interview, August 2007).
Credit bureaus	0.0	Until about 2005, there was a credit bureau which provided information on late payments, but it no longer operates. MFIs operate in a total vacuum of credit information. The World Bank's Doing Business survey (2006) assigns Venezuela a 0 (out of a possible 6.0) on its Credit Information Index. This compares to a regional average of 3.4 and an OECD average of 5.0. The percentage of the adult population covered by public registries and private bureaus is reported at 0. (Personal interview, August 2007).
Level of competition	0.0	There is very little competition among MFIs, with an HHI score of 5587.7, according to figures contained in a dataset supplied by Sergio Navajas and Luis Tejerina of the IDB. According to a local informant, the level of competition is low, though with new market entrants it may be poised for modest growth. (Personal interview, August 2007).