

WWP Series

CASE STUDY

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The CrediAmigo program: urban productive inclusion through microcredit

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Executive summary

The Banco do Nordeste (BNB) created the CrediAmigo program in 1997 to provide microcredit services to informal entrepreneurs in Northeast Brazil, where the program currently serves more than two million active clients. It is the best consolidated program of its kind in Latin America. In Brazil, it is a remarkable achievement given the historical paucity of specific actions focused on the needs of the low-income population. Constant innovation in the business models and the ever-changing guidelines and rules governing this type of financial service provide the main *raison d'être* for this case study by the Brazilian Learning Initiative for a World without Poverty (WWP).

The main challenge faced by the CrediAmigo program is *how to deliver microcredit in an organized and client-focused way to enable the poor population in Brazil's Northeast to pursue urban productive activities, while simultaneously preserving the economic viability of the financial institutions.* A second challenge (addressed in detail in this study) concerns the implementation of the program. This can be summarized in terms of the

following question: *Given the need to deliver productive microcredit for poor people in Brazil's Northeast, how can the program be scaled up at low risk and low cost while maintaining its quality and operational sustainability?*

In the municipalities where the BNB operates, sustainable economies of scale have been achieved in the delivery of this type of financial service (provision of microcredit) which depends primarily on close lender-client relationships. This approach is clearly costly in operational terms. Our study highlights the need to address and, where appropriate, question the core guidelines applied by the lending institutions which do not always consider the specificities of actions targeted at the poorer population - the priority target audience for microfinance. Furthermore, given the creation at the time of the expansion of CrediAmigo of the innovative partnership with a Public Interest Civil Society Organization (OSCIP), it was vitally important for the latter to adapt its legal structures and merge synergies with the BNB in order to create the current shape of the program.

INTRODUCTION

Microcredit is an important tool for financial inclusion and socioeconomic development. However, the challenge in today's world is how best to deliver financial services to poorer people, especially the provision of loans to assist them to develop productive activities. The commercial banks normally have scant interest in providing loans for small businesses in the informal sector, often rating businesses without proven incomes or property-based guarantees as being economically unviable or potentially high-risk borrowers. Furthermore, they assume that low value loans generate relatively higher operational costs and undermine the profitability of the lending institutions involved in the microcredit sector.

In addition to financial institutions being potentially exposed to higher operating costs and risks, the implementation and expansion of microcredit programs is often hampered by inflexible rules and regulations imposed by the financial authorities (the Central Bank in Brazil's case). Progress is also constrained by the need to address the complex balance between financial/productive factors and issues related to the poorer population's specific requirements for achieving financial and productive insertion.

These drawbacks have resulted in the Guided Productive Microcredit (MPO) portfolio in Brazil representing a mere 0.4% of the National Financial System's (SFN) current credit transactions. The Northeast region accounts for 52% of this portfolio, mainly due to the deployment and consolidation of the CrediAmigo program over the past 20 years.

The Banco do Nordeste (BNB) program provides an example of how many of these problems can be tackled in a regional context of acute

poverty. From 2012 to 2015, total funding by BNB microcredit programs accounted for 71% of the loans and 74% of the microcredit beneficiary clients served nationally by four public banks - BNB, Banco da Amazônia, Banco do Brazil and Caixa Económica Federal (MTE, 2015).⁴ The Northeast region's population is nowadays very familiar with the schemes introduced by BNB, which now form part of the economic culture of many communities (e.g. solidarity groups⁵).

In this study, we chose to examine the BNB approach on account of this bank's success in operating a microcredit service. Our study reveals several ways which might benefit policy managers and practitioners, especially by learning from BNB's experience in the field and by considering factors that might enhance existing initiatives, or lead to the introduction of new microcredit policies in other regions of Brazil or even in other countries.

The core aim of the study is to examine how the BNB faced the challenge of expanding urban productive microcredit for the poorer population through the implementation of the CrediAmigo program. WWP was attracted to this case by the large reach and scale achieved by the program, as well as by its level of consolidation both internally in the BNB institution and externally among the residents of communities in the Brazilian Northeast.

By the end of 2016, CrediAmigo had 2 million active clients who had received around R\$2.8 billion (US\$ 1.7 billion⁶) in loans, with an average value per loan of R\$ 1,900.00 (US\$ 1,144.58) at interest rates of between 1.7% and 2% per month, depending on the type of product⁷. The program has run for 20 years and now operates in around 2000 of Brazil's 5570 municipalities,

4 The Management Report of the National Guided Productive Microcredit Program, 3rd quarter, 2015, contains the 2015 values (latest available) up to the 3rd quarter of that year. To obtain the final calculations for a per annum comparison between the four public banks operating guided productive microcredit schemes, the value of the 4th quarter of 2014 was added to the first three quarters of 2015 to arrive at an estimate for the final quarter of 2015, thus enabling a comparative overview of four complete years. It is worth noting that the BNB values refer to both the *Crediamigo* and *Agroamigo* programs. (See Table A1 at Annex 1).

5 According to Mattos (2014: 56), the solidarity groups that BNB established during deployment of the Crediamigo program were gradually absorbed in the economic culture of the low-income population of the Northeast. When other lending institutions established microcredit agencies in the region people were already familiar with the type of services offered.

6 All FOREX conversions in this report are based on the purchasing power parity method, referenced to December 2011 (World Bank data, 2011). One US\$ had a purchasing power in local Brazilian currency of R\$1.66 on that date. Details available at: <http://data.worldbank.org/indicator/PA.NUS.PRVT.PP>

7 See Annex III.

with some 500 service outlets (“units”). From the risk management point of view, it is important to note that the CrediAmigo default rate is relatively low (around 1.9% in 2016)⁸. In 2014 the default risk rate was better: a mere 0.6%, following several years when even lower average rates were recorded.

To achieve such positive results regardless of the size of the CrediAmigo program can be largely explained by the pivotal partnership forged between BNB and the Northeast Citizenship Institute (INEC), a Public Interest Civil Society Organization (OSCIP)⁹. INEC is responsible for implementing BNB guidelines and strategies for selecting, training and hiring staff, including loan officers (on a performance pay basis) to run the program, establish service units, monitor microcredit service procedures and methods, and submit activity and outcome reports.

This partnership enabled BNB (a public bank) to expand the CrediAmigo program, notwithstanding previous international experiences where such programs are almost always run by private agencies. INEC's flexible approach to program implementation, especially regarding its management of the service units and loan officers, confirmed that these management activities need to be tackled as specific functions rather than considered as minor items in the standard portfolios of the

financial institutions concerned. A particularly important aspect of BNB's strategy was also to strengthen the CrediAmigo brand identity, which helped to bring the program significantly closer to people in the communities where its services are available.

Knowledge has been built up gradually on every aspect of the enterprise and its target audience, starting with pilot projects and continuing with regular monitoring of results¹⁰ and costs - an approach which heralded the introduction of innovations over time, as well as boosting an increasingly favorable regulatory and institutional environment.

While our study does not attempt to describe the numerous issues subsequently involved in program implementation, it examines some of the reasons for the success of the BNB program: (i) adoption of a robust guided productive microcredit and *proximity finance* methodology; (ii) deconstruction of taboos that militate against small business viability and small entrepreneurs' management capacities; (iii) adoption of a “prompt repayment” bonus or reward to encourage timely payment of loan installments¹¹; (iv) product diversification to meet growing client demands; and (v) employment of an operational management model to include hiring staff with qualifications relevant to microcredit operations.

⁸ The Brazilian economy experienced a period of economic slowdown in 2015-16. GDP fell by 3.8% in 2015 and 3.6% in 2016. In these circumstances defaults increased. In 2015 the number of CrediAmigo customers increased by 10% over 2014 and in 2016 by only 0.6%. Indebtedness rose from 0.6% in 2014 to 0.9% in 2015 and to 1.9% in 2016.

⁹ OSCIPs are private enterprise-created NGOs, officially certified by the federal government providing they can prove compliance with management transparency requirements, etc. OSCIPs can enter into agreements and partnerships with the government as well as receive donations (tax deductible) from private individuals and firms.

¹⁰ This monitoring process commences with a set of indicators to indicate portfolio growth by State, loan officer and service outlet (unit). Underperforming units are visited by monitoring staff without notice to analyze the causes of problems, to present recommendations *in situ* and submit suggestions and other data to the central coordination for administrative decision-making purposes.

¹¹ Lower interest rates for prompt payers.



INSTITUTIONAL CONTEXT OF THE CREDIAMIGO PROGRAM

BNB is a multiple financial institution established in 1952, organized as a mixed-capital publicly-traded company, with over 90% of its capital controlled by Brazil's Federal Government. Headquartered in Fortaleza (capital of the state

of Ceará), the bank operates in nine Northeastern states¹² and in semiarid areas of northern Minas Gerais and Espírito Santo. BNB's catchment area is the least developed in Brazil and has the worst poverty indicators (Table 1).

Table 1 - BNB and Northeast Brazil

Variables	Data
Number of BNB Employees (December 2016)	7,214
Number of BNB branches (December 2016)	316
Number of municipalities in which BNB operates (December 2016)	2,000
Northeast Region GDP in 2014 (R\$ billion / US\$ billion)	R\$ 805 / US\$ 485
Brazil's GDP in 2014 (R\$ billion / US\$ billion)	R\$ 5,778/US\$ 3,481
Northeast GDP as % of Brazilian GDP	13.9%
GDP per capita of the Northeast in 2014 (R\$ / US\$)	R\$14,329/US\$ 8,632
GDP per capita of Brazil in 2014 (R\$ / US\$)	R\$ 28,498 /US\$ 17,167
GDP per capita of the Northeast / GDP per capita of Brazil	50.13%
Estimated number of inhabitants of the Northeast Region in 2016	56,915,936
Estimated population of Brazil in 2016	206,102,000
Population of Northeast as % of population of Brazil	27.6%

Source: BNB, Annual Report 2016; IBGE / Brazilian Central Bank.

BNB's role is to promote the development of the region, execute public policies and manage the Constitutional Fund for Financing the Northeast (FNE) - its main funding source. The bank operates in all sectors of the economy with customers large and small, with priority focused on small and medium firms. In 2015, BNB's total assets were R\$ 41.4 billion (US\$ 29.94 billion), of which R\$ 24.1 billion (US\$ 14.52 billion) were loan transactions. In December 2015, the bank's assets amounted to R\$ 2.84 billion (US\$ 1.7 billion) (Banco do Nordeste, 2015)

Although the program's regulatory framework was created in 1997, an important milestone in the program's expansion was the launching, in 2005, of the *National Guided Productive Microcredit Program* (PNMPO), a policy initiative regulated by Law No. 1110 / 2005, designed to promote microfinance institutions (IMF). With a remit to encourage popular, formal and informal microentrepreneurs engaged in small productive activities with an annual turnover of up to R\$ 120,000 (US\$ 72,200), the PNMPO approach consisted of fostering direct relationships with

12 Maranhão, Piauí, Ceará, Rio Grande do Norte, Paraíba, Pernambuco, Alagoas, Sergipe and Bahia.

entrepreneurs based on personal visits to clients by loan officers.

By the time PNMPO was launched, BNB had already structured and consolidated the CrediAmigo program to the extent that it was considered a national reference. Meanwhile, the

introduction of PNMPO, a legally-sanctioned program provided with funds for distribution as microcredit, made it possible to negotiate partnerships between NGOs and financial institutions, and thus provide a major boost to expanding microcredit-related policies (see Table 2).

Table 2: Details of the PNMPO

Goals	<ul style="list-style-type: none">• Help generate jobs and income for popular microentrepreneurs;• Provide resources for guided productive microcredit;• Provide technical support to guided productive microcredit institutions to help strengthen microcredit delivery to popular entrepreneurs.
Target Audience	Popular, formal and informal microentrepreneurs engaged in small productive activities with an annual turnover of up to R\$ 120,000 (US\$ 72,200).
Methodology	Approach based on forging direct relationships with entrepreneurs through visits by loan officers from PNMPO-authorized microcredit institutions. Loan officers are responsible for undertaking socio-economic surveys with microentrepreneurs.
Funding Sources	Worker Protection Fund (FAT) and 2% of Central Bank compulsory deposit requirements (“demand deposits”).
Regulatory Framework	<ul style="list-style-type: none">• Created in 2004 by Provisional Measure No.226.• Amended by:<ul style="list-style-type: none">◦ Law 11,110 of April 25, 2015;◦ Law 12,249 of June 11, 2010;◦ Law 12,666 of June 14, 2012 (subsidy);◦ 12,810 of May 15, 2013 (subsidiaries);◦ Regulated by Presidential Decree 5,288 of 2005;◦ Updated by Decree: No. 6,607 of October 21, 2008 (gross annual income of up to R\$ 120,000 - US\$ 72,200).• Resolutions:<ul style="list-style-type: none">◦ Resolution No.511, October 18, 2006 / CODEFAT;◦ Resolution No. 720, October 30, 2013 / CODEFAT;◦ Resolution No. 4,000, June 25, 2011 / CMN;◦ Law No. 4,153 of October 30, 2012.

Source: Ministry of Labor-PNMPO

Although the CrediAmigo program existed before the advent of the PNMPO regulatory framework, the above regulatory and policy framework boosted expansion of the program by facilitating access to low-cost funding via

Mandatory Interbank Deposits (DIN) from other banks that had previously shown no interest in microcredit services¹³. Table 3 shows that 33% of the CrediAmigo portfolio is funded by DINs at the relatively low cost of 2% per year.

Table 3 - CrediAmigo funding sources

Funding Source	Cost	Funding source as a % of CrediAmigo total funding (2016)
Mandatory Interbank Deposits (DIN)	2% per year	33%
FAT - Worker Protection Fund	TJLP-Long-Term Basic Interest Rate + 6% per annum	17%
CDI- Financial Market Interbank Deposits Certificate	13% per annum	50%

Source: BNB Microfinance Superintendence

A further event that impacted the development of the CrediAmigo program was the introduction in 2011 of Crescer (the National Microcredit Program). According to the authors Higgins and Neves (2016), this was effectively a relaunching of the PNMPO, also broadly inspired by BNB's experience, and "basically a new attempt to improve the operational and financial viability of microcredit contracts" (2016: 12) in an effort to boost interest in microcredit by other public banks.

Although the Crescer program retained and improved many features of the PNMPO, interest rates were reduced from 60% to 8% p.a. (0.64% per month), and the Initial Credit Facility Rate went from 3% to 1%. Microcredit transactions were also exempt from the government's Financial Transactions Tax (IOF). Although Crescer was established to assist the massive expansion of microcredit above and beyond the scope of BNB operations, the fact that since the CrediAmigo structure was already in place and financially sustainable without the need for subsidies (and had already been operating for around 15 years), the introduction of Crescer threatened to undermine BNB's ability to sustain the CrediAmigo program.

These changes meant that BNB could no longer continue to charge its previous interest rates (average of 2% per month), since this would risk losing clients to other banks. In reality, the main concern involved in applying *Crescer* subsidies to loans arose from the transient nature of this policy approach (these fears were soon justified). At the time, however, this issue was resolved by dividing the customer base into two different products: *CrediAmigo Crescer*, for loans of up to R\$ 2,000,00 (US\$ 1,204.82) for lower-income clients, operating with subsidies and exemptions as defined by *Crescer*; and the *CrediAmigo Complementar* program targeted at higher income customers and which retained all the previous features of the program. In view of the fiscal crisis in Brazil, the *Crescer* Program's subsidy was eventually withdrawn in 2014. This effectively left banks free to work with guided production microcredit operations in accordance with PNMPO rules. In these new circumstances BNB was able to revise its interest rates and resume the level of sustainability that existed before the introduction of *Crescer*.

¹³ According to law, if a bank decides not to apply this mandatory amount to its proprietary microcredit portfolio, it can as an alternative transfer the assets to other banks with an interest rate of 2% per annum. Failure to transfer the funds to another financial institution to apply to its microcredit portfolio renders banks liable to deposit the same amount with the Central Bank at zero cost.¹⁴ A exemplo do público-alvo formado por empreendedores formais ou informais, com faturamento de até R\$ 120 mil por ano.

¹⁴ Retention, for example, of the target audience consisting of formal or informal entrepreneurs with turnovers of up to R\$ 120,000 per annum

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IMPLEMENTATION OF THE CREDIAMIGO: DESCRIPTION AND TRACK RECORD

Preparation for the CrediAmigo program began in April 1997, influenced by international experiences and the restructuring of BNB's business strategy. CrediAmigo was intended to focus initially on non-agricultural entrepreneurs, particularly poorer people in need of cash flow, in large and medium-sized cities.

Some of the decisions taken at this early implementation stage are important for understanding the program's present day features and the challenges involved in its further expansion. These challenges included simplifying loan transactions for borrowers by establishing a single ceiling of R\$ 1,000.00 (around US\$ 1,010 at the time and US\$ 602.41 in 2011), rather than attempting to fix limits in line with income and assets criteria - a complex preliminary exercise.

A further decision taken in the 1990s, and retained in the current CrediAmigo program, was the introduction of short repayment terms and steps towards agreeing larger loans on a step-by-step basis. The initial payment period was fixed at 3 months, with fortnightly or monthly repayments depending on a client's stock turnover. Stepped increases were allowed for customers who demonstrated a capacity for growing their businesses and repaying the loans. Meanwhile, low-income clients requiring smaller loans were attracted to the scheme since they were able to access the funds with a minimum amount of bureaucracy.

The program also provided for solidarity groups¹⁵ to be created by between 4 to 7 individuals, chosen from the immediate social circle of the clients, to be joint guarantors of "solidarity loans". This approach, which differentiated the program from other conventional credit lines, was vital for reaching poorer members of the community who often had no other guarantees to offer apart from their status derived from participation in the CrediAmigo implementation process.

Loans were to be paid jointly and in full by the group members. In the event of delays, the fact that debt renegotiation was not allowed reinforced the group's need to ensure fulfillment of its solidarity guarantee. When the transaction matured the bank returned 15% of the interest charged to clients who repaid on time. This approach, widely welcomed by borrowers, has been retained by the program, contributing substantially to the low CrediAmigo default rates.

Another key element in the design of the CrediAmigo program was the definition of interest rates. While BNB interest rates were traditionally lower (in many cases loans from other portfolios were government-funded and subsidized) the bank decided in the case of the CrediAmigo to launch the program at market rates, which meant charging higher rates of interest to customers¹⁶ to cover costs and risks. This decision marked the end of internal bank resistance to the program since it demonstrated (i) a genuine regional need for these types of loans and (ii) the actual repayment capacity of the target audience which allayed assumptions about higher risks and initial operating costs. CrediAmigo's enhanced operational and financial sustainability underpinned the program's future expansion plans.

These decisions, reflected in subsequent strategies, contributed to meeting the program's principal challenge: gain of scale. By setting ex ante credit limits and "stepped" increases, as well as introducing fixed deadlines for non-renegotiable payments, the program adopted a number of characteristics which it has retained to the present day: simplifying clients' first steps in the loan-granting process, while controlling risks through close monitoring and direct relationships with clients. By rewarding prompt payment of installments and building trust with community solidarity groups, the program began to demonstrate unrivaled knowledge of its target audience. Expansion of the program benefited

¹⁵ A Solidarity Group consists of a voluntary group of people seeking loans. The Group takes joint and several responsibilities for repaying loan installments, thus substituting the traditional individual approach for that of "joint guarantor".

¹⁶ Interest rates at program launch were 5% per month, compared to the market base (SELIC) of around 2% per month.

from this knowledge which led *inter alia* to low levels of customer default, lower unit costs, and lower interest rates.

These first steps, once consolidated, led to a substantial expansion of the program in 2003. The main aim was to meet demand for higher credit limits and new investment modalities, and to explore opportunities for granting loans to individuals. This boosted the creation of new financial products and the transformation of CrediAmigo from a “microcredit” to a “microfinance” program able to deliver services to entrepreneurs in the urban industrial, commercial and service sectors. (See Annex III for details of the portfolio of products and services provided by CrediAmigo).

Two key factors differentiate CrediAmigo products from others. By enabling the participation of at least 20% of solidarity group members in productive activities, the program acts as a major incentive for creating new businesses (whereas in most similar programs the target audience consists exclusively of entrepreneurs who have run established businesses for At least 6 months). A further special characteristic of CrediAmigo is its ability to deal with clients subjected to restrictions imposed by the various credit protection services¹⁷. These restrictions often result from clients missing payment deadlines, or from failure to regularize their status due to bureaucratic

problems - situations not necessarily related to clients' ability to pay.

CrediAmigo's robust adherence to the proximity finance methodology accounted for a substantial part of its success and growing mass appeal. This methodology highlighted, for example, the crucial role played by the loan officers and the routines and procedures focused on close interaction with clients. Recent research on the program by Higgins and Neves (2016) allude to the training received by these officers as being the “secret” of the program’s operational success.

The core role played by loan officers, unlike in conventional credit operations (where loan amounts and installment periods are analyzed and defined by automatic risk calculation methods¹⁸), decisions in the CrediAmigo program are taken directly by the loan officer. Given the direct close interface with clients, the loan officer is in a favorable position to learn about a client's business and entrepreneurial capacity, as well as the market in which he is working. As a result, the officers can better evaluate risks and take decisions regarding loan amounts and repayment terms. This type of close relationship also enhances a client's commitment to apply the funds loaned correctly, resulting in increased sales and improved repayment capacity. Close loan officer-client interface also aims to reinforce borrowers' continuing support for other solidarity group members.

Loan officer training

“Loan officers are eligible for a one-week classroom course after completing three months’ work in the community. Selected officers are initially supervised by a more experienced loan officer and required to follow a distance learning course over the first three months. This course is followed by a test. If the officer reaches the required level in this test he/she is chosen to attend in person a one-week Basic Methodology Course”.

Source: Interview with Helda Lima, Administrative Director of INEC.

¹⁷ Providing such clients have less than three sources of indebtedness and can prove that the debts do not exceed 2.5% of monthly turnover.

¹⁸ Generally based on *credit rating systems*, used by financial institutions to assess the risks of lending to individuals and others. The borrower's credit score or rating forms part of his/her financial history.

The loan officer's primary task is to establish a good relationship with the target community, followed by efforts to make contact with specific potential customers and prepare a socioeconomic survey to obtain a clear idea of clients' credit requirements. This is followed by further analysis and the actual release of monies. Granting a loan must take into account the specific cycle of the economic activity to be funded and the client's repayment capacity. This approach, together with the quality of loan

officer training makes an important contribution to the program's success, as evidenced by the positive indicators to date (especially the low default levels) and the fact that loans are fully released within 7 working days. The final stage - credit monitoring - involves a number of other steps by loan officers, such as collection visits to clients, financial guidance for clients pending credit renewal, client portfolio scrutiny, and default management. Figure 1 outlines the various stages of the process.

Figure 1: CrediAmigo operations

First stage (pre-sale): initial contact made by the microcredit loan officer with the community and potential clients, through promotional visits and informative group presentations regarding the aims of the program, loan conditions, requirements and responsibilities.



Loan release stage (sale): formation of the solidarity group, contact with each potential borrower in the group to include recording borrower details and opening the account, preliminary visits, formalization, analysis, approval of the collective loan proposal, signature of the joint contract and release of funds.



Credit management stage (post-sale): monitoring visit to solidarity groups to track progress of the investment and provide guidance, undertake collection, evaluate the credit history of clients for loan renewal, and manage loan portfolio outcomes.

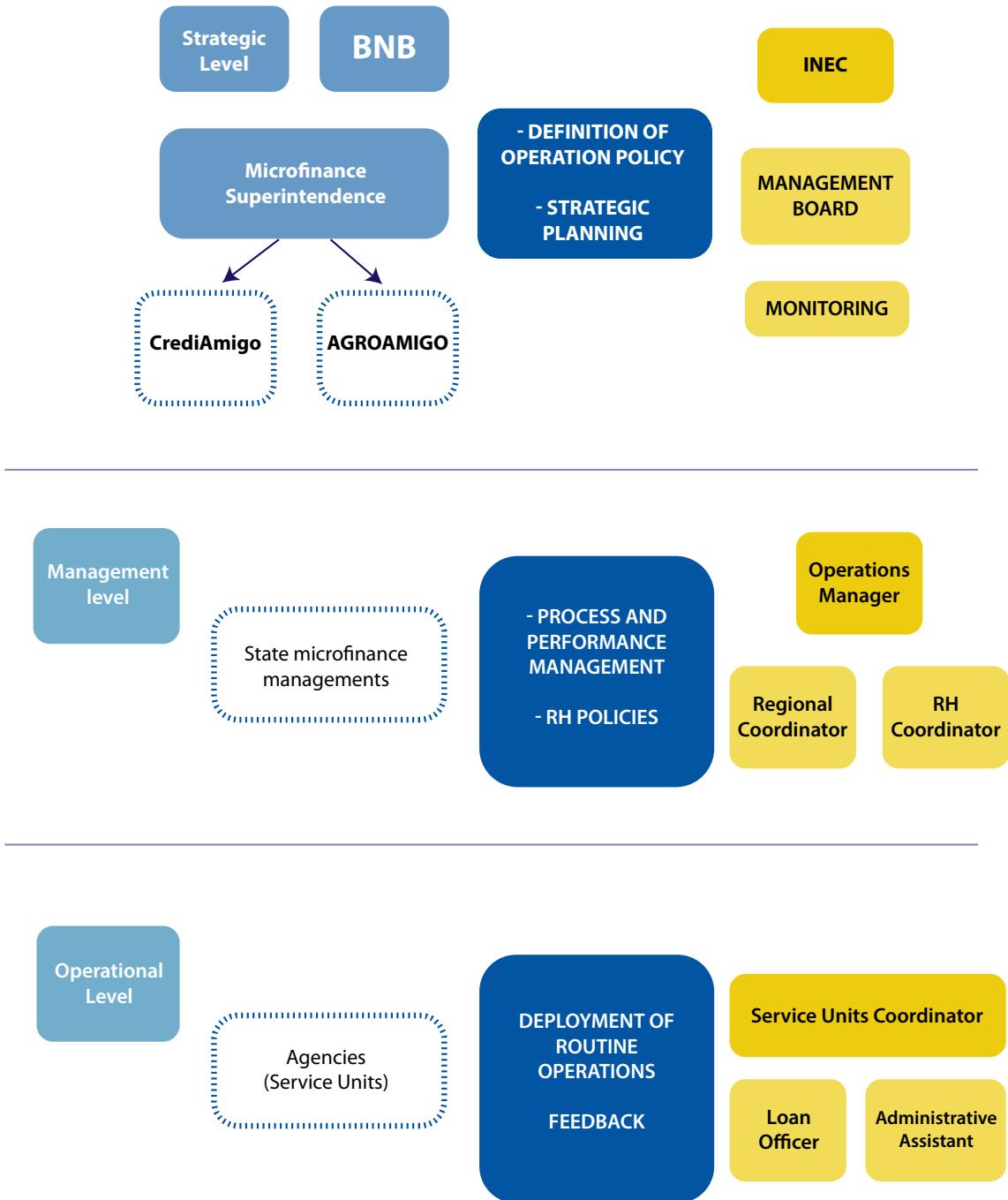
The partnership with INEC¹⁹, in force since 2003 and facilitated by PNMPO from 2005, was an important milestone in the expansion of the CrediAmigo program. Under the new framework, INEC was made responsible for operating the program based on three interconnected processes: (1) selection, training, recruitment and management of human resources; (2)

implementation of the MPO methodology; and (3) management of the microcredit portfolio, including monitoring program outcomes and cases of default²⁰. Meanwhile, BNB remained responsible for the strategic management of the program and for providing funding for the overall portfolio and paying INEC operating costs. Figure 2 displays the joint BNB/INEC management model.

¹⁹ The INEC emerged from a BNB employees' association (Citizens' Action Committee) which became a formal NGO in 1996.

²⁰ Live interview with Helda Lima, Managing Director of INEC

Figura 2: Estratégia de Gestão compartilhada entre o BNB e o INEC



Source: Authors' compilation from INEC data.

In the words of a BNB senior manager, “as well as resolving the problem of human resources management, the partnership with INEC also solved another issue - the challenge of expanding the program geographically to the smaller municipalities”²¹. The first expansion involved the installation by the bank of 50 CrediAmigo outlets (units) in unserved places, followed by units in cities where branches already existed. Subsequently the program was further expanded with the installation of 85 units in more remote cities unserved by BNB agencies. The bank in due course decided to provide coverage for the entire northeast of the country and the northern part of the state of Minas Gerais.

The service units currently have a minimum structure of two loan officers, an administrator and a coordinator. Each new unit is established after an existing outlet in the same city divests a segment of its portfolio with the potential to reach 7500 clients. The new units are initially staffed by experienced loan officers to ensure that the client portfolio can quickly achieve a balance between revenue and outgoings²². The average productivity of the program is high, with 738 customers per loan officer²³.

A key driver of CrediAmigo’s gains of scale is the program’s personnel management flexibility, made possible by INEC’s non-involvement in BNB’s selection and remuneration structure. The introduction of keen performance/productivity pay and promotion strategies by INEC made it

possible to attract and hire good coordinators, dedicated loan officers and assistants to meet demand. It was also possible to implement, quickly and cheaply, a workable staff training strategy. INEC currently has 108 professionals responsible for distance learning and *in situ* training activities.

It is worth drawing attention to a number of useful practices, such as the selection of coordinators from the best-performing loan officers, viable career plans for loan officers and coordinators, and variable remuneration. The possibility of career advancement and results-based remuneration were also important for retaining qualified people, a fact that strongly influenced the success of the program. Half-yearly targets and points-based scoring²⁴ also provided incentives for loan officers to enhance portfolio growth while maintaining careful control of risks of default by customers.

Challenges still to be addressed include the phased introduction of new technology such as the use of tablets to assist loan officers to prepare and submit credit proposals, receive loan approvals and pursue monitoring activities²⁵. A further innovation yet to be introduced is the funding of the *AmiginhaPOS* credit card reader²⁶ for members of the program to accept payment for their products by credit card, enabling them to attract new customers, increase sales, avoid bad debtors, sell products on installments and receive payment within a couple of days²⁷.

21 Interview with former CrediAmigo Superintendent, Stélio Gama Lira.

22 Interview with the Managing Director of INEC, Helda Lima.

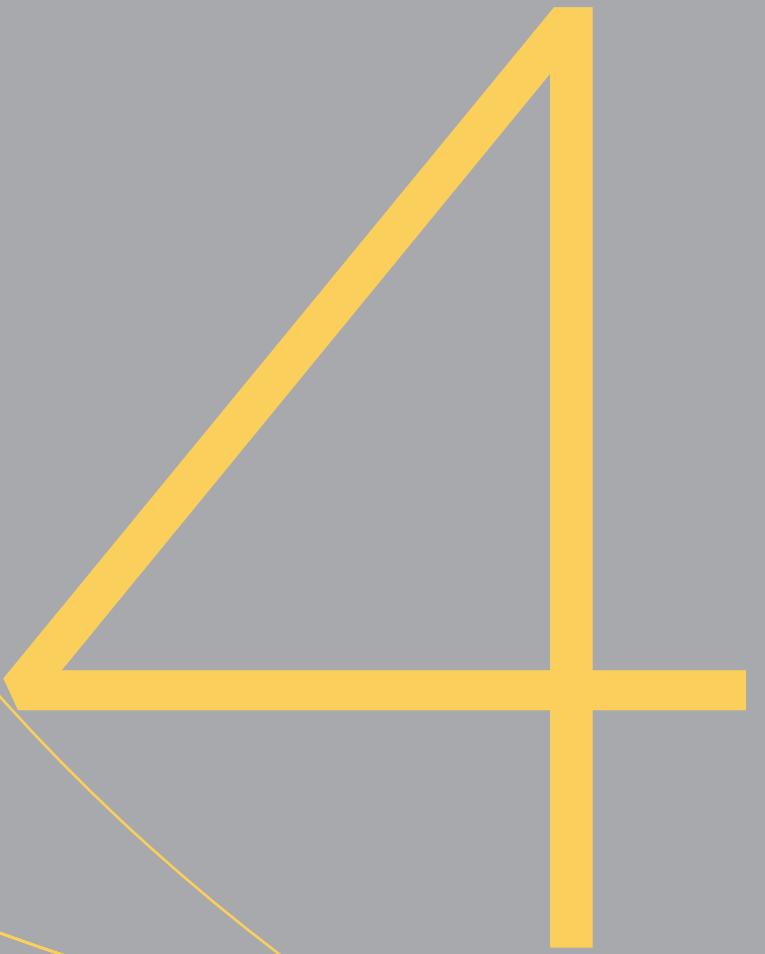
23 BNB Microcredit Report, 2016.

24 Positive in the event of targets being exceeded; negative in cases of increased default.

25 Already implemented for the Agroamigo program (not addressed in the present report).

26 POS (Point of Sale/ Point of Service) = electronic payment methods or instruments used for transactional settlements between different parts of a business, requiring distribution channels and infrastructure for capturing and processing such transactions.

27 Interview with José Eloíson Gonçalves, General Manager of INEC Operations.



PROGRAM OUTCOMES AND IMPACTS ON CLIENTS

CrediAmigo, with 2 million active clients and its own service network covering all the municipalities of the Northeast region, enjoys a high level of loan officer productivity and low rates of default. Unlike other banks that still seek to control default, BNB has succeeded in

rolling out guided productive microcredit to a mass audience by employing a homogeneous methodology, controlling operating risks and achieving an economically sustainable and profitable position.

Table 4 - CrediAmigo up to December 2016

CrediAmigo - 2016	
No. Municipalities	1,990
No. Service units/outlets	458
No. Loan officers	2,810
Active customers	2.07 million
Active portfolio (R\$ / US\$ (billions)	R\$ 2.84 / US\$ 1.71
Average value of active portfolio - R\$ / US\$	R\$ 1,910.00 / US\$ 1,144.58
Women	67%
Men	33%
Default rate	1.9%
Active customers per loan officer	738
% of clients who are also Bolsa Família beneficiaries	43%

Source: BNB Microcredit Report, 2016.

The impact of the program on clients and their businesses is as important as the substantial numbers that it has reached. The study - the most comprehensive to date - by Marcelo Neri (2008) measured the program's effect on the track record of clients and their families by focusing on changes in the period between clients' receipt of their first loan and 31 December 2006. Neri noted a significant increase in the real values of customer turnover, operating profits, payment capacity and increased family consumption. The overwhelming majority of clients (92%) were active in the trade (commercial) sector, with 44% of them achieving monthly sales of up to R\$ 1,000.00 (US\$ 602.41) and 49% of them with sales of up to R\$5,000.00 (US\$ 3,012.05) per month.

According to Neri, operating profits increased by 36.7%, sales by 34.6%, and assets (stocks and

goods) by 18% from the time of the first loans. Profitability increased 29.3%, and return on assets from 4.4% to 4.8%. The operating profit of a small business is an appropriate variable to indicate income which is generally an indicator of family consumption and potential reinvestment in the business. In this respect, Neri's study highlighted an average increase of 13% in family consumption and in the number of employees working in the businesses (either family members or third parties).

The CrediAmigo program also made a substantial contribution to overcoming poverty, with 50-60% of borrowers surpassing Brazil's poverty line. It is interesting to note the rate at which this phenomenon took place: individuals with over five years in the program increased their chances of quitting poverty by between 36% and 41%.

From the perspective of CrediAmigo beneficiaries, statements collected in the course of our study reveal the impact of the program on a broad array of businesses. The loan officer's role and his relationship with customers proved the full value, at the micro level, of the program's methodology. For example, for Maria Liduina dos Santos, owner of a snack bar in Fortaleza (Ceará), a CrediAmigo customer for eight years and leader of her solidarity group, "the word that defines the CrediAmigo is trust, especially trust in the loan officer", and:

"The guidance provided by the loan officer was essential for building my business. He even answers my queries at night, outside his normal working hours. It is up to me to try not to disappoint him. We get our entire group together to avoid falling behind with loan repayments".²⁸

According to Hélia Flavia Rodrigues, owner of a small perfumery and a CrediAmigo client for the past 12 years, the best word to define the program is partnership, since the loan officer "helps to invest money and provide guidance on how to proceed and not spend it on things other than those to generate income for the business".²⁹

28 Interview with Maria Liduina Santos, CrediAmigo client.

29 Interview with Flavia Hélia, CrediAmigo client.



CHALLENGES IDENTIFIED AND LESSONS LEARNED

After operating for around 20 years, the CrediAmigo program has proved to be an extremely important case for study. The program has influenced the whole current microcredit market in Brazil, and has had a substantial impact on, for example, the legal framework of the PNMPO in 2005 and Crescer in 2011. Moreover, CrediAmigo directly influenced the establishment and content of its rural counterpart, the Agroamigo program (also run by BNB).

The groundbreaking and broadly successful institutional design of CrediAmigo was a result of a series of learning and pioneering processes that could be an example for other government actors to invest in similar policies. The business and social context in which the program was formulated, together with many of the positive developments since 1997, are unique features. Expanding the program while retaining the baseline customer-focused approach shows that it is possible for practitioners interested in implementing new microcredit policies to learn key lessons, especially in response to calls for broader programs as potential tools for overcoming poverty on a more permanent and sustainable basis.

The lessons learned can be grouped into three interconnected and complementary priority areas:

- Priority 1: strict adoption of guided productive microcredit technology and *proximity finance* methodology for low-income populations;
- Priority 2: definition of a corporate management model tailored to microcredit operations;
- Priority 3: building of institutional arrangements and partnerships to ensure legal certainty, management flexibility and financial sustainability.

5.1. Priority 1: Lessons learned from adopting guided productive microcredit methodology

“Proximity finance technology” or “microfinance technology,” involves two processes: (i) the design of products and services tailored to the needs of the poor population; and (ii) the methodological process (“MPO methodology”) pursued by the loan officer responsible for delivering the appropriate goods and services. The following lessons can be derived from (i) and (ii):

a. Loan officers play a central role in the MPO methodology. The study produced clear evidence of the fact that BNB familiarity with the main features and financial practices of the microenterprise sector was the result of the close engagement of loan officers with small enterprises on a daily basis. These officers, responsible for deciding on and adjusting credit conditions (loan amounts and repayment deadlines) in accordance with regulatory limits, and for assessing clients' needs and payment capacity, play a crucial role in ensuring that loans are repaid. In short, it is essential for loan officers to keep abreast of clients' activities through scheduled visits and collection activities prior to negotiating new loans. In this way, they acquire knowledge of both the clientele and the microenterprise market, thereby establishing a relationship of trust which helps to keep default rates low.

b. A further lesson learned was the importance of diversifying products to service new client demands. Although the credit process generally began with a single product (e.g. working capital for a solidarity group) the growth trajectory of small businesses eventually called for investment loans, mortgages, individual credit, and increased credit ceilings. This led inevitably to expanded portfolios, customer retention and an expanding client base on the business ladder.

c. The availability of rewards for timely repayment was a key to ensuring low levels of default.

d. Expanding the program into new areas requires effective planning to ensure sustainability. Following the identification of a new market, studies are needed, and experienced officers appointed, to initiate operations while retaining their old portfolios alongside newly-recruited loan officers. This approach results in lower costs and risks during the program's geographic and portfolio expansion. In short, new loan officers can generate revenue with a pre-existing portfolio while familiarizing themselves with, and remaining less exposed to, the pitfalls involved in managing new transactions.

e. A key lesson is also to eradicate existing paradigms in order to innovate. To correctly adopt the MPO methodology and a specific model for managing it, it was essential

to tackle inbred notions such as: (i) small informal businesses are unviable; (ii) small entrepreneurs have no knowledge of how to manage their businesses; (iii) poor people never honor their financial commitments; (iv) the only sustainable way to offer microcredit to informal entrepreneurs is through subsidized loans and (v) risk analysis must be based solely on accounts-based background checks and genuine collateral.

5.2. Priority 2 - Definition of a business management model suitable for microcredit operations

The MPO method is not an innovation *per se* given that it has been adopted by many other financial institutions in Brazil and throughout the world. The main innovative challenge observed in the course of this study was its adoption on a homogeneous large scale in Brazil where it reached a substantial part of the poor population of the Northeast. The study detected the following lessons regarding the business management model i.e. the various processes involving the operational management of loans (portfolio management) as well as human resources management:

- a. It is important to draw a line between the MPO management structure and that of conventional operations. The BNB built a specific management model for the target audience, both in terms of introducing service platforms (outlets/units) and, internally, in its management processes (human resources, loan portfolios, systems and controls). The two structures were separated to ensure adoption of the correct methodology and to monitor its processes and outcomes.
- b. The procedures for selecting, training and remuneration personnel were tailored specifically to the microcredit portfolio, which contributed to enhance productivity and the quality of loan portfolios and services.
- c. A vital need is to value “people management” practices and to design them to dovetail with the specific goals enshrined in the MPO methodology. Drawing up career plans and variable remuneration schemes for loan officers and coordinators according to the size of their portfolios and potential results contributed to the positive outcomes of the program. This was particularly evident in terms of the retention of qualified officers, which led to further portfolio expansion and better default oversight.
- d. The importance of agile online management data systems. While microfinance technology is human capital-intensive, given the need to engage with

low-income clients, it also requires the use of advanced technological backup consisting of an online management system capable of monitoring the operations and performance of loan officers. Unlike other banks and MFIs, the BNB has invested in a proprietary microfinance data system to run background checks on clients' financial histories, monitor portfolio and default situations and, above all, enable decisions to be quickly taken at all levels of management.

5.3. Priority 3 - Building institutional arrangements and partnerships to ensure legal certainty, management flexibility and financial sustainability of the program.

The BNB, a public bank, is governed by a specific legal framework which would normally obstruct the introduction and mass application of the MPO in Brazil. In these specific circumstances, it is worth highlighting several lessons:

- a. The key lesson arises from the partnership forged with other entities with a different legal status. This enhanced the flexibility of the program. The partnership, for example, with INEC to run MPO operations in the field was a key management function shared with the CrediAmigo program, involving robust interface at the strategic level and a permanent and systematic conjunction of procedures at the management level. This produced substantial operational autonomy for INEC - tasked with defining specific strategies for the operational units, portfolio management and human resources management focused on the need to achieve jointly agreed results.
- b. Another important lesson was the establishment of dialogue and the forging of partnerships with public authorities with a view to overcoming legal impediments to allow the new business model to thrive. Our study revealed that part of the BNB's remit was to liaise with high-level government agencies to create the legal conditions required for facilitating this business model. One example can be highlighted: the creation of the professional category known as “loan officers” in the *Brazilian Classification of Occupations* (CBO) administered by the Ministry of Labor and Employment. This had a positive impact on the structuring of specific careers as well as differentiating officers' functions from the bank's conventional careers structure. It is also worth mentioning again the importance of efforts to persuade senior BNB management to give INEC a free hand to set up CrediAmigo service outlets.



CONCLUSIONS

The implementation, consolidation and expansion processes of the CrediAmigo program offer an invaluable set of examples, as well as incentives, for public policy researchers, or for potential implementers of measures and actions targeted at similar audiences. 20 years ago it would not have been possible to imagine the size of the present program, now a national reference in terms of coverage, volume of funds loaned and, as is clear from our study, from the standpoint of management procedures and all the other factors that enabled the program to expand.

In the Brazilian context, the provision of credit services to the low-income population is rare among financial institutions and public banks, regardless of their size or coverage. BNB is an exception. Not only has this bank provided the services for over two decades but has also significantly expanded its operations while remaining operationally and financially sustainable. We detected that this expansion was not the result of BNB having a larger capital structure than other banks, and it certainly was not because it possessed more service outlets or higher quality IT systems.

BNB differed in that it invested in a new strategy which, gradually and along a planned trajectory, enabled it to confront internal resistance and, at the wider regulatory and institutional level, proved the bank capable of learning lessons and anticipate unexploited opportunities. The new departure by BNB was its focus on the particular target population and to set in train the institutional means to reach out to it. BNB

decided to invest in meeting the needs of the informal low-income population and concentrated on familiarizing itself with this population in order to implement and facilitate a service that was genuinely tailored to its specific needs. The bank's strategy of forging and maintaining close relations with this new clientele was essential for ensuring return on investments. Moreover, the services offered by the bank proved beyond doubt that it could count on the ability of this target audience to establish and maintain mutually supportive links.

From the organizational standpoint, the BNB, as a public institution, was well aware of its institutional inflexibility, but at the same time acknowledged that the establishment of close ties with the new population could only be achieved by forging alliances such as that with INEC, which supplied a major boost to the expansion of CrediAmigo, especially in terms of the program's enhanced operational and managerial flexibility. One particularly important advantage was its approach to human resources management. As well as the microcredit service and delivery strategy, INEC also assumed responsibility for the recruitment, training and monitoring of loan officers, their supervisors and administrative assistants. Furthermore, evidence clearly shows that the two institutions have worked in an integrated manner, driven by common ideals and complementary functions. The result, as can be seen from the set of data and statements collected in the course of this study, was the achievement of a high level of institutional maturity and efficiency.

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Annexes

Annex I

Table A.1 - Implementation of PNMPO by Federal Public Banks and OSCIPs - 2012-2015 *

Public banks	Year	Loans	Contracts	Clients served
Banco da Amazônia (BASA)	2012	32 212 370	5 707	22 824
	2013	62 835 982	9 591	38 360
	2014	98 854 861	10 854	39 663
	2015*	93 832 549	14 170	39 669
	Total 2012-15	287 735 762	40 322	140 516
	% Share among the four public banks	0,81%	0,21%	0,73%
Banco do Nordeste (BNB)	2012	4 320 193 964	2 844 021	2 911 415
	2013	5 760 056 470	3 413 430	3 306 258
	2014	7 124 844 459	3 871 908	3 854 919
	2015*	7 996 373 998	4 121 660	4 126 845
	Total 2012-15	25 201 468 891	14 251 019	14 199 437
	% Share among the four public banks	70,88 %	72,90 %	73,89 %
Banco do Brasil (BB)	2012	763 040 491	537 841	519 142
	2013	1 323 225 874	1 094 144	1 051 076
	2014	2 182 134 022	883 046	851 565
	2015*	1 472 111 390	584 039	561 868
	Total 2012-15	5 740 511 777	3 099 070	2 983 651
	% Share among the four public banks	16,15 %	15,85 %	15,53 %
Caixa Econômica Federal (CAIXA)	2012	310 142 384	127 078	127 078
	2013	1 923 949 862	957 011	957 011
	2014	1 147 855 099	671 783	505 879
	2015*	944 018 137	402 577	303 838
	Total 2012-15	4 325 965 482	2 158 449	1 893 806
	% Share among the four public banks	12,17 %	11,04 %	9,85 %
OSCIP	2012	539 103 953	158 451	238 070
	2013	507 791 482	127 203	213 107
	2014	314 966 341	87 096	98 040
	2015*	279 469 867	67 493	79 106
	Total 2012-15	1 641 331 643	440 243	628 323

Source: Management Report of the National Guided Productive Microcredit Program, 3rd Quarter, 2015.

* Values according to last available report up to 3rd quarter of 2015. To reach the final calculations in order to allow an annual comparison between the four public banks operating guided productive microcredit operations, the values recorded for the 4th quarter of 2014 were added to the figures available for the three quarters of 2015. It was thus possible to arrive at an estimate of values in the final quarter of 2015 (i.e.4 complete years).

Annex II: Interviewees

1. ABREU, Getúlio	Chairman of INEC - Northeast Citizenship Institute.
2. Angelo C. Oliveira	INEC Operations Manager, Ceará.
3. ARAGON, Lucia of Fatima Sousa	Grocery store owner and CrediAmigo Solidarity Group member in Redenção.
4. ARAUJO, Alex	New BNB Microfinance Superintendent since March 2017. Career employee of the bank.
5. BARBOSA, Cristiane	BNB career employee and former manager of Agroamigo (environment).
6. COSTA, Emanuelle	Agroamigo coordinator in Baturité.
7. FAHEINA, Maria da Conceição	Former BNB employee (appointed by formal public competition), Operations Manager of CrediAmigo from 1997 to 1999.
8. FREITAS, Francisco Gilcélio	Loan Officer in Redenção region.
9. GONCALVES, Jose Eloílson	INEC (Northeast Citizenship Institute). General Manager of Operations.
10. LIMA, Helda	Managing Director of INEC.
11. LIRA, Stélio Gama	Career BNB employee. Former Microfinance Superintendent.
12. MACHADO, Luís Sérgio	Career BNB employee. Former Superintendent of Family Agriculture and Manager of Agroamigo deployment.
13. MOURÃO, Lucas Silva	CrediAmigo client. Hairdresser in Redenção.
14. PEREIRA, Joalysson	CrediAmigo Loan Officer in Redenção region.
15. RODRIGUES, Flavia Hélia	CrediAmigo client.
16. SANTOS, Maria Liduína of	CrediAmigo client
17. SERAFIM Luis	Coordinator of CrediAmigo loan officers in the Baturité region
18. TEIXEIRA, Marcelo	BNB gazetted career employee. Coordinator of the first Credi-Amigo pilot unit in Fortaleza.

Annex III: Financial products offered by CrediAmigo (2017)
CrediAmigo: Portfolio of products and services

Product	Credit limit (R\$)	Interest	Loan Period	Other conditions
Giro Solidario: Resources for the purchase of raw materials / goods and small items of equipment.	R\$ 2.100,00 to R\$ 15.000,00 for solidarity groups	2.00% per month + TAC (Credit Extension Rate) of 3% of amount released	4 to 12 months	Security: Solidarity group of between 3 and 10 people acting as mutual guarantors ("solidarity guarantors")
Giro Investe Resources for working capital (purchase of raw materials or goods) and fixed investment (purchase of furniture, fixtures, machinery and equipment, furniture renovations, renovations and technical assistance for physical facilities, or the purchase of vehicles, autos and motorcycles).	Loans of R\$300,00 - R\$ 15.000,00	2.00% per month + TAC (Credit Extension Rate) of 3% of the amount re-leased	Up to 24 months with no grace period	Client must already own a business that has been running regularly for 6 months and display knowledge of his/her business. Security: Joint Obrigor
Investimento Fixo Funds for fixed investment. Up to 35% of loan allowed for associated working capital.	R\$ 300,00 to R\$ 8.000,00	2.00% per month + TAC (Credit Extension Rate) of up to 3% of amount released	Up to 24 months	Client must already own a business that has been running normally for 6 months and display knowledge of his/her business. Security: Joint Obrigor

Finalidade	Limite de Crédito-R\$	Juros	Prazo	Outras Condições
Giro Popular Solidario Funds for purchasing raw materials, miscellaneous merchandise and small items of equipment.	R\$ 100,00 to R\$ 2.000,00	1.70% per month + TAC (Credit Extension Rate) of up to 3% of the amount released	From 4 to 12 months	<p>It is admitted that up to 20% of the members of the solidarity group are commencing productive activities. The remaining members must have been pursuing the activity for at least 6 months.</p> <p>Security: Solidarity group of between 3 and 10 people acting as mutual guarantors.</p>
CrediAmigo Comunidade Loans for productive working capital, improving project site or housing infrastructure, and purchase of small tools.	R\$ 100,00 to R\$ 1.000,00	1.20% per month + TAC (Credit Extension Rate) of 3% of the amount released	4 to 12 months	<p>It is admitted that up to 20% of the members of the solidarity group are commencing productive activities.</p> <p>Security: Solidarity group of between 11 to 30 people acting as mutual guarantors.</p>
Other products				Features
LIFE INSURANCE	Guarantees payment of compensation to beneficiary party or parties in the event of death of the insured.	<ul style="list-style-type: none"> - R\$ 25,00 premium paid in single installment; - Insured Capital: R\$ 3.000,00 / Funeral expenses: R\$ 840,00. - Basic Food Basket: R\$ 840,00; - Participation in four monthly prize draws of R\$ 1.500,00 each. 		

	Other products	Features
CLIENT TRAINING	The loan officer gives basic instruction to clients regarding sales, quality, planning, credit, financial controls, and the environment, supported by relevant information booklets.	Booklets are handed to customers at the time of loan disbursement. Relevant topics are also discussed during promotional events organised by the credit advisor.
BANKING ARRANGEMENTS	Current account opened and maintained free of bank charges, with transactions undertaken with Visa Elec-tron CrediAmigo Debit Card.	Enables withdrawals to be made at Banco do Nordeste and affiliated ATMs, and purchases by debit card from suppliers registered in the Visa Electron network.
LENDER INSURANCE	In the event of the insured party's death, ensures that the insured is discharged from responsibility for loan repayment.	Provides peace of mind to the client's family and financial stability to the joint obligors.



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