CHAPTER 5

Brazil: Latin America's unsung hero

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* The views expressed herein are those of the authors and should not be attributed to ABDE, its executives or its management.

Introduction

Given that its first microcredit program started in Recife in 1973 in the shape of *Projecto Uno* organised by Banco Economico, Brazil can rightly lay claim to being the world's pioneering country with regard to microcredit. But while many efforts got underway in Brazil in the early 1970s, what we know as Brazil's microcredit sector today is mainly a product of developments that took place after 2003, following the coming to power of the first elected government of Luiz Inácio da Silva, popularly known as Lula. A major reorientation of government policy took place at this time that, for almost the first time in Brazil's history, saw the poor enjoy meaningful forms of direct government support and policy attention. One of these measures was an effort to extend financial inclusion down to the poor, of which a part of this objective involved an increased supply of microcredit to be used for microenterprise development, and other part consisted in ordinary credit that allowed the increase in consumption spending by the poor.

Now possessing a sizeable microcredit sector, the aim of this chapter is to outline the particularities and impacts associated with its development. In practise this means explaining the fact that Brazil's microcredit sector differs from almost all other microcredit programs around the world in that it is largely dependent on public funding and strategic direction. This important public intervention aspect accounts for why, as in other policy areas,[1] Brazil has received very much less publicity from the global microcredit industry in spite of the progress it has made in expanding its microcredit sector. The mainly neoliberal-oriented microcredit promotional bodies, many based in the USA, most notably the Consultative Group to Assist the Poor (CGAP) based at the World Bank and the US government's USAID aid assistance arm, support the extension of microcredit into the poorest communities as a way of 'financialising poverty' (see Mader, 2015). The clear aim of these and other organisations is to reduce poverty to a problem that individuals and markets can supposedly be safely trusted with resolving better than the state or through collective action by the poor. Inevitably, therefore, such organisations have been entirely opposed on ideological grounds to state intervention and subsidy becoming part of any particular microcredit model. However, Brazil does not adhere to the general (neoliberal) idea of 'best practise' in this regard. And so in choosing to follow its own non-neoliberal path towards financial inclusion, the Brazilian experience has been largely ignored.

In its early years, however, Brazil's microcredit sector was an initiative coordinated mainly by non-governmental organizations very much supported by the international development community. The US government was particularly active in Brazil through USAID and its financial support for ACCION, the Boston-based microfinance advocacy and investment body. But this all changed and today Brazil's microcredit sector is largely managed and subsidized by the Federal Government and regulated by the Central Bank of Brazil. Its activities rely particularly heavily upon the institutions that make up what is termed the National Development Financial System (NDFS). As microcredit activities have been inserted into a broader public policy of financial inclusion, most of its operations have been managed through this network of public financial institutions, especially the federal banks. One important aspect of these special funding conditions and coordinated support is that interest rates are much lower than on regular commercial loans.

In order to provide some important context, it is worth first mentioning that the NDFS is responsible for a large share of the Brazilian financial system's credit operations and assets. The NDFS is composed of Federal Government owned banks, subnational government-owned development banks, credit cooperatives, subnational government-owned commercial banks with development portfolio, development agencies, the Brazilian federal agency for innovation (FINEP) and the Brazilian Micro and Small Business Support Service (SEBRAE) - institutions with the mission of promoting development - economic, social and sustainable - especially through long-term credit provision and specialized technical support. By December 2016, the NDFS had around US$ 1.2 trillion in Assets (46.5 per cent of the National Financial System or 61.5 per cent of GDP); US$ 545.3 billion in Credit Outstanding (55.6 per cent of the National Financial System or 28.4 per cent of GDP); and Net Worth of US$ 57.4 billion (28.0 per cent of the National Financial System or 3.0 per cent of GDP).

As in other fast-growing emerging economies, notably South Korea (Amsden, 1989), the NDFS has played a pivotal role in the Brazilian economy's development by supporting the technological upgrading and industrialization process. Thanks to the participation of state-owned financial institutions Brazil has been able to create many important industrial sectors almost from scratch, some of which went on to major success (famously such as Embraer), though some were less than successful (the IT sector is often cited as an example). Notwithstanding, as in any well-managed industrial policy (see Chang, 1994), the successes more than outweighed the failures. Brazil's economy thus enjoyed the required technological upgrading and structural transformation that are necessary to bring about economic growth and development.

Although the NDFS was inevitably marginalised during the period of neoliberal economic policies in the 1980s and 1990s, it regained some of its importance after 2003 with the arrival in power of Lula. The NDFS was then further strengthened when the global financial crisis broke out in 2007/8 and threatened to destroy many of Brazil's important development gains. Instead, the NDFS was able to intervene with major new credit lines to key enterprises and industries, thus saving a major part of the Brazilian economy that would otherwise have collapsed thanks to temporary difficulties. Within the NDFS, microcredit initiatives are usually justified by their capacity to include into the credit market those segments of the population – the poor mainly - that would otherwise not have access to loans, or banking services in general. But it is also considered by some to be a development tool and an employment creation policy and poverty reduction.

A brief history of microcredit in Brazil

Early days

The milestone microcredit experience in Latin America happened in Brazil with *União Nordestina de Assistência a Pequenas Organizações* – UNO (Northeast Union for the Assistance to Small Organizations), launched in 1973 in the city of Recife, in Northeast Brazil. UNO was a partnership between a US-based organization (*Accion Internacional*), local enterprises and regional financial institutions. It was a non-profit association specialized in credit, as well as professional training. Its initial funding came from PACT, a non-governmental association in the United States of America.

The program's main purpose was to provide a small line of credit to informal businesses with no collateral, a very advanced idea for the time. Another innovation was the professionalization of its contributors, as well as the promotion of the cooperation between debtors through the creation of financial cooperatives and workers associations. In spite of its importance as a pioneer and its length - the program lasted about 18 years and its methodology was passed on through other countries in Latin America - it was not comprehensive in terms of coverage and it was shut down because it was unable to reach financial self-sustainability (Santos and Gois, 2011).[2]

After UNO's creation, several Non-Governmental Organizations (NGOs) oriented towards microcredit were established across the country. Some of them had the support of both the Inter-American Development Bank (IDB) and the Inter-American Foundation (IAF), in terms of grants and loans contributing to the initial composition of their funds. Notwithstanding, these NGOs were unable to grow, but without sufficient scale it was impossible for them to achieve sustainability. From the 1990s onwards, municipal and state governments also began to demonstrate growing interest in creating microcredit programs. Municipality support was forthcoming for the creation of so-called 'People's Banks' all over the country. Although they have the word "bank" in their name, Peoples' Banks are non-financial institutions connected to the state itself. They are programs destined to generate employment and income, providing micro-entrepreneurs with access to microcredit.

However, all of these early attempts found it difficult to operate successfully, and so gradually closed down. Few were able to reach sufficient scale, though this was not so much because they were insufficiently commercialised, as many microcredit advocates claim is a fundamental problem.[3] It was largely due to the monetary instability that ravaged the country during the 1980s and early 1990s. This period is known as a very turbulent one in macroeconomic terms in Brazil.[4] Microcredit activities undertaken through both NGOs and the People's Banks were therefore extremely difficult. The development of a more inclusive financial system turned out to be a very complex undertaking.

The state-owned banks enter the microcredit arena

It was only after the second half of the 1990s, thanks to the monetary stability achieved by the Real Plan,[5] that things began to change in terms of developing the microcredit sector. At this time, as in many developing countries subject to neoliberal policies, the Federal Government decided to provide a major boost to the microcredit sector by developing a number of new policies and programs. To further facilitate the desired increase in the supply of microcredit, measures were taken to ensure a much more supportive legal and regulatory environment.

The first major public intervention aimed at supporting the microcredit activity strictly speaking was established in 1996 by the National Bank for Economic and Social Development (BNDES) with "*Programa de Crédito Produtivo Popular*" - Popular Productive Credit Program (PPCP). BNDES is a federal owned development bank and it is the main financing agent for development in the country. Its operations also include support for social issues, as well as exports, technological innovation, sustainable social-environmental development and the modernization of public administration. PPCP worked through disbursements to smaller financial institutions, having as a goal the creation of a network of microcredit institutions. That is, BNDES acted as a second tier institution in order to create a net of financial institutions offering microcredit. However, problems such as real collateral for the loans and lack of proper legislation for microcredit institutions (hereafter MCIs) prevented it from succeeding.

Aware of the problems, BNDES restructured the program several times in order to improve it and to ensure that it adhered to renewed Federal directions. Accordingly, in 2004, BNDES replaced the Popular Productive Credit Program with the *Programa de Microcrédito do BNDES* – BNDES's Microcredit Program. This new attempt was designed to address the peculiarities of different institutions and realities. With little success, in 2005, the Program was once again modified in order to comply with the *Programa Nacional de Microcrédito Produtivo Orientado* (PNMPO) - National Program on Oriented and Productive Microcredit (explained in details further on), recently conceived by the Federal Government. In 2010, BNDES Microcredit Program took its current form after being restructured (Ruas, Marinho, Matos, Cacciamali and Pereira, 2015).

Even though BNDES's experience was the first one coordinated by the Federal Government itself, the most successful microcredit program began one year later, in 1997, with the creation of *Crediamigo* by *Banco do Nordeste* (BNB). BNB is a state owned bank founded in 1954 that operates in the Northeast area of Brazil and its main goal is to promote regional development and minimize the economic backwardness of Northeast Brazil. BNB partnered with the Northeast Citizenship Institute (an OSCIP or Civil Society Organisation of Public Interest) to work with microcredit. The institute was responsible for the credit analyses. Alongside credit, the program offers financial education to the borrowers.

The key reason for this later program success is its methodology. The Loan Officers are central elements of the program, working as instruments for financial inclusion. They are crucial to achieving sustainability, as they operate as facilitators for the operational procedures and as interlocutors amidst the financial institution and the client. Social collateral in the form of group lending procedures are also used as an important guarantee mechanism ensuring the program's success. Furthermore, one of its main features is the lack of bureaucracy. Since the program is inserted into the broader goal of financial inclusion, it provides a checking account for all its customers, with no opening nor maintenance fees.

Currently, the program has more than two million customers. Crediamigo is one of the largest microcredit programs in South America. It is present in 1,989 cities in the area of operation of *Banco do Nordeste*, which includes the nine north-eastern states, north of Minas Gerais and north of Espírito Santo. The program, has made 28 million transactions. Crediamigo's success is partly explained by its longevity. Consequently, BNB had time to familiarize itself with the peculiarities of microcredit activity. Its first source of funds was from international organizations. Nowadays, Crediamigo is a self-sustainable program that charges low interest rate loans to smaller producers (Banco do Nordeste do Brasil 2016).

Federal Government direct actions

Another early attempt to provide credit for micro-entrepreneurs was established in 1994, in the shape of the *Programa de Geração de Emprego e Renda* (PROGER) - Employment and Income Generation Program. This was established by the Federal Government through the Ministry of Labour and Employment (MTE). PROGER consisted of a set of credit lines available for investments aimed at small business' growth or modernization. It especially supported labour-intensive businesses. The resources came from the Workers Assistance Fund,[6] and were allocated directly into Federal Government owned banks. Its destination was intended to provide funding to lines of credit that would generate employment and income; sectorial and regional decentralization (Brasil. Ministério do Trabalho e Emprego, 2008).

Along the same lines, in 1999 a new regulation granted NGO's a certification qualifying them as Civil Society Organizations of Public Interest (OSCIP's). The MFIs who were able to obtain this certificate were then apt to form partnerships with the government and receive public resources in order to fund microcredit activities. OSCIP is a title given by the Ministry of Justice of Brazil, whose purpose is to facilitate the emergence of partnerships and agreements with all levels of government (federal, state and municipal) and public agencies; it allows donations held by companies to be deducted in income tax. OSCIPs are also created by private enterprise, in which case they get a certificate issued by the Federal Government to prove compliance with certain requirements, especially those derived from administrative transparency standards.

However, despite the fact that PROGER was initiated by the Federal Government, its approach was that microcredit operations were an extension of the financial system, therefore, operating with the same failures. That is, instead of being embedded in a broader public policy agenda of poverty reduction and financial inclusion, it was driven more by the needs of the financial sector to reduce risk and to become financially self-sustaining. This restricted the sort of microenterprises it could support to those with the best short-term prospects and ability to repay a high interest microloan, rather than those with longer-term development and growth potential but initially restricted ability to repay a high interest rate microloan. Most importantly, however, during its operation the Brazilian economy had stagnated and unemployment levels were high, which was hardly the most propitious background against which to promote new microenterprises. Furthermore, credit supply to the average population was still restricted on account of the lack of proper legislation (Toscano, 2002).

The reorientation towards financial inclusion

Even though Brazil is one of the largest economies in the world – in 2016, it was the 9th largest GDP – the country is highly unequal, making the gap between the poorest and the richest one of the widest in the world. Furthermore, regional inequality represents an important obstacle to the country's sustainable growth, with Northern and Northeastern areas much poorer then Southern and Southeastern. These issues, provided the political rationale for the more left-oriented government of Lula and the Workers Party (*Partido dos Trabalhadores*, PT) that came to power in 2003 to restructure the system of financial support for the poor with the aim of securing greater financial inclusion. As Lavinas (2017) cogently argues, the important progress being made on the economic front in Brazil, both in the expanding industrial sector and in the growing export of raw materials (especially to a booming China), was seen as unlikely to affect the masses as much as the PT government hoped and promised. The way around this problem was to facilitate mass financial inclusion by the poor leading to higher consumption. First, this involved the famous cash transfer program, known as *Bolsa Família*. This grant program was considered an instrument to combat poverty, but it was also expected to expand aggregate demand, and work as a 'bottom-up' growth inducer as well. Second, there was an expansion of microcredit intended for consumption needs. It was hoped that this would create an immediate injection of credit-driven demand 'from below', which would also help to boost investment and raise productivity. Rising productivity from both grant and microcredit programs would then feed back into higher wages, and so also higher demand. This would be Brazil's way out of its under-development and mass poverty, a strategy described as 'social developmentalism'.

Also important here, however, was the accelerated development of financial institutions that provided basic banking services to a much larger share of the population. The Brazilian government considered this important for two reasons. First, access to checking and savings accounts, and payments and risk management instruments, not only support a greater participation of the poor in the economy, but also allow them to access directly their social security rights. The expansion of *Bolsa Familia* and other social benefits programs were only made possible because of expanded access to banking services: in other words, financial inclusion.

Bringing an end to the trend of reducing the importance of public banks in the financial system, which was a policy goal in the neoliberal 1980s and 1990s, the Lula government began to restore their previous role as public policy agents. Public banks soon recovered their importance as agents capable of successfully fostering economic development and social inclusion, as well as offering credit and financial services to the entire population on better terms and conditions than provided by the private financial sector. Essentially, the public banks were charged with resolving important market failures; that is, they were charged with providing important services in those less profitable segments where private banks were unwilling to act (Stiglitz, 1994; Hermann, 2009).

Thus, a virtuous cycle in the economy began in 2003, boosted by the growth of the minimum wage, along with macroeconomic stability, basic income transfer policies, social inclusion and an increase in the supply of microcredit. In addition, the Lula government sought to restore the state's role as the promoter of economic growth and long-term planning. Those policies allied to the GDP growth of the period increased aggregate domestic demand, generating multiplier effects in the national economy (Feil, 2014). Therefore, it was possible to revitalize entire regions, especially the neediest ones. This set of measures, combined with international growth (which pushed commodity prices up, favouring Brazilian export products) facilitated a major improvement in the country’s economic and social conditions (Singer, 2012).

Unlike in other developing countries, therefore, where microcredit emerged as a measure to combat desperate economic and social conditions, in Brazil it emerged to become a major part of the financial system against a background of rapid economic growth and the need for income distribution policies. Key to this new importance of microcredit in the Brazilian credit market were the public financial institutions, which saw microcredit as a tool that would help bring about a larger goal – much deeper financial inclusion. The concept of "banking the poor" was essentially reborn and it created much greater access for Brazil’s poor to various microfinance services, including microcredit. This was the beginning of the attempt to bring about the democratization of credit and financial inclusion in Brazil (Pereira, 2007).

After 2003 a more comprehensive policy towards financial inclusion thus started to be delineated with numerous legal measures introduced to expand the supply of financial services to the population. The main measures were: 1. facilitation for opening checking accounts (with no fees charged, a procedure already being adopted by Banco do Nordeste’s Crediamigo); and 2. The creation of legal measures that allowed for the “payday loan” or “salary loan” sector to expand. This particular measure aimed at the increase in the general credit supply, as Brazil has, even today, one of the lowest rates of credit to GDP in the world – almost 50 per cent in 2016 (it picked up to 55 per cent of the GDP in 2015).

Another important measure towards microcredit development was the Central Bank of Brazil’s attempt to bring the private financial sector into this particular market. This initiative enabled the creation of a funding structure to be used by microcredit activities in Brazil. It is a legal device known as *Direcionamento para Operações de Microfinanças* (DIM) - Microfinance Operations Orientation. DIM consists of a liability reserve held in the Central Bank's account. Financial institutions were instructed to disburse as microcredit at least two percent of this liability reserve held at the Central

Bank. In addition, the effective interest rates on such microloans should not exceed two per cent per month. Those financial institutions that chose not to engage with microcredit were obligated to transfer this amount to another financial institution, working as a second tier institution, or to leave it at the Central Bank, in which case it would not be remunerated (Banco Central do Brasil, 2005). This regulatory initiative constituted an important instrument to push financial institutions (notably private ones) to supply with microcredit at relatively low interest rates, especially compared to Brazilian standards.[7]

A new national program to promote microcredit

Despite the many early attempts to develop microcredit in Brazil (with UNO) and the improvement of the legislation in recent years, one might argue that a more comprehensive microcredit policy only came into existence as late as 2005, with the creation of the *Programa Nacional de Microcrédito Produtivo Orientando* (PNMPO) – the National Program on Oriented Microcredit.

Conceived by the Federal Government, PNMPO had the objective of encouraging the creation of jobs and income for micro entrepreneurs; providing resources to microcredit operations; offering technical support in order to orient microcredit institutions, with the objective of their strengthening as providers of these services to popular entrepreneurs; and reducing interest rates on loans. The program was coordinated by a Ministerial Committee composed of three Ministries: Labor and Employment, Finance, and Social Development. The law established that it is the responsibility of the National Monetary Council and the Workers Assistance Fund Council (CODEFAT) to regiment the fund transfers, as well as to establish microfinance operations. CODEFAT created a special deposit line of the Workers Assistance Fund (FAT) in order to provide the necessary funds.

The activities of the Program have enabled much collaboration between government and all social actors to promote and supply microcredit. It is based on *Banco do Nordeste*'s highly successful CrediAmigo microfinance program, which is the most successful microcredit program in Brazil not only in terms of its scale, but because of its financial sustainability along with low interest rates. Furthermore, despite the specific purpose of PNMPO to provide funds to microcredit, it also assumed the role of articulator between microfinance institutions, banks and other operators of public and private resources. The Program aims to promote a continuous flow of resources into microfinance. Thus, its final purpose is to support and to encourage the microfinance industry. It is inserted into a broader public policy for the building of a more inclusive financial system.

The PNMPO has also addressed the issue of the use of guarantees needed to access the credit line. It has, for example, encouraged the use of the much more flexible social collateral or 'group lending' guarantee. It has also authorized the Brazilian government to grant financial subsidies to particular MCIs in order to ensure interest rates are maintained at the lowest possible level (Ruas *et al*, 2015). Another of the PNMPO's important characteristics relates to the methodology adopted for granting a microcredit. The Program insists on a direct relationship between an MCI's Loan Officers and the entrepreneurs in their place of business (the loan is only provided for business with over one year of operation). In addition, Loan Officers are trained to compile a socio-economic survey as well as provide educational guidance, especially with regard to business planning and the necessary management tools needed to ensure a sustainable enterprise. Furthermore, it is stipulated that contact with the micro-entrepreneur should remain on-going throughout the contract period.

Finally, the value of the microloan and the credit conditions should only be established after evaluating the type of business activity entered into and the likely debt capacity of the borrower's business. These operating principles go significantly beyond those adopted by the vast bulk of large MCIs institutions around the world today, which are very much trending towards the 'McDonald-ization' of the microcredit industry; that is, the simple disbursement and collection of a microcredit and nothing else. The latest twist to the PNMPO came in 2011 with the introduction of the CRESCER ('grow') program. This program was designed to push the microcredit sector into putting more emphasis once more upon using microcredit for productive enterprise rather than consumption needs. The CRESCER program sets very low interest rates for Brazilian terms (8 per cent annual) and other relaxed conditions in its attempt to direct microcredit into the most productive uses.

In 2014, the institutions of the PNMPO disbursed a total volume of credit of R$ 11.6 billion, or US$ 4.9 billion. This value represents 5.7 million contracts to 5.2 million clients. Of the main institutions involved, *Banco do Nordeste*, *Caixa Econômica*, *Banco do Brasil* and *Banco da Amazônia* accounted for 90.3% of the disbursements registered in PNMPO. *Banco do Nordeste* alone was responsible for 61% of the total (Brasil. Ministério do Trabalho e Emprego 2015).

Microcredit data

It is worth to make a quick note on the size of the microcredit system in Brazil. Despite the recent developments and improvements, its size remains low compared to the National Financial System. By the end of 2016 the level of microcredit outstanding operation reached 0.16 per cent of the national financial system (by July of 2014 it picked up to 0.2 per cent), which means 0.08 per cent of GDP. Additionally, the non-performing loans, although is higher than the financial system (3.7 per cent in 2016), remains low (and the Loan Officers are a main reason for that).

Table 5.1. Date on microcredit in Brazil.

	Microcredit operations outstanding			Non-Performing Loans (%)	Interest Rates (%)
	US$ million	% GDP	% Financial System		
2007	726	0.05	0.14	-	-
2008	580	0.04	0.11	-	-
2009	985	0.05	0.12	-	-

2010	1,488	0.06	0.15	-	-
2011	1,485	0.06	0.13	5.43	14.55
2012	1,950	0.09	0.17	2.55	11.97
2013	2,439	0.11	0.21	6.57	8.75
2014	2,298	0.10	0.20	4.70	12.00
2015	1,449	0.09	0.17	6.42	28.87
2016	1,523	0.08	0.16	5.28	28.70

Source: Central Bank of Brazil

Therefore, the data shows that microcredit is used as an instrument to aid the financial inclusion program. However, by no means it represents the main mechanism the Brazilian government uses to achieve a more democratic credit system.

Assessing the impact of microcredit in Brazil

In terms of simple numbers, and in spite of Brazil being a global microcredit pioneer, it was only really after 2003, and largely thanks to state support, that Brazil's microcredit sector began to reach a meaningful scale of operations comparable to neighbouring countries in Latin America. The key driver, to be more specific, was the National Program on Orientated and Productive Microcredit established by the Federal Government. Although microcredit operations peaked in the middle of 2014 and began to decrease afterwards following the worsening economic and political conditions in Brazil, important progress has nevertheless been made when one remembers the serious reversals that occurred in the 1980s and 1990s during times of economic chaos.

But apart from the mere operational milestone that many more of Brazil's poorest citizens are now included in the financial system than before, we must ask what has been the real net impact on the economy and society? The difficulties concerning impact analysis of microcredit programs have long been discussed in the specialized literature, not only with regard to the Brazilian case, but also with regard to the experiences in other developing countries in Asia, Africa and Latin America. In fact, as noted by Bateman (see Chapter 3, this volume), the early empirical research conducted by different specialists, normally using control group methodologies, overwhelmingly tended to highlight significantly positive results but to do so had to largely ignore the most troubling downside impacts of microcredit (for example, Schrieder and Sharma, 1999). This ambiguity in impact assessments partly reflects on-going methodological disputes. In general terms, the bibliography on the matter differs substantially in its targets, taking into consideration different aspects of microcredit, with analysis of program impacts in the welfare of its clients (that is, poverty reduction), in the effectiveness of MCIs themselves and in the role of the regulatory environment for microcredit operations (Karlan and Goldberg, 2007). There are also different approaches to the variables and models used in the various studies, with obvious consequences in terms of the variety of results obtained.

Providing measurable evidence of microcredit's success has been an important objective for its proponents, which gave rise to significant efforts to clarify divergences and unify methodologies. In a World Bank working paper, Karlan and Goldberg (2007) revised the main challenges concerning microcredit impact evaluation, providing a useful guide for those willing to navigate in these waters. According to the authors, the main purpose of these evaluations is to distinguish the outcome of a given microcredit program from the counterfactual of what would have happened in its absence. However, Ellerman (2007) pointed out the fundamental flaw in this approach by noting that the real alternative to microcredit is not simply ‘doing nothing’, as Karlan and Goldberg assume, but investing the same resources into the same communities with the aim of achieving the same objectives. Almost any intervention will produce some positive impact that can be compared favourably if the alternative is simply doing nothing. Another challenge is to determine to what extent microcredit can actually be rendered responsible for the positive (or negative) impacts observed in a community into which it has been injected, in what has been called as the “problem of attribution” (Santos, 2007).

Considering the case of Brazilian microcredit and focusing in assessments of its impacts to borrowers, outcomes are still inconclusive, even though most of the studies analysing programs in Brazil present relatively positive results for the reasons noted above. Impacts on poverty reduction are central to the majority of these assessments, but have been evaluated from different points of view. Teixeira, Soares and Barreto (2008), for instance, argue that access to microcredit in BNB’s CrediAmigo program has a significant positive impact on upward social mobility, with a higher probability of borrowers from lower classes moving to higher classes than non-borrowers. The study also concludes that the lower the class, the higher the probability of upward mobility, an aspect that has been understood as a “pro-poor return” (Neri, 2008). As mentioned above, CrediAmigo is one of the largest microcredit programs in South America, benefitting not only from its size and institutional expertise, but also from strong public incentives, even though it is financially self-sufficient. The long history of the program and its sizeable database, with information from over 28 million operations, make it a preferred object for impact analysis and a classical microcredit “case study” in the Brazilian literature (Neri, 2008; Teixera, Soares and Barreto, 2008; Soares, Barreto and Azevedo, 2011; Mendonça and Soares, 2016; among others).

Using similar methodologies, positive results have been found in other initiatives, besides BNB’s CrediAmigo. In a survey with clients of a non-disclosed MCI in the state of Minas Gerais, Silva, Fonseca and Santos (2016) analysed the perception of borrowers as to the impact of microcredit loans on their businesses and quality of life. Among the most relevant results, the authors highlighted that respondents reported improvements not only for themselves, but also for their families, with better conditions in terms of hygiene, clothing, schooling of kids, nutrition and even leisure activities. In the state of Espírito Santo, the program Nossocrédito, offered by Bandes, a subnational state owned development bank, also found evidence of the program’s contribution to poverty reduction (Caçador, 2014).

In the important agricultural sector, using a more accurate propensity score matching methodology, dos Santos Eusébio *et al* (2016) find that the Brazilian government’s PRONAF microcredit program (orientated towards small farmers in agriculture areas of Brazil) generated a net positive impact. Since PRONAF covered as many as 600,000 small family farms, and much poverty is still concentrated in the rural areas of Brazil, this result is important. These examples follow much of the previous impact analysis that has concluded a generally positive outcome from microcredit programs (Cacciamali *et al*, 2008; Aroca, 2002).

From a slightly different perspective, however, there are studies with similar findings that stress the conditions under which such programs might be seen as successful, advancing arguments that additional support is required in order for microcredit programs to make an impact on poverty. Soares, Barreto and Azevedo (2011), for instance, identify growing positive impacts to borrowers with sufficient human capital – notably higher levels of instruction – and productive collaterals, suggesting that benefitting from microcredit is not enough to overcome adverse social conditions. Gonzalez, Righetti and DiSerio (2015) find that the only factor contributing to microcredit's positive impact on the borrower's income is gender, with women having much better chances of obtaining higher incomes after a microcredit loan.

As a matter of fact, gender has been a central variable to several impact analyses in the Brazilian case, following an international tendency that largely reflects policy recommendations to focus loans on women. Nevertheless, there has not been much agreement in this particular aspect. While Skoufias, Leite and Narita (2013) identify higher yields in business performance for women borrowers, Mendonça and Soares (2016) conclude exactly the opposite, finding that men have a slightly higher return, even though women present a steadier growth trajectory. It is interesting to note that both studies use data from CrediAmigo and focus their analysis on the performance of businesses, another example of the influence that different methodological choices have in the results of impact evaluations and the necessary cautiousness one should have before drawing general conclusions. In any case, going beyond immediate quantitative evidence, Said (2012) argues that microcredit locks women into the informal sector, which by definition is unlikely to offer opportunities to escape poverty and negative gendered outcomes.

Then there is the issue of market saturation to consider (see Bateman, Chapter 3, this volume). Brazil has long had an extensive informal sector and competition for demand in this arena has always been high. For example, Monzoni (2008) found that an additional percentage of microcredit supplied to a microenterprise generated a 0.34 per cent increase in sales and a nearly one half a cent increase in income. However, since no analysis was made of the impact of this increase in microcredit on local non-client microenterprises operating in the same sector, who we might expect would lose custom to the microenterprises helped to expand by microcredit, the *net* impact of microcredit in the community as a whole remains quite unclear.

Notwithstanding, since demand has grown quite substantially in the previous years, up until 2014, it is also important to question the extent to which microcredit might have helped informal microenterprises capture part of this growth. Clearly many microenterprises (both clients and non-clients of MCIs) have been able to tap into increasing local demand, a factor not unrelated to Brazil's commodity boom. But as Pagés (2010) points out in an important volume released by the Inter-American Development Bank, the ability of informal microenterprises and self-employment ventures to proliferate and absorb growing demand, including with the help of microcredit, has actually been a very deleterious development throughout Latin America. Indeed, the Pagés volume concludes, the programed rise of the informal sector is the central reason accounting for the dramatic fall in productivity, and so also the rising poverty, that has been experienced all across the continent from the 1980s until the early 2000s. The conclusion reached by Pagés (*ibid*, 6) is therefore quite bleak in terms of summing up the longer-run impact of support for microenterprises and self-employment ventures, arguing that '(T)he overwhelming presence of small companies and self-employed workers (in Latin America) is a sign of failure, not of success'.

Recognising this inherent danger, it is important to highlight one of the benefits of Brazil's specific supported approach to microcredit which is that far greater attention has been given to ensuring clients move into business areas that hold out the possibility of eventual business success by tapping into sustainable forms of demand. Unlike in other microcredit sectors around the world where few, if any, questions are asked about the intended use of a microcredit, in Brazil there has been a very clear attempt to direct microcredit into the more productive sections of the informal sector. This goal is aided by the extensive business advisory and support services that typically accompany the disbursement of a microcredit, which are far and away more sophisticated and comprehensive than in most other Latin American countries. Clients can be encouraged to look away from obviously saturated local product and service markets where the chances of success, or just of a minimal income, are remote. In this sense, it is important to highlight the centrality of Loan Officers within the structure of microcredit programs, as shown by impact evaluations that tested this variable (Soares, Barreto and Azevedo, 2011; Araújo and Carmona, 2015; Gonzalez, Righetti and DiSerio, 2015).

The operational success observed in Brazilian microcredit apparently reflects its peculiarities and the important element of state funding and direction, which when compared to more orthodox microcredit initiatives in other countries seems to suggest these are important factors. Cacciamali *et al* (2008) recognize the positive results of the majority of the impact evaluations that analysed programs in Brazil, but also stress the important connections to a broader spectrum of public policies aimed at alleviating poverty as a decisive factor. To them, as to Parienté (2005), microcredit (or microfinance, in general) is the key to guarantee a credit supply to those who have historically been marginalized from the financial system. Together with other public policies, microcredit can then help some of the poor profit from the improving economic conditions. This particular aspect may also explain the results obtained by Aroca (2002), who finds larger positive impacts in the Brazilian case, where there are stronger public incentives that shape microcredit than in Chile or in programs conducted by NGOs. To a certain extent, and accepting the very important caveat that we have very little evidence of what impact there has been on those who *failed* in an attempt to establish a microenterprise (see Bateman, Chapter 3, this volume), there is some quantitative evidence to consider that Brazilian microcredit has played an important role in advancing the life conditions of a good number of poor microenterprise owners in the general context of economic growth and income distribution of the recent years. The key factors, as already stated, are the extent of state funding (keeping interest rates low) and state direction (ensuring as much as possible that the poor only move into potentially sustainable businesses). But before we can draw general conclusions, at least three questions would have to be properly answered. First, the market saturation argument, mentioned above, and the possible negative impacts of microcredit on those who did not receive loans but were forced to face increased competition from those that did, or those who failed in their attempt to establish a microenterprise, which are operational aspects of the microcredit model that almost all of the above impact evaluations have simply not considered. Second, there is also the extent to which microcredit programs would have been able to promote positive impacts in an adverse economic environment. And finally, there is the necessity to further understand the gains from microcredit and what this means for other public policies.

Most recently, however, not least thanks to many social programs being withdrawn and social benefits cut by the new post-judicial coup government of Michel Temer,[8] the already noticeable deterioration in the social situation of the poorest citizens has markedly accelerated. Some of the severe limitations of the spread of microcredit being provided as a (temporary) boost to consumption via consumer credit have, as a result, been more thoroughly exposed. Brazil's resources that were expended to ensure the ubiquity of consumer (micro)credit did indeed help to increase the extent of financial inclusion. However, this supposed advance came at the expense of increasing the provision of important public goods and services, a movement that, Lavinas (2017a) argues, would have involved pro-poor structural change and thereby created a permanent foundation against the return of poverty. The programs to increase the supply of consumer microcredit have generated quite dramatically rising over-indebtedness in Brazil as poor individuals have attempted, but often failed, to address their own poverty problem through increased consumption and a deeper engagement with 'the market' via microenterprise activity. Non-mortgage debt levels of households in Brazil have risen significantly in the 'financial inclusion years', going from just over 17 per cent in 2005 to just under 30 per cent by 2015 (Lavinas, 2017b: 13). The result of Brazil's more recent turn to consumer microcredit, therefore, is a depressingly familiar one common to other big developing countries adopting the same technique to supposedly assist their poor (the obvious example is South Africa - see Bateman, Chapter 13, this volume): the proliferation of high-cost borrowing and growing over-indebtedness for a rising number of households existing alongside no real evidence of any substantive permanent improvement in their lives.

Conclusion

Microcredit activities in Brazil are largely based upon public actions and are part of a broader program of financial inclusion and poverty eradication that has been termed 'social developmentalism'. This is the Brazilian difference. The Brazilian experience is diversified and its comparative success has depended on a wide range of supporting factors, including local culture, social capital, sense of community, soundness of the financial system and the robust regulatory framework. It is important to notice that the development of financial inclusion in Brazil remains incipient, despite all the advances.

Therefore, there are still considerable potential for improvement in the years to come. Financial inclusion is still seen in government circles as a possible means for achieving economic growth and, especially, poverty alleviation and it is being promoted along these lines. It is also a tool for providing a sense of citizenship, as it allows the population to access their social security rights (such as *Bolsa Família*, retirement, maternity leave, sick leave and so on). By itself, microcredit cannot be an effective policy; however in consonance with other policies, it can perhaps be more powerful than at present. If there is some evidence that microcredit, in combination with other policies, might have helped lift some of the poor out of poverty in Brazil during the recent cycle of economic expansion and social inclusion, it is still to be understood how the institutional framework in which it operated will react to the current times of economic distress and extend this benefit to many more

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[1] In general, for fear of giving what they saw as undeserved credibility to socialist-oriented policies, institutions such as the World Bank were loathe to highlight the many positive developments in Brazil undertaken under the administrations of Lula. For example, Brazil pioneered the conditional cash transfer (CCT) idea with its *Bolsa Familia* program, recieving a $US6 billion loan from the World Bank to get it started, but the World Bank chose to describe as the 'pioneer' of the CCT idea the later *Comunidades* program implemented in neoliberal-oriented Mexico (see Peck and Theodore, 2015).

[2] It is worth mentioning that the macroeconomic instability that overtook the Brazilian economy at the time very much contributed to UNO's failure.

[3] The so-called 'Ohio School' made the famous case in the 1980s, and it has remained something of a core belief in the global microcredit industry today, that subsidies undermine the operation of a credit institution among other things by weakening the impetus to grow.

[4] The problem of high inflation recurred in Brazilian economic history; nonetheless during this period the price rises intensified and rates surpassed the three digits (the General Price Index came to reach 6,000 per cent per year). Finding a solution to the issue was essential to solve chronic problems of the national economy, such as stagnation and the incidence of the inflation tax. Over time the government has waged a battle against inflation, launching a series of stabilization plans. Between the second half of the 1980s and the first of the 1990s, Brazil experienced no less than six monetary plans and four different currencies.

[5] The Real Plan was a monetary plan, launched in 1994 that brought down inflation to much lower levels.

[6] The Workers Assistance Fund is a special financial fund linked to the Ministry of Labour and Employment. It funds the Unemployment Insurance Program, the Salary Bonus and Economic Development Programs. The main source of FAT consists of the contributions to the Social Integration Program (PIS) and the Civil Servants Asset Development Program (PASEP), both instituted by law in 1970. The Fund is managed by the Workers Assistance Fund Council (CODEFAT) a tripartite collegiate body composed of representatives of workers, employers and the government.

[7] The average interest rate of new credit operations in Brazil is around 30% a year (in 2015), with consumer loans going up to 40% a year.

[8] See 'Brazil senate approves austerity package to freeze social spending for 20 years', *The Guardian,* 13th December, 2016. Retrieved from: https://www.theguardian.com/world/2016/dec/13/brazil-approves-social-spending-freeze-austerity-package