Microfinance in Brazil:
Government Policies and Their Effects

A thesis presented to
the faculty of
the Center for International Studies of Ohio University

In partial fulfillment
of the requirements for the degree
Master of Arts

Flávio A. Serpa
March 2008
This thesis titled
Microfinance in Brazil:
Government Policies and Their Effects

by
FLÁVIO A. SERPA

has been approved for
the Center for International Studies by

Julia A. Paxton
Associate Professor of Economics

Betsy J. Partyka
Director, Latin American Studies

Drew McDaniel
Interim Director, Center for International Studies
ABSTRACT

SERPA, FLÁVIO A., M.A., March 2008, Latin American Studies

Microfinance in Brazil: Government Policies and Their Effects (117 pp.)

Director of Thesis: Julia A. Paxton

This thesis investigates the policies adopted by the Brazilian president, Mr. Luís Ignácio Lula da Silva, as a result of campaign promises towards microfinance. Data were collected from Brazilian government institutions, from microfinance institutions’ websites and from interviews with institutions’ managers. The study analyzes how effective these policies were in fighting the existent barriers upon the sector and promoting its development. After Mr. da Silva’s term, the sector has made significant improvements in the number of institutions, number of clients, and the active loan portfolio volume. Despite the success, however, the government actions did not deepen the sector sustainability and its policies are oriented much more towards microcredit than microfinance, following an old paradigm for finance to the poor. This study recommends that the Brazilian government, as a second step, supports microfinance institutions, through regulations and policies, in order to facilitate their sustainability and lower their dependence on the government.

Approved:

Julia A. Paxton

Associate Professor of Economics
To Denise, with all my love
I would like to take this moment to express my gratitude to those that supported me to accomplish this endeavor: My parents, Eustáquio and Cecília, for their unconditional love and support throughout the journey of my life; Denise, who stood by me every step of the way, through the good moments and the roughest ones; my sister Cristiane, not only for her support, but inspiration and friendship; Vovó Idalina, Tia Bezinha, Vovô Tantino and Vovó Ignez for their readiness to do help; Pepeto and Clara, for the way they changed my life.

I would like to thank Dr. Thomas Walker and his wife Anne for receiving my family as part of theirs. Dr. Julia Paxton for inspiring and guiding me in the field of economic development and microfinance. Dr Hector Perla for his assistance and constructive criticism. Dr. Betsy Partyka for the technical and moral support, the staff of the Center for International Studies, and specially Paula Dutra, for her friendship.

Finally, I would like thank those involved in the research: the staff of the microfinance institutions interviewed, for their time and attention, Mr. Marden Soares from the Brazilian Central Bank, Mr. Gilson Bittencourt from the Treasury Department, and Mr. Almir Pereira from the Labor Ministry.
# TABLE OF CONTENTS

Abstract ................................................................................................................ 3
Acknowledgments ................................................................................................ 5
List of Tables ........................................................................................................ 8
List of Figures ...................................................................................................... 9
Chapter 1: Introduction ....................................................................................... 10
  Old Paradigm versus New Paradigm .............................................................. 13
  The Brazilian Context .................................................................................... 17
Chapter 2: Methodology ..................................................................................... 20
Chapter 3: Microfinance in Brazil ...................................................................... 23
  3.1 Stages of the Microfinance Sector ............................................................ 23
    Stage 1 ........................................................................................................ 23
    Stage 2 ..................................................................................................... 25
    Stage 3 ..................................................................................................... 27
  3.2 Demand for Microfinance ....................................................................... 36
  3.3 Barriers for Microfinance in Brazil ............................................................ 38
    Government Policy and Intervention in the Market .................................... 39
    Lack of Well Defined Legal and Regulatory Framework ......................... 40
    Lack of Macroeconomic Stability .............................................................. 41
    Crowding Out by Public Sector ................................................................. 42
    Lack of Demonstration Effect ................................................................ 42
  3.4 Government Policies ............................................................................. 43
Chapter 4: Description of Policies Adopted ..................................................... 49
  Expansion of PRONAF ............................................................................... 49
  Increase of the Resources for Microcredit ................................................. 52
  Increase of the Number of Local Financial Agents .................................. 53
  Creation of Financial Products and Services to the Poor ....................... 56
  Creation of the PNMPO ........................................................................... 59
  Alteration in the Legal Framework of Cooperatives ............................... 60
LIST OF TABLES

Table 1: Key Characteristics of OSCIPs and SCMs .................................................. 30
Table 2: BNDES, Programa de Crédito Produtivo Popular, 1998 – 2002 .......... 33
Table 3: Microfinance Penetration in Latin America ............................................. 38
Table 4: Growth Rate on Active Loan Portfolio and Active Clients 2001 - 2005 . 70
Table 5: Microcredit Program – 2% rate of interest .............................................. 85
LIST OF FIGURES

Figure 1: Brazil's Gini Coefficient ................................................................. 18
Figure 2: Legal Format of MFIs in Brazil in 2000 and in 2002 ...................... 31
Figure 3: Charter Type of Sampled Microfinance Institutions ...................... 66
Figure 4: Regional Distribution of Sampled Microfinance Institutions ............ 67
Figure 5: CrediAmigo – Active Clients ............................................................ 71
Figure 6: CrediAmigo – Active Loan Portfolio and Average Loan Size ............ 72
Figure 7: CrediAmigo – Net Income (R$ ‘000) ................................................. 73
Figure 8: CrediAmigo – Default Rate (%) ...................................................... 74
Figure 9: GDP per capita ............................................................................. 76
Figure 10: Yearly Inflation Rate – INPC (%) .................................................... 77
Figure 11: Monthly Inflation Rate – INPC (%) ............................................... 78
Figure 12: Nominal Monthly Interest Rate - Selic (%) ..................................... 79
Figure 13: Real Average Income in Urban Areas – R$ (1994 – 2003) ............. 80
Figure 14: PRONAF – Funds Invested ............................................................ 81
Figure 15: PRONAF – Number of Contracts (1,000) ...................................... 82
Figure 16: Microcredit – 2% credit line ......................................................... 85
Figure 17: Monthly Nominal Interest Rates Charged by Interviewed Institutions 90
Figure 18: Number of Bank Branches and Correspondents .......................... 94
Figure 19: Total of Simplified Checking Accounts ........................................ 95
Figure 20: Total of Simplified Savings Accounts .......................................... 96
Figure 21: Consigned Credit Program ............................................................ 98
Figure 22: Production Oriented Microcredit Program .................................. 99
Figure 23: Evolution of Credit Cooperative’s Loans and Deposits ................. 100
CHAPTER 1: INTRODUCTION

“Poor people can save and want to save, and when they do not save it is because of lack of opportunity rather than lack of capacity.”

(Rutherford, 1999)

This study investigates the policies adopted by the Brazilian president, Mr. Luís Ignácio Lula da Silva towards microfinance and their effects. Moreover, it examines the model followed by the government to develop the microfinance sector, promote social improvements and poverty alleviation. Using a broad survey of microfinance institutions, trends and policies are analyzed in the context of the international best practices of microfinance and the Brazilian macroeconomic environment.

Poverty has always been around, but lately it has become a hot topic as people are getting more concerned about its consequences. There is a movement around the world for poverty relief and human development. Along with these initiatives, it is possible to notice that, after many years ‘looking up’ towards the higher classes, governments, society, companies and academia are looking ‘down’ into the lower classes, their problems, their reality, their reasons and their needs. One particular need of lower classes is financial services.
Society has historically held the misconception that the poor don’t have money, and therefore they do not need financial services. In reality there is a large demand for these types of services among the lower classes; the poor need not only to be able to save money, but also to be able to borrow money. Immediate needs such as health emergencies, investment in a small family business, savings of any income surplus, and improvements in their working conditions are examples of the demand for financial services among the poor, which shows the importance of microfinance. It is proven that microfinance is a powerful instrument for poverty relief and human development (Rutherford, 1999).

Microfinance is easily understood as the financial service provided to the poor, responding to their demand for these types of services. It emerged as an efficient mechanism to provide financial services to poor people that usually did not fit in the standard banking system because their savings and loan demand were small, and they lacked loan collateral (Zeller & Meyer, 2002). Microfinance is an alternative economic development tool aimed at individuals in the low-income sector, through affordable and flexible financial services with the goal of reducing poverty (Ledgerwood, 1999). The service is important among the poor due to the constraints they face when it comes to this type of service. A person from the upper classes has easy access to a variety of possibilities in dealing with their savings or credit. Nevertheless, the poor lack the same possibilities and, without better options to save whatever money they have, they bury it, buy livestock that may die, or invest in jewelry that may be stolen and can be hard to
sell. In addition, for family, friends, and commercial credit a common source of credit is a pawnshop or a moneylender who charges staggeringly high interest and has non-conventional ways to deal with clients who fail to pay on time (The Economist, 2005). “Usurious rates have become so standardized and socially acceptable in Third World countries that the borrowers rarely realize how oppressive a contract is,” (p. 48) affirms Muhammad Yunus (1999). In theory, microfinance provides credit to the poor allowing them to invest in income generating activities that will result in poverty alleviation and raised living standards. According to Morduch there is hope that, by providing financial services to low-income households, much poverty can be alleviated and economic and social structures can be transformed fundamentally (1999). About credit and poverty alleviation, Muhammad Yunus (1999) states:

Microcredit is not a miracle cure that can eliminate poverty in one fell swoop. But it can end poverty for many and reduce its severity for others. Combined with other innovative programs that unleash people’s potential, micro-credit is an essential tool in our search for a poverty-free world (171).

Microfinance started as isolated initiatives throughout the world, initiatives that perceived the need for the service. One example of these initiatives is the project conducted by Dr. Muhammad Yunus in Bangladesh. He conducted an academic experiment addressing the banking problem faced by poor villagers in southern Bangladesh through a program of action-research (Zeller & Meyer,
The project designed an experimental credit program to serve the villagers. The program rapidly reached hundreds of villages supported by a special experimental relationship with local commercial banks (Bornstein, 1996) and distributed thousands of loans, but the bankers refused to take over the project at the end of the pilot phase, fearing that it was too expensive and risky in spite of its success (Zeller & Meyer, 2002). Although the program was not continued, it aroused the awareness about the opportunities and the demand for similar programs. Later Dr. Yunus created the Grameen Bank, which is a point of reference in the microfinance sector. According to Zeller, other similar stories are told by Poncho Otero, founder of Fundación para la Promoción y Desarrollo de la Microempresa (PRODEM), which gave rise to BancoSol, in Bolivia, and other microfinance pioneers (2002).

**Old Paradigm versus New Paradigm**

To better understand the approach of this study, it is important to point out the paradigms of the finance to the poor. In the 1960s and 1970s there was a understanding for the need of rural finance, but there was also the recognition of the costs and risks of this type of finance, which made financial institutions reluctant to expand in the rural area. A model of rural finance was developed based in donors and government, becoming the old paradigm of finance to the poor. An example of this paradigm is the initial credit-driven models utilized by
The Grameen Bank in Bangladesh in its early stages. The focus under this model is poverty reduction and social change, with nongovernmental institutions as the key players. Under the model there is little concern for building an efficient financial market, the objective is just in providing the service. It is common to observe under this paradigm economic policies that are focused on direct government intervention, and not on developing a conducive economic environment that could lead to sustainable financial institutions (Lapenu, 2002). The old paradigm supports five characteristic types of government interventions (Nagarajan & Meyer, 2005):

- Subsidized interest rates;
- Lending requirements;
- Quotas on banks and financial institutions;
- Targeted lending by development institutions;
- Credit guarantees.

These five types of intervention have been proven inefficient in the long run. Subsidized interest rates, one of the major reasons for the model's failure, has negative impacts because of the opportunity cost of funds, the lack of sustainability it creates, the grant mentality it brings, and the limit to expansion. The attention to microcredit, created through cheap loans, may draw off funds from projects that can help the poor more, or help a higher portion of the population. The opportunity cost of funds existent when the government engages
in these subsidized programs cannot be ignored. Governors and donors should know whether the best use of the fund is in small loans or in, for example, health care, food aid, or cash allowances (Navajas, Schreiner, Meyer, Gonzalez-Vega, &Rodriguez-Meza, 2002).

Subsidized rates programs usually provide a limited volume of cheap loans that tend to be allocated predominantly to local elites who have the influence to obtain them, and not those who need it the most. Moreover, previous experiences show that subsidized credit programs result in high arrears, generating losses to both financial institutions and government (Otero & Rhyne, 2001). Subsidized rates do not cover the costs associated with it, and the institution providing the credit ends up being unviable. A financially sustainable credit operation must cover, through fees and interest charges, operating costs, costs of funds, and inflation. Furthermore, it must also yield a profit to owners, to achieve genuine commercial viability (Nagarajan & Meyer, 2005). Another fact that contributes to the lack of sustainability is the grant mentality associated with subsidized rates. The fact that the loan is provided by the government, with small interest and long repayment periods decreases the borrower’s willingness to repay. The loan is considered a government grant (Lapenu, 2002). Subsidized loans also limit the expansion of the credit program, since they depend on the availability of external funds.

The other four types of intervention also bring problems to the microcredit agenda. Programs that have lending requirements and quotas on financial
institutions, credit guarantees, and targeted lending end up allocating funds in investments that may not be the best opportunity. When a financial institution is required to lend a certain portion of its resources to a target group it cannot evaluate the best use of the fund, as market principles would suggest. The lending is based on paternalistic objectives, and not on investment opportunity. For example, lending only for agricultural purposes ignores the potential benefits of supporting growth-intensive investments that are more appropriate for the rural poor (Nagarajan & Meyer, 2005). Moreover, these types of intervention are also proven not sustainable over the long run, since the lending is not based on best opportunities, but in quotas, requirements, and targets (Otero & Rhyne, 2001). Government interventions were needed to support a starting sector, but in the long term, this paradigm was proved to be costly, unsustainable, and with limited outreach (Nagarajan & Meyer, 2005).

The new paradigm emerged in the late 1980s, based on market principles to provide financial services to low income population and promote asset creation and poverty alleviation (Nagarajan & Meyer, 2005). This new model came with the recognition that the poor have financial needs that go beyond credit and that they can benefit from access to financial services more broadly defined (Armendáriz de Aghion & Morduch, 2005). The new paradigm emerged in response to the widespread failures in the credit-driven model. The new model has its focus in building cost-efficient microfinance institutions that are able to expand the financial frontier sustainably (Zeller & Meyer, 2002). The new
approach gives the government an active role in establishing a favorable policy environment and a sound legal and regulatory framework, that facilitate the functioning of microfinance, but it gives a more limited role in terms of direct interventions (Yaron & Benjamin, 2002).

Under the new paradigm, the term microfinance is used to refer to the financial system model that recognizes the importance of both credit and savings (Ledgerwood, 1999; Otero & Rhyne, 2001). Microfinance represents a step forward from microcredit because it added the savings component, which better allows the institution’s sustainability. Moreover, according to the financial intermediation model on which microfinance is based, those who save permit others to borrow while gaining interest on their savings (Rhyne, 2001). Due to legal restrictions and regulations, the old paradigm was the one being used predominantly throughout Brazil, before Mr. da Silva.

The Brazilian Context

Looking at Brazil, it is possible to notice that the country has one of the worst inequality rates in the world, especially if we look at the country’s size and the enormous availability of natural resources. Figure 1 shows Brazil’s Gini coefficient from 1976 to 2004. It is possible to see that in the last decade the inequality rate decreased by 5% in Brazil, but it still is a pressing problem.
Considering the country’s inequality problem and the previous mentioned importance of microfinance in promoting poverty alleviation and, consequently, empowerment and economic growth, one would expect that the microfinance sector in Brazil is developed and efficient. Yet, it is possible to notice that the demand for microfinance is not being adequately met. Microfinance in Brazil has a contradictory scenario. On one hand Brazil is the largest economy in Latin America, has the most developed and largest banking system, and was the birthplace of Latin America’s first modern microcredit program, in 1973 (Brusky & Fortuna, 2002). On the other hand, studies have shown that, in 2002, only 2% of potential microfinance clients were getting this financial service and 1.4% of their potential credit needs; 70% of Brazil’s population was completely excluded from the banking system, not having any kind of account (Nichter, Goldmark, & Fiori, 2002). The low penetration rates of microfinance in Brazil are even lower when looking into the microbusiness and microentrepreneurs perspective.
Although in Brazil a demand for financial services for microbusiness exists, this service is not widely available, and when it is available, it is complicated to get, requiring many steps that discourage most people. This thesis explores the effects of President Luís Inácio Lula da Silva’s policies towards microfinance. As a result of campaign promises, Mr. da Silva launched a package of measures to promote the microfinance sector in Brazil. This study analyzes how effective these policies were in fighting the existent barriers upon the sector and promoting its development. Furthermore, it analyzes if the policies contributed in shifting the microfinance sector in Brazil towards the new paradigm. I argue that the policies were effective in promoting the access to some financial services among the low-income population and promoted a microcredit program, but it did not promote microfinance in a self-sustainable way.

Despite the success of most of the government polices and the success of the microcredit program, the government created a high level of dependency upon the microfinance institutions, where the success of these programs are highly related to government funds. I conclude that after reaching a level of success in promoting microfinance in Brazil, the government needs to invest in generating a scenario of sustainability for microfinance institutions and in promoting competition in the sector, which will bring important benefits to the public.
CHAPTER 2: METHODOLOGY

In order to investigate the efficiency of Mr. da Silva’s policies towards microfinance in Brazil, this study brings a combination of analyses of the policies and their impacts in the sector and in individual institutions. First, a descriptive analysis of the microfinance sector is presented. A literature review of the microfinance industry was elaborated with the objective of identifying its characteristics. In order to be able to evaluate the measures taken towards microfinance, it is important to recognize all of its aspects. A historical overview presents important features of the industry since its creation, which allows a better understanding of the current situation. It is also imperative to understand the stages of microfinance in Brazil, its regulatory framework, and the institutions that are providing the financial service. This review also presents the barriers to microfinance in Brazil, aspects that have made the evolution of the sector more difficult. These barriers are the starting point to the evaluation of the policies adopted; successful measures will act in reducing such barriers.

The second step of the study is the presentation of the government’s program towards microfinance. All of the governmental institutions involved in the creation and implementation of the program were researched. The Treasury and Labor Departments, the Ministry of Development, Industry and Foreign Trade, the Ministry of Agriculture, the Ministry of the Agricultural Development, the
Central Bank, and the National Bank for Development (BNDES) were consulted, through their publications, websites, personal contacts, and press releases, about the creation of the government program on microfinance. Through these sources, government program objectives and resulting policies were identified. These policies are the main object of study of this thesis. The first and second steps are presented in Chapter 3. Chapter 4 presents a detailed description of the policies adopted by Mr. da Silva.

The third step of this study is a macroeconomic analysis of the Brazilian economy in the years before Mr. da Silva’s term and during his years in office, presented in Chapter 5. The purpose of this analysis is to establish causality in the study. Macroeconomic fluctuations have a direct impact on microfinance, and this analysis is expected to recognize them and factor them out of the microfinance performance, isolating the changes caused by the government policies toward the industry. This is particularly relevant because of the economic stability accomplished since 1995. The study analyzes the Brazilian economy from 1980 to the present, utilizing the following indicators: GDP growth, inflation, interest rate, unemployment, and average wage and income.

The forth step compares global indicators of the microfinance industry, in the periods before and after Mr. da Silva’s term, analyzing the direct results of the policies according to the government. To collect these global indicators a research was conducted with the institutions responsible in the implementation of the policy. The creation of simplified checking accounts is one example. The
Central Bank and the state banks offering these accounts, *Caixa Econômica Federal*, *Banco do Brasil*, *Banco do Nordeste*, and *Banco da Amazônica*, were surveyed to identify the number of accounts created. This research allows the identification of the program’s results according to the government.

Interviews with microfinance institutions were conducted to identify the impacts of Mr da Silva’s program in an individual level; how each one of them was affected by the government’s plans. The interviews were conducted according to the questionnaire presented in Appendix 1. The questionnaire was structured in two modules, a quantitative and a qualitative. The first identifies the institutions’ general information and indicators, such as active borrowers and loans outstanding, in December 2002 and 2006. The second module has as its objective the identification of the institution’s response to the policies implemented and the impacts that such policies created in each of them. The analyses made in steps four and five and the findings of this study are presented in Chapter 5. Finally, the conclusions of the study and the recommendations for the microfinance sector are presented.
CHAPTER 3: MICROFINANCE IN BRAZIL

This section provides an overview of the microfinance sector in Brazil before 2003, when Mr. da Silva’s term starts. First, the stages of microfinance in Brazil are presented. Between 1972, when the first thoughts of lending to the poor arose in Brazil, and 2003, it is possible to distinguish three stages in the progression of the sector. Second, the demand for microfinance in Brazil is described, and the extent to which this demand is met by the institutions is analyzed. Third, the barriers for the development of the industry are discussed. Finally, Mr. da Silva’s program towards microfinance is presented and the policies adopted are listed.

3.1 Stages of the Microfinance Sector

Stage 1

The first stage, which goes from 1972 to 1988, starts with the studies preceding the creation of the União Nordestina de Assistência a Pequenas Organizações (Northeastern Union of Assistance to Small Enterprises), known as project UNO. The project, one of the first microcredit programs in Latin America, was introduced in Recife and in Salvador in 1973. The program UNO
was initiated with the support of the nongovernmental organization (NGO) ACCIÓN International and the support of local banks and businesses (Brusky & Fortuna, 2002).

UNO was a NGO specialized in microcredit and empowerment of low-income workers from the informal sector, funded mostly by international donations. The institution provided not only access to credit lines, but training in basic management skills, which allowed the creation of working cooperatives among the informal local workers (Barone et al., 2002). The project financed thousands of microentrepreneurs and qualified numerous credit specialists for the informal sector. It was considered a reference for the expansion of microcredit in Latin America at the time, being considered as “the first modern microfinance organization in Latin America (Schonberger, 2001).” The project lasted for eighteen years and collapsed because it did not give proper importance to its sustainability (Barone et al., 2002).

The first stage of microfinance in Brazil is characterized by non-governmental organizations, informal funding targeted to rural areas, and institutional management focused on the credit’s objectives and not on its return (Bittencourt, 2006). It is possible to conclude that the lack of success of such institutions is related to their insufficient concern for sustainability and repayment. The institutions providing credit to the poor, at this stage, were mostly NGOs and highly social oriented (Schonberger, 2001).
Stage 2

The second stage of Microfinance in Brazil, from 1989 to 1997, is marked by the entrance of municipal and state governments as important players on the microcredit scene through the creation of programs targeted to microentrepreneurs. Moreover, there was the expansion of credit cooperatives in urban areas, and the creation of alternative systems of rural cooperatives (Bittencourt, 2006). At this stage, important institutions were created, such as the CEAPEs, the Banco da Mulher, the Portosol, and the VivaCred.

The network Centro de Apoio aos Pequenos Empreendimentos - CEAPE, which stands for Center for the Support of Small Enterprises, introduced the principle of social networks according to models of international institutions, such as ACCIÓN International (Barone et al., 2002). The first CEAPE was created as a nongovernmental organization with financial support from the Inter-American Development Bank and the Inter-American Foundation in Porto Alegre, South of Brazil, in 1987 (www.ceape-pe.org). Its success in Porto Alegre motivated the reproduction of the program in other states, and the creation, in 1990, of the Federação Nacional de Apoio aos Pequenos Empreendimentos – FENAPE, which latter became CEAPE Nacional (Barone et al., 2002). CEAPE Nacional gives technical support to its network, but each CEAPE is independent. Until 1999, the network consisted of 45 branches, acting mostly in urban areas of the regions South, Southeast, Northeast and North, with an estimated market of 6.8 million clients, and a client base of 23,300, 0.34% of its estimated market
(Schonberger, 2001). **CEAPE** network is the second largest microfinance provider in Brazil.

*Banco da Mulher* was created in 1989 targeted to women microentrepreneurs, with the support of The United Nations Children’s Fund – UNICEF and the Inter-American Development Bank (Barone et al., 2002). The first branch was inaugurated in Bahia using the methodology of solidarity groups. Later, a network of *Banco da Mulher*, a group of nongovernmental organizations, was created with independent branches, in the states of Paraná, Santa Catarina, Rio Grande do Sul, Amazonas, Minas Gerais, and Rio de Janeiro, and some of them are affiliated with Women’s World Bank (Barone et al., 2002). As of June 2001, the network remained small with 2,300 clients and a loan portfolio close to R$2.4 million (Kumar, 2005).

*Portosol* and *VivaCred* are examples of municipal government association in microfinance. In 1995, the city of *Porto Alegre* created, with the contribution of civil society institutions, a civil association that is model for government involvement in microfinance (Barone et al., 2002). The initial funding was provided by the City of *Porto Alegre*, the state government of Rio Grande do Sul, the German Society of Technical Cooperation, the Inter-American Foundation, the State Development Bank, and the *Serviço Brasileiro de Apoio às Micro e Pequenas Empresas* (Brazilian Services to Support Micro and Small Enterprises; SEBRAE) (Barone et al., 2002). *Portosol* provides credit for working capital, purchase of equipments, and small improvements on facilities, using as
guarantees a cosigner, collateral, or solidarity groups, for an average term of 6 months, with subsidized interest rates, and a weekly, biweekly or monthly repayment frequency (Schonberger, 2001).

VivaCred is a similar program created by the city of Rio de Janeiro to provide financial services in the favelas. The nongovernmental organization was launched in 1996 funded by the Inter-America Development Bank, the State Development Bank, and the participation of Fininvest, a subsidiary of the commercial bank Unibanco (Barone et al., 2002). The institution has an estimated market of 15,000 potential clients, of which 6% are active clients, uses cosigner, collateral and proof of income as guarantees, and has disbursed an estimate of R$14 million up to 2001 (Schonberger, 2001). At this second stage, the institutions were still social oriented and structured as nongovernmental organizations.

Stage 3

The third stage, which goes from 1998 to 2002, brings important changes to the microfinance sector in Brazil: the implementation of Organizações da Sociedade Civil de Interesse Público (Public Interest Civil Societies; OSCIPs) and Sociedades de Crédito ao Microempreendedor (Microfinance Credit Societies; SCMs), the establishment of the microcredit program of the BNDES, and the creation of the program CrediAmigo (Bittencourt, 2006). Up to this point, microfinance institutions were subjected to the Usury law. The Usury Law (Dec.
22.626, 07.04.1933) states that an institution, other than the ones characterized as a financial institution, which is not the case of microfinance ones, can charge a maximum monthly interest rate of 1% (DeAngelo, 2005). This law made the operation of microfinance almost impossible, and it is one of the reasons for the social-oriented non-sustainable profile microfinance institutions up to this point. The ceiling of 1% interest is restrictive for microfinance, which many times offer credit for shorter periods with higher rates than loans in the formal and large-scale sector (Kumar, 2005). Perceiving the constraints of such a law on microfinance, the government created two mechanisms to exclude microfinance institutions from it, the OSCIPs and the SCM.s.

OSCIPs were authorized by the law 9,790 of March 23, 1999 (DeAngelo, 2005). This type of institution can have a wide range of objectives, not restricted to microfinance, and are defined to be not-for-profit organizations (Barone et al., 2002). The most common OSCIPs are in the fields of research, science, and education, rather than in microfinance. The forms of funding that these institutions can have are public sector funding, donations, and owner or sponsor’s funds, but they are not able to mobilize deposits. Moreover, OSCIPs respond to the Ministry of Justice, are subjected to low level of nonprudential regulatory requirements, and are not required to comply with any prudential regulations (Kumar, 2005). The institution of OSCIPs promoted microfinance institutions by easing their operations compared to regulation of regular NGOs, but it still limits microfinance institutions’s profit.
In February 2001, the SCMs were created to allow profit in microfinance institutions (DeAngelo, 2005). SCMs are formal for-profit financial entities, with the participation of the private sector, regulated by the Brazilian Central Bank (Barone et al., 2002). The SCMs, microfinance institutions became much closer to a formal financial institution, but they are still unable to collect deposits. Table 1 presents key aspects of OSCIPs compared to SCMs:

Observing the key legal aspects of SCMs, it is possible to conclude that their institutional model is more restrictive. The fact that SCMs are financial institutions translates into severe regulations from the Central Bank, which may explain the number of institutions under this model. Figure 4 shows the numbers of microfinance institutions, MFIs, according to their legal format, in 2000, right after the OSCIPs were created compared to 2002. We can see how OSCIPs are attractive, since they went from 4.76% of the microfinance institutions in 2000 to 47% in 2002, as many NGOs shifted to this new format. By the same principle we can observe that SCMs are more limited, representing 12% of total institutions in 2002. The legal format of NGO is still attractive among microfinance institutions, especially because the ones under this format have a social objective.
Table 1: Key Characteristics of OSCIPs and SCMs

<table>
<thead>
<tr>
<th>OSCIPs</th>
<th>SCMs</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Nonprofit organizations with specific social objectives;</td>
<td>- For-profit financial organizations part of the national financial system;</td>
</tr>
<tr>
<td>- Exempt from Usury Law restrictions;</td>
<td>- Exempt from Usury Law restrictions;</td>
</tr>
<tr>
<td>- Subjected to reporting and regulatory requirements of the Ministry of Justice;</td>
<td>- Subjected to reporting and regulatory requirements of the Central Bank;</td>
</tr>
<tr>
<td>- Sources of funding are limited to donor funding, owner’s investments, and government funding;</td>
<td>- Sources of funding include those allowed to OSCIPs, plus loan and credit lines from national and foreign financial institutions and from OSCIPs;</td>
</tr>
<tr>
<td>- Can not collect deposits from the public;</td>
<td>- Can not use resources from FAT, government fund to support workers;</td>
</tr>
<tr>
<td>- Are allowed to use the word ‘bank’ in its designation, for example Banco do Povo;</td>
<td>- Can not collect deposits from the public, participate in the interbank deposit market, or issue securities for public offering, like other financial institutions can;</td>
</tr>
<tr>
<td>- OSCIPs can own a SCM subsidiary.</td>
<td>- Can not use the word ‘bank’ in its name;</td>
</tr>
</tbody>
</table>

Source: Barone et al., 2002; DeAngelo, 2005; Kumar, 2005
The third stage of microfinance in Brazil is also important for the involvement of the National Development Bank, BNDES. In this stage, the bank created the Programa de Crédito Produtivo Popular (Program of Popular Productive Credit; PCPP) and the Programa de Desenvolvimento Institucional (Program of Institutional Development; PDI). The PCPP was created with the participation of the Comunidade Solidária with the objective of spreading microcredit and promoting the creation of a wide network of institutions capable of offering credit to formal and informal microentrepreneurs, generating work and income (Barone et al., 2002). The PCPP offers a credit line to microfinance institutions with a repayment period of up to eight years and interest rates according to the Taxa de Juros de Longo Prazo (Long Term Interest Rates; TJLP), which are 0.5% monthly (Goldmark et al., 2000). The loans to MFIs have a maximum amount per loan of R$3 million, the interest rates is the TJLP, the
term is 8 years with a 9 months' grace period and quarterly amortization. The leverage permitted is 1:1 for NGOs and OSCIPs in their first operation and 2:1 in a second, and for SCMs is 2:1 in the first operation and 3:1 in a second one (Kumar, 2005).

The participation of BNDES in microfinance is important for the sector. According to Kumar (2005), BNDES supports not only a high proportion of microfinance institutions, but also most of the larger and more-established ones. Table 2 presents the numbers of the PCPP in the period of 1998 – 2002. The number of clients assisted by the program increased by 96% in the period and the active portfolio had an increase of 153%. The increments show not only the importance of the program, but the unattended demand for these services, considering the large rates of increase; when the credit line became available, clients appeared. Numbers from BNDES show the profile of the sectors and clients backed by the PCPP: 76% are on the informal sector and 24% on the formal sector; 66% are in commerce, 18.6% in services and 15.4% in industry. Moreover, 53.5% of the clients are female and 46.5% are male (www.bndes.gov.br). A high percentage of female clients are characteristic of microfinance institutions worldwide given their exclusion from the formal finance and their outstanding repayment performance.
Table 2: BNDES, Programa de Crédito Produtivo Popular, 1998 – 2002

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of MFIs</th>
<th>Clients ('000)</th>
<th>Active Portfolio (R$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>20</td>
<td>19.4</td>
<td>16.4</td>
</tr>
<tr>
<td>1999</td>
<td>20</td>
<td>24.0</td>
<td>25.0</td>
</tr>
<tr>
<td>2000</td>
<td>29</td>
<td>29.8</td>
<td>31.7</td>
</tr>
<tr>
<td>2001</td>
<td>31</td>
<td>36.0</td>
<td>36.2</td>
</tr>
<tr>
<td>2002</td>
<td>31</td>
<td>38.0</td>
<td>41.5</td>
</tr>
</tbody>
</table>

Source: Kumar, 2005

BNDES has an important role in the microfinance sector through the PCPP, which promoted significantly the expansion of the industry (Kumar, 2005). Given these institutions’ constraints to collect deposits, the funds received from BNDES represented the sustainability for most of the recipient institutions. The importance can also be seen on the popularity of the program, but still BNDES had difficulties in finding quality microfinance institutions, 70% of the applicants were rejected and BNDES would work with the ones approved for over a year before the final loan approval (Kumar, 2005). In view of the structure of most of the MFIs, BNDES created a program to promote institutional development of its clients. The Programa de Desenvolvimento Institucional (Institutional Development Program; PDI), in partnership with the Inter-American Development Bank, has the main objective of strengthening the microfinance industry (www.bndes.gov.br). The program provides funds for MFIs to invest in their institutional development and to invest in the development of market infrastructure for MFIs through information systems, auditing and rating, and research on the industry (Goldmark et al. 2000). It is notable the role of BNDES and the PCPP in promoting microfinance in Brazil, with incorporation of sound
practices, such as market rates on the loans, portfolio monitoring, and evaluations systems (Kumar, 2005).

The creation of the program *CrediAmigo* was another important event in the third stage of microfinance in Brazil. The program is important because of its size, social impact, and sound practices. *CrediAmigo* is the microcredit program created by the state-owned development bank, *Banco do Nordeste do Brasil* (Barone et al., 2002). *Banco do Nordeste do Brasil* was created in 1952 to support the development of the poorest region in Brazil, the northeast, which explains the bank’s efforts in creating the first microcredit program in Brazil associated with a state-owned bank (Lyra, 2006). Considering the level of poverty throughout the region, aggravated by droughts, it is possible to understand its demand for microfinance. The GDP/capita for the Northeast region, in 2005, was R$218.79, which is half of the R$439.03 GDP/capita of the wealthier Southern region (www.ipeadata.gov.br).

*CrediAmigo* was created as an instrument to reduce social inequalities through well-established objectives, which include promoting social and economic inclusion and generating employment and income (Lyra, 2006). *Banco do Nordeste* received technical advise from ACCIÓN International and from the Consultative Group to Assist the Poorest (CGAP) in its conception, and used as benchmarks *Banco Sol*, from Bolivia, *Porto Sol*, from Brazil, *Banco del Estado de Chile*, from Chile, *Mibanco*, from Peru, and Bank Rakyat Indonesia (BRI) (Lyra, 2006). The benchmarks and technical advice contributed considerably in the
creation of a solid foundation for the program CrediAmigo, which can partly explain its success and importance in the Brazilian microfinance sector.

One of the strengths of the program is the incorporation of best practice principles since its early stages. These principles were: targeting the informal sector, solidarity group lending, providing training on joint liability and loan characteristics for newly formed groups, charging market interest rates to enable the program’s sustainability, providing initially small loans that can be gradually escalated in repeated loans, offering incentives for regular repayment and penalizing borrowers with arrears, amortizing loans regularly, requiring demonstrated cash flow potential for microenterprises, creating a separated portfolio of products from Banco do Nordeste (Kumar, 2005). Most of these practices, which are commonly observed in international microfinance institutions, were new for the Brazilian industry.

The CrediAmigo program has an operational partner, the Instituto Nordeste Cidadania, which is an OSCIP. Both institutions, Banco do Nordeste and Instituto Nordeste Cidadania, have responsibilities to CrediAmigo. Banco Nordeste has an strategic role, therefore it establishes the program’s strategies and goals, elaborates manuals and regulations, defines products and services, set the program’s methodology, and manages portfolio quality. On the other hand, Instituto Nordeste Cidadania has an operational role, thus it selects and trains agents, takes the products to the field, and interacts with the clients (Lyra, 2006). CrediAmigo offers a range of products and services in microcredit,
including working capital credit line for microentrepreneurs, solidarity groups of 3 to 10 people, community solidarity groups of 15 to 30 people, capital for equipment, simplified checking accounts, and insurance for the loans and the borrowers (Lyra, 2006).

### 3.2 Demand for Microfinance

Considering Brazil’s indicators in terms of size, population, economy and social development, it is possible to conclude that the country represents a significant market for microfinance. Brazil has the world’s forth largest land area, 8.5 million square kilometers, fifth largest population, with 174 million inhabitants, and the eighth largest economy, with a GPD per capita of $8,800, purchasing power parity adjusted (Schonberger, 2001). On the other hand, Brazil's income inequality is among the most pronounced in the world and the country has the largest impoverished population among Latin American countries (Nichter et al., 2002). Brazil has an economically active population of 77.5 million inhabitants, which corresponds to 46% of total population (http://www.ipeadata.gov.br). Half of the economically active population works for microenterprises with up to five employees, and one forth work in the informal sector, accounting for 8% of the country’s total GDP. Out of the 13.9 million microenterprises, 62.7% use their profits to finance the activities while just 4.8% had access to credit, in 2002.
According to the Brazilian Small Enterprises Support Service (SEBRAE), microenterprises are commerce and service firms with up to nine employees and industrial firms with up to 19 employees. Using this definition, 90.7% of firms in Brazil are microenterprises, 7.8% small, 1.1% medium and 0.4% large (2005).

The inequality and poverty rates and the high incidence of microenterprises suggest the existence of a huge potential market for microfinance in Brazil, but the demand for microfinance services outstrips the supply by far. According to Barone, Lima, Dantas, and Rezende (2002), conservative market estimates show a potential market of six million borrowers in Brazil, and only 150 thousand active clients. In a different study Goldmark, Nichter and Fiori (2002) state that the potential demand for microfinance was 8.2 million microenterprises in 2002 and the penetration rate was 2% of potential demand. Furthermore, they affirm that the penetration rate varies according to the region. The Northeast has a rate of 4.6%, while the regions Southeast and North have a rate of 0.6% and 0.1% respectively. The low penetration rates suggest that there is an expanding opportunity for growth of the microfinance industry. A comparison with other Latin American countries shows how much the industry could grow in Brazil. Table 3 shows a comparison of microfinance penetration in Brazil and in other Latin American Countries, before 2003.
Table 3: Microfinance Penetration in Latin America

<table>
<thead>
<tr>
<th>Country</th>
<th>Estimated market size ('000)</th>
<th>Current clients</th>
<th>Market penetration rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bolivia</td>
<td>232.3</td>
<td>379.1</td>
<td>163</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>116.4</td>
<td>84.3</td>
<td>72</td>
</tr>
<tr>
<td>El Salvador</td>
<td>136.3</td>
<td>93.8</td>
<td>69</td>
</tr>
<tr>
<td>Paraguay</td>
<td>83.0</td>
<td>30.2</td>
<td>36</td>
</tr>
<tr>
<td>Peru</td>
<td>618.3</td>
<td>185.4</td>
<td>30</td>
</tr>
<tr>
<td>Chile</td>
<td>307.8</td>
<td>82.8</td>
<td>27</td>
</tr>
<tr>
<td>BRAZIL</td>
<td>7,875.6</td>
<td>158.7</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Kumar, 2005

It is interesting to note that the penetration rate in Bolivia, 163%, is a value technically impossible to get, considering a strict definition of penetration. The explanation in this case is that the microfinance market in Bolivia has become so saturated and competitive that some microenterprises may take loans from multiple institutions, or that some technically considered ineligible institution have attained loans (Nichter et al., 2002).

3.3 Barriers for Microfinance in Brazil

Looking at the underdevelopment of the microfinance institutions in Brazil, in the 1990s, authors, such as Goldmark, Pockross and Vechina (2000) and Nichter, Goldmark and Fiori (2002), have studied its possible reasons, without coming to a reasonable single explanation. They found a number of factors playing a role as barriers, with significant impact, to the expansion of microfinance in Brazil. Numerous studies list the following barriers as the most significant in the microfinance sector:
1. Government policy and intervention in the market;
2. Lack of well defined legal and regulatory framework;
3. Lack of Macroeconomic stability;
4. Crowding out by public sector;
5. Lack of Demonstration Effect

**Government Policy and Intervention in the Market**

The government policies and intervention in the market, though credit lines with subsidized interest rates, represents a challenge to microfinance institutions that cannot offer the same conditions. The majority of long-term loans are managed by state banks through credit lines developed to promote specific economic activities or specific economic group (Goldmark, Pockross, & Vechina, 2000). Nevertheless, it is known that hardly any of these resources end up with the targeted recipient, such as microentrepreneurs and small business. Although the credit line exists, it may take several months of paper work to get it. Public sector credit lines also have a negative impact as they offer subsidized loans, in some cases even with negative real interest rates that generate the assumption that it does not have to be paid back (Goldmark et al., 2000).
Lack of Well Defined Legal and Regulatory Framework

The legal framework is not welcoming for microfinance institutions, bringing disincentives to the sector, since it increases operational costs. Starting in 1999, as mentioned before, considerable advances were made to the regulations but still microfinance institutions can not offer a wide range of financial products such as insurance and savings (Nichter et al., 2002), which puts these institutions only as credit providers and compromises their sustainability. According to Goldmark (2000), microfinance institutions have not suffered a shortage of funds because of the incapability to collect deposits, since there are a number of credit lines available, through the National Development Bank, the Inter-American Development Bank, municipal and state governments. Nevertheless, there is a level of instability generated by the fear that these credit lines may not be available in the future. Microfinance institutions should be able to operate a full cycle of financial service, taking deposits and then making loans, thus reaching sustainability, although the ability to collect deposits represents additional risk to savers in case of bankruptcy or corruption in the providing institution. The legal framework, through reserve and reporting requirements, should control this risk for example.

There are additional obstacles to microfinance institutions at the operational level, because of the regulatory framework. Foreign investors are discouraged to invest in the microfinance sector considering prolonged registration process and currency restrictions (Nichter et al., 2002). The
regulatory and reporting requirements for Brazil’s formal microfinance institutions are more rigorous than comparable models, especially considering the institutions’ incapability to collect deposits (Kumar, 2005). Furthermore, laws to protect consumer rights and labor rights increase the operational costs, working as an additional disincentive (Goldmark et al., 2000).

**Lack of Macroeconomic Stability**

Until late 1994, Brazil experienced years of turbulent macroeconomic environment, which possibly creates the most significant challenge to microfinance. The years of hyperinflation, lasting from the early 1980s until 1994, shaped the Brazilian banking sector, which still have investments and service fees as their main source of income (Goldmark et al., 2000); credit is seen as a secondary activity for banks. In the hyperinflation era, the rates of interest also had sky-high numbers, creating the opportunity for banks to invest in government papers, and profit from it. Credit to consumers was not as attractive because of the high default risk that a hyperinflation era represents. The years of economic instability have passed but commercial banks continue to rely on the combination of investments and service fees. According to João Salima Neto (2000), the average Brazilian annual income is raised by 20% through credit, while the average American has its annual income raised by 600% through credit. The years of hyperinflation and high interest rates also changed the behavior of the population towards credit. According to Gustavo Braga, a study conducted by
him on Rio de Janeiro in 1995 showed that among 443,745 informal microentrepreneurs, only 1.7% used credit to establish his/hers business (as cited in Goldmark et al., 2000).

**Crowding Out by Public Sector**

The economic policy adopted by the Brazilian Government, although very efficient in controlling the economy, creates a crowding out effect. The scenario of fiscal deficit and high interest rates makes more attractive to banks to invest their funds in government papers than to lend to the poor (Goldmark et al. 2000). The government papers are not only more profitable, considering their interest rates in comparison with the ones on microcredit programs, but are more secure with a much lower risk associated with them. This creates a lack of incentive among commercial banks to go ‘down-market’ with products other than high-priced consumer loans (Goldmark et al. 2000).

**Lack of Demonstration Effect**

The demonstration effect is an important factor in the development of a strong microfinance sector. Demonstration effects offer proven successful examples of strategies, operating models, and business practices, within the same reality, that can be followed, thus encouraging entry into the industry (Nichter et al. 2002). The absence of this effect is usually linked to the lack of
standardization and transparency in the sector (Nichter et al. 2002), which makes the access to financial reports more difficult. The largest and most profitable microfinance institution in Brazil in 2000, CEAPE-Pernambuco, with 9,000 clients, had an information system so precarious at the time that it could not attract possible investors; moreover, the absence of demonstration effect is linked with the commercial banks' lack of tools to evaluate the risk of microfinance operations (Goldmark et al. 2000).

3.4 Government Policies

Mr. da Silva came to office as a result of his political campaign promising social changes. The population in Brazil, especially the poor, was suffering from economic adjustments made by the neo-liberal policies adopted by the previous president, Mr. Fernando Henrique Cardoso. Although Mr. Cardoso conducted Brazil to economic stability, with important accomplishments such as the control of inflation rates, his policies were pointed by his opposition as having a very high social price, which fell heavily on the poor. Mr da Silva was elected under the expectation of developing social programs to Brazil.

Since his presidential campaign, Mr. da Silva stated that one of the most important instruments to be adopted by him to promote development, social inclusion, generate employment and income, would be access to credit and to
financial institutions. To achieve the above listed goals, a set of policies were launched to expand credit and financial services targeted to the working class, micro and small enterprises, microentrepreneurs and mainly to the population with the lowest levels of income. The policies were part of a larger spectrum of government actions to reduce social exclusion and to guarantee a minimum level of dignity to a broader sector of the society.

The government’s first step, according to reports from the Department of Treasury, was to create a council to draw an overview of the microfinance sector at that point, and to set objectives and design policies that would meet the demand from the sector. The council was formed by the Departments of Treasury and Labor, the Ministry of Development, Industry and Foreign Trade, the Ministry of Agriculture, the Ministry of the Agricultural Development, the Central Bank, the *Banco Nacional de Desenvolvimento Econômico e Social*, and representatives from the state owed banks *Caixa Econômica Federal*, *Banco do Brasil* and *Banco do Nordeste*. The council found the following aspects to be true about the microfinance sector in Brazil:

- Lack of resources for microcredit transactions;
- Unattended demand from the low income population for financial services, such as checking account, credit, and insurance;
- Regulation constraints upon the operations of credit cooperatives;
- Lack of interest from commercial banks in operating in lower levels of income;
- Small scale and reduced number of microfinance institutions in Brazil, concentrated only around a few big cites;
- High interest rates in the credit operations targeted to consumption, especially on those for the lower income population;
- Excess informality among microentrepreneurs, which makes the access to credit more difficult and more expensive.

The second step was to set the objectives and the policies to increase access to credit and develop the microfinance sector. The objectives established by the council were:

- Promote access to financial institutions and services among the lower levels of the population;
- Promote access to microcredit among formal and informal microentrepreneurs, seeking the generation of income and employment;
- Reduce interest rates on the loans.

The policies established were:

1. Expansion of the PRONAF – *Programa de Fortalecimento da Economia Familiar* (program to strengthen the household’s economy) to lower levels of the population mainly in the poorest regions and the creation of a production insurance for poor farmers. PRONAF is a program with state subsidized interest rates aimed at groups of small farmers that are
separated according to their income level, production sector, and labor force.

2. Increase of the resources for microcredit programs by R$ 1.9 billion and promote its expansion through:
   - Allocation of 2% of the total of cash deposits to credit operation for low income population and microentrepreneurs;
   - Interest rates with a ceiling of 2%, or 4% in the case of small businesses;
   - Credit limit of R$ 600,00 for non-declared uses;
   - Credit limit of R$ 1.5 thousand for microentrepreneurs.

3. Increase the number of local financial agents aimed at lower income population:
   - Creation of the Banco Popular do Brasil to act in the microfinance sector;
   - Expansion of the involvement of Caixa Econômica Federal in the microfinance sector;
   - Consolidation and expansion of the Crediamigo program from the Banco do Nordeste and implementation of similar program in the Banco da Amazônia;
   - Expansion of the number of Correspondentes Bancários (Banking Correspondents) and of the services provided by them.
4. Creation of financial products and services according to the needs of the low income population and the microentrepreneurs:
   - Creation of simplified checking and savings accounts that are fee exempt and do not require minimum income level, proof of residency, and minimum balance;
   - Creation of simplified and low cost insurance plans;
   - Regulation of the program of *Crédito Consignado* (credit with repayments directly deducted) for workers on social security;

5. Creation of the *Programa de Microcrédito Produtivo Orientado* (Microcredit Program Oriented to Production; PNMPO) targeted to entrepreneurs with income up to R$ 60 thousand, with 4% interest rate and credit limit up to R$ 5 thousand. The funds will be provided by the *Fundo de Amparo ao Trabalho* (Fund for Workers Support; FAT) and by the BNDES.

6. Alteration of the legal framework of credit cooperatives to facilitate their operation:
   - Permission to create credit cooperatives under the principle of *Livre Adesão* (free entry);
   - Authorization to receive funds from the rural savings program;
   - Tax exemption of the *Contribuição Social sobre o Lucro Líquido*, the Social Integration Program (*PIS, acronym in portuguese*), and the
Social Security Financing Contribution (COFINS, *acronym in portuguese*) upon the operations of credit cooperatives;

- Creation of the *Programa de Capitalização de Cooperativas de Crédito* (Capitalization Program for Credit Cooperatives; PROCAPcred) by the *Conselho Monetário Nacional* (National Monetary Council);
CHAPTER 4: DESCRIPTION OF POLICIES ADOPTED

In this section, the government policies adopted by Mr. da Silva are described.

Expansion of PRONAF

PRONAF, which stands for Programa de Fortalecimento da Economia Familiar (program to strengthen the household’s economy), was created during Mr. Fernando Henrique Cardoso's administration, and expanded by Mr. da Silva. According to the Banco Nacional de Desenvolvimento Econômico e Social, the objective of the program is to finance agricultural, non-agricultural, cattle breeding activities of small farmers, generating income and employment for them and their families. The program defines non-agricultural activities as the services related with rural tourism, handicraft production, familiar agricultural businesses, and other rural related services.

The program is targeted at supporting the production of small farmer families, which are divided in three groups, defined bellow, “C”, “D”, and “E”. Each family, to be eligible, according to program guidance, needs to meet the following requirements: work in a land that they own or that they have received the rights to explore, have residence in this land or nearby, have all the
household members living at the same place and working on the same land and be classified in one of the three groups, identified as follows:

Group “C”:
- Have at least 60% of the family income obtained through the exploitation of their land;
- Have mostly family working in the utilization of the land with just the eventual presence of paid workers;
- Have an annual household income between R$ 4 thousand and R$ 18 thousand;

Group “D”:
- Have at least 70% of the family income obtained through the exploitation of their land;
- Have mostly family working in the utilization of the land, with up to two paid workers besides seasonal workers permitted;
- Have an annual household income between R$ 18 thousand and R$ 50 thousand, including the total sources of income to the household;

Group “E”:
- Have at least 80% of the family income obtained through the exploitation of their land;
- Have mostly family working in the utilization of the land being with up to two paid workers besides seasonal workers permitted;
- Have an annual household income between R$ 50 thousand and R$ 110 thousand, including the total sources of income to the household;

Other categories of rural workers can also be included in one of the three groups, such as fisherman with individual production or part of small cooperatives, extractive workers doing ecologic sustainable extraction, silviculturist that cultivate native and exotic forests promoting its sustainability, small farmers who breed fish and seafood, and native communities engaged in rural production.

The program has three different credit lines; one individual for a single rural producer with individual objectives, a collective for group of producers with a collective objective, and for community groups with individual objectives. Moreover, it has five categories of funding, PRONAF Convencional (conventional), PRONAF Agroindústria (agrarian industry), PRONAF Mulher (women), PRONAF Agroecologia (agrarian ecology) and PRONAF ECO (ecology). Each one of these categories is targeted at a specific segment of farmers in terms of size and production. Furthermore, each one has its specific credit limits. PRONAF Convencional, for example, offers financial support to persons from groups “C”, “D”, and “E” to make investments in improving and expanding their production infrastructure on agriculture and non-agriculture services, according to a specific project. This category offers a credit line to group “C” with a minimum of R$ 1.5 thousand and a maximum of R$ 6 thousand.
Group “D” has a maximum limit of R$ 18 thousand and group “E” has a maximum of R$ 36 thousand. Each producer can apply three times for the credit lines, consecutively or not.

The government provides subsidized interest rates to the farmers and covers part of the operational costs of the institutions providing the credit line, which are state banks and credit cooperatives. The interest rates for groups “C” and “D” are 2% yearly and for group “E” 5.5% yearly, and the period of the loans vary according to the borrower’s ability to repay.

Increase of the Resources for Microcredit

Mr. da Silva announced the increase in resources for microcredit programs by R$ 1.9 billion through the allocation of 2% of total cash deposits to microcredit operations, which is considered a central measure adopted to increase the access of low-income population to credit. The government identified that one of the major flaws in the Brazilian financial system was the absence of small credit lines, with small costs, to the lower income population. To solve the shortage of credit lines, the government created in September 2003 the law 10,735, which demands that private banks, the Caixa Econômica Federal (state bank), and credit cooperatives direct 2% of all cash deposits to microcredit, if not, the financial institution must put the amount which corresponds to 2% of its cash deposits into the Central Bank, without earning any interest on it. The law is enforced by the Conselho Monetário Nacional (National Monetary Council). This
law made the creation of a microcredit program possible, because the funds collected from the deposits are transformed into credit lines to the poor.

The credit lines had an initial limit of R$ 600, when designated as *USO LIVRE* (free use) with no limitation to the use of the money, and R$ 1,000 when used by microentrepreneurs. At the end of 2006 the government raised these limits to R$ 1,000 and R$ 3,000, respectively. The period cannot be for less than 120 days. The monthly interest rate was fixed in 2%, for the line *USO LIVRE*, and 4% for microentrepreneurs, and a processing fee of 2% and 4% was charged in each case respectively. To be eligible to these credit lines, the person must have a simplified checking account, or be below the poverty line or be a microentrepreneur eligible to receive credit from a microcredit institution.

**Increase of the Number of Local Financial Agents**

The government stated that in order to increase access to financial services by the low-income population, it was necessary not only to increase the availability of credit but also to increase the number of locations providing the financial services in impoverished areas. The strategy adopted was to increase the participation of state owned banks, *Banco do Brasil, Banco do Nordeste, Banco da Amazônia, and Caixa Econômica Federal*, in microfinance, and to increase the number of banking correspondents. According to government expectations, these measures would take financial services closer to those who needed them.
Each one of the state owned banks, previously mentioned, would have a different participation on this process. In Banco do Brasil, a subsidiary was created, Banco Popular do Brasil (Popular Bank of Brazil), to operate in the microfinance sector. The bank started its operation in 2004 providing financial services to those previously excluded from the system, including checking and savings accounts, microcredit, life insurance, programs for community development, and partnerships with nongovernmental organizations and credit cooperatives. Since Banco Popular do Brasil is a subsidiary of Banco do Brasil it has the advantage of being a bank, which, differently from other microfinance institutions, entitles it to offer a larger number of products, including savings. The bank operates through its branches and mostly in points of services, which are located in places as accessible as drugstores, supermarkets, markets, and bakeries. These points of service are teller machines, operated by a trained professional, to offer the same types of services that a regular branch teller offers. It is not an automated teller machine, ATM, which the bank also offers. In 2004 the bank had 5.5 thousand serving points in 1.5 thousand cities.

As for the other state owned banks, Banco do Nordeste, Banco da Amazônia, and Caixa Econômica Federal, they did not receive a specific plan to increase the number of financial agents as part of the plan to increase the number of financial agents. In the case of Banco do Nordeste the government invested in the promotion of CrediAmigo, as explained before, and by doing so it increased the financial agents of the program, and consequently raised its
outreach. The same happened with *Caixa Econômica Federal*, which contributed to take financial services closer to the poor through its serving points program. For *Banco da Amazônia*, the government had a plan to create a program such as *CrediAmigo* to sponsor microfinance in the northern region of Brazil, but this initiative was not taken forward.

The second strategy used to increase the number of agents was to increase the number of banking correspondents, and the services that they can provide. Banking correspondents can be defined as mini branches that are installed inside of supermarkets, drugstores, bakeries, butcher shops, lotto games outlets, and other types of businesses. The bank associated to the correspondent provides the equipment and the training to have a teller working inside of the mentioned businesses, where the client can perform the same bank operations that he/she would do at a bank teller in a bank branch. The correspondent is not an automated teller machine (ATM). The National Monetary Council approved in March 30, 2000, the Resolution 2.707, which regulates the banking correspondents. The resolution gives the right to private banks and the state bank *Caixa Econômica Federal* to hire companies, as their banking correspondents, to provide services such as withdrawals and deposits to existing checking and savings accounts. In December 17, 2003, Mr. da Silva expanded through the Resolution 3.156 of the National Monetary Council the rights of having banking correspondents to credit cooperatives and to *Sociedades de Crédito ao Microempreendedor*. 
The existence of banking correspondents has a key role in expanding the access to financial services to the low-income population because of Brazil’s extensive geographic area, and the high costs of a banking branch. Correspondents allow financial institutions to be closer to its clients without needing the infrastructure of a branch. Moreover, correspondents can have flexible working hours, differently from banking branches that can operate only Monday through Friday from 10:00 am to 4:00 pm. Basically, the client needs to go once to a bank branch to open an account and then she/he does all other operations from hers/his nearby correspondent.

**Creation of Financial Products and Services to the Poor**

The government argues that, in order to provide financial services to the poor, it is important not only to increase the number of financial agents, but also to create financial products according to the needs of the poor. These products were: simplified checking and savings accounts, low cost insurance plans, microcredit *USO LIVRE* and microentrepreneur (described earlier), and the program of *Crédito Consignado* (credit with repayments directly deducted) for workers on social security.

Among the low-income population, the simple act of opening a checking or a savings account is not as easy as it sounds and as it should be. Financial institutions require a minimum income, a minimum level of operations, and charge service fees that are expensive for those who have so little. Thinking
about these barriers, the government created simplified checking and savings accounts through the National Monetary Council Resolution 3.211 in 2004. These accounts, which can be offered by any bank (they are not obligated to offer it), do not require minimum income level and do not have service fees; their main objective is to promote the inclusion of the poor in the financial system. To open a simplified account, the client has to go to a bank branch or to a correspondent with her/his identification card and his individual taxpayer registration number and fill out an application. The accounts, both checking and savings, have a balance limit of R$ 1,000.00, and all transactions are made using a debit card. The R$ 1,000 limit exists to guarantee that these accounts are not misused by people that do not need this type of simplified free account, if the balance goes over R$ 1,000 in a period of a year, the account is automatically turned into a regular account. Moreover, it is service fee free up to a limit of four withdrawals, four deposits, and four statements monthly, operations over this limit may be subjected to service fee.

The second financial service tailored by the government to supply the financial needs of the poor is Crédito Consignado (consigned credit). Created in 2000, the program offered credit just to public sector workers and it was expanded by the law 10.820/03 to provide credit for wage-employees and workers on social security. In the case of wage-employees, their labor union or human resources department from the company negotiates with a bank a contract to provide credit to its employees. The employees will then have a credit
line which repayments will be automatically deducted, by the employer, from her/his future payments. The limit to the credit line varies with the employee monthly payment, considering that each monthly installment cannot exceed 30% of the total monthly salary. According to the Central Bank, among workers on social security the value of the loans vary from R$ 300.00 to R$ 15,000.00, with the average value of R$ 2,700.00. The monthly nominal interest rates are in average 3.5% in the case of salaried employees and 1.5 to 3.9% in the case of social security. The loans can be for a month up to 4 years.

Crédito Consignado is not exclusive to low income population, although they represent the biggest share of borrowers. In April 2005, according to the Central Bank, 42% of the clients of Crédito Consignado had a monthly income of one salário mínimo. Salário Mínimo is the monthly minimum wage which corresponds to R$ 340.00. The client base of the program is low-income workers from public and private sectors and from social security, but it is exclusive to formal workers, because of the nature of the automatic repayment.

The third financial product tailored to the low-income population proposed by the government is simplified, low cost insurance plans. Insurance is the type of financial service that mostly excludes the poor. The first initiative of the government in this area was in 2005 with Banco Popular do Brasil. Seguro de Vida Popular (Popular Life Insurance) was formed in a partnership of Banco Popular and BB Seguros, the insurance division of the state bank Banco do Brasil and it is subsidized by the government. It serves the low-income
population in the age range of 18 to 55 years. The product has an easy sign up process without the known levels of bureaucracy of ‘regular’ insurances. The average premium of the plans is R$ 11.76, which covers up to R$ 2.5 thousand in case of death, and R$ 2.5 thousand for funeral assistance. The Seguro de Vida Popular is a good initiative of the government in increasing financial services target at the low-income population, but it is very limited. The government could not only create similar products in other state owned banks, such as Caixa Econômica Federal and Banco do Nordeste, which hosts the most successful microfinance program in the country, but should allow microfinance institutions to offer similar product.

Creation of the PNMPO

The Programa Nacional de Microcrédito Produtivo Orientado (National Microcredit Program Orient to Production; PNMPO) was created by the law 11,110 of 2005 with the objective of extending the access of entrepreneurs to production oriented credit, generating jobs and income. The credit line is for entrepreneurs engaged in small production activities with an annual gross income no larger than R$ 60 thousand. The credit can be used to supply any financial need of the microenterprise, but it is followed by the financial agent providing the credit. This credit line is closer to a regular business credit line. The entrepreneur has to present a project showing the need for the resources, this project can be elaborated with the assistance of the financial agent. If the project
is approved and the need for the credit is verified, the entrepreneur receives the funds. The financial agent does a follow up with the institution to guarantee the execution of the project, and provides orientations if needed. The terms of the contract are stipulated according to the institutions indebtedness capacity, observing the limit of R$ 10 thousand to each entrepreneur. The monthly interest rate is 4% plus a processing fee of 1%, for operations up to 30 days, 2%, for operations between 31 and 119 days, and 3% for operations over 120 days.

The funds for the production oriented microcredit are provided by the *Fundo de Amparo ao Trabalhador* (fund for worker support) and by the 2% of the cash deposits. It can be offered only by qualified institutions, and those can be *Sociedades de Crédito ao Microempreendedor*, *Organizações da Sociedade Civil de Interesse Público*, credit cooperatives, and *Instituições Financeiras Operadoras* (Financial Institutions Providers). The last ones are the state owned banks, when the resources come from the *Fundo de Amparo ao Trabalhador*, and public and private banks in the case of the 2% cash deposits. Up to April 2006, there were 146 qualified institutions to offer the production oriented microcredit, mostly *Organizações da Sociedade Civil de Interesse Público*, with 69 qualified institutions, and credit cooperatives with 57.

**Alteration in the Legal Framework of Cooperatives**

Mr. da Silva proposed improvements on credit cooperatives’ legal framework to expand their outreach; the alterations include: permission to create
credit cooperatives under the principle of *Livre Adesão* (free entry), authorization to receive funds from the rural savings program, exemption to three types of taxes, and creation of the *Programa de Capitalização de Cooperativas de Crédito* (Capitalization Program for Credit Cooperatives; PROCAPcred). The government’s main objective with credit cooperatives is to expand the access of lower income population, in this case especially microentrepreneurs, to credit.

The first institution known as a cooperative, the *Sociedade Cooperativa Econômica dos Funcionários Públicos de Ouro Preto* (Economic Cooperative Society of Public Workers from the city of Ouro Preto), was founded in 1889. Since then, cooperatives have been important in promoting and funding different groups of professionals and workers (Pinheiro, 2006). Credit cooperatives are financial institutions with the objective of providing financial services to their associates.

The most important measure adopted is the permission to create credit cooperatives under the principle of *Livre Adesão* (free entry), National Monetary Council Resolution 3,106 of June 25, 2003 (Pinheiro, 2006). The previous regulation states that cooperatives must be directed to specific category of professionals, for example cooperative of rural producers. The new regulation, with the principle of *Livre Adesão*, allows cooperatives to be formed by municipalities or conjunction of municipalities with a total population of up to 100,000 inhabitants. Moreover, the legislation allows the transformation of existing cooperatives into the new model, which permits the expansion of the
sector since it allows for credit cooperatives with different categories of professionals.

The government, with the Resolution 3,188 of March 29, 2004, authorizes credit cooperatives to receive funds from the rural savings program. Before this resolution, only the state owed banks Banco do Brasil, Banco do Nordeste, and Banco da Amazônia were authorized to collect such deposits. The rural savings program is a government funded program that provides resources to be applied on initiatives to the development of agriculture.

According to Mr. da Silva’s program, credit cooperatives would be exempted from the taxes Contribuição Social sobre o Lucro Líquido (federal tax levied on corporations for the financing of social security, according to the corporation’s net profit), Contribuição para o Financiamento da Seguridade Social (Social Security Financing), and Programa de Integração Social (Social Integration Program). The exemption of these taxes to credit cooperatives was not approved.

The last measure implemented for credit cooperatives was the creation of the Programa de Capitalização de Cooperativas de Crédito (Capitalization Program for Credit Cooperatives; PROCAPcred), by the resolution 3,346 of February 8, 2006. This program has the objective of capitalizing credit cooperatives; it gives credit for the cooperative’s associates to buy quotas of the cooperative shareholders’ equity. The higher number of quotas an associate has, the higher hers/his access to credit. The program offers a limit of up to R$ 10
thousand, for the maximum period of 6 years (a one year grace period is given), with yearly interest rates varying from 10.15% to 12.15%. The funds for the program are given by the Banco Nacional para o Desenvolvimento Econômico e Social.
CHAPTER 5: DATA ANALYSIS

5.1 Microfinance Institutions Sample Results

In order to obtain a representative snapshot of the sector, interviews were made with 81 randomly chosen institutions (an overview of these institutions is presented in Appendix 2). Since Brazil does not have one single government institution to oversee and control the microfinance sector, it was difficult to identify the institutions and their contact information, but still 119 institutions were identified throughout the country, and 81 had a successful contact for the interview. In 2005, the total number of microfinance institutions was 177, according to estimates from the Central Bank. Among the ones not selected, there are the following important institutions: Visão Mundial, created in Brazil in 1975 with operations in the Northeast, in the states of Tocantins, Minas Gerais, and Amazonas, and in the urban areas of São Paulo, Rio de Janeiro, and Belo Horizonte; Conquista Solidária, from Bahia; the CEAPE units in the states of Espírito Santo, Rio Grande do Norte, and Sergipe; CRESOL – Cooperativa Central de Crédito Rural com Interação Solidária, which has units in the states of Paraná, Rio Grande do Sul, and Santa Catarina; PortoSol, from the city of Porto Alegre; RioCred, which is associated with the private bank UNIBANCO; and Banco da Amazônia, a state owed bank with a microcredit program.
The interviews were conducted using two different strategies. At first, after identifying the institution’s contact person, mostly the general manager or branch manager, and having a conversation through telephone, the questionnaire was forwarded to her/him by fax or e-mail, and she/he would them return it answered. Although the first phone contact was very positive, in most cases the responded questionnaire was not received. Having the positive telephone contact in mind, a second strategy was adopted using just phone interviews. Under the second strategy, the level of response was more positive. A drawback to the new strategy is the fact that not always the contact person had the institutions number for 2001 available at the time. Other than the telephone interviews, the institution’s website, government agencies’ website, such as the Brazilian Development Bank, and microfinance related website, such as the MIX Market website (http://www.mixmarket.org), were also used to collect information about the institutions in the sample. The parallel research in these websites was used to solve the problem of having some institutions not disclosing all of their data. The excuse of not being authorized to give out such information, like the number of active loan portfolio, was used in some cases.

The division of the sample according to their charter type, which can be Organização da Sociedade Civil de Interesse Público (Public Interest Civil Societies), Sociedade de Crédito ao Microempreendedor (Microenterprise Credit Society), non-governmental organization, and development agency is presented in Figure 3. According to unofficial estimates of the Brazilian Central Bank, once
again it is unofficial because of the lack of a single government institution responsible for the sector, there was in 2005 a total of 177 microfinance institutions in Brazil, and 1,439 cooperatives, which are not all credit cooperatives. Among the 177 microfinance institutions, it is estimated that 7% are government development agencies, 14% are nongovernmental institutions NGOs), 31% are SCMs, and 48% are OSCIPs. In the survey sample, the charter type division does not correspond to the real proportion, since the sample is formed by 2.5% of government agencies, 5% of NGOs, 12% of SCMs, and 74% of OSCIPs. Moreover, this study only considered microfinance institutions and did not interview any credit cooperatives. Credit cooperatives are able to mobilize deposits and many are self sustaining, putting them in a different level from the other types of microfinance institutions.

Figure 3: Charter Type of Sampled Microfinance Institutions
According to the institution’s region, there is also a difference between the sample proportion and the actual division. Estimates from the Central Bank show that 71% of the microfinance institutions are located in the southeast, 16% in the south, 7% in the northeast, 4% in the north, and 2% in the center-west. The study sample’s division can be seen in Figure 4. It is possible to see that, in the sample, the concentration of institutions in the Southeast is not as big, and none institution from the north was interviewed. According to the foundation year, 1 institution was created in microfinance’s first stage, between 1972 and 1988; 14 were created in the second stage, between 1989 and 1997; 51 were created during the third stage, between 1998 and 2002; and 15 were created after 2003. Although it is not possible to evaluate the policy’s impact on those institutions created after 2003, it is possible to evaluate how the policies contributed for the creation of new businesses.

Figure 4: Regional Distribution of Sampled Microfinance Institutions
Looking at the number of branches and points of services, 54% of the institutions have only one; 31% have between 2 and 10 branches; 7% have 10 to 20; 4% have 20 to 100; and 4% have more than 100 branches. The number of branches shows a potential problem faced by microfinance institutions, their small size may result in the lack of economies of scale, whereby average costs decrease as the number of clients increase. Considering the number of active clients: 57% of the institutions have less than 1,000 (more than half of these have less than 500), 30% have between 1,000 and 3,999, 7% have between 4,000 and 15,000, one institution, CrediAmigo, has over 200,000 active clients and 5% of them did not inform their number of active clients.

According to the information collected during the interviews with microfinance institutions, it is possible to state that the sector is much better these days then it was in 2002, before Mr. da Silva. The interviewees were consistent in affirming that the best result of the government program for microcredit was the awareness that it brought to the sector. Microfinance up to this point was marginal to the financial system; the institutions were seen much more as a social program to support the poor than as a financial institution oriented to the low-income population. It is true that not all the credit to the awareness of the microfinance industry can be attributed to the government. Microfinance throughout the world has been under the spotlight in recent years, including the climax of the Peace Nobel Price awarded to Dr. Muhammad Yunus and the Grameen Bank. Mr. da Silva was able to catch the good wave that was
passing through the microfinance sector and launched his program to promote it in Brazil.

The good wave can be seen through the increases in active loan portfolio and active clients. The average increase of the active loan portfolio was 288% in the period, which is a result not only of the increased number of clients, but of the increase in the resources to microcredit. This can be confirmed by the average increase in active clients, which was 125% in the period. A break down of the institution’s growth rate for active loan portfolios and active clients is presented in Table 4. An example of an institution, which both growth rates had an increase of more than 300% in the period, is Banco do Povo de Minas Gerais, which is a private OSCIP. Its active loan portfolio went from US$ 182,950 in 2001, to US$ 835,673 in 2005\(^1\). The number of active clients went from 442 in 2001, to 1982 in 2005. According to the institution, its performance is a result of an increased effort to expand its services. In fact, it seems that the growth rate is a result of the good wave of microfinance, combined to the exposure created by the government policies, since the institution did not adopted any new strategy in the period, such as a marketing campaign or new products.

\(^1\) Currency equivalent for December 2006: US$1 = R$2.1372
Table 4: Growth Rate on Active Loan Portfolio and Active Clients 2001 - 2005

<table>
<thead>
<tr>
<th>Growth rate 2001 - 2005</th>
<th>% of Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Active Loan Portfolio</td>
</tr>
<tr>
<td>negative</td>
<td>13%</td>
</tr>
<tr>
<td>up to 50%</td>
<td>7%</td>
</tr>
<tr>
<td>51% - 100%</td>
<td>20%</td>
</tr>
<tr>
<td>101% to 200%</td>
<td>27%</td>
</tr>
<tr>
<td>201% to 300%</td>
<td>20%</td>
</tr>
<tr>
<td>more than 300%</td>
<td>13%</td>
</tr>
</tbody>
</table>

Still considering the change in active loan portfolio and clients, the percentage of institutions with negative growth in the period stands out. The decrease in active portfolio and clients, in most cases, is a result of a change in the institution’s strategy and not a real decrease of the indicators. For example, Banco da Mulher, in 2001, had 10 institutions in the group, but in 2005, this number changed to six institutions. Therefore, the decrease is not really a decrease in the active portfolio, but it is a reflection of other external variables. Besides the decrease in branches, other strategy that had a negative impact was the reduction in products offered; for example, Vitória Credisol stopped offering a collateralized credit line that it used to offer in 2001.

CrediAmigo is the institution among the ones interviewed that receives the most attention in the country, since it is slowly being considered by the government a benchmark to microfinance institutions, because of its results and also the good principles adopted and followed, such as solidarity groups, progressive lending, and regular repayment schedules. Still the institution presented smaller growth rates during Mr. da Silva’s years. Figure 5 shows the
progress of *CrediAmigo* in terms of active clients, while Figure 6 shows active loan portfolio and average loan size. These indicators show the expansion that *CrediAmigo* is going through. The number of active clients had a 250% increase since 2000. The yearly rate of growth for clients was on average 43% in the years before Mr. da Silva, but it went down to an average yearly increase of 17% in his term. The active loan portfolio had an impressive raise of 332% between 2000 and April 2006. Once again, the yearly rate of growth for active portfolio was bigger in the years before Mr. da Silva, 50% against 23%. The average loan size had a 24% increase in the period and a steady rate of growth, a yearly average of 5%.

Figure 5: *CrediAmigo* – Active Clients
It is interesting to see that even after the government efforts to promote microcredit, where CrediAmigo is one of the key institutions in the program, used as a microfinance model, its growth rates were smaller after 2002. This may be a sign of the inefficiency of the government policies, especially because of the region where CrediAmigo acts, the northeast. It is the poorest region of the country with low financial penetration, so the argument that the lower growth is a result of an already supplied demand cannot be used, considering that the GiniCoefficient for the region was 0.571 in 2005, the second largest in Brazil (http://www.ipeadata.gov.br). Moreover, CrediAmigo is not a self-sustainable program, since it relies on external funding from the government, and is still considered a benchmark. The fact that the benchmark institution in the country is not sustainable sends out a signal that the sector is clearly under the old paradigm in microfinance. Although not sustainable, CrediAmigo at least is not incurring losses, unlikely other government programs for microfinance, such as
Banco Popular do Brasil. Figure 7 presents the institution’s net income in the period between 2000 and 2005. It is clear that CrediAmigo’s net income entered in an upward slope in Mr. da Silva’s term. The net income went from R$ 194 thousands in 2000 to R$ 14.7 million in 2005, which is partly a result of Mr. da Silva’s program for consolidation and expansion of CrediAmigo, but the institution’s outreach declined.

Figure 7: CrediAmigo – Net Income (R$ ‘000)

One important indicator for CrediAmigo is its default rate, presented in Figure 8. The institution has been able to reduce significantly its default rate, even though they do offer credit lines with subsidized rates of interest. The capability to control their default rates is attributed to the good governance practices adopted particularly by solidarity groups and regular repayment schedules. The average default rate of 1.6% is consistent with the institution's average loss of 2.2%.
The overall impression from the interviews is that the microfinance institutions are doing better after Mr. da Silva, but it is more a matter of momentum than a result of the policies adopted. The individual impact of the policies will be presented in section 5.3.

5.2 Macroeconomic Scenario

In order to analyze the evolution of the microfinance sector in Brazil, it is essential to investigate the country’s economy. The macroeconomic scenario has a significant role in the sound functioning of the financial sector. An economy in recession has a different relation with credit than an economy in expansion, because access to credit is, other than a social issue and a problem of microeconomic efficiency, a matter of macroeconomic stability (Stodder, 2000).
Indicators such as GDP growth, inflation, interest rate, unemployment, and average wage and income are examined to indicate the macroeconomic scenario of the Brazil.

Brazil went through strong economic turbulences, especially between the 1980’s and 1994. In this period, the country experienced annual inflation rates as high as 135,422.78%, in March of 1990, and annual nominal interest rates as high as 5,837.47%, in February of 1990. The average annual inflation and interest rates for the period, respectively, are 2,585.22% and 2,441.10% (http://www.ipeadata.gov.br). In this period, the country went through a series of economic plans to fight inflation, such as Cruzado in 1986, Bresser in 1987, Verão in 1989, Collor I and Collor II in 1990 and 1991, respectively. Currency devaluations, price and wage freezing, and rise in public services price marked these plans. Finally, in 1994, the years of inflation were over with the implementation of the stabilization plan Plano Real (Real Plan).

The Plano Real followed the same stabilization basis as other programs applied in Latin America. The plan had an exchange rate anchor using a fixed rate of exchange combined with open trade policy as a price anchor (Paula & Alves, 2003). The plan was successful in controlling the economy and bringing stability. To better understand the impacts of the Plano Real and the economic stabilization, it is needed to analyze the country’s economic indicators. Figure 9 shows the evolution of GDP per capita since 1980. As it is possible to see, GDP per capita has kept a constant pattern with a small upward trend since 1999. The
average nominal GDP per capita before the plan was $4.8 thousand and after 1994, it increased 10% to $5.3 thousand. An increase in GDP per capita is a sign of economic growth, which is favorable for microfinance.

Figure 9: GDP per capita

Source: Instituto de Pesquisa Econômica Aplicada

The number one challenge of Plano Real was to control inflation. Figure 10 and Figure 11 show what happened to inflation in Brazil since 1980. The first figure gives a yearly overview of the period in question, while the second shows the monthly rate of inflation after Plano Real. Since the rates are very high in the periods of hyperinflation and very low in recent years, the second figure gives a better picture of inflation in the post Plano Real years. The decreases in inflation rate, as observed in Figure 10 took place in the years of economic plan, 1986, 1987, 1989, 1990, 1991, and 1994, but previously to Plano Real, the control on inflation did not last. The long inflationary period had a negative impact in the
The rate of inflation after *Plano Real* was under control, presenting fluctuations of less than half percentage point. The stability of the economy since 1994 was tested in different situations, because of international crises, but the economy kept its pace. This happened with the Mexican crisis in 1995, Asian countries in 1997, Russia in 1998, its own crisis in 1998 when the floating exchange rate system was adopted, and Argentina in 2001. As it is possible to see in the figure bellow, these crises did not affect the control of inflation in the country. The control of inflation is the major sign of economic stability and for the microfinance sector economic stability has a key role. High inflation and instability lowers the customers confidence in the economy and takes them away from credit, or in other words, away from debt. As seen before, Brazil’s previous
macroeconomic instability is still considered a barrier to microfinance because of the lack of confidence that it created on costumers. Therefore, the controlled inflation is favorable to microfinance.

Figure 11: Monthly Inflation Rate – INPC (%)

The same trend that occurred with inflation rates can be observed in interest rates, with major fluctuations starting in 1984 and lasting until the beginning of the *Plano Real*. The interest rates, as opposed to inflation, were impacted by the international crises from late 1997 to mid 1999, but it did not get out of control, as shown in Figure 12. Once again, the scenario of stable interest rates is favorable to microfinance, for the same reasons of inflation.
The unemployment rate in Brazil did not present major fluctuations since 1980; the average rate for the period is 6%. The major changes in unemployment happened between 1984 and 1990, when the rate went from its maximum level of 9.32% to a minimum of 2.47%. The steady unemployment rate shows that the improvement in the Brazilian economy is not a result of the increase in labor.

One factor that did contribute to the improvement of the Brazilian economy was the increase in average income. Since 1994, population in urban areas had a monthly average raise in their income of 0.2%. The average income went from R$ 264 in 1994 to R$ 810 in 2002, as shown in Figure 13, which is an increase above the inflation. The increase in income has a positive effect on people’s confidence in the economy. This confidence is translated to consumption and investments, which are good for the credit sector.
The combination of low inflation and interest rates, steady unemployment rates and rising average income have provided a prosperous environment for microfinance in Brazil, because inflation and instability hit the poor most. Mr. da Silva kept the existing economic strategy to promote and maintain stability, a policy tripod of primary surplus high enough to reduce debt as a share of GDP, a floating exchange rate and inflation targets (The Economist, 2007). Moreover, the government invested in the expansion of social programs to the poor, such as microcredit and family allowance. The result is a raise in income among the poor, which helps the microfinance industry. The poor are getting richer; between 2001 and 2005 the Gini coefficient fell from 0.596 to 0.568, representing a decrease of 4.7% Moreover, the share of national income going to the poor increased from 9.8% in 2002, to 11.9% in 2006 (http://www.ipeadata.gov.br). The government’s poverty-alleviation program has been an undoubted success in reaching the poor and raising living standards. It is possible to conclude that the macroeconomic
prosperity of Brazil have positively affected the microfinance regardless Mr. da Silva policies for the sector.

5.3 Government Policies Adopted

Expansion of PRONAF

Mr. da Silva promised to expand the resources of the PRONAF. It is possible to see in Figure 14 that the funds invested in the program increased 320% between February 2003, just after Mr. da Silva started his term, and June 2007, which shows that the government is really putting more money into the program. Figure 15 shows the evolution of the number of contracts.

Figure 14: PRONAF – Funds Invested

Source: Ministério da Fazenda
The number of contracts increased 121%, between 2003 and 2007, as the program reached 2 million contracts. The increment in resources available is much more impressive than the one in resources invested, while the first one more than tripled its number, the second doubled. This shows not only that the government is investing in a higher rate, but that the size of the contracts is getting bigger. The increase in the size of the contracts may indicate that the rural families in the program are succeeding in increasing their productivity and are being able to apply for new contracts with higher limits, or that the program is targeting higher income families. Since in some of the categories of PRONAF it is possible for one borrower to have more than one contract, the actual number of families reached by the program can not estimated considering such variable.

The Treasury Department estimates that the number of families in the program corresponds approximately to 85% of the number of contracts, which gives a total of 1.7 million families in June 2007. Furthermore, according to the
Instituto Brasileiro de Geografia e Estatística, Brazil has a labor force of 97.77 million people, from which 20%, or 19.6 million, are in agriculture. Since the program supports an estimate of 1.7 million families, and in average, a family has three members in the labor force, PRONAF has a pessimistic outreach of 5% of the rural population. It is a pessimistic outreach because it is not possible to estimate the actual number of family members in the work force and the actual number of the rural population that would be eligible in the program.

What is possible to conclude is that the program definitely promotes social change and may be improving the living standards of those who have access to it. Especially because when we look at the low default rates, around 1% for working capital credit lines and 3% to 4% to fixed capital, which shows that the rural families in the program are being able to produce and repay their loans. Although it is a valid initiative, the program is highly dependent on the government and its funds. Moreover, the program, with its subsidized interest rates, is not sustainable and may offer an incentive for higher defaults in the long term, since borrowers tend to consider long term, low interest loans more as a grant than as loan.

Among the institutions interviewed, PRONAF and its expansion do not represent any threat or competition to traditional microfinance institutions given their different target groups. PRONAF is an agricultural program and the institutions interviewed, which is also true for most of the microfinance institutions in Brazil, are located in urban areas and have as their public microentrepreneurs
and microenterprises, not related to agriculture. Moreover, since it is the only source of credit to these rural groups, it does not crowd out loans from other commercial banks, because there are not other credit lines.

**Increase of the Resources for Microcredit**

Mr. da Silva affirmed that the resources for microcredit would be increased through the 2% credit line. Figure 16 presents the evolution of the number of contracts of this credit line and their values in the first two years of operation. It is clear in the figure, although the series are in a different scale, that the rate of increase in the number of contracts was much higher than the one for their values. Between 2004 and 2005, there was a 152% increase in the number of contracts and an 18% increase in their values, which shows that there were more contracts but with smaller sizes. The average contract size in 2004 was R$ 267.72, in 2005 this value drops to R$ 125.04. The increase in the number of contracts shows that the program is reaching an increasing number of the poor.
A comparison of the two types of credit offered by the microcredit program with 2% rate of interest is shown in Table 5. *USO LIVRE* mobilizes 93% of the total of contracts and 71% of their total value. The money from *USO LIVRE*, since the program does not require a specific use to it, is mostly guided towards consumption, which includes some expenses related to an economic activity, but mostly can be seen as consumption related to debt.

**Table 5: Microcredit Program – 2% rate of interest**

<table>
<thead>
<tr>
<th>Type of Credit</th>
<th>Accumulated Between Jan/2004 and Sep/2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Value Contracted (R$ '000)</td>
</tr>
<tr>
<td>USO LIVRE (consumption)</td>
<td>2,476,002</td>
</tr>
<tr>
<td>Microentrepreneur</td>
<td>1,013,477</td>
</tr>
<tr>
<td>TOTAL</td>
<td>3,489,479</td>
</tr>
</tbody>
</table>
It is undeniable the success of the program in providing credit to the low income population. The government stated that it would increase the resources for microcredit programs by R$ 1.9 billion, but it actually increased by R$ 1.2 billion. It was a big step for microcredit but the program has a series of drawbacks.

The first problem encountered by this microcredit program is related to the source of the funds. The compulsory application of 2% of all cash deposits into microcredit programs was not welcomed by banks. According to the National Monetary Council, in January 2006, only 69.7% of the total value was invested in microcredit; the remaining 30.3% was deposited at the central bank with no remuneration, without receiving any interest. In October 2006, the percentage invested in microcredit falls to 52%. The banks argue that it is not easy for them to operate with microcredit and to evaluate the risks and costs of this operation. Moreover, they argue that it is better to leave the money with the Central Bank without remuneration but also without losses (Durão, 2006). According to the president of Banco Bradesco, Brazil’s largest private bank, Márcio Cypriano (as cited in Durão, 2006), the bank decided not to operate with microcredit because of the imbalance between the 2% gain in interest and 8% loss in defaults that Brasdesco had with microcredit.

There is a lack of interest among commercial banks to expand its operations to microcredit, although they are obligated to do it. Furthermore, there is a lack of interest among them to adapt their lending methodology to
microcredit, which may explain their failure in the sector. Microcredit lending cannot be done using the commercial banks standards for lending. Even considering the low participation of the banks, the adviser of the Treasury Department responsible for microfinance, Gilson Bittencourt argues (as cited in Ribeiro, 2006) that it is undeniable that the program is a success in giving access to credit to the low income population. Only the state owned banks, such as Banco do Brasil, Caixa Econômica Federal and Banco do Nordeste, are directing the full amount of the 2% cash deposits to microcredit, through their subsidiaries that already operate with microcredit (*Banco Popular* in the case of *Banco do Brasil* and *CrediAmigo* in the case of *Banco do Nordeste*), or through special microcredit programs, such as *Crédito Consignado* or partner institutions in the case of *Caixa Econômica Federal*. When it comes to commercial banks, they do not have any links and any previous experience with microcredit and decide to put the program aside given the existing barriers.

The second problem of the program is the **difficult access** faced by the low-income client to the 2% interest rate credit line. The government announced extensively the existence of the credit lines in all banks of the financial system, but these lines were not always available as announced. Because commercial banks did not welcome the measure, they added extra barriers that should not exist when giving the credit. This situation was particularly described by the institutions interviewed. A number of clients would come to them frustrated for not getting the credit that the government announced that they would get, which
is not a pleasant experience for someone already excluded from the financial system. The coordinator of the *Programa Nacional de Microcrédito Produtivo Orientado* (Production Oriented Microcredit Program), Almir Pereira argues (as cited in Ming, 2006) that the problem of nonexistent credit lines appeared only during the first years of the program as a result of an unexpected large demand for the funds and adjustments that needed to be done, such as better coordination in how to make the link between the banks and the low income population. However, the shortage for the 2% credit line continued even after the period of adjustments, what changed is the people’s expectation to get the 2% credit line, which mostly does not exist.

A third problem is the **high default rate** associated with the program. Microcredit programs throughout the world are known to have very low default rates. Microcredit is seen by the poor as their only opportunity to break out of poverty and they do not want to lose the opportunity by missing the repayments (Yunus, 1999). The same trend of low default rates is not observed in the case of subsidized loans. The credit associated with subsidies, usually low interest rates, as in the Brazilian program, or extensive repayment period, offers a disincentive for regular repayments, as if the borrower does not take the loan seriously. When the terms of the credit contract are soft and smooth, it is seen much more as grant than as loan (Armendáriz de Aghion & Morduch, 2005). This microcredit program, because of its 2% interest rates, has default rates as high as 28%, which not only is very elevated, but it is above the standards for microcredit
programs. According to the Federação Brasileira de Bancos (Brazilian Federation of Banks) the major problem of the program is the fixed rate of 2% interest which does not compensate the 28% average default rate, the interest collected does not cover the costs of the operation (Simão, 2006). Although the government had good intention in creating the program with 2% interest rate, it ended up generating an extra problem for the program and reinforcing a culture of non-payment.

The institutions interviewed were clear in stating that the program of the 2% credit lines hurt their businesses more than contributed to it (88% of the total, which are the ones that do not offer the subsidized credit line). The program was harmful in two aspects. First, because prospective clients would go to the competition to get the 2% credit lines, and they would lose the client. Second, because if the client was not successful in getting the 2% credit line with the competitor, she/he would go to the microfinance institution expecting to get the 2% interest rate, generating a conflict where most times the institution was considered to be taking advantage of the client by offering a higher rate. Observing Figure 17 it is possible to see that most of the institutions interviewed offer a monthly nominal interest rate between 3.01 and 4.00% (with an average of 3.7%), which translates in additional stress with the client searching for 2% rate of interest.
The average default rate of the institutions interviewed is 5.4%, varying from rates as low as 0.9% to as high as 12%. The average is consistent with the argument that non-subsidized loans have lower default rates.

Increase of the Number of Local Financial Agents

Among the initiatives to increase the number of local financial agents, Banco Popular had impressive results in terms of number of clients and outstanding loan portfolio. As of September 2006, the bank had 1.3 million of checking accounts, made over 2.7 million credit operations in an average value of R$ 113.00 and a total of R$ 310 million. The numbers show that the bank had a role in providing financial services for the poor. However, it is not possible to deny that it was a small role, mostly if it is considered the fact that, as a subsidiary of Banco do Brasil, the institution had the knowledge and the
resources to achieve better results. Banco Popular had a deficit of R$ 25 million in its first fiscal year of operation. In 2005 this number rose R$ 62 million, and in 2006 it fell back to R$ 40.5 million. The bank’s default rate was around 9% since the beginning of its operation and increased to 20% in 2006. The bank has this high default rate because of its subsidized interest rates at 2%, which, as explained earlier, gives to clients a disincentive to repay. Mr. Robson Rocha argues that the negative results are a consequence of the bank’s start up, and that some changes have been made to change this scenario. One of the changes is the partnering of Banco Popular do Brasil with some Organizações da Sociedade Civil de Interesse Público – OSCIPs to offer microcredit, but the changes do not appear to have made a difference.

Among the institutions interviewed, the opinion about Banco Popular is the same: it is unfair competition. The interviews showed that 64% of the institutions consider Banco Popular as a threat to their operations, 22% are indifferent, and 11% affirms that Banco Popular does not have any influence in their businesses. It is important to point out that the responses for Banco Popular are inconsistent with responses to the 2% interest rate credit line, which is the one that Banco Popular offers. This difference reinforces the fact that the problem with the 2% credit line, for the institutions that do not offer it, is not the offer by the competition, but the demand by their clients for this type of rate.

The competition between Banco Popular and microfinance institutions is unfair, according to the second ones, because of two aspects: size and interest
rates. In terms of size, as a subsidiary of *Banco do Brasil*, *Banco Popular* enjoys the principle of economy of scale. It creates a network and takes advantage of it in terms of lower operational costs, better training programs, easier implantation of new branches, and larger network of serving points. However, this is not an unfair competition as argued by the interviewees, this is simply competition. It is true that it may hurt their operations, but there is nothing unfair about it.

The others, so called regular microfinance institutions, cannot have such widespread achievement. They are mostly local institutions with a local outreach, and they use this local aspect to be different from *Banco Popular*. Since they can not win in terms of size, they try to win in terms of individual service provided, which translates into a warmer and closer kind of relationship with their clients, or at least most of them. The institutions have information advantages about client base, since they are local they know their clients. Furthermore, because microfinance institutions do have a stereotype of a social oriented organization, they create a friendlier environment to their clients, as opposed to the cold impersonal one of a financial institution.

The second aspect to which microfinance institutions see *Banco Popular* as an unfair competition is the rates that the bank offers. Since it is state owned, *Banco Popular* is a highly subsidized institution, from fees to interest rates, providing lower final costs to its clients. Again, this is not an example of unfair competition it is just competition. Because *Banco Popular* has economy of scale, it can enjoy lower costs; there is nothing unfair about it. Once more the
competition responds to it with a promise of better and individualized service. As a general manager of a *Sociedade de Crédito ao Microempreendedor* states, it is not possible for them to beat *Banco Popular’s* rates but they can beat the quality of the service provided.

The second strategy used to increase the number of agents was to increase the number of banking correspondents. These serving points have a key role in providing access to financial services especially in small villages and rural areas, where the costs for the client to reach a bank branch are crucial in the decision of taking or not a part in the financial system. The correspondents are mostly supermarkets, drugstores, local markets, butcher shops, and bakeries. *Caixa Econômica Federal* also uses its network of *Casas Lotéricas* (lotto games outlets) as its correspondents. *Caixa* has a total of 2,237 branches and almost 9,000 *Casas Lotéricas* throughout Brazil. *Banco Bradesco* has 2,968 branches and uses 3,533 post offices as its correspondent. The bank with the largest network of correspondents is *Banco Real ABN-AMRO*, which has over 30,000 correspondents. Figure 14 shows the evolution of banking branches and correspondents since 2000, while there was not a significant change in the number of branches, the number of correspondents had a 45% increase.
The legislation for banking correspondents, although very important in promoting the access to financial services among the poor, does not have a significant impact in microfinance institutions. Because of their size, most microfinance institutions do not use the mechanism of correspondents, moreover, since they are basically credit institutions they do not perform daily operations to their clients such as deposits and withdrawals.

It is clear that Mr da Silva was successful in increasing the number of local financial agents, but a question remains if he was actually able to take financial services closer to the poor. Moreover, was his program able to supply the poor's financial needs?
Creation of Financial Products and Services to the Poor

The evolution of the simplified checking and savings accounts since its creation in 2004 can be seen in Figure 19 and Figure 20. It is possible to note that, although the number of checking accounts is much higher in comparison with savings, a total of 12,326,618 against 275,007 respectively, the savings accounts had a much higher increase rate compared to the checking in the period. As of January 2004, the number of active savings accounts was 5,118. In June 2005, this number jumped to 151,679.

Figure 19: Total of Simplified Checking Accounts

Source: Banco Central do Brasil
The increase of savings accounts shows the existence of demand for these types of accounts among the poor, which reinforces the argument that microfinance institutions should be able to collect deposits to better serve its clients and supply their financial needs. Moreover, the average balance of simplified savings accounts is 45% higher than the average balance of checking (US$ 21.00 against US$ 15.00), and this saving capacity cannot be enjoyed by microfinance institutions.

The simplified accounts not only give the poor access to financial services but reduce the bureaucracy of the service, which is an extra barrier that keeps the poor away. Furthermore, the client can use its simplified account to have access to the credit lines *USO LIVRE*, with 2% interest, and microentrepreneur, with 4%. Among the institutions interviewed, the lack of integrated financial services was problematic. The institutions argue that the combination of checking, savings, and credit supplies most of the financial needs of a client, but
they cannot offer it, even though they know that this is what their clients need. In fact, among the upper classes, a person usually has a bank that provides all of her/his financial services, which includes, checking and savings accounts, investment account, credit and credit card, and insurance. Nevertheless, among the poor, they still have to rely upon a couple of institutions, which is particularly true because the combination of simplified account and 2% or 4% credit lines does not happen frequently. As seen before, these credit lines are not easy to get. A usual statement among the institutions interviewed was that their clients often have checking account with one institution, savings with a second one, and credit with them.

The evolution of the number of contracts and value invested in the Crédito Consignado Program is shown in Figure 21. The program had an expressive expansion in its first year of operation and a slight retraction in the second year, but still there is a large unsupplied demand. According to the Instituto Nacional de Securidade Social (National Institute for Social Security), the consigned credit program responds to the demand of only 17% of the workers in social security, which shows the expansion capacity of the program. This program is a clear example of target lending, which is part of the old paradigm of finance to the poor.
The clients of the microfinance institutions interviewed are mostly microentrepreneurs, owners of a small commerce or production facility; moreover, they are typically inserted in the informal sector. The profile of the institutions' clients disqualifies them for the consigned credit program. Since their clients cannot have access to this credit program, it does not have any impact on the interviewed microfinance institutions.

Creation of the PNMPO

The evolution of the number of contracts and values of the production oriented microcredit program is shown in figure 22. The rate of increase of the number of contracts is consistent with the one for the values of the contracts; moreover, it is possible to note that the government is increasing its investments in the program to supply the increasing number of contracts.
The Production Oriented Microcredit Program is considered a success by its coordinator, Mr. Almir da Costa Pereira, from the labor ministry. He argues that the program not only provides credit to microentrepreneurs, but also gives assistance in using the funds and in developing the business. The support offered to the borrower is an innovation among microcredit programs in Brazil and it is a valid initiative in guiding the entrepreneur through the process of improving her/his business practices.

Among the institutions interviewed, 17% are qualified to offer the production oriented credit line. The ones that do not offer it did not present any restriction to the program, in terms of competition. They argue that it is a product with specific public and that it requires more adaptations at the institution offering it, since the projects need to be evaluated and followed. The institutions that do offer the production oriented credit line, argue that it is a good opportunity to
increase their portfolio of products, opinion that is shared by the institutions that do not offer it. The production oriented microcredit responds to an average of 12% of the total number of active contracts.

**Alteration in the Legal Framework of Cooperatives**

The evolution of credit cooperatives can be seen in Figure 23. It is possible to see that the evolution of loans and deposits of credit cooperatives follows a constant growth rate, and did not have a significant impact by Mr. da Silva’s policies. Still looking at Figure 23, it is interesting to see how the volume of deposits follows the one for loans. This provides a clear sign that microfinance institutions would benefit if they were allowed to collect deposits.

![Figure 23: Evolution of Credit Cooperative’s Loans and Deposits](image)

Source: Banco Central do Brasil
Ninety percent of the institutions interviewed do not consider credit cooperatives as a direct competition. They argue that the client base of cooperatives is different from that of microfinance. Microfinance works with lower income population and microentrepreneurs, offering smaller credit lines, while credit cooperatives offer a more production oriented type of credit, which has higher values than the ones offered by microfinance institutions. In fact, among the 10% that considers cooperatives as direct competitors, 40% of them offer the production oriented microcredit.

What is possible to conclude from the policies is that they fit perfectly under the old paradigm of finance to the poor. In this sense, Mr. da Silva’s microfinance policies are not a significant rupture from the previous efforts, although they did bring more attention to the sector. Lending requirements and quotas can be observed in the 2% of cash deposits that have to be directed to microcredit. The subsidized interest rates are present in the 2% credit line, in the PRONAF, in the consigned credit, and in the production oriented credit line. The target lending is also very present in the polices through the PRONAF, targeted to the rural poor, the consigned credit, targeted to social security workers and formal sector employees, production oriented credit, targeted to specific types of microentrepreneurs.
CHAPTER 6: CONCLUSION

This research analyzed the policies adopted by the government of Mr. Luís Inácio Lula da Silva to promote microfinance in Brazil and their effects. It is possible to say that the government was in a way successful in promoting the microfinance industry and increasing the access to financial services among the low-income population. Nevertheless, there are substantial problems in Mr. da Silva’s approach to microfinance, which may compromise the future of the sector.

The objectives proposed by the government were met. The access to financial institutions and services among the lower levels of the population increased significantly. The simplified checking and savings accounts gave the poor low cost, bureaucracy-free, access to banking. The expansion of banking correspondents took the financial service closer to the poor, which is crucial in rural areas. The access to microcredit among formal and informal microentrepreneurs, seeking the generation of income and employment, was promoted. The programs *Microcrédito Produtivo, Microcrédito Produtivo Orientado*, and *Pronaf* put credit closer to microentrepreneurs supporting microenterprises and family agriculture. Finally, the interest rates on microcredit loans were not reduced but new credit lines were created with reduced rates of interest, such as the 2% cash deposits credit line.
The first problem encountered in Mr. da Silva’s approach to microfinance is its focus microcredit and the old paradigm, not on microfinance. As stated before, there is a difference between microcredit and microfinance, although the two words are used interchangeably. Microcredit refers specifically to small loans that are given to the poor while microfinance is a broader term, which embraces a variety of financial services to the poor besides credit, such as savings and insurance. The shift to microfinance occurred to supply the financial needs of the poor, which go beyond credit (Armendáriz de Aghion & Morduch, 2005).

In Brazil, most of the efforts and attention are on microcredit, its promotion and expansion. The low-income client cannot walk in a microfinance institution and get the combination of credit, savings and insurance at the same place. In fact, microfinance institutions, in the forms of Organizações da Sociedade Civil de Interesse Público or Sociedades de Crédito ao Microempreendedor, are not authorized to collect deposits or commercialize insurance. The focus on microcredit not only restricts the access to financial services among the low-income population, but also compromises the sustainability of microfinance institutions. All microfinance institutions rely in some sort of external funding; these can be government credit lines, like Crédito Produtivo Orientado, funds from the Brazilian development bank, loans from the Inter-American Development Bank, and international agencies such as UNICEF and ACCIÓN International. The sustainability of the microfinance institutions is another problem encountered. Up to now, microfinance institutions have been able to get
external funds, especially from the government, but what happens if the funds become unavailable in the future. Moreover, what is the opportunity cost for the government to direct these funds to microcredit instead of investing them in other programs such as education and health?

The actions of Mr. da Silva’s program, with its focus on microcredit, fall into the old paradigm of financial services to the poor. The model of government intervention and subsidized interest rates have been used in microfinance but it has been proven to be inefficient. Besides the incentive that subsidized rates give to default, they do not cover the institution’s costs, creating a cycle of dependency for the institution. The government should intervene in the microfinance to strengthen the financial system’s structure and offer a favorable regulatory and economic framework, allowing microfinance institutions to develop without unnecessary constraints (Lapenu, 2002); it should not have a major role in the operation of microfinance industry.

This study was also able to identify other standing problems of the microfinance sector in Brazil. Most of the microfinance institutions function as local monopolies, except in large urban areas. The absence of competition hurt mostly the poor, which do not have a choice of better of service and better rates. Mainly, the microfinance institutions have a monoproduct, microcredit, which does not meet all the financial needs of low-income population and spoils the institution’s sustainability. The institutions have generally just one branch, which
increases operational costs, costs of training and of technology; with higher costs, the institution is both less profitable and less competitive.

The government should take advantage of the wave of microfinance and promote changes in the sector taking it closer to a real microfinance sector, other than just microcredit. It should shift from the old paradigm of microcredit to the new one on microfinance. An alteration in the regulatory framework is crucial to promote microfinance. The institutions should be able to diversify their portfolio of products, offering services such as savings and insurance; the diversification would not only contribute for the institution’s sustainability, but also better serve the poor with financial services. The government should promote the liberalization of microfinance, and step down from its central role as source of funds. The self-sustainability of microfinance institutions should also be motivated. Liberalization has produced positive results in countries, showing that liberalized financial systems work better in reaching out to the poor (Loubière, Devaney, & Rhyne, 2004). Moreover, the government should assign a single institution to oversee and control the sector, as opposed of the current model, where the National Monetary Council, though the central bank, oversees the Sociedades de Crédito ao Microempreendedor, the credit cooperatives and the banks, and the Ministry of Justice oversees the Organizações da Sociedade Civil de Interesse Público. A unified controller would not only promote the standardization of the sector, but endorse its transparency.
The government should step out as a key player of the microfinance sector adopting a regulator position. As a regulator, it should observe the existence of some prerequisites for a successful microfinance sector. There must be a high level of political will from the government to create a healthy microfinance sector. The political will is not difficult to be created since microfinance addresses pressing problems of the country, such as poverty alleviation, job creation, and higher levels of social equality. There must be a liberalized financial sector, where the institutions and their products are market driven. There must be strong microfinance providers that do not rely upon subsidized rates and external funding to conduct their businesses. Finally, there must be a strong process of consultation and education to direct institutions towards good practices, and change their current mentality of government support (Loubière, et al., 2004).

Considering that the government is stepping out of the key role, government institutions, such as state owned banks, should not provide microfinance services at the retail level. Moreover, any kind of interest rate control should be eliminated to encourage sound microfinance institutions to cover their costs. The government should follow the following characteristics for the microfinance market (Loubière, et al., 2004):

- Safety and soundness for the system and especially depositors
- Competition, to create efficiency and service quality
- Growth of coverage, to reach a higher number of people
- Expansion and innovation in product offerings, especially savings
- Independence of the industry from public subsidies
- Fair treatment of borrowers

Mr. da Silva was responsible for the big step that microfinance in Brazil took towards recognition and expansion of microcredit throughout the country. Now it is time to take another step towards sustainability and profitability, expanding microfinance throughout the country, reaching the poor and supplying the totality of their demand for financial services.
REFERENCES


APPENDIX 1: INTERVIEW QUESTIONNAIRE

Institution:
Contact information:

A. General Information (in December 2002 and in December 2006)

1. How many years of operation?
2. What is the charter type? NGO, OSCIP, SCM, credit cooperative.
3. How many branches does the institution have?
4. What is the number of active borrowers?
5. What is the number of loans outstanding?
6. What is the gross loan portfolio?
7. Has your institution increased its Microfinance portfolio since 2002? By what percentage?

B. Government Policies and the Microfinance institution

1. Did the regulatory framework of microfinance change?
   If yes: 1.1. How did it change?
   1.2. Did it assist the action of Microfinance Institutions (MFI) among the poor and promote competitiveness?
   1.3. What were the impacts of these on your business?
2. Did the government increase the credit lines targeted to microentrepreneurs, with 2% monthly interest rates?
   If yes: 2.1. Do you offer this credit line?
      If yes: 2.1.1. Did you offer it before?
      2.1.2. What was the impact of this credit line on your business?
      2.1.3. Did it increase your average loan balance per borrower?
      2.1.4. How accessible is this credit line?
     If no: 2.1.1. Do your competitors offer this credit line?
        If yes: 2.1.1.1. Did they offer it before?
        2.1.1.2. Does it have an impact on your business?
        2.1.1.3. Did you lose clients?
        If no: 2.1. What market rate of interest do you offer?
## APPENDIX 2: OVERVIEW OF INSTITUTIONS INTERVIEWED

<table>
<thead>
<tr>
<th>Name</th>
<th>Charter Type</th>
<th>Country Region</th>
<th>Inception</th>
<th>Branches/ Serving Points</th>
<th>Active Clients</th>
<th>Active Portfolio (R$)</th>
<th>Nominal Monthly Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agência de Fomento do Paraná S/A</td>
<td>Development Agency</td>
<td>South</td>
<td>2001</td>
<td>353</td>
<td>4,018</td>
<td>15,063,031.90</td>
<td>1.50</td>
</tr>
<tr>
<td>Agência de Fomento do Estado da Bahia S/A</td>
<td>Development Agency</td>
<td>Northeast</td>
<td>2002</td>
<td>78</td>
<td>4,014</td>
<td>3,496,491.00</td>
<td>1.80</td>
</tr>
<tr>
<td>Fundação Caixa do Povo</td>
<td>ONG</td>
<td>Northeast</td>
<td>1996</td>
<td>1</td>
<td>1,100</td>
<td>683,000.00</td>
<td>2.50</td>
</tr>
<tr>
<td>IDACO - Instituto de Desenvolvimento e Ação Comunitária</td>
<td>ONG</td>
<td>RJ</td>
<td>1999</td>
<td>3</td>
<td>244</td>
<td>234,452.34</td>
<td>4.00</td>
</tr>
<tr>
<td>Associação de Crédito Comunidade do Futuro</td>
<td>ONG</td>
<td>South</td>
<td>2002</td>
<td>1</td>
<td></td>
<td>655,000.00</td>
<td>3.00</td>
</tr>
<tr>
<td>Associação Comunitária de Crédito Popular de João Pinheiro e Três Marias</td>
<td>ONG</td>
<td>MG</td>
<td>2003</td>
<td>2</td>
<td>252</td>
<td>295,917.23</td>
<td>3.90</td>
</tr>
<tr>
<td>Centro Ecumênico de Apoio ao Desenvolvimento</td>
<td>OSCIP</td>
<td>Northeast</td>
<td>1984</td>
<td>1</td>
<td>1,000</td>
<td>5,000,000.00</td>
<td>5.00</td>
</tr>
<tr>
<td>Associação para o Desenvolvimento da Mulher do Estado da Bahia</td>
<td>OSCIP</td>
<td>Northeast</td>
<td>1989</td>
<td>7</td>
<td>905</td>
<td>478,020.14</td>
<td>4.00</td>
</tr>
<tr>
<td>CEAPE-MA</td>
<td>OSCIP</td>
<td>Northeast</td>
<td>1989</td>
<td>45</td>
<td>14,018</td>
<td>7,604,454.08</td>
<td>3.20</td>
</tr>
<tr>
<td>CEAPE-PE</td>
<td>OSCIP</td>
<td>Northeast</td>
<td>1992</td>
<td>14</td>
<td>3,582</td>
<td>5,784,736.00</td>
<td>5.50</td>
</tr>
<tr>
<td>Banco da Mulher - Associação para o Desenvolvimento da Mulher da Região Sul do Rio Grande do Sul</td>
<td>OSCIP</td>
<td>South</td>
<td>1993</td>
<td>1</td>
<td>2,095</td>
<td>2,095.00</td>
<td>4.00</td>
</tr>
<tr>
<td>CEAPE-GO</td>
<td>OSCIP</td>
<td>Center-west</td>
<td>1994</td>
<td>5</td>
<td>2,000</td>
<td>2,000,000.00</td>
<td>5.00</td>
</tr>
<tr>
<td>CEAPE-PB</td>
<td>OSCIP</td>
<td>Northeast</td>
<td>1994</td>
<td>7</td>
<td>3,129</td>
<td>1,822,398.65</td>
<td>5.00</td>
</tr>
<tr>
<td>CEAPE-BA</td>
<td>OSCIP</td>
<td>Northeast</td>
<td>1995</td>
<td>5</td>
<td>2,491</td>
<td>1,929,673.00</td>
<td>6.00</td>
</tr>
<tr>
<td>CREDCIDADANIA - Fundo Rotativo da ação da Cidadania</td>
<td>OSCIP</td>
<td>Northeast</td>
<td>1995</td>
<td>3</td>
<td>1,500</td>
<td>1,300,000.00</td>
<td>2.90</td>
</tr>
<tr>
<td>CEAPE-PI</td>
<td>OSCIP</td>
<td>Northeast</td>
<td>1997</td>
<td>11</td>
<td>3,853</td>
<td>2,207,011.00</td>
<td>5.44</td>
</tr>
<tr>
<td>Name</td>
<td>Type</td>
<td>Region</td>
<td>Year</td>
<td>Amount</td>
<td>Interest Rate</td>
<td>Notes</td>
<td></td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>------</td>
<td>--------</td>
<td>------</td>
<td>----------</td>
<td>---------------</td>
<td>-------</td>
<td></td>
</tr>
<tr>
<td>FAEP - Fundo de Apoio ao Empreendimento Popular Juiz de Fora</td>
<td>OSCIP</td>
<td>MG</td>
<td>1997</td>
<td>15</td>
<td>2,100</td>
<td>3,159,156.59</td>
<td>3.90</td>
</tr>
<tr>
<td>ICC BluSol</td>
<td>OSCIP</td>
<td>South</td>
<td>1997</td>
<td>5</td>
<td>2,220</td>
<td>6,750,000.00</td>
<td>3.98</td>
</tr>
<tr>
<td>Instituição Comunitária de Crédito de Londrina - Casa do Empreendedor</td>
<td>OSCIP</td>
<td>South</td>
<td>1997</td>
<td>1</td>
<td>1,208</td>
<td>2,938,218.40</td>
<td>3.98</td>
</tr>
<tr>
<td>VivaCred</td>
<td>OSCIP</td>
<td>RJ</td>
<td>1997</td>
<td>6</td>
<td>3,326</td>
<td>3,658,659.00</td>
<td>4.70</td>
</tr>
<tr>
<td>ACEP - Associação de Crédito Ao Empreendimento Popular</td>
<td>OSCIP</td>
<td>MG</td>
<td>1998</td>
<td>1</td>
<td></td>
<td>56,068.01</td>
<td>3.90</td>
</tr>
<tr>
<td>Associação Comunitária de Crédito do Vale do Aço - BANCO POPULAR</td>
<td>OSCIP</td>
<td>MG</td>
<td>1998</td>
<td>9</td>
<td>1,682</td>
<td>2,149,075.98</td>
<td>3.60</td>
</tr>
<tr>
<td>Banco do Nordeste do Brasil S/A - CrediAmigo</td>
<td>OSCIP</td>
<td>Northeast</td>
<td>1998</td>
<td>170</td>
<td>203,122</td>
<td>138,330,000.00</td>
<td>2.00</td>
</tr>
<tr>
<td>Banco do Povo Santa André - Crédito Solidário</td>
<td>OSCIP</td>
<td>SP</td>
<td>1998</td>
<td>4</td>
<td>938</td>
<td>1,068.00</td>
<td>3.90</td>
</tr>
<tr>
<td>Credimais Instituição de Crédito Produtivo Popular</td>
<td>OSCIP</td>
<td>Center-west</td>
<td>1998</td>
<td>3</td>
<td>365</td>
<td>1,570,732.08</td>
<td>3.98</td>
</tr>
<tr>
<td>Fundo de Apoio ao Empreendedor Joseense - FAEJ</td>
<td>OSCIP</td>
<td>SP</td>
<td>1998</td>
<td>1</td>
<td>216</td>
<td>492,859.98</td>
<td>3.90</td>
</tr>
<tr>
<td>Grande Vitória Credisol</td>
<td>OSCIP</td>
<td>ES</td>
<td>1998</td>
<td>2</td>
<td>574</td>
<td>913,000.00</td>
<td>3.70</td>
</tr>
<tr>
<td>Instituto Banco Palmas de Desenvolvimento e Sócio Economia Solidária</td>
<td>OSCIP</td>
<td>Northeast</td>
<td>1998</td>
<td>6</td>
<td>530</td>
<td>270,000.00</td>
<td>4.00</td>
</tr>
<tr>
<td>Programa Providência de Elevação da Renda Familiar</td>
<td>OSCIP</td>
<td>Center-west</td>
<td>1998</td>
<td>89</td>
<td>1,489</td>
<td>686,124.00</td>
<td>2.00</td>
</tr>
<tr>
<td>ACP - Associação de Crédito Popular - Banco do Povo</td>
<td>OSCIP</td>
<td>MG</td>
<td>1999</td>
<td>15</td>
<td>1,982</td>
<td>1,785,910.63</td>
<td>3.90</td>
</tr>
<tr>
<td>Agência Municipal de Desenvolvimento</td>
<td>OSCIP</td>
<td>PB</td>
<td>1999</td>
<td>1</td>
<td>507</td>
<td>394,095.25</td>
<td>2.50</td>
</tr>
<tr>
<td>Banco do Empreendedor</td>
<td>OSCIP</td>
<td>SC</td>
<td>1999</td>
<td>3</td>
<td>1,229</td>
<td>3,662,001.00</td>
<td>2.90</td>
</tr>
<tr>
<td>Banco do Povo de Goiás</td>
<td>OSCIP</td>
<td>GO</td>
<td>1999</td>
<td>233</td>
<td>11,673</td>
<td>11,599,751.89</td>
<td>2.00</td>
</tr>
<tr>
<td>CREDIOESTE - Agência de Microcrédito</td>
<td>OSCIP</td>
<td>SC</td>
<td>1999</td>
<td>1</td>
<td>640</td>
<td>1,472,215.00</td>
<td>2.90</td>
</tr>
<tr>
<td>ACP - Associação de Crédito Popular de Araxá</td>
<td>OSCIP</td>
<td>MG</td>
<td>2000</td>
<td>1</td>
<td>521</td>
<td>880,000.00</td>
<td>3.60</td>
</tr>
<tr>
<td>Associação Comunitária de Crédito de João Monlevade</td>
<td>OSCIP</td>
<td>MG</td>
<td>2000</td>
<td>1</td>
<td>138</td>
<td>137,015.85</td>
<td>3.90</td>
</tr>
<tr>
<td>Nome da Instituição</td>
<td>Tipo</td>
<td>Localização</td>
<td>Ano</td>
<td>Qtde.</td>
<td>Saldo</td>
<td>Taxa Juros</td>
<td></td>
</tr>
<tr>
<td>---------------------</td>
<td>------</td>
<td>-------------</td>
<td>-----</td>
<td>-------</td>
<td>-------</td>
<td>-------------</td>
<td></td>
</tr>
<tr>
<td>Casa do Empreendedor - Associação de Crédito Solidário do Norte Nordeste de Santa Catarina</td>
<td>OSCIP</td>
<td>SC</td>
<td>2000</td>
<td>7</td>
<td>1,276</td>
<td>2,968,732.71</td>
<td>3.00</td>
</tr>
<tr>
<td>Crescer Crédito Solidário</td>
<td>OSCIP</td>
<td>SP</td>
<td>2000</td>
<td>1</td>
<td>241</td>
<td>309,242.00</td>
<td>5.00</td>
</tr>
<tr>
<td>Extremo Oeste Agência de Crédito</td>
<td>OSCIP</td>
<td>SC</td>
<td>2000</td>
<td>1</td>
<td>1,038</td>
<td>2,431,494.25</td>
<td>3.90</td>
</tr>
<tr>
<td>Instituição Comunitária de Crédito Banco do Povo MS</td>
<td>OSCIP</td>
<td>MS</td>
<td>2000</td>
<td>15</td>
<td>1,261</td>
<td>1,324,357.76</td>
<td>3.50</td>
</tr>
<tr>
<td>Sociedade de Crédito ao Microempreendedor do Planalto Norte</td>
<td>OSCIP</td>
<td>SC</td>
<td>2000</td>
<td>3</td>
<td>600</td>
<td>1,650,000.00</td>
<td>3.90</td>
</tr>
<tr>
<td>ACEP - Associação de Crédito ao Empreendimento Popular</td>
<td>OSCIP</td>
<td>MG</td>
<td>2001</td>
<td>1</td>
<td>330</td>
<td>480,000.00</td>
<td>3.90</td>
</tr>
<tr>
<td>Agência de Crédito Especial do Alto Vale do Itajai</td>
<td>OSCIP</td>
<td>SC</td>
<td>2001</td>
<td>1</td>
<td>711</td>
<td>1,122,339.03</td>
<td>3.50</td>
</tr>
<tr>
<td>CCRIE - Casa de Crédito e Incentivo ao Empreendedor</td>
<td>OSCIP</td>
<td>PR</td>
<td>2001</td>
<td>1</td>
<td>150</td>
<td>179,172.54</td>
<td>3.95</td>
</tr>
<tr>
<td>Crecerto Agência de Microcrédito solidário do Alto Uruguai Catarinense</td>
<td>OSCIP</td>
<td>SC</td>
<td>2001</td>
<td>1</td>
<td>1,551</td>
<td>2,908,291.26</td>
<td>3.20</td>
</tr>
<tr>
<td>Crédito Popular Solidário - São Paulo Confia</td>
<td>OSCIP</td>
<td>SP</td>
<td>2001</td>
<td>7</td>
<td>3,458</td>
<td>2,634,761.84</td>
<td>3.90</td>
</tr>
<tr>
<td>Instituição Comunitária de Crédito - Itabuna Solidária</td>
<td>OSCIP</td>
<td>BA</td>
<td>2001</td>
<td>1</td>
<td>304</td>
<td>230,815.00</td>
<td>4.50</td>
</tr>
<tr>
<td>Instituição de Crédito Solidário de Maringá</td>
<td>OSCIP</td>
<td>PR</td>
<td>2001</td>
<td>1</td>
<td>299</td>
<td>460,905.00</td>
<td>3.98</td>
</tr>
<tr>
<td>Organização de Microcrédito Solidário Crediconfiança</td>
<td>OSCIP</td>
<td>SC</td>
<td>2001</td>
<td>1</td>
<td>749</td>
<td>1,358,207.44</td>
<td>2.90</td>
</tr>
<tr>
<td>Agência de Crédito do Vale do Itapocu</td>
<td>OSCIP</td>
<td>SC</td>
<td>2002</td>
<td>1</td>
<td>668</td>
<td>2,432,055.46</td>
<td>3.00</td>
</tr>
<tr>
<td>Banco de Crédito Popular da Foz do Rio Itajaí-Açu</td>
<td>OSCIP</td>
<td>SC</td>
<td>2002</td>
<td>4</td>
<td>988</td>
<td>3,015,874.00</td>
<td>3.90</td>
</tr>
<tr>
<td>Instituição Comunitária de Crédito Central</td>
<td>OSCIP</td>
<td>RS</td>
<td>2002</td>
<td>1</td>
<td>316,698.00</td>
<td>3.40</td>
<td></td>
</tr>
<tr>
<td>Instituição Comunitária de Crédito da Serra</td>
<td>OSCIP</td>
<td>RS</td>
<td>2002</td>
<td>1</td>
<td>169</td>
<td>259,774.01</td>
<td>3.99</td>
</tr>
<tr>
<td>Instituição Comunitária de Crédito do Médio Alto Uruguai e Região Celeiro</td>
<td>OSCIP</td>
<td>RS</td>
<td>2002</td>
<td>1</td>
<td>119</td>
<td>117,900.00</td>
<td>4.60</td>
</tr>
<tr>
<td>Profomento Agência de Crédito Especial</td>
<td>OSCIP</td>
<td>SC</td>
<td>2002</td>
<td>1</td>
<td>883</td>
<td>3,056,427.00</td>
<td>3.40</td>
</tr>
<tr>
<td>Nome da Instituição</td>
<td>Código</td>
<td>Ano</td>
<td>Nr.</td>
<td>Valor</td>
<td>Taxa</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-----------------------------------------</td>
<td>---------</td>
<td>------</td>
<td>------</td>
<td>--------</td>
<td>-------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banco da Gente - Instituição Comunitária de Crédito do Município de Patos de Minas</td>
<td>OSCIP</td>
<td>MG</td>
<td>2003</td>
<td>1</td>
<td>247</td>
<td>327,120.00</td>
<td>3.90</td>
</tr>
<tr>
<td>Empreenda</td>
<td>OSCIP</td>
<td>SP</td>
<td>2003</td>
<td>2</td>
<td>300</td>
<td>256,000.00</td>
<td>4.00</td>
</tr>
<tr>
<td>Instituição de Microcrédito de Varginha</td>
<td>OSCIP</td>
<td>MG</td>
<td>2003</td>
<td>1</td>
<td>590</td>
<td>1,434,391.53</td>
<td>3.40</td>
</tr>
<tr>
<td>CREDIAMAI - Agência de Microcrédito</td>
<td>OSCIP</td>
<td>SC</td>
<td>2004</td>
<td>3</td>
<td>182</td>
<td>356,587.19</td>
<td>3.90</td>
</tr>
<tr>
<td>Instituição de Crédito Popular do Sudoeste Mineiro</td>
<td>OSCIP</td>
<td>MG</td>
<td>2004</td>
<td>1</td>
<td>359</td>
<td>175,000.00</td>
<td>3.80</td>
</tr>
<tr>
<td>Sociedade de Crédito ao Microempreendedor Divina Providência</td>
<td>OSCIP</td>
<td>MG</td>
<td>2004</td>
<td>5</td>
<td>6,728</td>
<td>5,995,915.00</td>
<td>3.90</td>
</tr>
<tr>
<td>ANDE - Agência Nacional de Desenvolvimento Microempresarial</td>
<td>OSCIP</td>
<td>PE</td>
<td>2005</td>
<td>2</td>
<td>85</td>
<td>120,232.19</td>
<td>2.50</td>
</tr>
<tr>
<td>Instituto Sol de Desenvolvimento - Pesquisa, Empreendedorismo e Crédito</td>
<td>OSCIP</td>
<td>CE</td>
<td>2005</td>
<td>14</td>
<td>8,200</td>
<td>12,200,000.00</td>
<td>3.95</td>
</tr>
<tr>
<td>Real Microcrédito Assessoria Financeira da Operação</td>
<td>OSCIP</td>
<td>SP</td>
<td>1999</td>
<td>1</td>
<td>1,131</td>
<td>1,624,140.69</td>
<td>3.50</td>
</tr>
<tr>
<td>Rótula S/A SCM</td>
<td>SCM</td>
<td>MG</td>
<td>2000</td>
<td>1</td>
<td>2,566</td>
<td>8,110,109.59</td>
<td>3.50</td>
</tr>
<tr>
<td>Social Sociedade de Crédito ao Microempreendedor Ltda</td>
<td>SCM</td>
<td>RJ</td>
<td>2001</td>
<td>1</td>
<td>422</td>
<td>998,002.07</td>
<td>7.00</td>
</tr>
<tr>
<td>CREDILON - Sociedade de Crédito ao Microempreendedor da Região de Londrina Ltda</td>
<td>SCM</td>
<td>PR</td>
<td>2001</td>
<td>2</td>
<td>82</td>
<td>168,627.91</td>
<td>3.90</td>
</tr>
<tr>
<td>Fidúcia Sociedade de Crédito ao Microempreendedor Ltda</td>
<td>SCM</td>
<td>MG</td>
<td>2001</td>
<td>1</td>
<td>55</td>
<td>196,000.00</td>
<td>5.00</td>
</tr>
<tr>
<td>Finacred Sociedade de Crédito ao Microempreendedor Ltda</td>
<td>SCM</td>
<td>SP</td>
<td>2001</td>
<td>1</td>
<td>489</td>
<td>13,370,948.88</td>
<td>6.48</td>
</tr>
<tr>
<td>Fortbrasil Sociedade de Crédito ao Microempreendedor Ltda</td>
<td>SCM</td>
<td>CE</td>
<td>2001</td>
<td>1</td>
<td>662</td>
<td>2,869.00</td>
<td>3.90</td>
</tr>
<tr>
<td>SOCIALCRED - Sociedade de Crédito ao Microempreendedor S/A</td>
<td>SCM</td>
<td>RJ</td>
<td>2002</td>
<td>1</td>
<td>86</td>
<td>252,161.57</td>
<td>6.00</td>
</tr>
<tr>
<td>Fácil SCM Ltda</td>
<td>SCM</td>
<td>MG</td>
<td>2002</td>
<td>1</td>
<td>270</td>
<td>359,418.77</td>
<td>3.99</td>
</tr>
<tr>
<td>Facilicred Sociedade de Crédito ao Microempreendedor Ltda</td>
<td>SCM</td>
<td>PR</td>
<td>2002</td>
<td>1</td>
<td>167,000.00</td>
<td>6.00</td>
<td></td>
</tr>
<tr>
<td>Welmag Sociedade de Crédito ao Microempreendedor Ltda</td>
<td>SCM</td>
<td>MG</td>
<td>2002</td>
<td>1</td>
<td>568</td>
<td>1,551,775.96</td>
<td>3.90</td>
</tr>
<tr>
<td>Casa do Crédito S/A - SCM</td>
<td>SCM</td>
<td>SP</td>
<td>2003</td>
<td>1</td>
<td>568</td>
<td>1,551,775.96</td>
<td>3.90</td>
</tr>
<tr>
<td>Company Name</td>
<td>State</td>
<td>Year</td>
<td>Number</td>
<td>Amount</td>
<td>Interest</td>
<td></td>
<td></td>
</tr>
<tr>
<td>--------------------------------------------------</td>
<td>-------</td>
<td>------</td>
<td>--------</td>
<td>------------</td>
<td>----------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TRANSCRED SCM Ltda</td>
<td>SCM</td>
<td>SP</td>
<td>2003</td>
<td>1</td>
<td>214,547.99</td>
<td>4.50</td>
<td></td>
</tr>
<tr>
<td>Corpal Sociedade de Crédito ao Microempreendedor S/A</td>
<td>SCM</td>
<td>MS</td>
<td>2005</td>
<td>1</td>
<td>56,128.69</td>
<td>3.50</td>
<td></td>
</tr>
<tr>
<td>Edimom Ltda SCM</td>
<td>SCM</td>
<td>SP</td>
<td>2005</td>
<td>1</td>
<td>600,000.00</td>
<td>4.50</td>
<td></td>
</tr>
<tr>
<td>Flex SCM Ltda</td>
<td>SCM</td>
<td>MG</td>
<td>2005</td>
<td>1</td>
<td>141,000.00</td>
<td>4.90</td>
<td></td>
</tr>
<tr>
<td>Cred Mais S/A Sociedade de Crédito ao Microempreendedor</td>
<td>SCM</td>
<td>ES</td>
<td>2006</td>
<td>1</td>
<td>340,000.00</td>
<td>3.90</td>
<td></td>
</tr>
</tbody>
</table>