

Financial margin and competition between the institutions of the city of Sucre in the non-banking sector

Margen financiero y competencia entre las instituciones de la ciudad de Sucre del sector no bancario

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Abstract

This research work is to demonstrate through the hypothesis that: "The degree of competition between microfinance institutions in the city of Sucre affects the profit rate of these institutions and generate productive and financial implications for microentrepreneurs. Also aimed at determining the state of competition and the financial margin of Supreme non-bank financial intermediation in the city of Sucre contributing to economic and social development of the country. It was determined that the non-banking financial intermediation entities have an intense competition, with a growing behavior of rivalry among these enterprises, allowing a bigger development of the micro financial market.

Resumen

El presente trabajo de investigación pretende demostrar a través de la hipótesis que: "El grado de competencia entre las instituciones microfinancieras de la ciudad de Sucre afecta la tasa de ganancia de estas instituciones y genera implicaciones productivas y financieras para los microempresarios. También tiene como objetivo determinar el estado de competencia y margen financiero de intermediación financiera no bancaria suprema en la ciudad de Sucre contribuyendo al desarrollo económico y social del país. Se determinó que las entidades de intermediación financiera no bancaria tienen una competencia intensa, con un comportamiento creciente de rivalidad entre estas empresas, permitiendo un mayor desarrollo del mercado micro financiero.

Market, Microfinance, Competition

Mercado, Micro financiero, Competencia

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Introduction

At the beginning of the 1980s, the first microcredit program in Bolivia was born under innovative guarantee schemes, as is the case of the solidarity group. Subsequently, the Foundation for the Promotion and Development of Microenterprises (PRODEM) was born in 1986. After two years of work, PRODEM's success was evident, to such a degree that it was difficult to meet the growing unsatisfied demand in a sustainable way. Consequently, the creation of the Solidarity Bank was undertaken in 1992. On the other hand, there is the Institute of Support for the Small Productive Unit (IDEPRO), created in 1986, with the aim of providing "business development services". Also in 1986 PRO-CREDITO was created, the success achieved by this institution motivated it to create a specialized financial entity under the figure of the Private Financial Fund (FFP) in 1995, called Caja de Ahorro y Loan Los Andes, FFP. A similar decision was adopted by the FIE FFP created in 1997.

The growth of the microfinance market, both institutionally, methodologically and normatively, has allowed Bolivia to become a model for other countries. The "Bolivian model" highlights the transformation that some financial NGOs have undergone into regulated and self-sustaining institutions, constituted in FFPs. Beyond the creation of FFPs and "second-tier" entities, institutional development has taken a variety of paths.

Problem statement

Financial intermediation in Bolivia has been directly affected by the increase in the monetary issue that accelerated inflation in such a way that real interest rates became negative. The New Economic Policy (NPE) is implemented, to stop hyperinflation and then resume growth. From this, there is a reduction in both passive and active interest rates of the financial system. However, they still maintain high levels, preventing the expansion of productive activity. There is a general perception that the current rate differential or financial margin in Bolivia is high, which could have negative repercussions for the productive sector and for savers.

The unsatisfied demand for financial services from the microenterprise segment, motivated a large number of banking and non-banking entities to enter this market to offer their services, thus generating a dynamic process of competition for the benefit of the end customer: the micro-entrepreneur.

Beyond this conjunctural situation, the profit rate of microfinance institutions in general must be carefully evaluated to determine not only what their successes have been but, more importantly, what problems they face and their weaknesses, and, On the basis of this information, ensure that the Government, international organizations and all institutions that in one way or another support this market, better guide their programs to achieve its consolidation. On the other hand, microfinance institutions seeking to expand their market and attract clients from the microenterprise sector need to adapt their strategies to adjust loans to the capacity of microentrepreneurs. And they need to develop an understanding among microentrepreneurs of how credit, used correctly, is an effective and beneficial business tool.

Problem formulation

Does competition between microfinance institutions in the city of Sucre affect the profit rate of these institutions and what implications does it have for microentrepreneurs?

Research objectives

General objective

Analyze the competition between microfinance institutions in the city of Sucre and its relationship with the profit margins of these institutions; to identify the productive and financial implications in the micro-business sector regarding this.

Specific objectives

- Analyze the degree of competition that exists between non-banking institutions in the city of Sucre.
- Analyze the profits that these non-banking institutions obtain through the interest rates they manage in the micro financial market.

- What productive and financial implications have the rates that these institutions handle in the credit services to microentrepreneurs.

Hypothesis

H1: The degree of competition between microfinance institutions affects the profit rate of these institutions and generates productive and financial implications for microentrepreneurs.

Independent variable

V1: The degree of competition that exists between non-banking institutions.

Dependent variables

V1: Profit rate of microfinance institutions.

V2: The productive and financial implications that microentrepreneurs have regarding the credit services they receive.

Importance or justification

The demands of financial intermediation provoke the presence of new factors, which necessarily must be taken into account by financial institutions. Finding themselves inseparably linked to the constant demands of a microfinance market that is increasingly difficult to compete. The foregoing leads to the conclusion that to understand the degree of influence exerted by the financial intermediation activity on investment, it will be necessary to detect the implications of microentrepreneurs, since this sector of the micro-financial market is of vital importance for the development of the city of Sucre.

Materials and methodology: Type of research

For the development of this study, the following types of research were adopted:

Descriptive research

A conclusive investigation with descriptive design was carried out. This type of research has the purpose of quantifying the different variables of interest, for their better treatment and analysis of results.

Correlational Research

This study tried to determine the strength of association or correlation, the generalization and objectification of the results through a sample to make inference to a population from which all samples come.

For which the present study needs a prior exploration in the secondary data and primary sources of information in order to give it the appropriate form and direction to achieve reliability in the quality of the decisions of the researchers.

Strategy

Graph or schedule of activities Carried out for the achievement of the present investigation									
Stage	Activity	Time in weeks							
		1	2	3	4	5	6	7	8
1	Preparation and design	■	■						
2	Field work			■	■				
3	Systematization and analysis					■			
4	Drafting the project						■	■	
5	Preliminary.							■	■
6	Review and correction								■

Table 1

To integrate the work plan, it was decided to make use of the graph, which is useful because it represents the activities carried out and the time in which each one of them was carried out.

- Preparation and design stage. It started from the detection of the problem, setting objectives, justification, delimitation, until the statement of the hypothesis.
- Fieldwork stage. I cover the collection of information from research instruments established in a systemic and orderly manner that will be detailed later.

Research techniques

The research basically resorted to the following research techniques that allowed the previous methods to be operationalized, and they are:

Selection and definition of the collection instruments of the information collection instruments.	Interview	Non-banking Micro Financial Institutions.	Semi-structured interview at the level of non-banking microfinance institutions, this interview will be conducted exhaustively so that the information is much more reliable.
		Micro entrepreneurs.	To determine the implications productive and financial resources that the decisions of the microfinance institutions entail, to obtain reliable information.
		Banks	To determine what type of the threat they pose to non-bank microfinance institutions and what role they play in microfinance competition.

Table 2

Interview

The population from which information was obtained for the purposes of this research was defined in the following terms:

Target population	
Non-bank financial entities of the city of sucre	Unit: financial intermediation institutions of the non-banking sector. Element: general manager of microfinance institutions in the non-banking sector. Extension: urban area of the city of Sucre. Time: 2010 management
Microentrepreneurs of the city of sucre	Unit: micro entrepreneurs of the city of sucre Element: male or female owners of micro-companies affiliated with fe.de.mi.ch. Extension: urban area of the city of Sucre. Time: 2010 management
Banks of the city of sucre	Unit: banking financial intermediation institutions. Element: general manager of microfinance institutions in the banking sector. Extension: urban area of the city of Sucre. Time: 2010 management

Table 3

Systematization and analysis stage. It began from the total compilation of the necessary information to its systematization and respective analysis of the data that was studied.

Drafting and publication stage. Start from the analysis of the information obtained to the drafting of the quality report and publication at the 6th Science, Technology, and Innovation Exhibition fair.

Results and Discussion

Current situation of financial institutions in the non-banking sector with respect to the degree of competition between them.

Studying competition in economic sectors, Michael Porter concluded that the degree of competition that prevails in a market is not only reflected in the presence of competitors but in many other factors. These factors can be grouped into Five Forces.

The combined action of these factors is what shapes the competitive environment in which MFIs operate.

The potential entry of new competitors

Michael Porter proposes that this is a relevant force in the study since the potential entry of new competitors refers to the desire of a company to enter the market to obtain a share in it. This income depends on a series of barriers created by existing competitors determined whether the market is attractive, and which are represented in:

Differentiation of the product or service

The identification and loyalty established between institutions and clients is a characteristic that creates a barrier to entry into the sector, since it forces potential competitors to make large investments to overcome and change existing loyalty ties. The data collected from the interviews carried out with the general managers of the micro-financial institutions of the non-banking sector of the city of Sucre, show that there is a great predisposition to serve customers in a personalized way and offer the range of services that your institution has for them.

In the interviews carried out, it can be seen that the local microfinance market as a whole carried out a previous publicity of their institution and also consider capturing and providing services as fundamental pillars for which they offer a totally personalized service, since this attract customers.

Capital requirements

It corresponds to the requirements in financial resources to compete in the microfinance market. The Law of Banks and Financial Entities D.S. No. 26581 shows the minimum capital required for the creation of a non-bank financial intermediation entity in a range from US \$ 45,000 to US \$ 3 million. The minimum capital requirements that non-bank financial intermediaries must meet are detailed as follows:

Types of non-bank financial intermediation entities	Primary capital may not be less than the equivalent <i>Expressed in Special Rights of Turn (DEGs.)</i>
Cooperatives of saving and credit.	100.000 DEGs.
Mutual Savings and Loan	300.000 DEGs.
Private Financial Funds	630.000 DEGs.

Table 4 Primary capital of non-bank financial intermediation entities
Source: D. S. No. 26581 Law of Banks and Financial Entities (Ordered Text)

Government policies

Government regulations can limit and in some cases prevent entry into the microfinance market by requiring licenses, permits, limitations on the composition of raw materials, environmental standards, product and quality standards, and international trade restrictions. These mechanisms alert existing institutions to the arrival or intentions of potential competitors.

The Law of Banks and Financial Entities indicates in Title III Chapter IV the Limitations and Prohibitions of the Non-banking Financial Intermediation Entities. In general, these norms and laws are within the legal framework, which allows new entrants to compete in a market driven by the government for a better development of society and consequently of the country.

Market saturation

Circumstance that occurs when the demand for a product stabilizes because there does not seem to be a sufficient growth in potential customers, so the supply would be excessive for the level of demand. (economic encyclopedia 2009). In the micro-financial sector market, it happens that since there are institutions that were dedicated to small loans, they grew and filled with profits, that is when the banks decided to enter the mentioned market. That is why, now, the Micro financial market is saturated since there are banks, non-banking institutions and even the informal sector (family loans, pawn shops) that operate in this market, which is increasingly attractive due to the impact significant that it represents for the economy.

Entry of banks into the microfinance sector

In this research, the banks of the city of Sucre were analyzed, the results are shown below:

The bank los Andes S.A. prioritizes micro and medium enterprises, since they represent a high percentage of jobs, which is why they serve this potential market with comprehensive services aimed at the development of the country in which they operate, making a significant contribution to the economy of our country. On the other hand, Banco Unión S.A. They entered this market because they identified the need to support small businesses in order to have a growth in the economic activity of the city, as well as to collaborate with the business development of our country. Now, the Mercantil Santa Cruz S.A. I mention that microentrepreneurs are latent clients that can grow thanks to the services they offer. However, the philosophy of Banco Solidario S.A. It is to stay with the small clients and lead them towards a tomorrow with a better financial situation and better living conditions.

Carrying out an exhaustive analysis, it is clear that all have the common goal of "achieving growth in the economy of our country", however the last and the first bank mentioned give greater importance to the "quality of life" that the microentrepreneurs by attracting adequate financial services.

In this sense, it can be observed that the competition of non-bank financial intermediation entities is latent, since the increasingly demanding needs of microentrepreneurs are no secret. In conclusion, the incursion of banks into this micro-financial sector specifically to the microentrepreneurs segment represents a latent threat and consequently there is an open competition between banks and non-bank financial intermediation entities.

The rivalry between competing companies

It is the most important force. This strength consists in achieving a privileged position and client preference among rival microfinance institutions. "Competitive rivalry intensifies when the actions of a competitor are a challenge for a company or when it recognizes an opportunity to improve its position in the market" (Hitt; Duane Ireland; Hoskisson; 2004: 61) This rivalry is the result of the following factors:

Number of competitors

In the Micro Finance sector in the city of Sucre, 8 banks and 6 micro-financial institutions of the non-banking sector (regulated by the ASFI) enter, by virtue of this it can be seen that micro-financial institutions represent 43% of the total of this sector and banks account for 57%. The number of Micro Financial Institutions acquire an AGGRESSIVE behavior, since a continuous growth of this type of institutions generated a high degree of competition between them.

High strategic interest

The rivalry intensifies when there are lofty strategic interests. It can be observed that 100% of the managers of the institutions give importance to the fact of being successful. It was also identified that they used different strategies focused on the same objective, which consisted of providing customer service in a personalized and permanent way, working "WITH THE CLIENT AND FOR THE CLIENT".

In other words, THE COVERAGE is a FUNDAMENTAL WEAPON for Non-Bank Financial Intermediation entities, which is why their strategies are based on provide a quality service without any type of discrimination to clients or micro-entrepreneurs, consequently there is a high degree of competition between them.

Sector growth rate

When only non-Banking Micro-Financial Institutions formed in the Micro-Finance market, growth was rising due to their surplus demand, but upon detecting the substantial growth of the sector, banks entered the market, saturating the market under study.

Non-bank financial intermediation had an upward trend in its deposit and loan placement operations, as well as an adequate equity sufficiency, in addition to having a good level of provisions such as risk coverage for portfolio uncollectibility and a positive performance financial system, so says "the ASFI with the editorial evaluation of the financial system (2009)"

Location of dealers

Location is an important factor in determining the rivalry that exists between competing financial institutions. The institutions clearly show that 100% are in a central area that is within the reach of any client, choosing to be located in streets or central areas of the city. The institutions are located in the same geographic area, which is why greater rivalry is generated and greater knowledge of the actions of the competition.

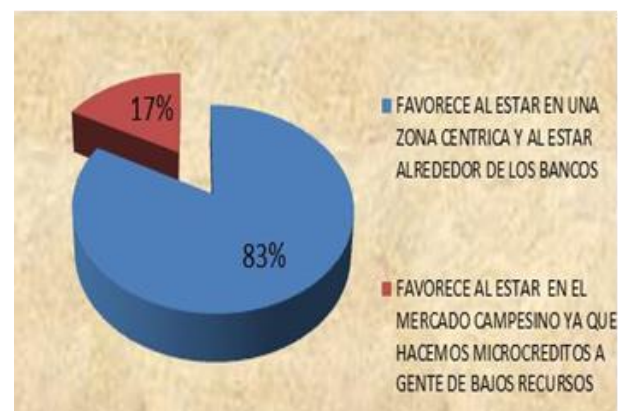


Figure 1 Location of Micro Financial Institutions in the non-banking sector and their geographical advantages
Source: Own Elaboration (data collected from interviews with MFIs)

Figure 1 shows that 83% of the institutions are in a strategically located (more central place), and 17% of the institutions are in the peasant market (there are many applicants).

The potential development of substitute services

"Two goods are substitutes if one of them can replace the other due to a change in circumstances" (Nicholson, 1997: 113). The availability of substitutes generates that the client is continuously comparing quality, price and expected performance against changing costs.

Substitute availability

(Maya D.M.:1994) "The formal financial market refers to all those institutions with the express purpose of granting loans. In general terms, it is the set of institutions that capture and channel financial resources under different modalities, paying interest for their use (passive rate) and obtaining interest for their granting (active rate). This system groups together banking institutions that are regulated by monetary authorities".

Substitute products in microfinance come from two major forms of external financing under the regulation and supervision of the ASFI: the premium consists of formal banking made up of commercial banks and non-bank Financial Intermediation Institutions. Commercial banks are increasingly realizing that microentrepreneurs constitute a gigantic market and seek to develop products and services that substitute the credit and savings services offered by Micro-Financial Institutions. And the second is in the form of external financing, it is made up of loans that are channeled by individuals and companies, who are not generally specialized financial agents, grant loans, based on trust, opportunity and the lack of bureaucratic procedures and legal regulations. The interest rate can vary between usury (high interest) and gratuity (no interest); in some cases, personal guarantees are not required. Here you can identify loans made by commercial and pawn shops, moneylenders and merchants, landlords, friends, and relatives. Payments can be made in another genre, which is not necessarily monetary. The set of credit operations carried out in this source make up the informal financial market.

Exchange costs for the customer

The effect of changing costs can be associated with the opportunity cost, taking into account that the lower the cost of changing a product or service, the easier it will be for competitors to attract customers.

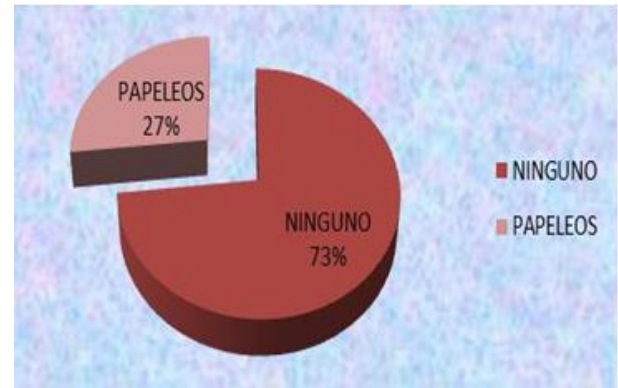


Figure 2 The switching costs for clients from one Microfinance Institution to another
 Source: Own elaboration (data collected from the interviews directed to the Microentrepreneurs)

In figure 2, prepared based on the data from the interview with the microentrepreneurs, it shows that 73% of the microentrepreneurs do not have any cost to change the micro-financial institution, on the other hand there is 27% of the microentrepreneurs who have the disadvantage the previous paperwork to change the microfinance institution.

Therefore, it can be seen that the costs of changing the micro-financial institution are little perceived by micro-entrepreneurs. Consequently, the rivalry between financial institutions is strong. Since the level of change costs from one institution to another is low.

Propensity of clients to substitute

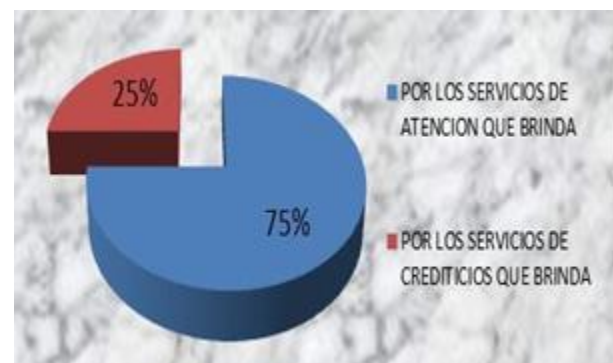


Figure 3 Reasons for changing clients from one Financial Institution to another
 Source: Own elaboration (data collected from the interviews directed to the Microentrepreneurs)

These reasons for change and their respective analysis led us to conclude that the degree of competition is high in the sense that microentrepreneurs are susceptible to the personalized attention they receive, just as they are with the credit services they receive, in general. Institutions are working more on personalized service to their clients.

The power of provider's negotiation

The bargaining power of suppliers in a sector can be strong or weak depending on the market conditions in the supplier sector and the importance of the product and / or services it offers. In a Micro Financial sector, the group of providers has negotiating power when:

The number of suppliers is high

For Microfinance Institutions, microfinance providers are mainly the financing sources. These sources literally define the conditions of the funds that MFIs can access. The most important differences in these conditions refer to payment: commercial credit, subsidized credit or donations. Given the importance that nowadays is assigned to Microfinance by cooperation, a tightening of the requirements for access to funds by the MFI is not to be expected.



Figure 4 Number of financiers or partners with which Financial Intermediation Entities of the non-banking sector have
 Source: Own elaboration (data collected from interviews directed to MFIs)

Figure 4 shows the number of funders or partners, 33% have 10,000 partners, 17% said they have 10 funders who have natural or legal status, the other 17% told us they had 7,000 partners and the other 33% did not respond (foreign suppliers). In other words, most of the providers are savers, which shows us their high degree of influence.

Provider availability

The availability of suppliers can be seen to have a high degree of influence on the decisions of MFIs since the suppliers are very well organized. According to the interviews, the providers affect the institution in relevant aspects such as: They are the ones who give guidelines, the decisions they make favor the growth of the institution, make decisions shaped like a directory, and give suggestions that are addressed. It is evident that although the providers (savers) are organized, they are not very demanding in their requirements. Therefore, this barrier can be easily overcome.

The bargaining power of customers

Clients that make up the microfinance sector can tip the bargaining scale in their favour when:

- Buyer has full information.
- Customers are the fastest changing factors in Micro Finance.

In the interviews it is observed that 100% of the clients of non-banking institutions have information before making a loan which helps them to compare interest rates, however they do not have the adequate knowledge to give the necessary use to such information. In this sense, it is an easy barrier for non-bank financial intermediaries to overcome.

Results of the analysis of the degree of competition among non-bank financial intermediation entities (5 porter forces).

The potential entry of new competitors

Factors	Weighing				
	1	2	3	4	5
Degree of differentiation of the product or service.		o			
Capital requirements.			o		
Government policies.		o			
Market saturation.				o	
Entry of banks into the microfinance sector.				o	

Table 5 Assessment of the factors that determine the threat of entry to the market of Microfinance of Non-Banking Entities
 Low barrier = 1; High barrier = 5

The threat of entry of new competitors to the microfinance market and therefore to Non-Bank Financial Intermediation Entities is high, which was determined by analyzing the above factors.

The power of provider's negotiation

The providers of non-bank financial intermediation entities for the credit services they offer are the savers and / or financiers of foreign entities.

Factors	Weighing				
	1	2	3	4	5
The number of providers			X		
Product of the supplier important input to provide the service					X
The availability of providers				X	

Table 6 Assessment of the factors that determine the bargaining power of suppliers
Low power = 1; high power = 5
Source: Self-made

The bargaining power of clients

There is a "low" power of clients in the microfinance sector of non-bank financial intermediaries, a conclusion reached by analysing the following factors:

Factors	Weighing				
	1	2	3	4	5
The buyer has full information before making a loan.			o		
or use of the information acquired by the buyer or client.	o				
Negotiation capacity of the offer		o			
Difficulty or cost to change			o		

Table 7 assessment of the factors that determine the bargaining power of buyers
Low power = 1; high power = 5
Source: Self-made

The potential development of substitute services

The threat of substitute products is high, because in the analysis of the offer all companies and / or media that provide credit services were taken into account, therefore, for this type of business there are potential substitutes (banks), or at least close substitutes (family loans, "pawn shop" loans.

Factors	Weighing				
	1	2	3	4	5
Availability of substitutes.				X	
Difficulties or costs of customer change.		X			
Propensity of clients to substitute.			X		

Table 8 Assessment of the factors that determine the potential development of substitute services
Low power = 1; high power = 5
Source: Self-made

Rivalry among competitors

The rivalry between non-bank financial intermediation entities is the most evident form of competition, which provide similar products or services and offer them in the same market, therefore they must analyze the degree of direct rivalry between them and the competitors since affects the performance of each institution in the market.

Factors	Weighing				
	1	2	3	4	5
Balance between competitors			X		
Number of competitors				X	
High strategic interest					X
Sector growth rate				X	
Location of dealers				X	

Table 9 Assessment of the factors that determine competitive rivalry in the microfinance sector of non-bank entities
Low rivalry = 1; high rivalry = 5
Source: Self-made

Through an analysis of the non-banking entities that make up the microfinance market, there is a high degree of rivalry, because all these non-banking entities have many substitutes and despite serving other segments, they prioritize the micro-business sector; Therefore, they specialize in MICROCREDIT aimed at microentrepreneurs, however, they do it in a generalized and uniform way, leaving aside the possibility of a range of access to credit plans for the development of their business and consequently affects growth and development. economic of Sucre.

Conclusions on the attractiveness of the microfinance market of non-bank financial intermediation entities



Figure 5 Porter's Five Competitive Forces Model
 Source: Michael Porter adapter, "How Competitive Forces Shape Strategy", Harvard Business Review 57

The conclusion of the competition analysis is summarized in the previous table, which reflects the impact that each factor has on the present investigation.

Current situation of the Financial Institutions of the non-banking sector with respect to the earnings obtained through interest rates from the micro financial market.

Factors influencing the rate of profit of Financial Institutions in the non-banking sector.

For the calculation of the active and passive rate, the interest rates towards microentrepreneurs and savers are taken into account, as well as the respective profit rates will be analyzed in greater depth, calculating through the formulas of Fidel Jaramillo, Daniel Morillo and Joaquín Andiron.

The interest rate charged by non-bank financial intermediation entities according to the interviews carried out with the general managers of each institution, varies in a range of at least 6% and a maximum of 22%, these rates are closely linked to the terms or fees paid.

Non-bank financial intermediation entities	Active interest rate received by microentrepreneurs
Mutual "La Plata"	11% -20%
FIE Private Financial Fund	6% - 19,5%
FFP PRODEM	8,5% - 22%
Cooperativa de A & C San Roque Ltda.	9,5% - 20,5%
FFP Grupo Fortaleza S.A.	10% - 21%
FFP Ecofuturo S.A.	11,5% - 20,3%

Table 10 Lending interest rates of non-bank intermediation entities
 Source: Own Elaboration (data collected from interviews with MFIs)

As can be seen in Table No. 3, the interest rates charged by non-bank financial intermediaries oscillate on average between 9.4% and 20.6%. As already mentioned, the terms are closely linked to the interest rates established by the MFIs or vice versa. A higher loan - longer term - lower interest rate. While the interviews carried out with the general managers clearly show us that this relationship is confirmed through their policies.

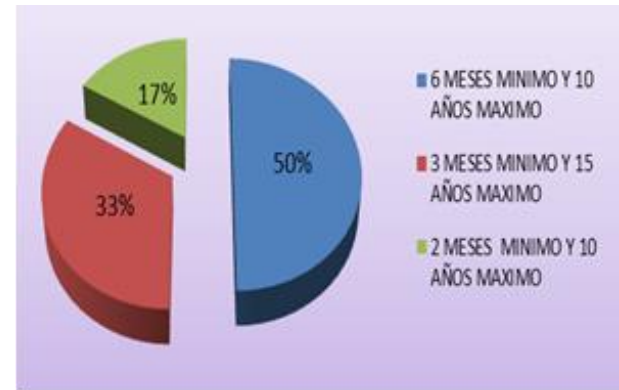


Figure 6 Terms offered by the Microfinance Institutions of the non-Banking sector, for the credit to the Microenterprise segment
 Source: Own Elaboration (data collected from interviews directed to MFIs)

However, within the deadlines for granting a loan to microentrepreneurs, it is evident that 17% of microentrepreneurs acquire credits for a minimum of 6 months and a maximum of 10 years; 33% of them have a credit with a minimum term of 3 months and a maximum of 15 years. Obviously, it can be seen that most of the microentrepreneurs represented by 50% acquire credit with a minimum term of 6 months and a maximum of 10 years. This is based on the fact that microentrepreneurs prefer not to have long-term debts that exceed 10 years.

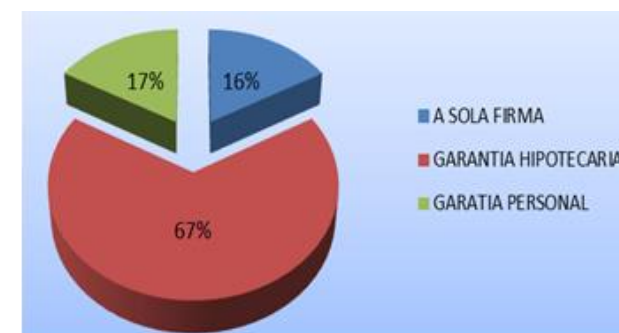


Figure 7 Types of credit most used by microentrepreneurs
 Source: Own elaboration (data collected from interviews with MFIs)

Among the types of credits offered there is a great variety depending on each non-bank Financial Intermediation Entity, however it can be concluded that the credits used in a greater proportion are: Single signature, personal guarantee and mortgage guarantee.

Interviews with the general managers of non-bank financial intermediation institutions show that 67% of microentrepreneurs make their credit through "mortgage guarantee". Followed by "single signature" almost equaling with "personal guarantee".

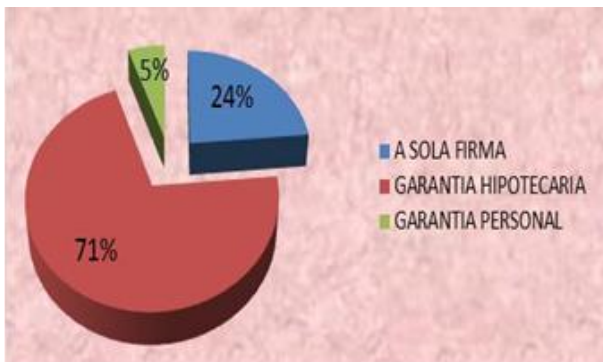


Figure 8 Type of credit used by Microentrepreneurs of Non-Banking Financial Intermediation Institutions
 Source: Own Elaboration (data collected from the interviews directed to the Microentrepreneurs)

As can be seen in the graph, the microentrepreneurs agree that 71% acquire a mortgage loan, representing this type of credit to most of the microentrepreneurs operating in the city of Sucre. However, according to the authors: Fidel Jaramillo, Daniel Morillo and Joaquín Morillo, to calculate the "profit rate" received by financial intermediation entities, we first proceed to determine the active rate and the passive rate.

To calculate the profit rate of each non-bank financial intermediation entity, the income statements were taken into account; balance sheet; patrimonial statements; and profit and loss statement respectively, available on the ASFI website (management 2000 to 2010). The respective calculations for the intended analysis are detailed below.

Lending rate for (2000-2009)

The lending rate corresponds to the simple average of interest registered in the heading of "other activities" for the State banks.

$$\text{Lending rate} = \text{Income from credits} + \text{Income from financial commissions}$$

Productive assets

The results of the calculation are reflected in the following table:

	Cooperative	Mutual	Private	Financial Fund		
	SAN ROQUE	THE SILVER	FIE	FEF	FPR	FFO
2000		0,1865	0,2663	0,167		
2001		0,1555	0,2276	0,2656	0,2254	0,2098
2002		0,1359	0,2164	0,3585	0,2543	0,1918
2003		0,1291	0,213	0,1989	0,2149	0,1713
2004		0,1155	0,1963	0,1992	0,2121	0,1491
2005	0,2031	0,1156	0,1892	0,208	0,2232	0,1521
2006	0,1931	0,1194	0,1923	0,2187	0,2317	0,1604
2007	0,1627	0,1159	0,168	0,2011	0,222	0,1689
2008	0,1655	0,1222	0,1859	0,1513	0,2077	0,1756
2009	0,1589	0,1163	0,1824	0,2195	0,1982	0,1897

Table 11 Active Rate of the Non-Bank Financial Intermediation Entities of the city of Sucre (Fidel Jaramillo, Daniel Morillo and Joaquín Morillo)
 Source: Own elaboration (data collected from the Financial Statements of the Micro-Financial Institutions of the non-banking sector)

Deposit rate for (2000-2009)

The passive rate is calculated as the average cost of the different sources of funds of the banks; that is, the interests and commissions paid on deposits and other obligations in each year, as a proportion of the average balance of those deposits and obligations.

$$\text{Passive Rate} = \frac{\text{Funding expenses} + \text{Financial commission expenses}}{\text{Liabilities with cost}}$$

	Cooperative	Mutual	Private	Financial Fund		
	SAN ROQUE	THE SILVER	FIE	FEF	FPR	FFO
2000		0,06772	0,1664	0,0932		
2001		0,0634	0,1235	0,1189	0,0579	0,0765
2002		0,0532	0,1138	0,1421	0,0793	0,0666
2003		0,0435	0,095	0,0682	0,0918	0,0571
2004		0,0381	0,0893	0,0618	0,0658	0,0499
2005	0,0444	0,0384	0,1054	0,0605	0,0747	0,054
2006	0,0396	0,0393	0,0905	0,0696	0,0737	0,0572
2007	0,0314	0,0432	0,0723	0,0886	0,0454	0,0419
2008	0,0299	0,0539	0,0753	0,0672	0,0637	0,059
2009	0,0282	0,0496	0,0738	0,0914	0,0475	0,0661

Table 12 Passive Rate of Non-Bank Financial Intermediation Entities of the city of Sucre (Fidel Jaramillo, Daniel Morillo and Joaquín Morillo)
 Source: Own elaboration (data collected from the Financial Statements of the Microfinance Institutions of the non-Banking sector)

Earning rate of (2000-2009)

According to the authors: Fidel Jaramillo, Daniel Morillo and Joaquín Morillo; the rate of profit is the difference between the active rate and the passive rate.

Profit rate = Lending Rate – Passive Rate

Year	Cooperative	Mutual	Private Financial Fund (FFP)			FFO	Average Annual Micro financial sector
	SAN ROQUE	LA PLATA	FIE	FEF	FPR		
2000		0,1188	0,0999	0,0738	0,0975		0,0975
2001		0,0921	0,1041	0,1467	0,1675	0,1332	0,1287
2002		0,0828	0,1026	0,2164	0,1737	0,1252	0,1401
2003		0,0856	0,118	0,1307	0,1231	0,1142	0,1143
2004		0,0774	0,107	0,1374	0,1463	0,0992	0,1134
2005	0,175	0,0773	0,0838	0,1475	0,1484	0,0981	0,1216
2006	0,1632	0,0801	0,1018	0,1491	0,158	0,1032	0,1259
2007	0,1313	0,0726	0,0957	0,1125	0,1768	0,127	0,1193
2008	0,1256	0,0683	0,1106	0,0858	0,144	0,1166	0,1084
2009	0,1144	0,0667	0,1126	0,1281	0,1507	0,1236	0,1160
Average per institution	0,1419	0,0821	0,1036	0,1328	0,1486	0,1156	0,1207

Table 13 Profit Rate of Non-Bank Financial Intermediation Entities of the city of Sucre (Fidel Jaramillo, Daniel Morillo and Joaquín Morillo)

Source: Own elaboration (data collected from the Financial Statements of the Micro-Financial Institutions of the non-banking sector)

As can be seen in the table, on average the FFP PRODEM is the entity that obtains the highest profit rate with 14.86% compared to the Mutual LA PLATA, which on average acquires the minimum percentage of all the entities under study with an 8, twenty-one%. This indicator showed an irregular behavior, presenting an average value of 9.75% in 2000 and 11.6% at the end of the 2009 period. It should be noted that in the Annual Average of the Micro-financial sector, the highest indicator of all was in the 2002 management with 14.01%. Currently, the profit rate of the 2009 management decreased compared to the 2005 management, however this indicator reflects significant gains for non-bank microfinance entities, consequently leading to higher costs for Microentrepreneurs. The average financial intermediation margin of the financial market of the non-banking sector is 12.07% of the 2000-2009 management period.

It is worth commenting that the level of the intermediation margin reflected by the market participating entities also presents a significant contradiction, since the high intermediation margins are usually insecure because they tend to indicate uncompetitive practices, high operating costs or possible impairments in the portfolio.

However, a low margin represents a greater degree of efficiency, since it could be reflecting the case of an entity with financial problems and with this it may be applying a policy of maintaining low margins.

In accordance with the above, it is recommended to continue with the gradual decrease in the percentage of the financial margin, to ensure greater competitiveness of the Financial Intermediation Entities of the non-banking sector and of the Financial system in general.

According to the results of the 5 forces of Michael Porter, financial intermediation entities of the non-banking sector represent a high degree of competition in the passive and active operations of microfinance entities, since they offer very similar products, at rates of comparable interest and have a similar target audience. In other words, there is aggressive competition from mutuals; FFP; and savings and credit cooperatives, whose importance lies in offering their clients an image of solidity and trust, greater facilities for making transfers and payments, ATMs, credit cards and products such as checking accounts and more complex operations that are more complex. relevant to larger companies and upper- and middle-income customers. Which brings a negative consequence regarding this situation that lies in the higher interest rates paid by Microentrepreneurs due to the lack of formality that characterizes them. The risk of interest rates in this market is another consequence of the degree of competition between non-bank financial institutions if a Microfinance Institution grants a considerable amount of loans to certain years of term and at a fixed interest rate and finances all these loans. with one-year fixed term deposits.

The Institution requires a percentage margin of the interest rate already set, to cover its operating costs and expected losses from bad loans. Consequently, the institution expects to make a solid profit on these loans. But one wonders what happens if within a year the country enters a period of monetary restriction or inflation that causes the rates of time deposits to increase. When the entity proceeds to renew those deposits, its profits become a loss.

This identifies the interest rate risk, which derives from the impact of changes in market interest rates on the profitability of the financial institution.

Additionally, to reduce or eliminate interest rate risk, Microfinance Institutions charge a variable rate on their loans, these variable loan rates may be unpopular with clients due to the additional risks they generate for clients.

Furthermore, establishing variable rates induces an increase in credit risk. For these reasons, it is very important to highlight the fact that microcredit is not simply a banking activity, but rather has high potential as a tool for economic and social development. With the foregoing, it is proven that one of the main obstacles to the development of microenterprises is the scarce possibility of accessing financing that is adapted to the needs of this sector. In a context of this type, the definition of "microcredit" can include both financial and social intermediation activities.

Current situation of Microentrepreneurs in the productive and commercial sector regarding the productive and financial implications they have in relation to the credit services they receive from non-banking institutions.

Due to the in the analysis of the financial margin, it is very important to highlight the fact that microcredit has a high potential as a tool for economic and social development.

For this reason, it is necessary to take into account that the development of Microenterprises is not the same as that of large companies, due to the technological restrictions that appear in the market, due to the scales of production, prices, opportunities, because They do not have the same legal regulations, nor the same social or economic conditions.

The productive and financial implications of current microcredit policies in Sucre, which are incurred by microentrepreneurs, will be discussed below. The characterizations that we will make next are generalizations based on interviews carried out with the owners or owners of the Microenterprises of the city of Sucre.

In this sense we have the following aspects to analyze:

Productive implications that microentrepreneurs have regarding the credit services they receive.

The productive implications of microentrepreneurs is closely linked to the source of financing they have; the time or term that the financing costs; and finally the use or use that it gives to the financing acquired from non-bank and / or banking financial intermediation entities.

Factor provisioning

"The company is the place where factors of production are combined to produce goods and / or services with which to satisfy the needs of society." (IES V. de la Paloma / IES R. Maestu / IES P. Gallardo). Reason for determining the source of financing for Microentrepreneurs as a starting point for the analysis of their factor supply, setting out the source of financing for the start-up of their companies.

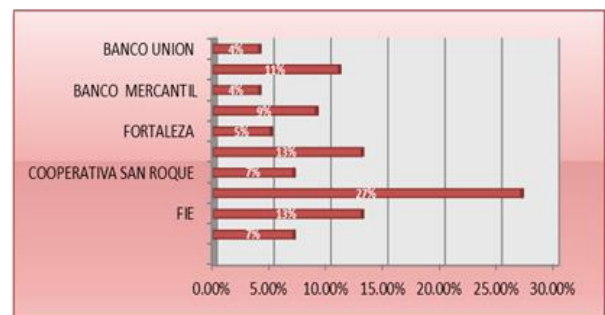


Figure 9 source of financing for microentrepreneurs
Source: Own elaboration (data collected from interviews with microentrepreneurs)

It is observed that the current source of financing obtained by the microentrepreneurs of the city of Sucre represents 27% of PRODEM.

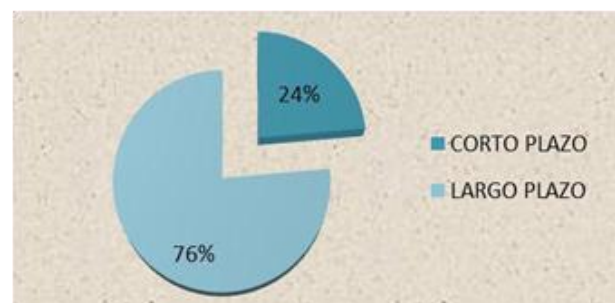


Figure 10 Typology of the term regarding the credit acquired by the Microentrepreneurs of the city of Sucre
Source: Own Elaboration (data collected from the interviews directed to the Microentrepreneurs)

24% of microentrepreneurs prefer to pay their debts as soon as possible. However, 76% of them choose to pay their debts little by little and in a longer time.

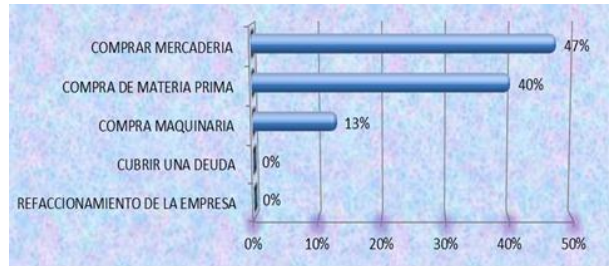


Table 11 Use of credit by Microentrepreneurs of the city of Sucre
Source: Own Elaboration (data collected from the interviews directed to the Microentrepreneurs)

As can be seen in graph No. 10, the use of credit by Microentrepreneurs mainly covers the factoring of their businesses. Coming in this way to realize that there is an indisputable dependence of Microentrepreneurs regarding the policies of terms, amounts, interest rates and requirements to access a loan; established by the Micro Financial Institutions.

Produced quantity

The contribution of credit services in the Microenterprises of the productive and commercial sector of the city of Sucre was a “constant growth” represented by 100%. However, it was also noticed that the influence of financial services on the production and / or sale of goods of Micro-enterprises is favorable with 91%.



Figure 12 The behavior of the production and or sale of Goods with Microenterprise credit

Additionally, the monthly production levels of the Microenterprises of the commercial and productive sector were verified as follows:



Figure 13
Source: Own elaboration (data collected from the interviews directed to the Microentrepreneurs)



Figure 14
Source: Own elaboration (data collected from the interviews directed to the Microentrepreneurs)

As can be seen in graphs No. 12 and No. 13, it leads us to conclude that the amount of production and / or sale of goods by Microenterprises is greatly favored by the financial services provided by non-financial intermediaries. banking and / or banking.

Financial implications that microentrepreneurs have regarding the credit services they receive.

They help to understand the convenience of using external financing and the risks that such a situation entails. Therefore, the solvency and financial risk of the Sucre Microenterprises is analyzed below.

Solvency

Solvency is understood to be the financial capacity of the company to meet its short-term maturity obligations and the resources it has to meet such obligations. Solvency is determined by the following factors under study:

The financial structure

The financial structure is the way in which the assets of a company are financed. And these can be: Contribution of partners; Personal investment; Bank credits; and Non-bank credits.



Figure 15 Financial Structure of the Sucre Microenterprise at the beginning of its activities
Source: Own elaboration (data collected from the interviews directed to the Microentrepreneurs)

The financial structure of the Microenterprises at the beginning of their activities, represents 53% of personal investment, 34% of loans from microfinance institutions, 11% from banks, and 2% contribution from partners.



Figure 16 Current financial structure of the Sucre microenterprise
Source: Own Elaboration (data collected from the interviews directed to the Microentrepreneurs)

On the other hand, the current financial structure of Microenterprises is reflected in 42% by loans from microfinance institutions, 27% by personal investment, 20% by bank loans, 9% by company savings, and lastly 2% for contributions from partners.

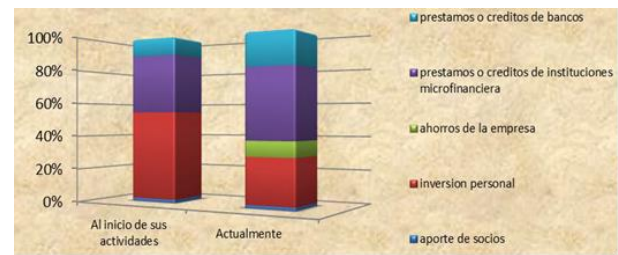


Figure 17 Financial Structure of Microenterprises

However, making a comparison of the current financial structure with the financial structure at the beginning of the activities of the Microenterprise, it can be concluded that “currently” loans from financial institutions had an increase of 8%, compared to “at the beginning of Your activities”. Likewise, it can be observed that “personal investment” lost a significant participation in the financial structure.

Initial capital

(IES V. de la Paloma / IES R. Maestu / IES P. Gallardo) “Within the tangible elements of the company, the instrumental capital is made up of financial capital and structural capital”.

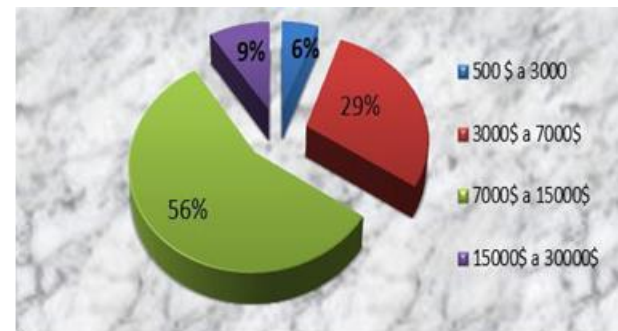


Figure 18 Initial capital for the opening of a Microenterprise in the city of Sucre
Source: Own elaboration (data collected from the interviews directed to the Microentrepreneurs)

The initial capital for the opening of the Microenterprise, according to the interviews carried out with the owners of the microenterprises, shows us that the initial capital for the opening of the Microenterprises of the city of Sucre is mainly concentrated in a range of 7000 to 15000 dollars.

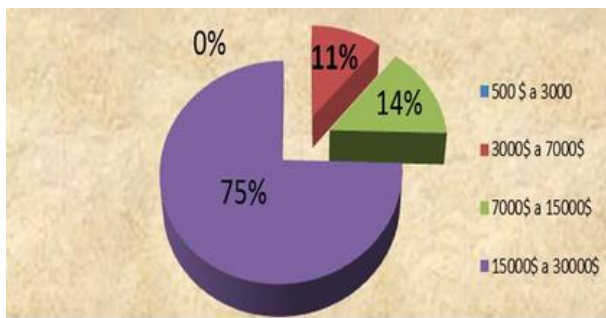


Figure 19 Capital that Microenterprises currently have
 Source: Own elaboration (data collected from the interviews directed to the Microentrepreneurs)

However, the current capital of the Microenterprises is an additional piece of information that serves to compare the “current capital” with the “opening capital”. The results reflect that 75% of the Microenterprises double the capital invested without taking into account the capital invested at the beginning of their activities.

Microenterprise financing

In the graph reflected in the "Supply of factors" it is observed that the source of financing obtained by the microentrepreneurs of the city of Sucre represents 27% of PRODEM.

Financial risk

The financial risk of Microenterprises is determined by the following factors:

Increased insolvency

The interviews corroborate us that the means available to all the Micro-enterprises to dissolve their debts are the “profits” received from their businesses. Likewise, they realize that the means they have are sufficient to satisfy the debts of the company. Not enough with this information, the following is an analysis of the requirements required to grant a loan to the "Microenterprise" segment.

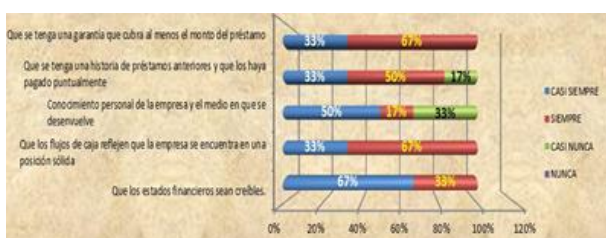


Figure 20 Requirements required to make a load
 Source: Own elaboration (data collected from the interviews directed to the MFIs)

The previous graph concludes that only the guarantee given by clients and the solidity of their company are of interest, therefore Microentrepreneurs should pay greater attention to the financial risk involved in obtaining a loan since they must demonstrate the solidity of their company, to through financial statements that show such status, in order to acquire the desired loan.

Profit variability

The profits in the last 5 managements of the Microenterprises of Sucre are shown in the following graph, showing a behavior of the variability of the profits.

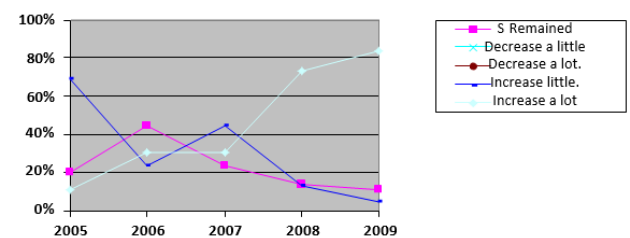


Figure 21 The behavior of the profits of the microenterprises of sucre in the last 5 administrations
 Source: Own elaboration (data collected from the interviews directed to the Microentrepreneurs)

As reflected in the data obtained by the interviews, it leads us to conclude that the 2009 management profits are favorable compared to the 2005 management, thus demonstrating the high degree of payment capacity acquired by Microentrepreneurs.

Results of the identification of productive and financial implications of microentrepreneurs in the city of sucre

Based on the problems that micro-enterprises in the city of Sucre face in order to access financing, the need arises to find different forms of granting loans that allow them to respond to the requirements of economic agents excluded from traditional financial circuits. In this regard, it is worth mentioning that smaller companies are, in general, affected by a problem of lack of available guarantees and this considerably aggravates their ability to access the services offered by the formal financial sector. Therefore, the formal banking sector like other financial institutions are forced to protect themselves from excessive risks through adequate guaranteed systems.

However, potential beneficiaries are often not able to offer concrete guarantees.

There is a long process of continuous changes in search of adequately serving the microenterprise sector, which unfortunately has not arrived, and it is necessary to look for new credit alternatives. For which it is necessary and fundamental to state that 9 out of 10 Bolivians operate Micro-enterprises with limited access to financial resources, practically without access to technology and the national market, and that develop products with low added value.

Conclusions

Once the investigation is concluded, we can say that the objectives set in the investigation were met.

Today, non-bank financial intermediation entities are part of an intense competition, since they have a growing rivalry behavior between them.

Which leads us to the conclusion that they are favorable for greater growth in the microfinance market in which they operate.

The profit rate of microfinance institutions in the non-banking sector is "high", despite the fact that there is a decrease compared to previous years. Reflecting an average profit rate of 0.1217, this is since these institutions acquire financial resources from investors and / or foreign entities that demand "higher returns" in the face of "higher risk."

Micro-enterprises are an important source of income for many Bolivian households; therefore, it is a priority to improve the opportunities for more families to benefit from this type of activity, and one of them is secure access to timely credit and for adequate amounts.

The high degree of competition within the financial intermediation activity entails high rates of profit, which generate productive and financial implications that microentrepreneurs must face.

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