

2 Microfinance in Brazil and the specific case of Vivacred

2.1 Microfinance in Brazil

Even though the first microfinance experience has settled in Brazil, namely UNO¹ in 1973 - before Grameen in Bangladesh in 1976 - its microfinance sector is poorly developed comparing to other Latin American countries as depicted in table 2.1.

Brazil is the most populated country in Latin America with more than 190 millions in 2009, far from Mexico, Colombia, Peru or Bolivia. Nonetheless, according to the Mix Market², in 2008, Brazil was in the 5th rank, behind the countries cited above, in terms of active microcredit borrowers and in the 8th rank in terms of gross loan portfolio (behind Ecuador, Nicaragua e Chile as well). Even if the Mix Market is not an exhaustive source, this comparison shows how less developed is the Brazilian microfinance in proportion to its population.

Table 2.1: Microfinance activity and population in Latin America

Country	MFIs	Gross loan portfolio	Active borrowers	Population	Loan access
Mexico	40	2,068,062,677	3,880,129	109,955,400	25
Peru	60	3,968,209,071	2,646,783	29,132,013	26
Colombia	21	3,266,026,691	1,978,106	45,928,970	41
Bolivia	23	1,556,113,293	825,747	9,863,000	30
Brazil	29	519,740,067	809,112	191,241,714	43
Ecuador	47	1,232,024,591	693,255	14,573,101	35
Nicaragua	23	543,743,181	489,075	5,785,846	5
Chile	3	849,474,562	188,302	16,928,873	60

Sources: Mix market (2008), 2008 World Factbook, and Honohan (2008)

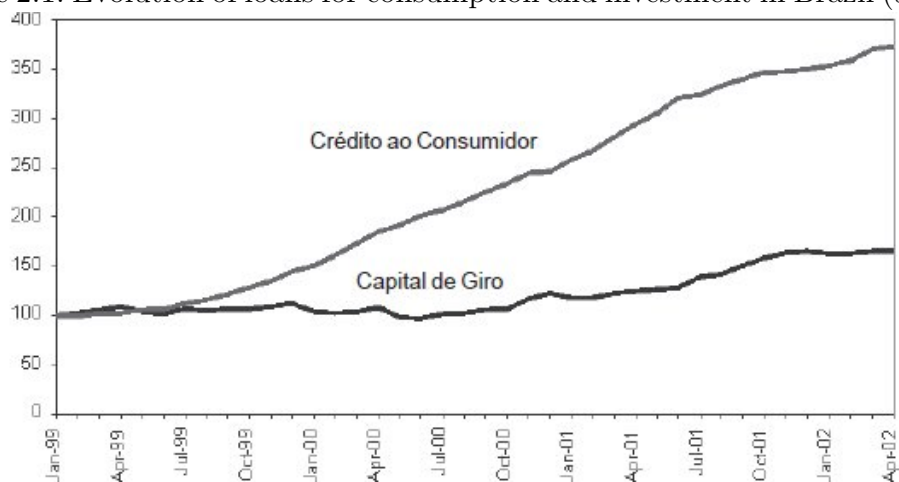
¹União Nordeste de Assistência a Pequenas Organizações (Northeastern Union of Assistance to Small Businesses).

²The Microfinance Information Exchange, Inc. (also known as MIX Market) is a non-profit organization which acts as a business information provider to microfinance.

Microcredit market development in Latin American Countries is related to access to alternative sources of funding. Honohan (2008) reports a composite measure of access to financial services for most countries in the world. This index is reported in the last column of table 2.1. Financial services more are more accessible in Brazil than in its neighboring countries except for Chile which has an even less developed microcredit market.

In Brazil, loan supply has known an important increase after the “Plano Real” that successfully dealt with hyper-inflation in the early 90'. This increasing provision was been dedicated manly to consumption, as reported by Soares (2001) and Nichter et al. (2002a,b) and shown in figure 2.1. Loans for consumption purpose (annual rate of 50%) rose much more than for investment purpose (+17% per year). Meanwhile, the former ones were used as well to finance small business. Azevedo (2001) reports that, in the late 90', access to adequate loan services was a serious issue for poor small business owners in Rio de Janeiro. They used to get loan designed for other purpose to finance their activities.

Figure 2.1: Evolution of loans for consumption and investment in Brazil (99-02)



Source: Central Bank of Brazil reported by Nichter et al. (2002a), Index 100 in 1999

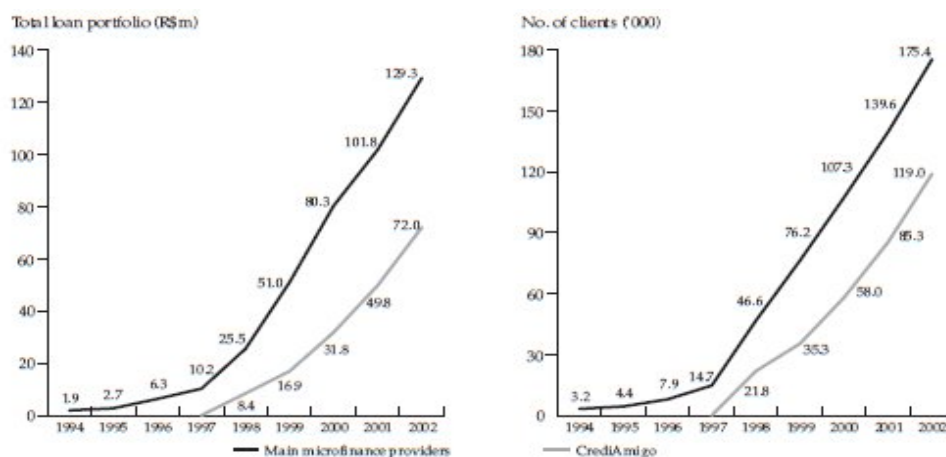
Apart from the UNO experience, microfinance movement in Brazil actually emerged in the late 80's and 90's with the rising of credit cooperatives and local governments (municipalities and states) involvement. The CEAPE³ created in 1987 in Rio Grande do Sul spread then in 12 other states. In the 90's local governments developed independently direct microcredit attendance, based on Bancos do Povo scheme. At the same time (1996), the Brazilian Development Bank (BNDES) get more involved with two programs PCPP⁴ and

³Centro de Apoio aos Pequenos Empreendimentos (Center for small businesses support)

⁴Programa de Crédito Produtivo Popular (Program of Popular Productive Credit)

PDI⁵, the former, in order to create a National network and funding provision and, the later, to standardize management, auditing and accounting and offer technical support as credit-scoring and rating. In its report on “Access to Financial Services in Brazil” (Kumar (2004) p. 90), the World bank depicts the evolution of microcredit market providing figure 2.2.

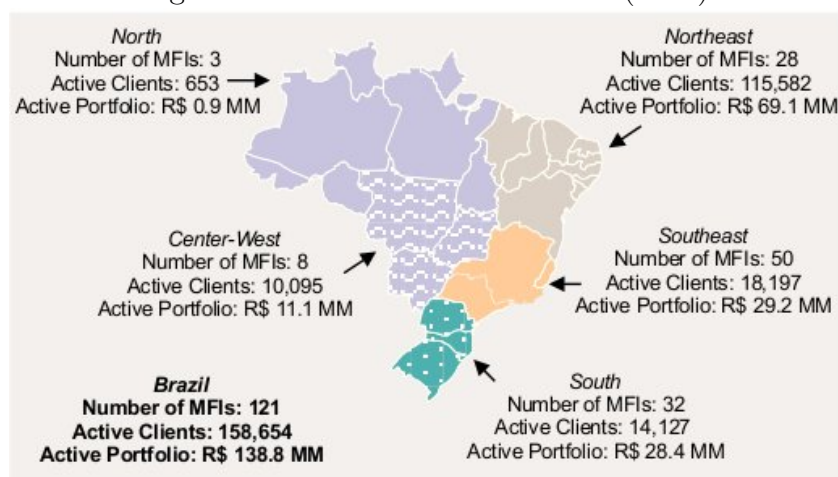
Figure 2.2: Loan portfolio and clients base on main Microfinance Providers in Brazil.



Source: Kumar (2004), World Bank estimates.

Meanwhile, microcredit provision is heterogeneous among the Brazilian regions, as shown in figure 2.3. Even if southern and southeastern regions count more experiments, microcredit in Northeastern region reaches much more clients mainly through the large scale MFI CrediAmigo.

Figure 2.3: MFI's market in Brazil (2001)



Source: Nichter et al. (2002b), p. 16

⁵Programa de Desenvolvimento Institucional (Institutional program of Development)

Late 90's and early 2000 were the phase of legal organization with the creation of several legal status (1999) structuring microfinance institutions: OSCIP⁶, not for profit and non regulated structures and SCM⁷ for-profit regulated financial institutions. According to the Brazilian Central Bank, and the PNMPO, Brazil counts in 2010, more than 1400 cooperatives in the country, 268 OSCIP (not regulated) and 48 SCM (regulated).

Vivacred, together with other civil society organizations like *Banco da Mulher*, appeared in this context at the end of 1996. It was mainly funded by BNDES until to join CrediAmigo in 2009. We will go back on that specific case along this thesis. CrediAmigo, was created in the Northeast in 1998 by the state-owned bank Banco do Nordeste and became the giant of microfinance in Brazil⁸.

Another important legislative change occurred in August 2003. Private and public bank has to apply to 2% of their current account balances - that used to be compulsorily interest-less deposit at the Central Bank - into consumer-oriented or micro-entrepreneur credit operations at an interest rate of up to 2% per month.

Microcredit definition (used in that law) remained confused in Brazil until 2005, as it used to mix productive loans with other uses. For example, between 2004 and mid-2005, ministry of employment declared that 1,593 BRL millions (8.5 millions of loans) of public fund were dedicated to microcredit; but on only 407 BRL millions (in 600,000 of loans) were dedicated to productive micro-loans. In 2005, the creation of PNMPO⁹ allowed to dispel this confusion defining microcredit as *productive* loans provision. From 2005 to 2008, productive micro loans conducted under PNMPO increased significantly: loans rose from 632,000 to 1.27 millions while the portfolio rose from 632 BRL millions to 1.8 BRL billions¹⁰. Nonetheless, government's target is far from what he was aiming with the Special Deposit law.

Depending on the kind of activities financed, benefits purchased and challenges faces by microfinance institutions can be really different. Rural mi-

⁶Organizações da Sociedade Civil de Interesse Público (Public Interest Civil Societies)

⁷Sociedades de Crédito ao Microempreendedor (Microfinance Credit Societies)

⁸According to Mix Market data, CrediAmigo in 2008 had more than 400 thousands active clients - half of the figure it reports for the whole country and a 162 millions gross loan portfolio (a third of Brazil MixMarket's figure).

⁹Programa Nacional de Microcrédito Produtivo Orientado, created to chunk public fund management dedicated to productive microcredit.

¹⁰Deflated BRL, base 100 in 2005

microcredit is more concerned about smoothing random income from agricultural activities, using almost exclusively lending groups with homogeneous projects and very small loan sizes. Social capital is substituting collateral and affordable credit opportunities are extremely rare.

According to Neri (2008), 85,8% of the Brazilian population is located in urban areas (including 32% in metropolitan areas). Even if the poor population is more concentrated in rural areas (32%), the potential well-being improvement in urban area is substantial. According to IBGE Census reported by Perlman (2010), favelas' population has grown faster than the rest of the city of Rio de Janeiro in every decade from 1950 to the present. In 1950, among the 2,337,451 Carioca, 7.2% (169,305 people) were favelas residents. In 2000, they represented 18.7% with respectively 5,857,879 and 1,092,958¹¹.

In favelas and other low income urban areas, microfinance attendance is clearly distinct from rural areas in terms of financed activities, project scale and project cycle length. Other sources like consumption loans can be used by small entrepreneurs to finance their activities when they have no access to traditional productive bank loan. Nonetheless, this kind of funding is extremely expensive as it does not require collateral and is not based on a project analysis.

2.2 Vivacred

2.2.1 Vivacred History and Branches expansion

Vivacred is a non profit microcredit institution operating in Rio de Janeiro slums (*favelas*). It aims at providing access to credit for tiny and small firms in Rio de Janeiro and, in particular, within the low income communities and neighborhoods. It focuses on urban micro-business (formal or informal) such as storekeepers, craftsmen, and small service providers.

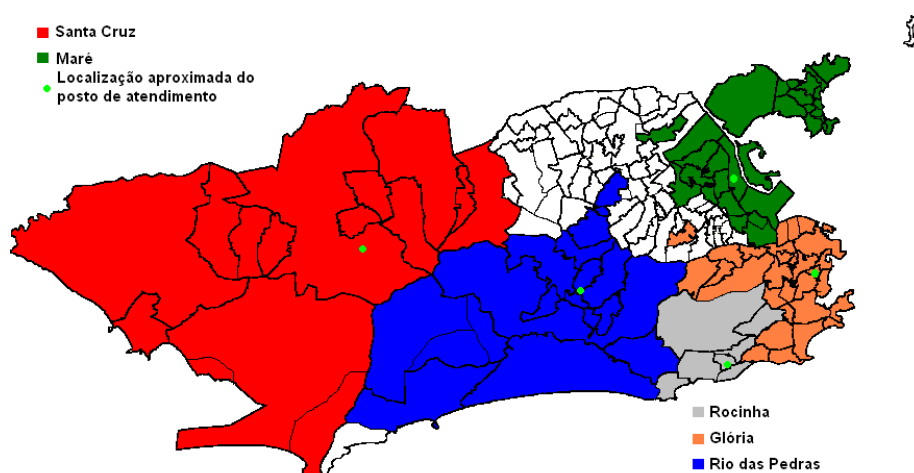
It emerged after training 4 people in a course at Caja de los Andes¹² - La

¹¹These figures are considered to be underestimated by the Observatório de Favelas (Favelas Observatory). For example, IBGE 2000 census counted 113,817 inhabitants in Maré, while CEASM (Centro de Estudos e Ações Solidárias da Maré) reached 132,176 inhabitants, the same year.

¹²Caja de los Andes was established as a regulated finance company in 1995, dedicated to microlending. It took over the portfolio and operations of Procredito. Its approach to microlending is based on a detailed analysis of "family economics" rather than the Solidarity approach followed by Grameen Bank (Bangladesh) and BancoSol (Bolivia).

Paz - Bolivia in 1996. The team settled in the favela Rocinha in Rio de Janeiro city. From October 1996 to April 1997, founders studied the community profile, checked the credit knowledge and needs of shop owners, identified potential partnerships (Neri (1998); Saintive (2000)). The first loan was launched in April 97. Since then, four other branches opened through the city and a last one in the state of Rio. Until the institution joined CrediAmigo, loans were almost exclusively individual and the flat interest rate offered much smaller than consumption loan. Vivacred turned an OSCIP (non regulated microfinance institution) when the Brazilian government created this legal status in 1999.

Figure 2.4: Vivacred branches and attendance in Rio



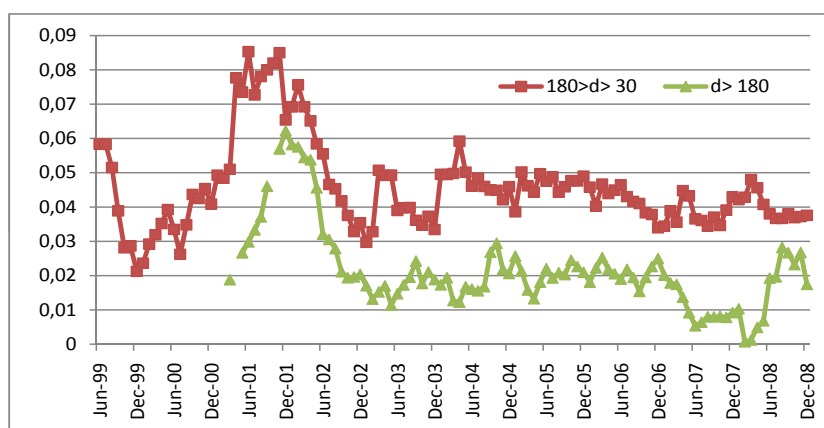
Source: Vivacred

Rocinha, where the first branch opened, is a favela located in one of the most densely populated and wealthier parts of the city. Five other branches have been created since 1997. Rio das Pedras branch, founded in March 1998, is located in an area less densely populated but still very urban. Copacabana branch (now located in the neighborhood of Glória), founded in October 1999, is the only one not established directly into a slum (favela). Santa Cruz branch, founded in February 2000, is located in the most rural area of Rio in the extreme western boundary. Maré branch, created in July 2002, is located north - the poorest area of the city and probably the most violent. The more recent branch was opened in the city of Macaé (Rio state) in June 2004. Branch expansion through the city and beyond is presented in figure 2.4. Branch location is indicated by a green point.

2.2.2 Portfolio evolution

This thesis does not aim to measure the institution sustainability. However, figure 2.5 provides a general insight of monthly delay (above 30 days) and default rate (delay above 180 days). This information, furnished by Vivacred, depicts month by month the overall delay and default proportion in active loan portfolio. The database used for this thesis, only contains the maximum number of days of delay observed for a specific loan. Thus, figure 2.5 gives a more precise overall evolution of the monthly portfolio while the database supply an individual information.

Figure 2.5: Monthly delay & default rate in Vivacred portfolio



Source: Vivacred

Up to 2002, delay and default proportion are reasonably low between 4 and 5 % for the former and below 3% for the latter. Year 2001 is particularly affected by a shock of market competition.

The typical loan proposed by Vivacred has a fixed monthly interest rate of 3.9%¹³ and an additional one-shot registration fee (3% to 5%) depending of the credit duration and the client's repayment history.

¹³While it may look very high, this interest rate has to be understood in the Brazilian context. Over the period 1997-2007, the central bank key interest rate (celic) was between 0.89% and 2.58% a month (between 11.18% and 35.76% a year). During the same period, *Banco da Mulher*, a comparable non-profit institution, was offering rates between 3% and 5% a month and *Fininvest*, a for-profit institution, was offering consumption credit with rates reaching 12% a month. In 2008, Vivacred was funded by BNDES (Brazilian Bank of Development) at an annual rate of 7.5% (this rate was even higher during the period 1997-2007).

2.2.3 Integration to CrediAmigo

The main institutional change happened after our period of study (1997-2007) but is important enough to be mentioned: Vivacred integrated CrediAmigo program in 2009. CrediAmigo was created shortly after Vivacred in 1998 by the state-owned bank Banco do Nordeste to attend poor business owner from Northeast region of Brazil and differs from the initial version of Vivacred (until 2008) in several manners: its scale, its methodology, and its funding. Vivacred is based only in one city (except for the last Branch of Macaé) while CrediAmigo is widespread all over the Northeast region. Vivacred provided until 2008 almost exclusively individual loans (group lending was an experiment concentrated only in one branch) and was not women-focused. On the opposite, CrediAmigo apply a Grameen-like methodology based on group lending and focused in priority on women attendance.

The typical contract in Vivacred had a fixed monthly interest rate of 3.9% and an additional registration fee between 3% and 5% depending of the duration. By integrating this larger structure, Vivacred benefited from a cheaper funding and thus was able to reduce its interest rate which is now depending on the guarantee and loan value.

Microfinance landscape has wildly changed since Vivacred's creation with an increasing role of public power and the emergence of private and public (mainly Brazilian) bank in the market. With the recent stabilization of inflation and a good health of Brazilian economy, foreign private bank are looking at this still relatively few developed market. Keeping focusing on poverty alleviation and inequalities reduction and diversifying the range of adapted products are some of the big challenges faced by Brazilian microfinance in a context where competition should increase.