

Global Case Writing Competition 2012

Social Entrepreneurship Track

3rd Place

Crediamigo: Partnering with VivaCred?

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Fortaleza, Northeast Brazil, January 2008 – A Crediamigo Urban Microfinance manager hung up the phone. He was just informed that VivaCred, a microcredit NGO active in Rio de Janeiro's slums for 11 years, was considering entering a partnership with another microcredit institution. Crediamigo, a unit of Banco do Nordeste do Brasil (*BN, in English: Bank of the Northeast of Brazil*), was Brazil's largest microcredit organization with around 400,000 clients and US\$ 155 million active in loans. **(See Appendix 1: Crediamigo)**

This manager was aware that Crediamigo, with a strong presence in the Northeast of Brazil, aimed to double its client base within 4 years, and that this growth involved a geographical expansion into other regions of Brazil. Rio de Janeiro was a prime target. He knew that Crediamigo had two options to develop in Rio. The first consisted in partnering with a local microcredit organization like VivaCred. The second option was to create a new organization replicating Crediamigo's culture, processes and microcredit methodologies. Recent research estimated Rio's untapped microcredit market to be about 500,000 clients. At the same time, this manager had in mind the numerous challenges that Crediamigo would have to face in Rio: should the program enter the market alone? Rio was Rio, meaning very different from the Northeast where Crediamigo held his operations. The population's access to credit in Rio, 3,000 km South of Fortaleza, was much greater than in Crediamigo's Northeast, especially from commercial microcredit institutions. Last, Rio slums' reputation was to be violent and lawless in some areas.

It made strategic sense to expand to Rio. At the same time, regardless of the option to prevail, several decisions on the entry strategy, operations, and microcredit methodologies, needed elaboration. This manager and the other members of the planning committee needed to make a decision within the next month.

Northeast Brazil: Banco do Nordeste and the birth of Crediamigo

Covering roughly 1.5 million sq.km, the Northeast was the second largest Brazilian region, in extent (18.3 % of the national territory) and in population (with 50 million, or 29 % of the country's population)¹ **(See Appendix 2 - Brazil Northeast)**. The population density was greater along the coast and far less dense in the semi-arid interior. The Northeast had the country's largest concentration of rural population². Socioeconomic indicators remained lower than the national average: GDP was stagnant and represented 13% of the national wealth and social, economic, and socio-spatial inequalities were paramount. Large cities, also called "poverty metropolis" absorbed the constant influx of low-trained migrants who lived in precarious conditions³.

¹ Martine Droulers (2006), Encyclopédie Universalis – Brésil, available at: <http://www.universalis-edu.com/encyclopedie/bresil-geographie> (accessed 10 May 2010)

² Martine Droulers (2006), *Idem*

³ *Ibid.*

Created in 1952 and based in Fortaleza, one of the region's largest cities, Banco do Nordeste (BN) was the main state development bank of Northeast Brazil. The mission of this state development, investment, and commercial Bank, was to promote regional economic development by providing financial and non-financial services to individuals and businesses⁴. Beyond the region's nine States, the Fortaleza-based institution had operations in the North of Minas Gerais and Espirito Santo States, totalizing 1.985 municipalities⁵. Banco do Nordeste had become a reference among regional-development financial institutions in Latin America⁶.

In the late 1990s, BN began to perceive that the support to micro-enterprises through microfinance had an economic development potential⁷. Brazil was lagging behind other Latin American countries in terms of micro-credit development. As of 1998, the Northeast had some 3.5 million urban micro-entrepreneurs, only 16.4% of which had access to either a credit card or revolving credit checks⁸ from a private bank, as compared to 30.4% in the rest of the country⁹. These loans (also called "evergreen loans") did not require the principal amount to be paid off within a specified period of time. They were usually in the form of a short-term line of credit routinely renewed, leaving the principal remaining outstanding for the long term. The remaining 84% of North-eastern micro-entrepreneurs relied on family and friends, or on moneylenders for credit, the latter typically charging 120% annual interest rate on the loan amount.

Under the auspices of the World Bank, in September, 1996, the BN president participated in a meeting in Washington on microcredit with representatives of the World Bank and the Inter-American Development Bank (IADB)¹⁰. Returning from this meeting to Brazil, BN President Byron Queiroz, had a talk with members of the board and decided to elaborate a microcredit pilot project¹¹.

⁴ Banco do Nordeste (2010a), "Desempenho – Resultados operacionais", available at: http://www.bnb.gov.br/content/aplicacao/o_banco/resultados_operacionais/docs/bnb_resultados_internet.pdf (accessed 29 May 2010)

⁵ Maria Célia Souza (2008), *Avaliação do desenho do programa Crediamigo do Banco do Nordeste: inclusão social e mercado*, M.A., Fortaleza, Universidade Federal do Ceara, 129 p.

⁶ *Ibid.*

⁷ Maria Célia Souza (2008), *Idem*

⁸ See Investopedia (2010), Dictionary, available at: <http://www.investopedia.com/terms/e/evergreen-loans.asp> (accessed 29 May 2010)

⁹ Marcelo Neri (2008), *Microcrédito, o mistério nordestino e o Grameen brasileiro*, Rio de Janeiro, Editora FGV, 376 p.

¹⁰ For instance, the Inter-American Development Bank approved, in 1994, a \$400 million loan for the first stage of tourism development in Brazil's Northeast. See Inter-American Development Bank (2009), *National Development Tourism Program for Ceara (PRODETUR – Ceara) – loan proposal BR-L1204*, available at: <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=35164456> (accessed 19 May 2010)

¹¹ Interview with Mr Marcelo Azevedo, Crediamigo urban microfinance manager, on the development of Crediamigo and the challenges related to its replication to Rio de Janeiro. November 2008.

The program, initially called “Central of microcredit Banco do Nordeste”, had to choose between two microcredit methodologies: solidarity groups¹² - composed of 5 to 7 members-, and village banking – composed of 50 + members¹³. Solidarity groups referred to a group-lending methodology in which groups of three to ten micro-entrepreneurs formed a group to receive collective loans for which they are mutually responsible. These groups are supervised by a representative of the microfinance organization. Village banking methodology refers to credit and savings groups of thirty to fifty micro-entrepreneurs managed by an executive team – in charge of relations with the microfinance organization – and received collective loans for which they are mutually responsible. This methodology typically aimed at reaching the poorest of the poor who lived with less than \$ 2 a day.

The BN implementation team opted for solidarity groups, composed of 5 to 7 clients. This decision was made considering (1) the limited experience with village banking in Brazil; and (2) reduced risk for the Bank: as clients were provided a loan without collateral, the Bank would not bear the risk of building larger groups. The program was actually implemented with limited support of the BN employees who viewed Crediamigo as “a project among others” with a limited future¹⁴. Alexandre Barbosa, a Crediamigo coordinator, explained:

“(In the beginning) Bank employees and people in general did not believe it would work. They thought it was a lot of work and especially that it would quickly be abandoned. Indeed, no one was willing to leave, for instance, a position of agency manager in Banco do Nordeste to become regional manager of Crediamigo. Nowadays, many agency managers say: “I would love to be regional manager of Crediamigo... ten years later.”

Once the decision was made to learn and adapt the solidarity group methodology, a group of BN managers visited BancoSol in Bolivia, a success-story in Latin-American microfinance. During their stay, the Brazilian team noticed several differences between the Bolivian and Northeastern contexts (**see Table 1**). As the managers came back from Bolivia, BN elaborated the pilot project implementation.

¹² See Shari Berenbach and Diego Guzman (1994), “The Solidarity Group Experience Worldwide,” chapter 7, in *The world of microenterprise finance*, Maria Otero and Elisabeth Rhyne (eds), p. 119-139.

¹³ See Craig Churchill, Madeline Hirschland and Judith Painter (2002), *New directions in poverty finance: village banking revisited*, Washington, Small Enterprise Education and Promotion Network, 140 p.

¹⁴ Interview with Mr Alexandre Barbosa, Crediamigo coordinator of agency Centre, on the development of Crediamigo. November 2008.

Table 1: Differences between the Bolivian and the Northeastern Brazilian microcredit contexts

Bolivian context	Northeastern Brazilian context	Adaptation
Densely populated cities Many daily client visits	Less densely populated cities Fewer daily client visits	Increasing credit agents' productivity by simplifying forms
Clients used to listen to long information sessions	Clients impatient with long information sessions	More advertising; financial incentives
"Culture of the agent" (credit agent going to the client's house)	No "culture of the agent" (credit agent staying at the bank)	Creation of a "culture of the agent"

Source: Interview with Mr Marcelo Azevedo (2008).

The implementation team decided it was best to propose a standardized financial product (Crediamigo Solidario) to facilitate the implementation phase. This standardized product was composed of (1) groups of 5 to 7 members, (2) three-month loans to be paid back in (3) six fortnight payments (**See Appendix 5 Commercial microcredit**). The methodology was progressively adapted to local needs as the team implemented this initial product. For instance, group size's lower limit went down from five to four, and then three. The group size remained between three and seven for a long time. Then, the bank noticed that a way to reach clients and reduce the risk was to raise the groups' upper limit to ten¹⁵. Alexandre Barbosa commented:

"The people were rigorously following the principles of the methodology [...] we did fifteen days, from Monday to Saturday; we rested on Sunday and started right away for another week. It was an intensive training in implementing the methodology. All the steps were reviewed. Not complying with the methodology was something unacceptable. It had to become a mechanical thing, very well grounded, to ensure quality. So when we were in front of a client, each credit agent had internalized what he had to do, he needed to have this authentic desire

¹⁵ Ibid.

to do what he could so the client really would have good results using the credit obtained. Because if was not the case, that unsatisfied client would promote the idea that the program is a joke and consequently the program would not grow. I consider that the success of Crediamigo is very much [linked to that attitude].”

The expansion of Crediamigo went fast from 50 service points and 59,834 loans in 1998 to 170 service points and more than 1 million loans in 2008. This fast growth was driven by several factors. First, Crediamigo's operations were based on Banco Do Nordeste's physical (agencies) and technological infrastructure, and presence in the whole region. Second, Crediamigo created several products to adapt the needs of their clients from microcredit products (Investimento fixo, investments, checking accounts) to life insurance (2006). Third, the group lending methodologies accelerated the number of new clients, as each new loan represented 3 to 10 new clients. Fourth, the cooperation with the NGO Instituto Nordeste Cidadania (Northeast Institute for Citizenship) in 2003, contributed to adapting more Crediamigo's products to local clients thanks to the local knowledge of the NGO. **(See Appendix 8 – Key stages in Crediamigo's expansion) and (See Appendix 1 – Crediamigo's operational performance).**

The Brazilian microfinance sector: a growing market

At the end of the 1990s, the microfinance sector experienced rapid growth, mainly due to legal and regulatory incentives as well as the expansion of Banco do Nordeste microfinance-related activities¹⁶. Consumer lending segment outpaced microenterprise lending¹⁷. Since the early 2000s, the private financial sector, entered the market either through microcredit units of commercial banks or independent for-profit MFIs, legally recognized in Brazil as SCMs (Sociedades de Crédito ao Microempreendedor) (in English: Microentrepreneur credit societies)¹⁸.

As of 2008, the penetration rate of the Brazilian microfinance industry for micro-entrepreneurs was still low, with about 2.0%, i.e., for every 100 microenterprises potentially eligible to microfinance services only two were actually served¹⁹. Despite an annual growth averaging 10-20% since 2000, the untapped market was still very significant. As of 2008, the market for microfinance in Brazil was composed of two segments:

Private financial institutions, including Santander Bank (Real Microcredito), MicroInvest, FinInvest, and others, offered loans for consumption and for productive purposes in a flexible process with higher interest rates. These financial institutions had established very profitable microfinance services since the end of the 1990s and they had become strong

¹⁶ *Ibid.*

¹⁷ Simeon Nichter, Lara Goldmark and Anita Fiori (2002), *Idem*

¹⁸ Frédéric Lavoie and Marlei Pozzebon (2010), "Challenges for inclusive finance expansion: the case of Crediamigo, a Brazilian MFI," *AOM Annual Meeting Proceedings*, forthcoming.

¹⁹ Robert Christen and Tamara Cook (2001), "Commercialization and mission drift: the transformation of microfinance in Latin America," Washington, D.C., The World Bank, *CGAP Occasional Paper*, no 5 (January).

market competitors²⁰. Many microentrepreneurs perceived a number of advantages – such as a fast registration process – that made them choose the private finance institutions.

- Public Banks, such as Banco do Nordeste (Crediamigo), Banco do Brasil (Banco Popular do Brasil) or small NGO Micro-finance institutions which offered credit for productive purposes (i.e. working capital for microentrepreneurs to expand their commercial activities).

As of 2008, approximately 70% of Brazil's adult population (roughly 80 million adults) had no access to a bank account²¹. (See Table 2: Brazilian microfinance main players)

Table 2: Brazilian microfinance main players (2008)

Identification of MFI	Active clients	Gross loan portfolio (USD)
Crediamigo	400,413	162,093,621
Banco Popular do Brasil	138,241	9,270,259
Real Microcrédito	82,779	38,281,483

Source: MIX Market (2010)

(See Appendix 6 – VivaCred's credit methodological processes)

For instance, Hermes José de Souza, a small lingerie shopkeeper in a low-income community of Sao Paulo explained why microcredit from public banks was unattractive:

"The Banco do Povo paulista [organization] [...] I have been there once... I needed working capital. So when I got there they told me: "We lend from R\$300 to R\$700. You need to form a group of 3-4 people." This is ridiculous! [...] For someone to get started, it is nothing! Can you imagine? [...] R\$300, you can't buy anything, imagine divided by three people. [...] I had to [look for] private financial institutions, in spite of high interest rates [...] it is worth the easy access to credit [...] [and] you get a prompt answer. [Banco do Povo paulista] is something that

²⁰ Robert Christen and Tamara Cook (2001), *Idem*

²¹ CGAP (2008), "Market Intelligence Content – Country maps", available at: <http://www.cgap.org/p/site/c/template.rc/1.26.2301/> (accessed 19 May 2010)

lasts much longer. You just can't trust something that you don't know on which day [the credit] will be authorized."

Going to Rio: partnering with VivaCred?

Crediamigo had grown from 118,000 clients in 2002 to 400,000 in 2008, and aimed to double by 2011. Crediamigo's client focus was on women microentrepreneurs (more than 60% of its clients in 2008), whereas women entrepreneurs only accounted for about 35% of northeast microentrepreneurs²².

In order to increase – or at least maintain – its annual 30-40 % growth rate average, Crediamigo needed to expand outside of the Northeast. In October 2007, Brazilian President Luiz Inácio Lula da Silva asked Banco do Nordeste to expand to Rio de Janeiro in order to support the government's development²³ and income-generation initiatives targeted to the poorest.

Crediamigo needed to figure out how to expand to Rio; they started looking for a local partner microcredit NGO. Crediamigo had successfully partnered with Instituto Nordeste Cidadania in 2003, and transformed the NGO into a Crediamigo franchise. In early 2008, Crediamigo was informed of VivaCred's interest in a partnership.

VivaCred

VivaCred²⁴, a non-profit organization established in October 1996, was Rio de Janeiro's first non profit microcredit institution²⁵. Its mission was to offer financing to micro and small entrepreneurs in Rio de Janeiro, especially in low-income slums; it focused on formal and informal urban microenterprises such as shopkeepers, craftsmen and small service providers **(See Appendix 6 – VivaCred's credit process methodologies)**. VivaCred started its operations in Rocinha, Brazil's largest slum in 1996 and expanded into Rio das Pedras (1998), Gloria (1999), Maré (2000), Santa Cruz (2002) and in the city of Macaé²⁶ close to Rio de Janeiro (2004).

VivaCred growth was based on cooperation agreements and partnerships with organizations

²² *Ibid.*

²³ Interview with Ms. Fernanda Carvalho, Banco do Nordeste corporate manager at Rio de Janeiro agency, on the implementation of Crediamigo in Rio de Janeiro. June 2010.

²⁴ The nonprofit first received financial support from the Inter-American Development Bank, before making a partnership deal with FinInvest Bank. The German consulting firm Internationale Projekt Consult (IPC) was in charge of technical assistance. However, as of 1997, most of VivaCred's financial support was provided by BNDES. See Mario Prestes Monzoni (2006). *Impacto em renda do microcrédito: uma investigação empírica sobre geração de renda do Crédito Popular Solidário (São Paulo Confia), no município de São Paulo*. Ph.D. Thesis, FGV-EAESP.

²⁵ Cristiane De Cassia (2010), "Força na economia com pouco dinheiro," O Globo Newspaper, 28/01/2010.

²⁶ See Fernanda Carvalho (2010), *Expansão territorial de um programa de microcrédito por meio de parceria estado-terceiro setor: o caso Viva cred-Crediamigo*, M.A. Thesis, Rio de Janeiro, Fundação Getulio-Vargas, 146p.

such as Viva Rio, the National Development Bank (BNDES), the Inter-American Development Bank, the Brazilian Institute of Municipal Administration (IBAM), the Municipal Secretariat of Employment of Rio de Janeiro, and the Brazilian Service of Support for Micro and Small Enterprises (SEBRAE). Each of these organizations provided resources to VivaCred to access a new neighbourhood as part of income-generation or local poverty alleviation plan. **(See Appendix 7 – Geographical coverage of VivaCred operations)** and **(See Appendix 8 – Key stages in VivaCred's expansion)**.

Table 3: VivaCred's operational parameters

Parameters	VivaCred
Active clients	3,407
Average loan worth	R\$ 1,802.00
Accumulated loans	39,074
Loans requested	± 41,000 (by 15,400 entrepreneurs)
Disbursed loans	± 32,000 (attending 11,400 clients)
Interest rate	3.9% /month + TAC of 3-5% (opening credit tax)
Product portfolio	Working capital (4-month loans) Capital expenditure (12-month loans) Capital investment (24-month loans)
Default rate	Average 3,99% (after 180 days) 13.4% of loans delayed for up to 7 days 11.2% of loans delayed for up to 15 days

Parameters	VivaCred
	<p>8.6% of loans delayed for up to 30 days</p> <p>3.4% of loans delayed for more than 180 days</p> <p>In total, more than 36% of loans were delayed</p>
Credit agent's profile	<p>47.5% were men</p> <p>45% were married</p> <p>50% had children</p> <p>50% lived in a slum</p> <p>60% had college education</p> <p>Managed 793 loans</p> <p>Had 29 years old</p> <p>7.6 years of work experience</p> <p>Stayed less than 4 years</p>

Source: Agier, Isabelle and Juliano Assunção (2009).

As of 2007-2008, VivaCred was facing several internal challenges. First, its market positioning lacked focus, which turned out to be potentially dangerous in an increasingly competitive market. This dispersion led to higher operational costs which were compounded by heavy administrative processes and inefficient information systems. Second, the organization seemed to lack solid and efficient routines; for instance VivaCred's employees were not accustomed to using agendas to plan their weekly or monthly activities and internal operating controls were limited. Third, Vivacred's microcredit methodology was not applied homogenously, which contributed, among other things, to a relatively high payment default rate. Fourth, VivaCred was slow at redistributing financial resources to the market through microcredit loans²⁷. Fifth, VivaCred's failure to work with group-lending methodologies also limited the increase of its client base as lending groups allowed to register at least three

²⁷ Pérez, Gema (2005). *Viva Cred: Brasil*, Planet Rating: Transparency for microfinance development, July.

clients simultaneously and contributed to accelerate expansion. Finally, VivaCred's organizational culture often relied on "exceptions to the rule". For instance, clients paying their loans with a few days of delay had almost become a commonly accepted practice²⁸. All these factors negatively impacted its productivity. Growth was stagnant.

Crediamigo: figuring out a market entry strategy

This manager and the committee were pondering on the pros and cons of each of the two entry modes.

Partnership agreement

Creating a partnership agreement with VivaCred would have the following advantages. First, operating under a local brand would greatly facilitate Crediamigo's entry on Rio's competitive market in which Crediamigo was unknown. Second, VivaCred's local experience in promoting microcredit would diminish significantly costs. This local knowledge was especially relevant as VivaCred operated in some of Brazil's most violent neighborhoods; VivaCred had experience in working with security issues including dealing with groups such as militia, drug dealers, among others. Third, partnering with VivaCred would provide Crediamigo with an existing client base. Finally, it would prepare Crediamigo for other partnerships in other Brazilian regions.

Meanwhile, partnering with VivaCred carried several risks. First, the manager was aware that Crediamigo would need to work hard to improve discipline both internally and with clients. He perceived a clash between Crediamigo – as part of a Development Bank –, and VivaCred, which stemmed from the NGO microfinance world. The Manager:

"Many microfinance NGOs have problems because they set up their business, start lending, and the people [think]: 'I won't pay back that NGO. Nothing will happen to me. It won't do anything. I won't lose anything with that. I will then take [a loan] in another one, and then another.' So, [a certain] level of trust will need to be present. For the community, the bank generates this, the people fear the bank. They know that the bank does things with professionalism".

Second, he expected VivaCred's reorganization would be a difficult process due to its complexity; he expected employees' resistance: VivaCred was an organization on its own. It had its proper mission, vision, culture and values. How would Crediamigo bring it closer to its own values, culture and processes? Third, he expected VivaCred's credit agents to be afraid of losing some of their perks in the reorganization process. For instance, they had an easy access to cars and/or motorcycles, and were paid regardless of their productivity. Fourth, he was also concerned that VivaCred's credit agents worked exclusively with individual lending and that their motivation for lending group methodologies would be low; he knew that, in 2006, experiences to introduce group lending in Zona Oeste and Zona

²⁸ Carvalho, Fernanda (2010), *Idem*

Sul/Centro in Rio had failed. From his experience, he knew that a credit agent unconvinced of the relevance of the group lending methodology performed poorly at selling a group-lending product to a client. According to Manoel Neto, Crediamigo business manager:

“Until they (agents) believe it can work [lending groups], it takes time. People don’t come to believe just because I am telling them, because I am... the success, that there are measurable results suggesting that I have a good [organizational] development, that ‘I am a success’.”

Setting up a new organization

The second option consisted of setting up a new organization in Rio. This option had several advantages. First, Crediamigo could prevent caveats related to the acquisition of another organization and shape the new organization. This approach, however, also had its weaknesses. First, Rio de Janeiro was a highly competitive market as for microfinance; most of Brazil’s largest microfinance organizations were active in Rio and the offer for easily accessible loans was high. Many “potential” clients were already indebted with one organization or another. Second, Banco do Nordeste and Crediamigo were little known in Rio.

Third, insecurity was a major issue in many Rio de Janeiro areas where Crediamigo aimed to operate. Criminality rates in Rio de Janeiro’s slums were much higher than in Fortaleza, where Crediamigo had a 10-year long presence in the focus area for Banco do Nordeste²⁹. Operations in micro-finance in Rio’s slums seemed a daunting task; violence could slow down or stop the program and put at risk the security of credit agents³⁰ who could be caught in the middle of gunfires and get injured or killed. In addition, it was well-known that gangs and militia³¹ often expected credit agents to pay a fee just to be able to enter specific areas. Militias referred here to a military force composed of ordinary citizens operating in slums of Rio de Janeiro, and which imposed a fee to any property or shop keeper in return for its alleged protection against other armed groups in lawless areas. Crediamigo officers had also been informed that landowners or business owners in Rio slums usually had to pay a monthly tax to the militia to be “taken care of”; this held true for any organization willing to implement a financial service point in the area³².

²⁹ The representation of Crediamigo in the State of Ceara could be considered the greatest if we take into account that BN was headquartered in the State capital, Fortaleza, and that the State had the largest number of Crediamigo units (gathering service units and points). Ceara had a total of 51 service points, whereas Bahia, which would come second in the ranking, had 37.

³⁰ Interview with Ms. Andréia Baima, Crediamigo coordinator at Montese agency, on the challenges related to the implementation of Crediamigo in Rio de Janeiro. November 2008.

³¹ See Interview with Ms. Andréia Baima (2008), *Idem*

³² *Ibid.*

Partnering with VivaCred?

The manager considered very seriously the factors related to Crediamigo's mode of entry into the Rio de Janeiro market. On the one hand, adopting the partnership strategy with VivaCred implied running the risk of facing significant barriers throughout the reorganization process and maybe obtaining disappointing results. On the other hand, setting up a new organization could result in a long and difficult adaptation process to the Rio de Janeiro market with equally uncertain results. Should the implementation fail to provide good results, Crediamigo would have lost significant financial resources and precious time, beyond showing its limits to its competitors, as well as its own employees. The planning committee had a month to make a decision; and it had to be the right decision.

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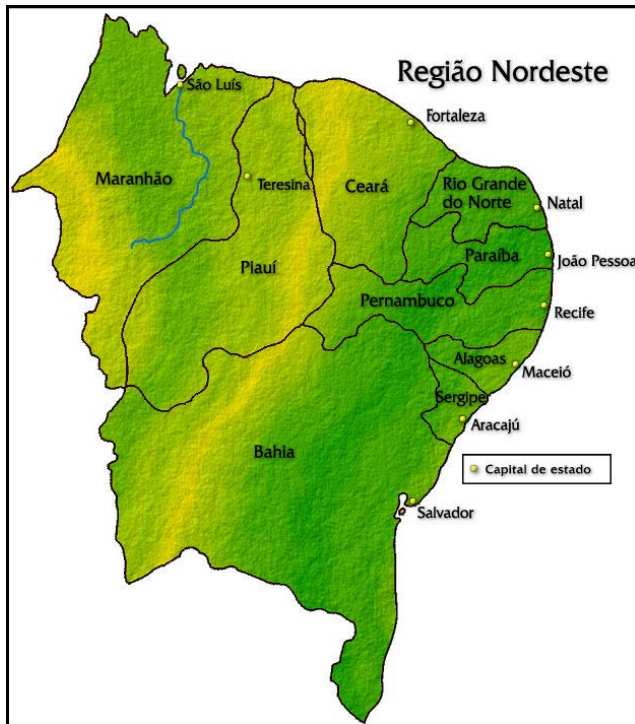
Appendix 1: Crediamigo's operational performance

	2002	2003	2004	2005	2006	2007	2008
Active Loan (million US\$)* <i>Prestamo Activo (millones US\$)</i>	24.56	27.84	36.47	55.99	79.81	132.44	154.99
Active Customers (31/12)* <i>Clientes Activos (31/12)</i>	118.955	138.497	162.868	195.378	235.729	299.975	400.413
New Customers Served <i>Clientes Nuevos Asistidos</i>	81.305	81.180	81.564	90.197	107.692	142.795	194.700
Customers Served (Accumulated) <i>Clientes Asistidos (Acumulado)</i>	263.154	344.334	425.898	516.095	623.787	766.582	961.563
Loans Spent (Quantity) <i>Préstamos Desembolsados (Cantidad)</i>	359.216	434.810	507.807	595.742	690.415	824.782	1.009.236
Loans Spent (million US\$) <i>Préstamos Desembolsados (millones US\$)</i>	98.00	119.9	150.7	225.2	299.2	448.4	465.3
Average Value Disbursed (US\$) <i>Valor Promedio de los Préstamos (US\$)</i>	272.8	275.8	296.8	378.0	433.4	543.7	461.1

*Are considered as active the operations with no delay or those inserted in the range of 1 to 90 days of delay.

Source: Banco do Nordeste (2008). "Crediamigo 2008 Annual Report". Retrieved on May 19, 2010, from http://www.bnb.gov.br/content/aplicacao/produtos_e_servicos/crediamigo/docs/relat%C3%B3rio_2008_ing_esp.pdf

Appendix 2: Maps of Brazil and of the Northeast



Source: Rede Brasileira (2006). "Mapa da região nordeste". Retrieved on May 29, 2010, from

<http://www.redebrasileira.com/mapas/regioes/nordeste.asp>



http://www.lonelyplanet.com/maps/south-america/brazil/map_of_brazil.jpg (Retrieved October 20, 2011)

Appendix 3: Crediamigo microcredit products

Product	Characteristics
Giro Popular Solidário (group lending)	<ul style="list-style-type: none"> • Working capital for the purchase of raw material and/or merchandise; • Loans from R\$ 100.00 to R\$ 1000.00; • Loans for groups of 3-10 individuals; • Interest rate of 1.32% per month + TAC of 3% (opening credit tax); • Loan duration up to 12 months; • Fixed fortnight or monthly payments; • Guaranty: Peer enforcement mechanism
Giro Solidário (group lending)	<ul style="list-style-type: none"> • Working capital for the purchase of raw material and/or merchandise; • Loans starting at R\$ 1000.00, they may reach up to R\$ 15,000.00; • Loans for groups of 3-10 individuals; • Interest rate from 2% to 3% per month + TAC of 3%*; • Loan duration up to 12 months; • Fixed fortnight or monthly payments; • Guaranty: Peer enforcement mechanism
Crediamigo Comunidade (group lending)	<ul style="list-style-type: none"> • Working capital for the purchase of raw material and/or merchandise; • Loans from R\$ 100.00 to R\$ 1000.00; • Loans for groups of 15-30 individuals; • Interest rate of 0.99% per month + TAC of 3%; • Loan duration up to 12 months; • Fixed fortnight or monthly payments; • Guaranty: Peer enforcement mechanism
Giro Individual (individual lending)	<ul style="list-style-type: none"> • Working capital for the purchase of raw material and/or merchandise; • Loans from R\$ 300.00 up to R\$ 15,000.00 (limit of indebtedness) • Interest rate from 2%-3% per month + TAC of 3%; • Loan duration up to 12 months; • Fixed fortnight or monthly payments;

	<ul style="list-style-type: none"> • Guaranty: co-signer with proven sufficient income.
Investimento Fixo (Individual lending)	<ul style="list-style-type: none"> • Resources to purchase machinery/equipment and/or renovations at the shop; • Loans from R\$ 300.00 to R\$ 8000.00; • Interest rate of 2,95% per month + TAC of 3%; • Loan duration up to 36 months; • Fixed monthly payments; <p>. May accumulate more than one “fixed investment” operation, with co-signer</p> <ul style="list-style-type: none"> • Guaranty: co-signer with proven sufficient income.
<p>* The interest rate may be reduced depending on the number of loans taken at Crediamigo, by the client or the group member working with Crediamigo for the longest period.</p> <p>- Credit renewals may receive increases of up to 200% when the borrower is client for more than a year.</p>	

Source: Fernanda Carvalho (2010). *Expansão territorial de um programa de microcrédito por meio de parceria estado-terceiro setor: o caso Viva cred-Crediamigo*, M.A. Thesis, Rio de Janeiro, Fundação Getúlio-Vargas, 146p.

Appendix 4: Key stages in Crediamigo's expansion (1997-2008)

Year	Service points	Number of loans	Main achievements
1997	05	302	Implementation of the pilot project and creation of the product Giro Solidario.
1998	50	59,834	Opening of 45 service points
1999	73	112,276	Opening of 23 service points and creation of the product Giro individual.
2000	108	165,665	Loan agreement with the World Bank and opening of 35 service points.
2001	160	250,119	Creation of the product Investimento Fixo and opening of 52 service points.
2002	160	359,216	Institution of the BN Microcredit Reward
2003	160	434,810	Creation of the product Giro Popular Solidario and partnership with Instituto Nordeste Cidadania NGO to operate the program in the Northeast, the North of Minas Gerais, and the North of Espirito Santo.
2004	160	507,807	Opening of a checking account for the clients. The program starts operations in Belo Horizonte, first service point outside of the polygon of droughts (northeast).

Year	Service points	Number of loans	Main achievements
2005	160	595,742	Creation of the product Comunidade. The program starts operations in Brasilia-DF.
2006	160	690,415	Creation of the product Crediamigo Life Insurance.
2007	161	824,782	Launch of pamphlets for Business and environmental Orientation.
2008	170	1,009,236	Reward of Excellence in Microfinance (Inter-American Development Bank)

Source: Fernanda Carvalho (2010). *Expansão territorial de um programa de microcrédito por meio de parceria estado-terceiro setor: o caso Viva cred-Crediamigo*, M.A. Thesis, Rio de Janeiro, Fundação Getulio-Vargas, 146p.

Appendix 5: Commercial microcredit vs. Public and NGO Microcredit organisations

Feature / Organization	Commercial bank microcredit programs	Finance companies
Market segment	Credit for productive activities	Credit for any purpose
Subscription process	Long	Short
Required documentation	Many	Only a Brazilian ID
Interest rate	Relatively low	High
Loan amount	Small; increasing gradually	Relatively large loans from the start
Guaranty	Lending group or co-signer	No guaranty required

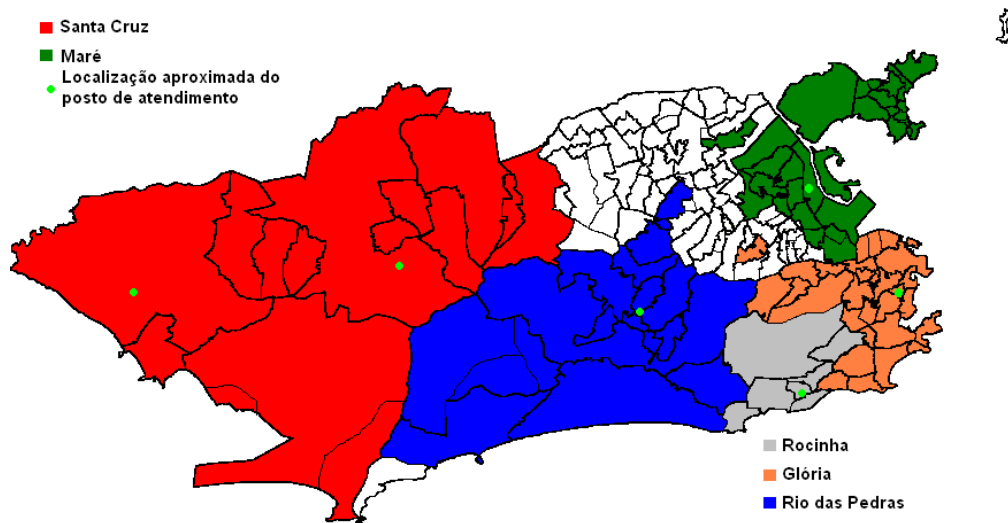
Appendix 6: VivaCred's credit methodological process

N	Step	Description
1	Client request	Eligibility criteria: (1) own a business for at least six months; have a good credit record; (3) have identification documents – for himself, his co-signer(s), and his business; and (4) presentation of a short business plan.
2	Credit agent's visit	The credit agent visits the client and his co-signer to gather information on collateral, solvency and business risk. The credit agent meets the applicant at the business location and asks him to fill in a questionnaire about his personal situation, the household budget, and the financial situation of the business. The co-signer is then asked the same questions, though less financial information is required. Data collection is demanding since the clients usually do not have any budget and they hardly keep track of financial transactions. Thus, the credit agent often gathers information through indirect questions (ex. asking how much the applicant pays for power and gas). At this point, social skills, experience and knowledge of other businesses operated in slums are very important. The credit agent finally establishes with the client the proposal's parameters (ex. loan size and instalments).
3	Credit committee evaluation	The application is presented to the credit committee, which makes the final decision regarding the loan approval (including its terms).
4	Repayment	Should the loan be approved, the client receives the money and begins to make fortnight or monthly repayments in the following month. The credit agent can go collect the money himself.
5	Loan renewal	When the loan is entirely paid back without significant delays, the client gets access to another loan, possibly of higher value. When the loan is repaid without any delay, the registration fee (TAC) of the subsequent loan is reduced.

N	Step	Description
6	In case of payment default	Everyday, the credit agents receive a list of delayed contracts. After 1-2 days of delay, they call and/or visit the client. They help him to find ways of paying his debt (ex. negotiating new instalments). They try to get the repayment within 30 days, as it gets them a bonus. After 180 days, any non renegotiated loan is considered lost and the client's name is added to SPC.

Source: Agier, Isabelle and Juliano Assunção (2009). *The role of credit officers in the performance of microcredit loans: Evidence from Vivacred in Brazil*, Bruxelles, Université Libre de Bruxelles, 28 p.

Appendix 7: Geographical coverage of VivaCred operations



Source: Pérez, Gema (2005). *Viva Cred: Brasil*, Planet Rating: Transparency for microfinance development, July.

In English: Approximate location of VivaCred service points

Appendix 8: Key stages in VivaCred's expansion (1997-2007)

Year	Service points	Number of loans	Main achievements
1997	01	456	<p>Partnership agreement with IPC-Internationale Projekt Consult for the assimilation of the credit technology;</p> <p>Financial support of the IADB requested;</p> <p>Operational partnership with FinInvest (a finance company) and BNDES to initiate and consolidate operations;</p> <p>First operations in Rocinha, Rio's largest slum.</p>
1998	02	1,229	<p>Inauguration of a service point in Rio das Pedras;</p> <p>Expansion of Rocinha service point's coverage to Copacabana communities.</p>
1999	03	1,745	<p>The State government provided space for the implementation of a service point in Cantagalo community (which later became Copacabana service point);</p> <p>VivaCred becomes an OSCIP (Public interest civil society organization).</p>
2000	04	2,599	<p>Inauguration of Maré service point through a loan agreement with the Secretariat of Employment of Rio de Janeiro State;</p> <p>Partnership agreement with SEBRAE (Brazilian service of support to micro and small enterprises) for support in IT and marketing.</p>

Year	Service points	Number of loans	Main achievements
2001	04	2,396	<p>New contract with BNDES for the Institutional Development Program, aiming at strengthening the entity's development;</p> <p>Copacabana service point renamed Zona Sul/Centro and relocated in Laranjeiras neighbourhood, with extended coverage.</p>
2002	05	2,617	<p>Partnership agreement with Rio de Janeiro municipal government and the European Union to operate a microcredit program to finance starting businesses.</p> <p>Inauguration of Viva Rio regional headquarters in Santa Cruz, in Rio de Janeiro West, with space ceded to VivaCred for the implementation of a new service point. For the first time, Viva Cred and Viva Rio cooperate and integrate their respective teams.</p>
2003	06	3,433	<p>The partnership with Viva Rio allowed the opening of a service in Campo Grande;</p> <p>The Zona Sul/Centro service point is transferred to Viva Rio's new headquarters in Gloria, extending its coverage.</p>
2004	07	4,067	<p>Agreement with the Municipality of Macaé for the opening of a service point in the city. Initiation of credit operations. Agreement with the Secretariat of Employment of Rio de Janeiro State and provision of the very first loans through the Social Bank Program.</p>
2005	07	6,232	<p>Banco Popular do Brasil started operating at Rocinha service point, in agreement with VivaCred.</p>

Year	Service points	Number of loans	Main achievements
2006	06	5,541	<p>To join forces for local development, an agreement is signed with the Municipality of Macaé for its participation in the program Macaé Facilita (in English: Macaé makes it easier);</p> <p>Agreement with SEBRAE/Rio de Janeiro to improve credit operations software;</p> <p>Santa Cruz and Campo Grande's operations merged through the inauguration of Zona Oeste service point, located in Inhoaíba neighbourhood, to get closer to the targeted population;</p> <p>Launch of the product Crédito Solidario for groups of three or more microentrepreneurs in Zona Oeste service point, with the support Sao Paulo Confia (an MFI);</p> <p>Zona Sul/Centro service point started using Crédito Solidario.</p>
2007	06	4,206	<p>New contract with BNDES to make resources available for the credit fund;</p> <p>Agreement with Banco Popular do Brasil, maintaining the banking agent operations at Rocinha service point and making resources available for the credit fund.</p>
2008	06	4,553	<p>Agreement with BNDES to provide resources for the Institutional Development Program.</p>

Source: Fernanda Carvalho (2010). *Expansão territorial de um programa de microcrédito por meio de parceria estado-terceiro setor: o caso Viva cred-Crediamigo*, M.A. Thesis, Rio de Janeiro, Fundação Getulio-Vargas, 146p.