MICROFINANCE IN BRAZIL: CURRENT SITUATION AND OUTLOOK

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Agenda

- Research Projects Overview
- Brazilian Credit Market: Highlights
- Microfinance in Brazil: The Case of Microcredit
- Outlook and Final Remarks
Research Projects Overview
Banking Agents (corresponsales):

1) “The Role of Information and Communication Technologies (ICT) in Improving Microcredit: The Case of Correspondent Banking in Brazil” (IDRC)

2) “Conditional Cash Transfer (CCT) programs and the role of ICTs: Analysis of the Bolsa Familia case” (IDRC)

3) “Information Technology, Remote Socialization, and the Development of Occupational Identity” (NSF)
Research Projects

- Mobile:
  - 1) “Mobile Money and Local Development” (IDRC)
  - 2) “Mobile Payment adoption in Brazil: investigation on a pilot implementation” (IMTFI)
  - 3) “Plataform evolution for Mobile Payment and Money: study on Architecture, Governance, and Environmental Dynamics”
Research Projects

- Financial Inclusion and Cooperatives
  - Impact Analysis of Microcredit: the case of “Cresol Cooperative” (Banco Itau)
  - Microcredit Supply: The Role of Cooperatives

- Impact Analysis of Financial Education for Microfinance Clients and Bolsa Familia Recipients. (Citibank Foundation)

- Financial Inclusion and Microinsurance
  - Sinergies between Microinsurance and Microcredit (Funenseg)
  - Microinsurance in Brazil: Current Situation (PWC)

- Local Development, Communities and Financial Inclusion (GVPesquisa)
  - Social Capital and Microfinance
  - Community and Recognition in Economic Relations.
Credit Market Highlights
Credit Markets Evolution

Total Credit Volume of the Brazilian Financial System

Year

0
200 000
400 000
600 000
800 000
1 000 000
1 200 000
1 400 000
1 600 000
1 800 000
2 000 000

Credit Segments During Lula

Credit Segments-Evolution
(Brazilian Reais-MM)
Credit Segments During Lula

Index of Growth-Credit Segments

- Industry Loans
- Housing Loans
- Personal Loans
- Total Credit Volume

Year: 2002 to 2011
Microfinance in Brazil: The Case of Microcredit
Microfinance and Microcredit

Microfinance refers to the access and use of financial services/products, such as loans, savings, insurance, transfer services, by the low income population, who is generally excluded from the traditional financial system.

One word of caution: definition problems may jeopardize comparison across countries, such as MIX (www.themix.org).
Microcredit Public Policy

- Law 10.735 (2003):
  - 2% of sight deposits of banks should be channeled to microcredit, either microenterprise credit or consumer credit.

IF NOT,

- The money would go to a special account bearing no return.
Microcredit Public Policy

Law 10.735 (2003):

- In the beginning: Interest rate cap of 2% *per* month

- Afterwards: for microenterprise credit, the cap went up to 4% *per* month and consumer credit cap remained at 2%.
## Microcredit Public Policy

<table>
<thead>
<tr>
<th>As of</th>
<th>Total Volume (R$) M</th>
<th>Microcredit Volume (R$) M</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec/04</td>
<td>1.495.842,78</td>
<td>789.721,26</td>
<td>52,8%</td>
</tr>
<tr>
<td>Dec/05</td>
<td>2.041.253,99</td>
<td>1.118.485,39</td>
<td>54,8%</td>
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<tr>
<td>Dec/06</td>
<td>2.157.876,09</td>
<td>1.126.634,39</td>
<td>52,2%</td>
</tr>
<tr>
<td>Dec/07</td>
<td>2.989.639,97</td>
<td>1.296.348,99</td>
<td>43,4%</td>
</tr>
<tr>
<td>Dec/08</td>
<td>2.907.178,96</td>
<td>1.388.147,32</td>
<td>47,7%</td>
</tr>
<tr>
<td>Dec/09</td>
<td>3.028.909,37</td>
<td>1.723.074,97</td>
<td>56,9%</td>
</tr>
<tr>
<td>Dec/10</td>
<td>3.847.647,9</td>
<td>2.518.896,0</td>
<td>65,5%</td>
</tr>
<tr>
<td>Dec/11</td>
<td>3.782.346,7</td>
<td>2.686.427,4</td>
<td>71%</td>
</tr>
</tbody>
</table>

Fonte: site do Banco Central (www.bcb.gov.br)
Microcredit Public Policy

 Highlights

- Around 70% of the total amount of the compulsory is effectively invested in microcredit.

- Consumer credit used to be the lion’s share BUT recently microenterprise credit became more important in volume.
Microcredit Public Policy

- Highlights

  - In Microenterprise Credit
    - A regional Development Bank (Banco do Nordeste) accounts for 80% of the market and it has been very aggressive in expanding the operations.

  - Minor role played by private banks AND government banks (Banco do Brasil and Caixa Economica)
Microcredit Public Policy

Recent Changes

- August, 2011: Programa Crescer
- Main Purpose: increase the volume of microenterprise credit
- Subsidy is back
  - Interest rate cap of 8% + subsidy (government banks first)
Microcredit Public Policy

- Some Critiques to the Recent Changes
  - Microenterprise credit was going up before the changes
  - Banco do Nordeste was doing a good job without subsidies
    - Why not attempt to replicate the model to other government banks that could have much higher scale?
Microcredit Public Policy

Some Critiques to the Recent Changes

- Is credit more important than other areas that deserve allocation from the public budget?
- What is the desired role for the private sector?
- No difference between the poor and “poorest of the poor”.
Microenterprise Credit: Penetration vs. Opportunity

- 16,4 MM microenterprises \(^1\)

- 50% \(^2\) are potential microfinance products consumers → 8,2 MM in Brazil

- Today: around 1,1 MM current clients

\(^1\) Five or less employees
\(^2\) CGAP Study in Microfinance Industries in Latin America – Robert Peck Christen
Outlook and Final Remarks
Correspondents success in Brazil

- **Coverage**
  - In 2000, 1,600 (from 5,560) cities were not attended by banking services
  - Since 2003, there is no Brazilian city without banking services

- **Main payment channel for the low income population**
  - Up to 65% of bill payments received by big banks
  - Government assistance to the poorest

- **Bankless population being served**
  - More than 10 million new bank accounts through correspondents

- **Mid-size banks entering in the business**
  - Competing with big networks and thousands of points
Correspondents and Microfinance

- Correspondent model was initially designed to perform “transactional” like services

  HOWEVER,

- There is an increasing use of Correspondents for Credit Operations

- Microinsurance legislation (project) assigns a relevant role to correspondents as potential channels
  - Bradesco is already doing!

- Potential integration of Correspondent and Mobile
Geographic Distribution...

Fonte: Febraban e Bacen
Correspondents per Branch

6,26

4,59

4,55

4,27

2,65
The Case of a Remote Municipality

Autazes - AM
Air View

Available at youtube: search for “Autazes Episode 1”
Final Remarks

• Microcredit models: there is no “one-size fits all” solution

• The government may play a productive role but....

• Potential downside of mobiles tools
  • Recent article “Mobile phones will not save the poorest of the poor”
  • Transaction fee structures
Gracias!