IN THE past 20 years, microfinance institutions have proliferated throughout the developing world, expanding to the point where they now serve tens of millions of people. The institutions’ solid track record has proved time and again that the poor make excellent credit risks—even in the poorest countries—and that microfinance helps create jobs in countries where unemployment and underemployment are persistent problems.

The Big-Country

Although an impressive body of knowledge has evolved from the successful operation of the microcredits, a mystery remains: Why does microfinance fail to thrive in the big countries? Evidence shows that the smaller and poorer countries, such as Bolivia and Peru, have been able to develop flourishing microfinance sectors with solid, regulated institutions, healthy loan portfolios and a client base to rival that of conventional banks.

But the big countries tend to lag. Latin America, where microfinance evolved most quickly, has only a tiny microlending presence in Argentina, Brazil and Mexico, the countries with the largest economies. “We have not been successful in Brazil or Mexico, and if you want to talk about Latin America, you have to talk about Brazil and Mexico,” says Maria Otero, president of ACCION International, a network of 18 affiliates and three partners with more than 20 years’ experience working in 15 countries in Latin America and the Caribbean.

“There is a big-country issue,” says Nancy Barry, president of Women’s World Banking, who notes that micro-
Enigma
finance also is lilliputian in the giant economies of China, India and Nigeria. So when it comes to microfinance, are small countries beautiful?

The Case of Brazil

There is no better example than Brazil: the largest Latin American economy by far, with a GDP of US$715 billion and a population of 167 million. Its territory is of continental proportions, yet its microcredit sector is a shrimp. The two largest microfinance networks, the Banco do Nordeste do Brasil and Fenape, an ACCION International affiliate, serve 70,000 clients combined. A 1996 survey by the Brazilian Development Bank (BNDES) found that some 25 non-governmental organizations were involved in microfinance, and lending totaled US$4 million. The contrast with Peru is stark: there, some 33 regulated institutions and NGOs manage a portfolio of US$250 million in an economy less than one-tenth the size of Brazil’s.

What explains the small presence of microfinance against the big backdrop of Brazil? “Hyperinflation blocked the development of microfinance institutions,” says Beatriz Azeredo, social development planning director for BNDES. In the years when Brazil’s economy was plagued with hyperinflation, from 1982 to 1994, interest rates soared beyond the capacity of any microentrepreneur to repay. Prices rose daily in the worst years, making it impossible for the poor to do anything other than keep up with their daily expenses.

Another brake on microfinance development was Brazil’s late arrival to microlending, says Antonio Peixoto Barretto, chief of staff in the BNDES social development department. It wasn’t until 1999 that the government established a legal framework for microfinance by creating “microenterprise credit societies” as a type of recognized lending institution that could be regulated by Brazil’s central bank. The credit societies, along with NGO microlenders, are not permitted to receive deposits. At this stage, “the central bank is learning to look at microfinance,” Barreto says. A second set of regulations will be required to allow microfinance institutions to accept deposits, but that will occur only after microlenders have built up experience, he adds.

BNDES is engaged in a program to stimulate the creation of microfinance institutions and improve their capabilities, says Azeredo. Strategies include setting up the policies, laws and regulations that will institutionalize microfi-

In Brazil, “hyperinflation blocked the development of microfinance institutions.”
with ratings and audits. “The IDB is preparing the ground for reaching the next stage,” says Azeredo. “This work, if successful, will accelerate the move to intermediation.”

The work of BNDES begins to address some of the factors that have held microfinance back in Brazil. “The regulatory framework did not promote this work,” Otero notes. There has been a lack of policy debate on microenterprise and national development strategies. Finally, Brazil receives little foreign assistance compared with other Mexico and Nigeria, some surprising similarities exist that have undermined the development of microfinance and, in fact, of NGOs in general. “In these countries, the prevailing paradigm is that government would take care of the problems,” says Barry.

In India, for example, the government set up subsidized development programs and compulsory bank credit allocations to agriculture and small enterprises, and controlled interest rates, keeping them low. The reach and repayment of the programs were unimpressive, banks resisted the credit allocations and no shared commercial vision for microfinance existed. The policies, regulations and institutional infrastructure did not encourage private microfinance institutions and banks to provide financial services to the hundreds of millions of poor people.

In Mexico, independent activism was discouraged, Barry states. Under Mexico’s former regime, the Institutional Revolutionary Party government blocked many grassroots initiatives. “The energy of encouraging NGOs and civil society wasn’t there,” she says. This policy is being reversed by President Vicente Fox, who has pledged federal funding for microfinance and is studying how to channel those funds through specialized NGOs.

Finally, Barry suggests, an attitude may exist in many large countries, an infatuation with size, that blurs the vision required for microfinance. Some big countries choose to ignore that the majority of their economically active population is poor. And some governments think only in grandiose schemes, failing to recognize that retail capacity in microfinance is difficult to build. “If we want to serve poor people, we need to humble ourselves,” she says. “The biggest microfinance bank on earth—BRI of Indonesia—took four years to build its first 10,000 microsaving clients. Fifteen years later, BRI has 24 million savers and three million borrowers, based on starting small and building a solid foundation.”

The exceptions to the big-country enigma are Bangladesh and Indonesia, where microfinance institutions have been built that count as many as 10 million clients each. The Bangladeshis brought a singular vision to microfinance. “The Bangladesh leaders saw themselves as nation builders, so they did not think in the thousands, they thought in millions,” Barry says. “The government was smart enough to stay out of the way.”

—BY LUCY CONGER

Latin American countries, and microfinance is an area that requires seed capital to get started, she adds.

Big Countries, Big Government

Other observers suggest additional reasons for this phenomenon. Despite enormous differences between large countries such as Brazil, China, India,