

## **The importance of microcredit programs to reduce social inequalities and secure employment and income in the long term for the lower layers of brazilian population**

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### **ABSTRACT**

The system of microcredit and microfinance have gained global prominence with the creation of the Grameen Bank in Bangladesh in 1976, by economics professor Muhammad Yunus (Yunus, 2004). Since then many countries have adopted microcredit as an effective alternative in combating poverty, creating jobs, improving per capita income and economic development. Microcredit is an alternative credit that micro, small and medium entrepreneur uses to get an amount of capital that could not a traditional financial institution. According SEBRAE (Support Service Entrepreneur and Small Business Owner, 2013) estimated that in Brazil there are about 9.5 million small entrepreneurs and some 13 million people who lack access to credit from the financial system traditional. In this sense, the main objective of this work is to know the main Brazilian microcredit programs and their respective forms of credit granting as well as its advantages over the traditional financial system. To address this issue, will be considered the statistical data obtained from 1994 and dissertations empirical data by means of literature in books, articles and websites. In Brazil, the main obstacles to the emergence and development of micro and small enterprises, in general, are the low level of education, lack of job training and little access to formal credit, linked to this, entrepreneurs coexist with high rates of interest charged by traditional financial market and a lack of knowledge regarding microfinance institutions bidders. In the 2000s there was an increase of microcredit programs allied government involvement and civic institutions. It is remarkable the growth of micro and small enterprises in Brazil, helping reduce social inequalities and ensure employment and income in the long term for the lower layers of the population (Hermann, 2005). However, despite the existence of the system of microcredit some Brazilian businessmen still do not apply to a large extent this can be explained by the fact that microfinance institutions are still poorly disseminated, and also because of micro and small businesses opt for other forms of concession credit institutions like credit cards, lenders or even loan sharks. Finally, Brazil has a good level of development of micro and small businesses, however, requires greater dissemination of institutions suppliers of credit to small business, its advantages compared to traditional credit and how microfinance can be used as a tool to alleviate the financial problems of a group of individuals in the population to expand to the whole society.

### **ABSTRATO**

O sistema de microcrédito e microfinanças têm ganhado destaque mundial com a criação do Grammen Bank em Bangladesh no ano de 1976, pelo professor de economia Muhammad Yunus (Yunus, 2004). Desde então vários países passaram a adotar o microcrédito como alternativa eficaz no combate à pobreza, na geração de emprego, melhoria da renda per capita e do desenvolvimento econômico. O microcrédito é uma alternativa de crédito que o micro, pequeno e médio empresário recorre para conseguir um montante de capital que não conseguiria numa instituição financeira tradicional. De acordo com o SEBRAE (Serviço de Apoio ao Empreendedor e Pequeno Empresário, 2013) estima-se que no Brasil existam cerca de 9,5 milhões de pequenos empreendedores e cerca de 13 milhões de pessoas que não possuem acesso ao crédito junto ao sistema financeiro tradicional. Nesse sentido, o objetivo principal deste trabalho é conhecer os principais programas de microcrédito brasileiros e suas respectivas formas de concessão do crédito bem como suas vantagens em relação ao sistema financeiro tradicional. Para abordar essa questão, serão considerados os dados estatísticos obtidos a partir de 1994 e dados dissertativos empíricos por meio de pesquisa bibliográfica em livros, artigos e sites relacionados. No Brasil, os principais entraves para o surgimento e desenvolvimento das micro e pequenas empresas, de maneira geral, são o baixo grau de escolaridade, falta de capacitação profissional e pouco acesso ao crédito formal, associado a isso, os empresários convivem com elevadas taxas de juros praticadas pelo mercado financeiro tradicional e a falta de conhecimento em relação às instituições ofertantes de microcrédito. Na década de 2000 pode-se notar um incremento dos programas de microcrédito aliados a participação do governo e instituições civis. É notável o crescimento das micro e pequenas empresas brasileiras, contribuindo para minimizar as desigualdades sociais e garantir emprego e renda em longo prazo para

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camadas mais baixas da população (HERMANN, 2005). Porém, apesar da existência do sistema de microcrédito brasileiro alguns empresários ainda não o utilizam, em grande medida isso pode ser explicado pelo fato das instituições de microcrédito ainda serem mal difundidas, e também pelo fato das micro e pequenas empresas optarem por outras formas de concessão de crédito, como as instituições de cartões de crédito, as financiadoras, ou até mesmo os agiotas. Enfim, o Brasil possui um bom nível de desenvolvimento de micro e pequenos negócios, no entanto, é necessária uma maior difusão das instituições ofertantes de crédito ao pequeno empresário, suas vantagens em relação ao crédito tradicional e de como o microcrédito pode ser utilizado como uma ferramenta para minorar os problemas financeiros de um conjunto de indivíduos da população, para se expandir para toda sociedade.

## **1 – Introduction**

The main theme of this study is the system of microcredit in Brazil after 1994 showing the origin of the micro-credit and microfinance since its creation by economics professor Muhammad Yunus in Bangladesh in 1976, when it created the Grameen Bank until the 2000s . Since then many countries have adopted microfinance as an alternative for achieving personal projects as well as for improvement of per capita income and economic development of the country.

Microcredit is an alternative aimed at micro and small entrepreneurs who lack credit from banking institutions to conventional assembly and even working capital for their businesses, these entrepreneurs generally do not offer the guarantees required by banks and end the margin of the formal financial system. In Brazil the main agents that operate in this market are SEBRAE - Support Entrepreneurship and Small Business, SENAI - The National Industrial Apprenticeship, bosses syndicates and workers and the Banks of the People.

In light of these considerations, the aim of this work is to know the main Brazilian microcredit programs and their ways of granting credit as well as its advantages over the traditional financial system.

To do so will be considered the statistical data obtained from the 1990s and dissertations empirical data by means of literature in books, articles and websites seeking to defend the hypothesis that, despite the creation of microfinance institutions, some business owners are still unaware of this modality service, keeping their businesses with loans from relatives, moneylenders and other less bureaucratic capital acquisition.

Regarding the structural aspect of this work, besides this introduction that aims to clarify the objectives of the work and its temporal, it is divided into three other sections. The second deals with the emergence of microfinance, from 1976 to the current period and microcredit in Latin America and the third section discusses the

emergence of microfinance in Brazil and the fourth section will present the final remarks on the importance of microcredit in Brazil, especially the Lula government, demonstrating how support for micro entrepreneurs becomes an attitude economically viable for the entire society. And finally presents the final considerations.

## **2 - Concept and history of microcredit**

Microcredit is a type of financial loan, usually of little value, aimed at micro and small entrepreneurs. It is a type of savings borrowed generally low rent people who have not taken loans by conventional routes due to excessive bureaucracy of traditional banks. The microcredit activity is commonly understood as the main activity in microfinance with the importance of public policies for poverty reduction and income generation (Soares and Melo Sobrinho, 2008).

Professor Muhammad Yunus was the one who devised and spread the concept of microcredit from the 1970s in Bangladesh. At that time his country was experiencing economic difficulties and social facts that made the author spent a focus on studying the economic conditions of the poorer sections of society, seeking possible solutions to eliminate or minimize these problems.

Yunus realized that the majority of micro and small entrepreneurs in Bangladesh, because they lack access to formal credit, depended on intermediaries such as loan sharks to finance their production and that these workers were in the lower portions of the profits derived from this activity.

According Tomelin (2003, p.1) in 1976 Professor Yunus began lending to their own resources to farmers in his country, especially women, because in practice they showed better payers than men, contributing increase this to the insertion of the same labor market. These people formed groups, usually of five people, and each was responsible for another in relation to the repayment of loans.

Professor Yunus began lending US\$ 27.00 for a group of 42 persons created the Grameen Bank, past experiences curious, but ultimately triumphant today lends value of US\$ 1.5 million and serves 38,000 villages and has 27 million customers (Tomelin, 2013, p.1).

Emerged the idea that this helps spread in many countries of Asia, Africa, Latin America and some European countries to create an institution specially geared to workers who were unable to stand on conventional routes. Thereafter, Yunus created the

Grameen Bank, which had defaults only 1.15% per year in its first years of operation (PEOPLE'S BANK-SP, 2009).

In 1983 the Grameen Bank acquired bank status, obtaining profits in almost every year of operation and becoming a model for microfinance activities in many countries, based on the premise of creating equal opportunities for financial access all layers population and elimination of exploitation of the poor with the development of their self-employment (PEOPLE'S BANK-SP, 2009).

The sustainability of Grameen Bank was possible due to donations and resources offered by the Bangladesh Bank in the form of loans, with a grace period of 10 years and interest at 2% per year. In 1995, the bank reached 2 million customers, however with the emergence of new microfinance institutions, Grameen has diminished its commercial portfolio (ROCHA and MELLO, 2004 p. 82).

Professor Yunus to the traditional credit does not generate development for the lower income strata of the population because these people are "strangled" with high interest rates charged by banks, and they are interested in immediate profits, while the microcredit turns to meet the needs not only economic but also social, without any collateral and profit projections over the long term, the result is a program of social and financial sustainability for those people who are generally programs are excluded from traditional credit.

Watching all this context we note that it is not enough that the loan is small to be considered a microcredit, he must also be aimed at those who have no access to bank credit common but you want to create or invest in a business which meets the capacity and conditions personal succeed, or intended to whoever create or improve their own business and their own jobs. It is a way of generating surplus capital that will contribute to future loan payment, reimbursing the institution that issued the guarantee moral and confidence among micro entrepreneurs and creditor companies (Barone et al, 2002, p.11).

Also according to Barone et al (2002, p.12) microcredit then becomes an alternative in which not only depends on the momentary help from the government to overcome the difficulties, but an initiative for investment which will contribute to the independence individual's financial, as many of the opportunities opening up and development of small businesses do not have time to wait for government subsidies that can take months.

The microcredit guarantees access to credit on the part of the population that would be excluded from the market, thereby contributing to the generation of better health, housing and food obtained through their own productive effort, generating better return to your project and ensuring increased occupation of employees, increased productivity and profitability.

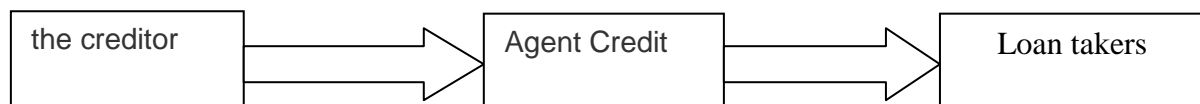
The absence of traditional agents provides credit to minimize operating costs and the use of lower interest rates compared to interest traditional financial institutions and moneylenders. With this, the projects become self-sustainable in the long term even if forced by conditions for timely (Constanzi, 2002 p.03).

However, microcredit is not a single mechanism it should still be subsidized by educational activities, professional and social, among other measures. It is an additional process to combat social inequality as it can be approached as an efficient way of creating productive ventures and not just momentary income generator.

Microcredit is a form of credit that assisted unlike the loan takers go to banks are loan officers that go to customers, thereby seeking to know their enterprise and also evaluate the ability to pay their debts.

Figure 1 illustrates how one proceeds to perform the activity of microcredit among its agents.

**Figure 1 - Agents involved in microcredit activity.**



Source: Own elaboration from data Constanzi, 2002.

It is observed by the analysis of Figure 1, the position of loan officer is seen as a link between the investor and the borrower of funds. This agent should arouse confidence in the borrower and take it up the information necessary for the proper development of their business. Moreover, it is the agent that makes it feasible or not to grant credit to borrowers. In addition, credit providers may offer other products for makers, not only capital, but also term deposits, credit cards, savings and other (Constanzi, 2002, p. 24).

Importantly, microfinance institutions should offer efficient, as well as lower default risks for the institution itself can remain in the microfinance market.

The basic principles of the theory of Yunus can be summarized in a few points are: credit seen as human capital, not just financial capital, other words, it is a right of low-income individuals to subsist and grow their businesses, foster ability to work poor families; policy to encourage entrepreneurship; warranty or social trust between borrowers and lenders credit; depreciation and interest paid on short periods encouraging payment discipline of individuals, among other features.

Finally, through Grameen Bank, Yunus has managed to improve the lives of young entrepreneurs, especially women, who had trouble believing in their own potential, having helped nearly 8 million micro entrepreneurs in Bangladesh. In the 2000s, Professor Yunus has signed partnerships with presidents of companies such as DANONE, INTEL and BASF to apply resources in social business, improving the lives of the entire population and reinvesting profits in these companies. Among the businesses featured are the production of yoghurt enriched with vitamins to malnourished children, mosquito net produced by BASF to prevent malaria, among others (Grameen Bank, 2009).

The Grameen Bank's microcredit can also be used for other purposes than just creating jobs, it can also finance housing, procurement of materials to work rural students to higher education among other functions. In addition, other institutions have emerged thanks to the creation of the Grameen Bank, such as the Grameen Krishi Foundation, Grameen Motsho (fishing), Grameen Kalyan and Grameen Shatki (welfare), and Grameen Fund (PEOPLE'S BANK-SP, 2009).

## **2.2-The microfinance in Latin America**

Though Yunus has pioneered the construction and development of institutions devoted to microcredit, particularly focusing on his experience in Bangladesh, to broadcast programs that follow a similar methodology of action in order to promote economic development of the country while to a reduction of social inequalities, has intensified in several other countries.

In Latin America there are important microfinance institutions: *BancoSol*, *Caja Los Andes* and *FIE Sartawi* which has offices in Bolivia, *Caja Social* in Colombia; ADOPEM in the Dominican Republic; Financial Calpia in El Salvador; *MiBanco Compartamos* in Mexico and Peru. All with similar objectives (MEDRADO and NERI, 2005 p. 06).

One of the main examples of institutions dedicated to microfinance in Latin America is the Bank of Solidarity with headquarters in Bolivia. *BancoSol* as is known encourages microfinance market and the development of microfinance activities directed to the most needy and disadvantaged population. By the year 2008 the bank served more than 70,000 customers, and of this total the female customers accounted for 70%, and lending was intended both for production and for consumption. In 2012, *BancoSol* has more than 150,000 customers with loans exceeding US\$ 300 million. The bank is present in eight of the nine capitals of Bolivia, with 59 branches and 50 service points (BancoSol, 2013).

Another important Latin American institution dedicated to microfinance is *Banco Caja Social* in Colombia in 2005 served more than one million people in its 42 offices in the country. It is a self-sustainable bank that provides easy access to customers micro entrepreneurs country. It offers quick and appropriate to the profile of each customer, could ease people's access to loans. It also develops social projects aimed at improving local living conditions. The bank aims to meet potential clients at all levels and social strata, thus minimizing the problems of hunger and unemployment in the country. As in other cases, are required guarantees and solidarity not only guarantees the loans (FORTE, 2006, p.27).

The importance of microfinance institutions in Latin America is also justified by the fact that most companies in Latin countries is micro and small businesses with their owners marginalized from conventional credit market: 60 million businesses are classified in this category, generating half the level of employment (IDB – Inter-American Development Bank, 2009).

There is also the fact that organizations are focused on the social aspect, in order to develop the economy as a way to reduce social inequalities, generating resources for the poorest achieve a better situation, decreasing poverty rates of countries. As a way to link self-employment, self-sufficiency with education, health and better living conditions for individuals.

### **3 - Microcredit in Brazil**

The activities of microcredit gained prominence in Brazil from the 1980s, a period that became known as the 'lost decade' due to low economic growth associated with monetary instability. In the mid-1990s, the country has achieved macroeconomic stability and this favored the increase of microcredit operations which jumped from

29,000 in 1997 to about 260,000 in 1999 according to data from IBAM (Brazilian Institute of Directors).

It should be noted that all actions aimed at microcredit have a direct or indirect help from the federal government is subsidizing the program, is encouraging the creation of networks of private financing. And that was only after the 3,016 Act and the provisional measure 122, June 25, 2003 is the National Monetary Council took control of the operations of credit and micro-credit to micro entrepreneurs and microenterprises national, working directly in the operations of commercial banks, the Federal Savings and credit co-operatives and small business owners.

Among the main programs developed in Brazil are highlighted Program Uno - The Uno (Northeast Union Assistance to Small Organizations), the network CEAPE (Support Centre for Small Enterprises), the Women's Bank, Porto Sol, VivaCred, Productive Credit Program Popular, *Caixa Econômica Federal*, state and local experiences (Banks of the People), CrediAmigo - microcredit program of the Northeast Bank.

**Program One** - The One (Northeast Union Assistance for Small Organizations) established in 1972, was a kind of NGO (non-governmental organization), funding microcredit programs for poor workers in the informal sector, based on moral guarantees and not guarantees. Was responsible for the creation of associations and cooperatives of artisans, among others, funded by national and international resources, in *Pernambuco* and *Bahia* (states of the federation).

The Uno disappeared for lack of financial sustainability after 18 years of its creation, as the number of visits was restricted to 200 per year, which were attended by 533 entrepreneurs microcredit programs and 5,000 entrepreneurs were assisted with training courses, its performance was concentrated in three sectors of the economy: trade, industry and services.

The UNO program was an educational, nonprofit, that counted with the collaboration of Accion International, known as AITEC, and with the participation of business entities and banks state of Pernambuco and Bahia. The interest rate charged by the institution was 25% per year (Jackelen, 1982, p. 13).

The maximum amount loaned was \$ 3,000.00, awarded in three ways:

- 100% loans working capital: maturity in 15 months, a grace period of three months, equal monthly payments thereafter;



- 50% of loans working capital: 50% fixed assets: maturity in 18 months, a grace period of six months, equal monthly payments thereafter, and
- 100% of fixed assets: maturity in 24 months, 6 months grace period, equal monthly payments thereafter (Jackelen, 1982, p. 13).

The network **CEAPE** - Based in joint debtor, the network had its first case in *Porto Alegre* in 1986, where he worked in partnership with the IDB (Interamerican Development Bank) to compose funding and support initiatives of small and microenterprises, first named *Ana Terra Centre*, with an emphasis on women's work.

The CEAPE has currently about 120 units in various locations around the country including, *Pernambuco, Maranhão, Rio Grande do Norte, Sergipe* and *Rio Grande do Sul*, beginning to meet with loans of R\$ 1,000.00 in credit analysis and simplified from hence the micro entrepreneur having a line of credit and increasing renewable.

The first credit then becomes a credit customer knowledge for subsequent claims. The working capital loan can not exceed a period of 180 days, with a limit of R\$ 200.00 to R\$ 3,000.00, with interest rates between 5.5% and 6.5% per month. In 1990 CEAPE became national CEAPE, supporting various initiatives informal credit programs for people excluded from traditional credit (Silveira, 1995 P.08 and 09).

**Bank of Woman** - Created in *Bahia* in 1984 is an institution with support from UNICEF and the IDB. As the model created by Yunus, the institution first attended only women and then meet male clientele. Currently besides *Bahia* it works in the states of *Paraná, Santa Catarina, Rio Grande do Sul, Amazonas, Minas Gerais* and *Rio de Janeiro*. It is a bank that uses the methodology of Solidarity Groups. Attends 88% of women and 12% men, 50% of concentrating its resources in trade, 29% in production and 21% in services, allowing an average credit of R\$ 1,200.00. (BANCODAMULHER, 2013)

**Portosol** - Founded in 1996 in *Porto Alegre*, this non-governmental organization is based on a model of microfinance entity, based on the initiative of the government and civil society control, and self-sustaining. The first features of this entity came from municipal government and international organizations, as well as help from BNDES (National Bank for Economic Development and Social) and SEBRAE / RS (Brazilian Service Support Micro and Small Enterprise / *Rio Grande do Sul*). She works with working capital or fixed assets for lenders, their guarantees are based on joint debtor, checks or disposal of assets.

Currently has offered more than R\$ 138 million in loans and loans to get the individual must have worked on their own for at least six months, is not registered in organs credit protection. The guarantees are the tangible property (machinery, equipment, vehicles etc.) and guarantees are based on solidarity groups 03-05 micro entrepreneurs with independent activities that receive credit of R\$ 50 to R\$ 5,000.00, according to previous analysis credit, default is 1.6% and the interest rate varies from 2% to 4.36%. (PortoSol, 2013).

**VivaCred** - Created in 1996 by *Viva Rio* movement, benefiting needy people of *Rio de Janeiro* with the micro credit projects installed in slums. But still help micro entrepreneurs center and other locations in town. It is maintained with funds from microfinance, but started with funds from IDB and BNDES Fininvest and can loan the funds for both working capital and fixed capital.

Loans can range from R\$ 100.00 to R\$ 1,000.00 and may progress to a maximum of R\$ 15,000.00, groups 03-10 people, interest rate of 1.2% per month over the TAC (rate line of credit), payment term of 12 months with monthly or biweekly payments, funds for purchase of goods or raw materials to guarantee joint debtor (VivaCred, 2013).

**Popular Productive Credit Program** - created in 1998 by the BNDES in order to grant loans to micro entrepreneurs formal or informal to enable the generation of employment and income in the economy. It is a part of the BNDES facing the granting of microcredit, as the BNDES acts encouraging such institutions through programs that encourage the establishment of organizations to develop and improve the supply of credit to the makers of these institutions.

Moreover, BNDES created the PDI (Institutional Development Program), aimed to improve information management and auditing, specifically for microfinance institutions, developing new technologies such as credit scoring systems and institutional rating services. The BNDES supports both non-governmental organizations as well as micro-credit to the micro enterprise credit societies. Functioning primarily as CrediAmigo (MINISTRY OF LABOUR AND EMPLOYMENT - MTE, 2012).

**CEF – Caixa Econômica Federal** - operates in the retail banking and microfinance providing funds for microcredit operations. The credit limit granted by *Caixa* ranges from R\$ 250.00 to R\$ 15,000.00 and may be extended as the borrower's solvency and proof of increased payment ability of the entrepreneur. For those who want an account for easy handling and maximum loan of R\$ 1,000.00 can opt for the

system called *Caixa Fácil*. Payment deadlines can be a maximum of 24 months with no grace period (*Caixa Econômica Federal*, 2012).

**State and local experiences** - There are institutions "first line", which are those that deal directly with those who take loans and development institutions, with different forms of sustainability. Are clear examples of the "People's Bank", subsidized by public funds directed to microcredit. An example is the People's Bank of *São Paulo*, where the state government is the one who selects and enables loan officers, manages programs and provides 90% of the resources used, while the partner municipalities provide the other 10% . Until 2009 were 435 municipalities served and 89% coverage of the population of *São Paulo* (PEOPLE'S BANK - SP, 2009).

**CrediAmigo** - Microcredit Program of the Northeast Bank created in 1998 to provide credit to micro entrepreneurs northeast, north of *Minas Gerais* and *Espírito Santo* methodology based on solidarity groups, but implemented by a national bank. It also provides training for entrepreneurs.

The amounts liberated are R\$ 100.00 to R\$ 4,000.00 as its makers need to be renewed and can reach the maximum of R\$ 15,000.00 as payment of the borrower. Interest rates range from 1.32% per month, monthly or fortnightly periods up to 12 months to pay and ensuring joint debtor. The funds can be used for purchase of raw materials and goods or for working capital. The groups range 03-30 people as needed and the characteristics of each type of business (BNB - Bank of Northeastern Brazil, 2013).

This credit mechanism allowed the output of more than 60% of Brazilians included in the poverty line. The expression and significance of the program was recognized by the IDB in 2008, which included the activities undertaken by the institution with the Excellence Award In Microfinanças ((IBRE - Brazilian Institute of Economics, 2009).

It is observed from Table 1 the level of the institution's operations in the period 2002-2012.

Item	Period					
	2002	2004	2006	2008	2010	2012
Number of transactions	359.216	507.807	690.415	1.009.236	1.632.482	2.844.021
Contracted value (R\$ million)	287,3	440,9	639,6	1.087,5	2.066,3	4.320,1
active clients	118.955	162.868	235.729	400.413	737.826	1.360.170
Active Portfolio (R\$	71,9	106,7	170,6	362,2	742,6	1.619,9

million)						
Average value of loans (R\$)	800,03	868,28	926,41	1.077,59	1.265,75	-
Default rates (%)	-	0,84	0,73	1,13	0,72	-

Table 1 – *Crediamigo* Program (2002-2012)

SOURCE: BNB (2013).

In Table 1 we note that over a decade the institution has provided the market about three million microfinance operations, and the amount disbursed during this period increased from R\$ 287.3 million to R\$ 4, 320.10 million, an increase of 1403.7%, while the addition of small default reduced over time.

Note that, *CrediAmigo*, like most microcredit programs, has as its customers predominant women (65%), that 57% of customers have a household income of less than R\$ 1,500, that 95% of customers have ten years or less of schooling, demonstrating the effectiveness of this program to meet the families with the lowest income (*CrediAmigo*, 2013).

Another aspect which reinforces the mission of ensuring new opportunities for employment and income in Brazil, the partnership was made between the program *CrediAmigo* and the Federal Government through the Ministry of Social Development and Fight against Hunger (MDS) in 2010, where about 40% of clients served are beneficiaries of *Bolsa Família* (program of direct income transfer that benefits families in poverty and extreme poverty around the Country).

Finally, the importance of these institutions for the Brazilian economy is reflected through offering aid to the development of micro and small enterprises in the country, considering that, according to this SEBRAE company size in 2010 represented 20% of GDP (R\$ 700 billion), 99% of businesses (5.7 million) and 60% of total formal employment (56.4 million).

Although microcredit be considered a strategy to combat social exclusion and unemployment, minimizing social discrepancies, the democratization of access to microcredit in the country, still has a lower than expected growth, with few micro entrepreneurs aware of the role of microfinance in their business .

According to the Central Bank (2010), total borrowings amounts to only 25% of the capital that is provided by the institutions. This is paradoxical, since Brazil is the country with the worst income distribution and the highest rate of poor in Latin America, according to ECLAC (Economic Commission for Latin America and the Caribbean).

According SEBRAE (2004), a large percentage of the country micro entrepreneurs who use alternative forms of credit, such as bank substitutes instead of microcredit institutions, mainly due to the following reasons: 42% are poorly informed on for programs of action in this

area, and 32% have never heard of microcredit institutions. It is necessary, therefore, to create mechanisms that encourage the dissemination of programs and institutions in Brazil.

According to Alves and Soares (2004) *apud* Carvalho et al (2009, p.13):

It is estimated that there are in Brazil, nearly 14 million small productive units, potential plaintiffs microcredit, most of them formed by self-employed, which is deduced to be something like six million customers exercising effective demand. However, the supply of microcredit, even with the growth in the number of entities that operate microcredit after the Real Plan, meets only 2% of the demand.

According Constanzi (2002), it is the duty of the State to intervene in the policies of microfinance in the country, in the formation and development of microfinance institutions and the dissemination of credit to the poorest, as it becomes a social duty, a matter of public policy. However, some authors, such as Ricci (2005), this direct state intervention can clutter the transactions and make the service more bureaucratic and less sustainable by itself. Therefore, today the state intervenes indirectly in these matters, acting more specifically when it comes to the structure of the financial system and its ability to generate and income distribution to the disadvantaged sections of the population. Currently civil society, the state or the private sector are responsible for providing microcredit to individuals and micro businesses or small.

Microfinance institutions in the country are still young, but with growth potential defined and structured. As for the sectors that support, there are still some outstanding difficulties for entrepreneurs, such as low access to credit lower layers of the population with lower education levels and unprepared for business; mortality in the first year of business foundation for unpreparedness of venturers or lack of access to microcredit programs, among other factors.

Table 2 allows us to analyze the level of education of Brazilian micro entrepreneurs between 1997/2003.

Characteristics of the selected sample of micro entrepreneurs surveyed (%)		
Level of Instruction	1997	2003
No education or less than 1 year of study	10,0	10,6
Elementary school or incomplete 1st Degree	46,9	36,4
Elementary or Grade 1 Complete	12,3	12,9
High school or Grade 2 incomplete	7,3	9,1
High school or Grade 2 Complete	16,2	21,1
Incomplete University Graduation	2,2	3,3
Complete University Graduation	5,2	6,7
Years of study	6,4	7,1

Years of experience	25,2	26,5
Received technical, legal or financial	2,4	3,5
Credit used in last 3 months	4,7	5,9

Table 2 - Level of education micro entrepreneurs 1997-2003

Source: ECINF / IBGE

It is observed that the level of education increased for almost all levels of education in the period, with the exception of the category: Elementary school 1st grade or incomplete. However, it also appears that the educational level of these entrepreneurs is still low because the highest percentage in both 1997 and in 2003, their values being respectively 46.9% and 36.4% had only one degree incomplete.

### 3.1. Microcredit in Lula government

The government of *Luis Inácio Lula da Silva* extends from 2002 to 2010, and was re-elected President for the quadrennium 2006-2010. Economically the president-elect has not changed strategies already signed by the previous government (Fernando Henrique Cardoso - FHC), since taking office already strong international pressure maintenance policy developed by FHC. Currency stability and strong pressure from international lending agencies contributed to a government of economic continuity.

The role of microfinance in this direction would be to facilitate the access of micro and small businesses or micro and small entrepreneurs to financial services such as loans, savings, insurance, among others. Since 1994 an agreement was signed between the Bank of Brazil and SEBRAE to provide microcredit for layers of low-income entrepreneurs (ASN – *Agência SEBRAE de Notícias*, 2008).

The first experience of microcredit Lula government was in 2003, when the government launched an interim (later converted into Law 11,110 of 2005) which established that 2% of deposits in current accounts of banks would have to be applied in micro-credit operations with small interest also around 2% per month. Would be part of this apparatus seven banks: Banco do Brazil, *Caixa Economica Federal*, Bradesco, Unibanco, Itaú and Santander (RICCI, 2005).

Under this context banks would facilitate loans to micro and small entrepreneurs and low-income people. Moreover, some banks have created subsidiaries and partners to facilitate people's access to positions of attendances, called matching. According to Ricci (2005) there is in fact no clarity on goals, not the focus of the

Brazilian microcredit to the author, there is a strong tendency to assimilate small loans to microcredit.

However he points out that the provisional measure 226/04 which was aimed at small businesses with revenues of up to R \$ 60,000.00 per year may be a good alternative microcredit because her financial institution monitors and guides the allocation of resources (arising from the Fund Worker Support - FAT) by borrowers and helps to better employ the capital there is a plan of the business.

According to the Confederation of Trade and Business Associations of Brazil (CACB, 2005), the measures taken by the Lula government has the primary intention to democratize access to credit and other financial services workers, micro and small entrepreneurs, under the coordination of Ministry of Finance and the Central Bank of Brazil (Central Bank of Brazil, 2013).

Basically, these are strategies of small value loans at low interest rates, increasing the share of credit unions in the market and minimizing bureaucracy for opening accounts in banks both public and private. In the context of credit unions, the main strategy is accepting free associated with pre-defined rules, but no specific link with the formal sector of service or employment, or cooperatives can accept people of all worker threads and not just the specific segments of the population (such as banking, farmers, doctors and other examples). These cooperatives are affiliated to central credit unions with at least 3 years of operation and size varies according to the region of the country.

Another important measure to be considered is the significant increase in opening accounts for part of the low income population, with movement only with magnetic card, opening with only submit personal documents (CPF and RG), fill plug containing the proposed qualification depositor limit of R\$ 1,000.00, withdrawals through electronic banking fees and gratuity and maintenance. Demand deposits intended for microloans, with facilitation by private agencies, access of the poor or some kind of limited access to traditional lines of credit from banks. In addition, the federal government also increases the participation of FAT funds (Fund Support Worker) from 50% to 70% in financing working capital and building material for micro and small enterprises and the reduction of 1% interest rate paid by the month micro entrepreneurs. Concurrently with the support of microenterprise will support the microfinance institution itself, with training of agents, capturing new sources of funds,

among others (CACB - Confederation of Trade and Business Associations of Brazil, 2005).

According to Arroyo (2006) the participation of low-income Brazilians in the Brazilian market should be considered as essential, as they moved about 30% of GDP in 2006, despite the enormous difficulties in the economic scenario. Over the past 10 years, 42 million people ascended to the class C (families with income between R\$ 2,300.00 and R\$ 4,500.00), which already handles R\$ 1 trillion per year. It is estimated that by 2014, this share represents 58.3% of the population.

The Lula government has allowed the development of alternative credit such as payroll loans of the Bank of Brazil, the alternatives of *Caixa Econômica Federal*, as well as the National Productive Microcredit Labor Ministry.

The Lula government instituted in 2005 the National Productive Microcredit (PNMPO), created by Law 11,110 of April 25, 2005, in order to generate employment and income for micro entrepreneurs, microfinance available resources, support microfinance institutions to better serve the market national micro entrepreneurs. By 2008, microenterprise was considered every worker (individual or corporation) with gross income of £ 60,000, but after this Decree 6.607/08 ceiling was set at \$ 120,000 (MTE- Ministry of Labour and Employment, 2009).

According to the Ministry of Labour and Employment (2009), productive microcredit:

Credit granted to meet the financial needs of individuals and corporations productive entrepreneurial activities of small, using a method based on a direct relationship with entrepreneurs where economic activity is performed.

The function of this type of program is to assist micro entrepreneurs with trained staff that makes studies of the economic viability of the business as well as provide guidance for the management of resources applied, based on a contract for the sustainability of the business formed and implemented.

The program National Productive Microcredit - PNMPO is maintained with funds from FAT and disbursements of cash deposits in banks, intended to microcredit. Financial institutions as part of the program the Bank of Brazil, *Caixa Econômica Federal*, *Banco do Nordeste*, *Banco da Amazônia*, *BNDES* and some commercial banks and multiple. Institutions that can participate in the PNMPO are credit unions,



development agencies, credit companies microenterprise, OSCIP's (covering civil society organization of public interest).

The program enables the operations of microfinance directly or indirectly to the final borrowers. Also according to the MTE, the loans can be direct (via final borrowers and microfinance institution itself), mandate (final borrower through partnership with the institution), transfer (funds the establishment of productive microcredit - IMPO) or acquisition credit operations (purchase of loans from IMPO directly or indirectly).

Table 3 shows the level of program activity PNMPO in Brazil from 2005 to 2008.

Year	Number of transactions	Index	Value of Microcredit (R\$ 1.00)	index
2005	632.738	100,00	602.340.000,00	100,00
2006	735.718	116,28	831.815.600,78	138,10
2007	867.840	137,16	1.100.375.829,94	204,45
2008	1.227.402	193,98	1.807.071.717,91	300,01

Table 3 - Expansion of Productive Microcredit in Brazil

Sources: Central Bank, 2009 and PNMPO, 2009.

Since 2005 over R \$ 4 billion funded PNMPO. It is observed that there was an increase in both volume and value offered by microcredit program, and these increased in each year of the review period. From 2005 to 2008 there was an increase of approximately 94% in the volume of microcredit offered while the value given in the same period increased by more than 200%.

According to Toscano (2002), microcredit in the Brazilian case is just a "transmission belt", in other words, an institution borrows from a lender and lends an entrepreneur, at a rate of interest to cover the total costs, costs funding, expected earnings capitalization and low risk of default.

According to the author, when it attaches to microcredit function merely financial, this is minimized in objectivity, it becomes merely an instrument of capital loan and loses the primary function of which is to meet the informal sector, the formal small businesses or people without conditions enabling the traditional avenues of credit have their needs met with speed, flexibility and interaction with the reality which they are inserted. Also according Toscano (2002) Brazilian microcredit lost the ability to develop solidarity, cooperation and spirit of association, the characteristic model Yunus.

The supportive aspect proposed by Yunus aimed to increase the employment rate of the population, reduce social inequalities, provide better health and education to the population, encourage increased labor, female labor in the labor market, among others. When observing the microcredit in Brazil, there is the realization of programs primarily for the economic sector and not social.

The government, though criticized by some authors, has developed a good range of microfinance services, such as credit discount on payroll for employees, creating simplified accounts, approval of the *Super Simple* (is a differential tax regime, simplified and favored provided in Supplementary Law No. 123 of 14.12.2006), among other measures aimed at economic slant sector of micro and small entrepreneurs in the formal or informal market.

The forecasts for the future related to the search for new products and markets, appropriate to the reality of communities and activities that they develop facilitating convenience in serving the target population, economies of scale (cost reduction), expansion of operations in the municipalities and underserved areas of financial services.

#### **4. Final Considerations**

Microcredit has been touted as an important tool for poverty reduction in the world, reaching a large international reach after the successful experience of Yunus in Bangladesh, which stimulated the population of their country to fight for better living conditions through their own ability productive. Can be seen as a tool for conducting business, entrepreneurship, the reduction of social inequalities and the generation of employment and income.

Micro entrepreneurs still suffering a lot of difficulties in the current economic market: lack of well developed business acumen, lack of educational and cultural conditions of access to credit, low level of education or lack of professional training, high interest rates prevailing in the market of traditional institutions and the lack of knowledge regarding micro credit institutions, among others.

The main obstacle to the emergence and development of micro and small enterprises is the lack of capital in optimal quantity for the realization of their activities, due to the fact that no actual conditions solvency and, as already mentioned the practice of high interest rates conventional credit market. The Latin American countries have a

large proportion of micro and small enterprises and therefore the growth of micro credit institutions has also expanded in recent years.

In Brazil the market for microcredit and microfinance are still under implementation and development. In the 2000s one can notice an increase in social programs microcredit allied government involvement and part of its sustainability still tied to civil institutions. It is a remarkable growth of the micro and small enterprises in Brazil, helping reduce social inequalities and ensure employment and income in the long term for the lower layers of the population.

However, despite the existence of the system of microcredit in Brazil some business owners still do not apply. This is due to the fact that microfinance institutions are still poorly disseminated, and opt for other forms of credit, as substitutes for banks, institutions such as credit cards, lenders, or even loan sharks.

It is then possible to conclude that the country has a good level of development of micro and small business, what is needed is a greater diffusion of small credit, its advantages compared to conventional or traditional credit and how microfinance can be used as a tool for alleviating the financial of a set of individuals in the population to be expanded to the whole society. Microcredit is a mechanism for improving the living conditions of low income, as it enables job, occupation and growth of micro-entrepreneurs and their businesses, and therefore not only helps momentary and unstable people. He is a sustainability mechanism for those using it.

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