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Major Microlaboratory Against Poverty

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Rio de Janeiro - Microcredit in Brazil still has huge potential for expansion, even though microloans have already grown much more than traditional credit in the last eight years.

Microcredit has formed a successful part of anti-poverty programmes since left-wing former President Luiz Inácio Lula da Silva took office in January 2003 and immediately launched the National Productive Microcredit Programme, targeting low-income households.



MICRO CREDIT
Microcredit is very small loans to the unemployed or to the persons who are living in poverty.

During Lula's two terms in office, from 2003 to 2011, the number of holders of small-scale loans rose from 200,000 to more than one million, Lauro González, coordinator of the Getulio Vargas Foundation's (FGV) Microfinance Studies Centre, told IPS.

The programme to expand access to credit among formal sector entrepreneurs and informal sector workers generated the equivalent of nearly four billion dollars in credit for low-income households from August 2004 to August 2010.

"The initiative has played an important role in strengthening and expanding credit for the low-income population," Marcelo Azevedo Teixeira, manager of the urban microfinance unit at the state-run Banco do Nordeste do Brasil (Bank of Northeast of Brazil - BNB), told IPS.

"New actors entered the market, new products were developed, and regulations evolved, which made it possible to coordinate the activities of different institutions," he added.

The BNB's CrediAmigo Plan represents nearly 70 percent of the national market for microcredit in Brazil, and is one of the largest programmes of its kind in Latin America.

A winner of the Inter-American Development Bank's (IDB) Award for Excellence in Microfinance, the programme had 827,579 active clients as of April 2011, and a portfolio of more than 462 million dollars. The borrowers' default rate is just 1.1 percent.

CrediAmigo, which began in the northeast, Brazil's poorest region, and has expanded to other areas, such as the favelas or shantytowns of Rio de Janeiro, has made it possible for 61 percent of its small loan holders to rise above the poverty line, according to a study by economist Marcelo Neri.

In his study, Neri, the head of the FGV's Centre for Social Policies, describes CrediAmigo as a programme "of excellent quality of scale, sustainability and private returns, which reaches women and the poor and thus has an important social effect."

According to Neri, the possibility of leaving poverty behind goes up the longer the borrower remains in the programme.

The BNB programme helps small-scale entrepreneurs, 92 percent of whom are involved in trade, in activities like sales of clothing, articles of hygiene, and food or drink.

Women represent 65 percent of CrediAmigo's client base, and are generally involved in solidarity lending groups.

VivaCred, a non-profit microfinance institution, is one of the channels used by the BNB and other banks to bring microcredit to poor communities in Rio de Janeiro, like the favelas of La Rocinha or the Complexo do Alemão.

The institution's director, Teófilo Cavalcanti, explained to IPS that VivaCred loans target urban micro entrepreneurs, traders, craftspersons, and small service providers in the formal or informal sectors of the economy.

The main beneficiaries of the system are small eateries, pensions, beauty salons, motorcycle taxis, clothing vendors, and even sports services like hang-gliding outfits. The loans range from 300 to 5,000 dollars, with interest rates of 1.19 to 2.95 percent a month, which in some cases go down as the borrower keeps up on the payments.

María do Livramento dos Santos, a 58-year-old shopkeeper in La Rocinha, took out two loans from VivaCred in the last two years, of 308 dollars and 362 dollars, respectively. The financial assistance changed her life by helping her open her own lingerie shop.

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"Thanks to VivaCred and to God" she was able to build her own house "with a bedroom and a living room," besides paying off old loans and thus "clearing" her name, she told IPS.

She said happily that today she is able to buy clothes and home appliances at large Brazilian stores on credit, as she can now afford the monthly instalments.

Livramento dos Santos said she plans to take out more small loans, and that she is "thinking of bigger things": buying the locale where she has her shop, which she now rents, and even opening a small lingerie factory in the future.

Cavalcanti pointed out that large private banks like Santander, Itaú and Bradesco are interested in opening branches and expanding in poor communities, to reach clients like Livramento dos Santos. But he said that in order to broaden access to microcredit, new products and mechanisms will have to be created in this potential market.

Despite the strong economic growth of the Brazilian economy in the last few years, only 10 percent of small-scale entrepreneurs who need credit now have access to it, said Lauro González. That means there are a potential eight million clients to be explored, equivalent to 85 percent of the market.

"We still have a long way to go," said the coordinator of the FGV's Microfinance Studies Centre, who proposed improvements such as "more innovative" mechanisms, more group loans, different ways to assess credit risk and the strengthening of banks like the BNB.

The Finance Ministry is evaluating a new programme to try to stimulate productive microcredit and discourage consumption credit.

Changes in the interest rate caps and length of loans are also planned, to encourage private banks to expand into microfinance. Currently, private banks can use two percent of sight deposits for microfinance, but do not do so.

Citing statistics from the Brazilian Institute of Geography and Statistics (IBGE), Teixeira said there were at least 10 million informal sector entrepreneurs "without access to adequate sources of financing."

He stressed, however, that it is difficult to estimate the deficit, warning against the assumption that the only way to finance this population group is productive-oriented microfinance.

The BNB official said that addressing this potential market requires adequate methodology, whose operating cost is high.

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