BANCO CENTRAL DO BRASIL

Financial Inclusion

Proceedings of the I Brazilian Central Bank Forum for Financial Inclusion

16th-18th November 2009
Fiesta Bahia Hotel
Salvador – BA – Brazil

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Summary

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Glossary

ABCRED Brazilian Association of the Directors of Entities that Manage and Operate Microcredit
ABDE Brazilian Association of Development Finance Institutions
ABSCM Brazilian Association of Credit Societies for Microlending and Small Business
Ancosol National Association of Credit Unions for Family and Solidarity Economy
Anvisa National Health Surveillance Agency
ATISG Access through Innovation Sub-Group
ATM Automated Teller Machine
BB Banco do Brasil S.A. (Bank of Brazil)
BCB Banco Central do Brasil (the central bank of Brazil)
BDMG Development Bank of Minas Gerais
BNB Bank of Northeast of Brazil
BNDES Brazilian Development Bank
Bovespa São Paulo Stock Exchange
CAF Andean Development Corporation
CEF Caixa Econômica Federal
CGAP Consultative Group to Assist the Poor
CIRIEC International Centre of Research and Information on the Collective Economy
CMN National Monetary Council
CNPJ National Register of Legal Entities
Cocais Center for Community Organization and Support for Social Inclusion
Cofins Contribution to Social Security Financing
Cordel Center of Studies for Local Development
Cosif Accounting Plan of National Financial System Institutions
CPF Individual Taxpayer Registry
Denor Financial System Regulation Department
Deorf Financial System Organization Department
DIM Interbank Deposit for Microfinance
Dinor Deputy Govenor for Financial System Regulation and Organization
DRS sustainable regional development of business
EIU Economist Intelligence Unit
FAT Worker Support Fund
FBB Fundação Banco do Brasil
Febraban Brazilian Banking Federation
FGV Fundação Getulio Vargas
GDES Research Group for Law, Economics and Society
GDP Gross Domestic Product
HDI Human Development Index

IBGC Brazilian Institute of Corporate Governance
IDB Inter-American Development Bank
IETS Institute of Labor and Society Studies
IFC International Finance Corporation
IJCCR International Journal of Community Currency Research
ILO International Labour Organization
Inaise International Association of Investors in the Social Economy
INSS National Institute of Social Security
InStroDI Strohalm Institute for Integral Development
IOF Financial Operations Tax
Ipea Institute of Applied Economic Research
Ites Incubadora Tecnológica de Economia Solidária e Gestão do Desenvolvimento Territorial
Lets Local Exchange Trading Systems
LLP loan loss provisions
MDA Ministry of Agrarian Development
MDS Ministry of Social Development and Combating Hunger
MFI microfinance institution
Minc Ministry of Culture
MIX Microfinance Information eXchange
MJ Ministry of Justice
MTE Ministry of Labor and Employment
NGO Non Governmental Organization
OCB Brazilian Cooperative Organization
OSCIP Civil Society Organization of Public Interest
PDI Institutional Development Plan
PGBC Office of the General Counsel of the BCB
PIS Social Integration Program
PNMPO National Program of Oriented Productive Microcredit
POS point of sale
RSA Socio-environmental Responsibility
SCM Microentrepreneur Credit Company
SCR Credit Information System
Sebrae Brazilian Service of Support for Micro and Small Enterprises
SMS Short Message Service
Senaes National Office of Solidarity Economy
Senai National Industrial Training Service
Sesi Industry Social Service
SFN National Financial System
Sinal National Union of Central Bank Employees

STRO Social Trade Organization
Susep Superintendence of Private Insurance
UFBA Federal University of Bahia
UNCTAD United Nations Conference on Trade and Development
UniBacen Central Bank Corporate University
UFSC Federal University of Santa Catarina
UNDP United Nations Development Programme
USP University of São Paulo

Introduction

Financial Inclusion Project

In 2009, the Banco Central do Brasil (BCB) formulated the Financial Inclusion project, the objective of which is to rethink, together with those already involved, the model of financial inclusion in the country, with the aim of providing the Brazilian population with access to financial services that are adequate to its needs.

This project carries out analysis of the microfinance sector in Brazil – strengths and weaknesses – and promotes integration between stakeholders – organization of the skills network – with the premise that the BCB can and should perform the role of coordinating agency in the issue of financial inclusion in Brazil, for two fundamental reasons:

- recognized ability in promoting the meeting and integration of the various agents in the microfinance field, in view of the success of the seminars that, since 2002, promote the idea of it being a legitimate potential broker of partnerships;
- experience in regulation and supervision of the financial system, a function it performs uniquely.

The project seeks, therefore, to lead improved organization of the agents, in a way which, with deeper knowledge of the strengths and weaknesses of the microfinance market in Brazil, enables viable solutions for the problems and difficulties in the field of financial inclusion.

I Brazilian Central Bank Forum for Financial Inclusion

The I Brazilian Central Bank Forum for Financial Inclusion, promoted by the BCB and the Brazilian Service of Support for Micro and Small Enterprises (Sebrae), in partnership with the Ministry of Labour and Employment (MTE), the International Finance Corporation (IFC) and the Brazilian Cooperative Organization (OCB), took place on 16th, 17th and 18th November 2009 at the Fiesta Bahia Hotel, Salvador, Bahia, Brazil.

The event was supported by the Brazilian Association of Development Finance Institutions (ABDE), Banco do Brasil S.A. (BB), the Inter-American Development Bank (IDB) and the National Union of Central Bank Employees (Sinal).

> The goals of the I Brazilian Central Bank Forum for Financial Inclusion were to conduct an analysis regarding microfinance in Brazil and to promote partnerships in order to leverage projects that could contribute to financial inclusion, in the search for a sustainable and inclusive financial system.

The I Brazilian Central Bank Forum for Financial Inclusion had a different format from the previous BCB events on microfinance. The stakeholders' meeting happened as a consequence of the event, but in a way it was not directed towards practical results. In recent years, many parallel events were taking place during the seminars, constituting an informal discussion forum of the whole microfinance industry.

Thus, the I Brazilian Central Bank Forum for Financial Inclusion sought to emphasize the role of stakeholders, in order to organizely promote dialogue and partnerships. It was not open to public enrolment like previous events, rather, participants were invited by project coordination.

Forum 1 was a meeting space to discuss problems and to design solutions. The event program is presented in Annex 1. Some names were replaced from the original program since those originally invited were unable to attend for varied reasons.

The event was divided into two modules. November 16th and 17th were dedicated to the theme Integrating the Microfinance Industry, which had the following characteristics:
- public: two hundred representatives of the microfinance market, plus fifty BCB employees;
- objective: identification of problems (analysis) and proposed solutions (brokering of partnerships);
- methodology: working groups (workshops) on core themes related to the microfinance sector.

Although the focus of the first two days was on working groups, there were presentations, given by authorities on the adressed issues, with the purpose of providing additional and current information and to expound points of view and results of the sector in other contexts concerning the core themes that were debated in the working groups. At the end of the second day, there was a plenary session, in which the outputs were presented to all participants.

The core themes[1] of the working groups were divulged prior to the event, so that the debaters could be prepared for discussion, with studies and proposals. This format was intended to focus the debate on objective questions, the result of which could be established as a catalogue of problems and proposed actions, utlining an agenda for the sector, as presented here.

The second module, Social currencies, community banks and other initiatives, which occupied the third day of the event, November 18th, had the following characteristics:
- public: one hundred people involved with the issues, plus fifty BCB employees
- objective: to discuss the possibilities and limits of social currencies in Brazil;
- methodology: presentations by national and international authorities on the issue and debates.

As exemplified in other countries, social currencies and community banks are increasingly common instruments also in Brazil, where they are supported by government policy – particularly by the National Office of Solidarity Economy (Senaes) of the MTE – as complementary and alternative mechanisms of financial inclusion. During the event there was a ceremony for the signing of the Agreement of Technical Cooperation between the BCB and MTE: <%http://www.bcb.gov.br/%5Cpre%5Cacordos_e_convenios%5Cacordo_de_cooperacao_tecnica_BACEN_MTE_SENAES.pdf>).

This module was part of the scope of the strategic project Social Currencies, which objective was to structure the monitoring of the evolution of social currencies in Brazil, understanding their possibilities and limits. The Social Currencies project was incorporated into the Financial Inclusion project.

[1]The core themes were generated from the categories and indicators used in the report Microscope on the Microfinance Business Environment in Latin America and the Caribbean (2008), developed by the Economist Intelligence Unit (EIU), with technical and financial support from IDB and the Andean Development Corporation (CAF), which provides analysis of the characteristics of microfinance in countries in Latin America and the Caribbean.

Preparation for the I Brazilian Central Bank Forum for Financial Inclusion

For Forum 1 to be successful in this new format, thorough preparation was necessary. The preparatory phase was divided into three main, interconnected parts – a) Holding of pre-forums; b) preparation of facilitators; and c) publication of a book – which converged towards the goals of extending knowledge, building expertise and promoting coordination of the network.

a) Holding of pre-forums

In addition to the meetings for initial conversations and the establishment of partnerships for Forum 1, three gatherings called pre-forums were held, with different participants (in August, September and October 2009). These gatherings resulted in a refining of the methodological approach (working groups) and the consolidation of partnerships.

The gradual introduction of this new form of work and its continuous improvement enabled the excellent results obtained in Forum 1. These gatherings were organized with strategic stakeholders in order to reach the final goals, as follows.

- Government representatives – Held at the Central Bank Corporate University (UniBacen), in Brasília, on August 26th, 2009, with ten participants from the following bodies: MTE, the Ministry of Agrarian Development (MDA), the Ministry of Social Development and Combating Hunger (MDS), the Ministry of Culture (Minc), and the Brazilian Development Bank (BNDES).

- Market representatives – Held in the Regional BCB Office in Rio de Janeiro, on September 23rd, 2009, with 23 participants from the following institutions: the Brazilian Association of the Directors of Entities that Manage and Operate Microcredit (ABCRED), ABDE, the Brazilian Association of Credit Societies for Microlending and Small Business (ABSCM), the National Association of Credit Unions for Family and Solidarity Economy (Ancosol), the Brazilian Banking Federation (Febraban), OCB and the cooperative banks.

- Developers and scholars – Held in the Regional BCB Office in Rio de Janeiro, on October 21st, 2009, with thirteen participants from the following institutions: Sebrae, Institute of Labor and Society Studies (IETS), Center for Microfinance Research of Fundação Getulio Vargas (FGV) in São Paulo, FGV in Rio de Janeiro in partnership with Microfinance Information eXchange (MIX), IFC, IDB, Planet Finance and Acción Internacional.

The participants received the meeting agenda in advance so that they would have better information and be able to prepare themselves for the pre-forum. The Financial Inclusion project team presented the project, the core themes and the methodology of the working groups and was responsible for the analysis of the feedback, for alterations arising from it, for the uptake of suggestions provided by the groups regarding the methodology, and for the finalisation of the questions to be debated in Forum 1.

Based on the results of the pre-forums, which are presented in Annex 2, lists of the proposed topics were developed, distinguishing the core themes, to be debated in the working groups in Forum 1. These lists, shown in Annex 3, were sent to the participants and were available in the working group rooms.

b) Preparation of facilitators

A significant factor in the success of Forum 1 was the quality of the working groups facilitators, who were prepared through two specific courses, namely:

- Microfinance, in September 2009;
- Leading Techniques and Group Dynamics, in October 2009.

This preparation also met the aim of starting a process of internally developing knowledge in the BCB, in order to strenghten its possibilities of acting. It should be stressed that the project team was made up of employees from eight different areas of the BCB.

c) Publication of the book Prospects and Challenges for Financial Inclusion in Brazil: perspectives of different actors

To meet the Financial Inclusion project's objective of diagnosing the strengths and weaknesses on the subject the book "Prospects and Challenges for Financial Inclusion in Brazil: perspectives of different authors" was published. Its chapters were prepared by strategic stakeholders, seeking to highlight state-of-the-art thinking on the issue in Brazil, before Forum 1. The book was launched during the event and distributed to all participants. The expectations are that this book's content will serve as a framework for the assessment of the changes that ensue from Forum 1. The book is available on the BCB website at <www.bcb.gov.br/?microfin>.

Financial Inclusion project – Next steps

Given the relevance of the discussion on financial inclusion, the BCB, while redrafting its strategic planning in February 2010, introduced the issue of "promotion of financial inclusion" among the strategic objectives to be met from 2010 to 2014. Consequently, in April 2010, an administrative component in the Financial System Regulation Department (Denor) was established specifically to address this subject and issues relating to environmental responsibility in the financial system. Therefore, the Financial Inclusion project migrated from the Financial System Organization Department (Deorf) to Denor, both subordinate to the Deputy Governor for Financial System Regulation and Organization (Dinor).

The results of the I Brazilian Central Bank Forum for Financial Inclusion indicate that, in order to have an effective analysis, it is necessary to organize and compile the availabe data and information on the subject. Therefore, in 2010, the BCB will seek to consolidate this information, beginning to generate a map of the financial inclusion in Brazil. This map will be created through research conducted by institutional partnerships and will be important to the formulation of financial inclusion policy, with targets and associated indicators.

It should be noted that the Financial Inclusion project incorporates activities related to the work of the Financial Inclusion Experts Group of G20, in which Brazil leads, along with Australia, in directing the workings of the subgroup ATISG (Access through Innovation Sub-Group). This subgroup addresses the relationship between financial inclusion and the development of technology and institutional conditions that advance this goal, concerns fully convergent with the Financial Inclusion project.

Thus, in 2010 the expectation is to expand the approach to the subject of financial inclusion, besides further integration of the agents involved, once the needs of the sector and the aims relevant to the BCB are more clear. To this end there will be, in November 2010, II Brazilian Central Bank Forum for Financial Inclusion, in Brasília, which aims to deepen the discussions of the themes presented in this document.

Integrating the microfinance industry

16th and 17th November, 2009

Executive summary

This executive summary is intended to provide an overview of the ideas discussed in each core theme of the working groups in the I Brazilian Central Bank Forum for Financial Inclusion. It presents issues and opinions that, in the analysis of technical coordination, stood out in each core theme. However, this does not mean they were consensual or predominant.

By partially considering the ideas discussed in the groups, this summary does not replace a reading of the texts of the discussions subsequently presented. Readers may hold other interpretations and analysis of material produced in the debates.

It should be noted that this summary does not express the position of the BCB on any issue or factor involved. It presents the view of technical coordination regarding the discussions, which is guided by neutrality.

Before the presentation by theme, the following topics are highlighted, which, in view of technical coordination, permeated all the group discussions, bridging several themes and the entire microfinance sector.

- Integration between the agents – The sector agents – regulators, operators and developers – are not linked. There needs to be coordinated policy action that assists the organization of the sector.
- Regulatory framework – The sector is in need of specific legislation and the current regulatory framework makes it difficult, or even prevents the development of microfinance institutions (MFIs). However, there is not consensus on how the regulatory process should be brought about and it is feared that very strict standards cause a decline in microfinance.
- Restriction of funding – It was evident that the limitation of resources for the microfinance sector is linked to poor transparency and deficiencies in the governance of MFIs. The inconsistency of information discourages funding providers. The regulatory framework was also cited as a limiting factor in access to resources.
- Standards of transparency and governance – There were suggestions for establishing standards of transparency and governance, like those adopted by the São Paulo Stock Exchange (Bovespa), with the establishment of an entity responsible for the certification of MFIs.
- Financial Education – If, on the one hand, microfinance products and services need to be adapted to meet the needs of the low income population, on the other hand, this target audience must be prepared to contract services responsibly, avoiding undesirable consequences, such as indebtedness, which lead to increased default.
- Need for market sector growth – The limits of the public and the market in microfinance are not defined, nor known. There is a need to develop studies and research to get to know customer needs, quantitative and qualitatively, as well as their geographical distribution, so that the growth and diversification of the sector, with the use of technological resources, are tailored to the needs of the population.
- Role of the BCB – In general, the BCB was pinpointed as the most appropriate institution to promote dialogue between the institutions and to develop a revised regulatory framework. There were also opinions, not consensual, that issues such as implementation of a credit bureau, a positive register and certification of institutions should be delegated to this authority.

Below, we present the main points of discussions, by core theme.

Core theme: Governance

- Good governance is essential for MFIs to develop. However, these bodies are not provided with adequate administrative resources, particularly those not subject to prudential regulation (Civil Society Organizations of Public Interest – OSCIPs). One of the main difficulties arising from the absence of good governance is the lack of funding for operations, since the funding providers have no guarantee of the performance of these entities.
- For an organization to achieve its aims, it must be structured with well defined governing bodies, internal controls and mechanisms for mitigating cost-effective risks, effective audit systems and well-prepared guidelines. The governance model should take into consideration the institution's purpose: if it is only of making profit, governance will be different from that applied to bodies that prioritize social inclusion. It should be required that "levels of governance" are consistent with the particular characteristics of each institution.
- Depending on subsidies of any kind represents a great risk to institutions' governance. Subsidies can cause market distortions, masking results, generating policy dependence and even discouraging private initiatives from working in microfinance. However, they can be catalysts for the sector in some instances, for example, when their absence results in interest rates that are too high for low-incomes public.
- The lack of regulation limits the performance of MFIs. International experiences show that regulated institutions thrive more than the unregulated ones. However, regulatory standards are not sufficient for the proper development of microfinance. More integration between all stakeholders (operators, developers and regulators) is required.
- Regulation can lead to high costs, so it is important that it occurs gradually, to allow those being regulated to adjust. Moreover, it is recommended that this process should be preceded by a stage of self-regulation in the sector.

Core theme: Transparency

- The lack of transparency reflects the fragility of the system. There is a significant inconsistency of information in the microfinance industry: good information is disclosed, bad information is withheld from the market. Some argue for self-regulation in this matter, others say the system needs specific legislation that sets standards of transparency for microfinance institutions.
- There should be a system of certification for the transparency of MFIs as well as a channel to make the information public.
- The requirement for information should be established according to the MFI profile and degree of development, and even the frequency may vary in accordance with the legal nature.
- It is expensive to generate information, but the burden is offset by greater access to funding. Standardization of concepts, indicators and data requested by developers and investors would reduce the production costs and create parameters for comparison between institutions.

Core theme: Credit

- The regulatory framework of the sector needs to be revised in a way that it encourages funding into the system, unburdens institutions and encourages the entry of players in the market. This advance would provide increased competition and the popularisation needed for sustainability of microcredit operations.
- Synergies and economies of scale should be sought. Cell phones, local and regional credit cards and the sharing of infrastructure and systems, such as, for example, the Automated Teller Machine (ATM), contribute to reduce costs and popularize operations. In the same vein, partnerships between institutions that have complementary skills and missions can generate wins for the sector.
- The market for microfinance needs to be mapped. The real needs of customers are not known. The demands and characteristics of the various publics and different regions need to be known, with a view to guiding the actions of the sector institutions.
- The widespread use of microcredit is related to channels of distribution. Better use of the banking correspondents should be sought. It is also important to seek better monitoring of loan officers' performance and to establish methods that contribute to further market penetration. However, there are questions surrounding labor, regulatory, legal and operational policy to be faced to make it viable to focus on low-incomes public.
- The establishment of a Credit Center for the sector, which incorporates the concept of positive registration and mediates information sharing, could simplify the process of granting loans. Besides giving more security and speed, this center could reduce operating costs, reckless borrowing and default.
- There is potential for new credit products, aimed at production and consumption. The power of market segmentation has not been exploited. There are several sectors whose needs are neglected, such as health, housing and education. Diversification is a key factor to achieve scale, but there are regulatory restrictions that would have to be removed.

Core theme: Technology and distribution channels

- Information technology is crucial in the development of microfinance, for enabling the scale that is necessary for the sustainability of business in this market. It also enables the implementation of optimized solutions that combine, in varying degrees, according to the characteristics of each target segment, the personal work of loans officers with mechanisms that give a higher degree of automation to microcredit operations and make them safer.
- Technological resources and central systems, of high cost and value determined by scope of use, such as a credit bureau, should be shared by the market institutions.
- The client's vision should direct standardization, expansion and the shared use of systems and means of distributing products that meet the needs and reality of the public who comprise the microfinance market.
- The construction of a shared network, where secure transactions are made remotely, would enable substantial expansion of microfinance operations.
- The popularization and diversification of operations through banking correspondents (and loan agents) with the use of technology is a point to be scrutinized. This requires prior calculation of the threat to labor and the regulatory restrictions for the initiatives of the involved sectors.
- The cell phone has great potential for being available to low-income people, but its employment as a communication channel in microfinance depends on regulation and the engagement of operators, who would have to strive to develop safe solutions, technologically compatible and easily assimilated by the microfinance world.

- Financial education is crucial in the development of microfinance, which should cover the various levels and activities of agents involved, with continued commitment from government, businesses and schools.

Core theme: Other products

- MFIs should encourage diversification of their portfolio of products and services. Although microfinance has been developed based on productive microcredit, other products are necessary to meet the needs of the low-income population – micro-insurance, funding for restoration and construction and others – and to ensure the sustainability of MFIs. For this reason, public demand needs to be mapped before developing new products.
- There is no consensus on "who should offer what". Some agents argue that all products can and should be offered by any MFI, others believe that OSCIPs should not have access to fundraising instruments, such as insurance or savings, until they improve their governance and the transparency of their information.
- Regulation must always protect the end consumer, concerning itself with developing mechanisms that prevent undesirable consequences such as over-indebtedness.
- Financial education should be used to prepare consumers for microfinance products. Benefits are expected as much for those who offer the products – reducing default – as for those who use them – more access to financial products, control of debt.

Dynamics of the working groups

For each day of the module Integrating the Microfinance Industry, eight working groups were scheduled, with two rounds of discussion of 1 hour and 30 minutes. Each group was composed of up to ten debaters, representatives of stakeholder groups. Representative institutions were invited from each of the three groups of agents – government, operators, and developers and academics – who nominated their representatives for the debate, in numbers previously defined and limited by the Coordination of the event.

Each speaker knew in advance in which group and what core theme they would be participating, in order to prepare themselves for the discussion.

In the round 1 of discussion, the debaters were divided into two groups called “operators” (Market agents) and “non-operators” (participants from government and developers and scholars). In the round 2, half of the group of debaters moved (mobile group) to another room with the same core theme, where there remained debaters from the first group (fixed). This “rotation” was intended after discussing the arguments in a homogeneous group (business and non-operators), to integrate, compare and restart the discussion with the interaction of different debaters, and therefore, different interests and points of view on the core theme.

The working groups were divided into the following core themes.

16th – Governance and transparency
- 4 Groups on Transparency
  - 2 Groups of operators and two of non-operators (government and developers)
- 4 Groups on Governance
  - 2 Groups of operators and two of non-operators (government and developers)

17th – Product and service technology
- 4 Groups on Credit
  - 2 Groups of operators and two of non-operators (government and developers) (due to lack of representatives in the group of non-operators, two rooms, or groups, were joined, making only three groups on Credit)
- 2 Groups on Other products
  - 1 Group of operators and 1 of non-operators (government and developers)
- 2 Group on Technology and means of distribution
  - 1 Group of operators and 1 of non-operators (government and developers)

The discussions in the working groups were lead by the technical team of the Forum 1, BCB employees trained for this role. There were, thus, eight teams with three members each: a moderator, who had the role of facilitating the discussion, a writer, who made notes and compiled the material presented below, and a secretary, who helped, principally in the registration and in controlling the time of the discussion.

Rules were established for the debate, disseminated beforehand in the discussions and distributed in each room for the participants, in addition to having posters with information and general rules for the audience.

At the beginning of each round, the team of BCB facilitators and the debaters were introduced. The debaters were then asked to indicate the spokesperson for the group, chosen from the group of fixed members, who would have the role of presenting the outputs and summarizing the discussion in the plenary on 17th.

It was established that the debaters, in order to make a contribution, should signal, raising their hand; contributions would be recorded by the group secretary; each intervention should last a maximum of 3 minutes, monitored by the secretary; no debater could disrupt another during their speech; the audience (invited observers) had no say in the debate.

The rules were critical to success of the dynamics. However, in some cases, moderators were allowed to be flexible, if they understood that this would improve the debate. In some rooms, therefore, in parts of the debate, particularly in the round 2, the moderators opened the discussion to members of the audience.

At the end of the second day of debate, the spokespersons of the groups met with the writers for about 50 minutes in order to consolidate the summaries for presentation in plenary. Each core theme's redactor had freedom to structure their presentation and decide if only one spokesperson or all should present in the session. The spokespersons were given 20 minutes to present main points of discussion, by core theme, in the plenary.

With the result of the experience of Forum 1, it will be possible to expand or reduce the number of participants in the upcoming forums, as well as to perfect the used methodology.

Outputs of the working groups

The following is a presentation of the outputs of the working groups, by room and by core theme.

We have tried to express the summary of discussions, without indicating the names of people or bodies, or doing so only in cases where this was considered extremely important for understanding the argument. The writers were free to report the discussions. Thus, some discussions were presented on a consolidated basis (rounds 1and 2), some separately, some in narrative form, and others in topics or issues.

The names of the participants and also of the institutions they represented, or that they were designated to represent are set out in Annex 4. Each participant was able to attend one or two groups, as indicated previously.

For more information about the dynamics of groups, see the item Dynamics of the working group in this document.

Core theme: Governance

Group A

Round 1

There is not good governance in microfinance institutions, particularly in unregulated institutions (OSCIPs), and good governance is essential for their activities to develop.

The model of governance, however should take into consideration the institution's strategy: if the strategy is making a profit, for example, governance should be different to that whose strategy is social inclusion.

Access to credit is hampered by lack of good governance. Even funds coming from government often fail to reach potential borrowers for lack of good governance.

Regulation

Regulation is the placement of the institutions under the umbrella of the BCB, the institution considered most suitable to exercise this function, among other institutions mentioned as participants in the process (Ministry of Justice – MJ –, for example).

International examples show that regulated institutions develop more than unregulated. Regulation would bring more security for stakeholders. It would be important that the regulation occurred in stages, so that the unregulated institutions could adapt gradually to the new rules.

Unregulated institutions can provide microcredit, but it is not permissible to raise funds from the public or offer other products such as insurance without regulation. The lack of regulation, therefore, limits the performance of microfinance institutions.

However, regulation is not easy and may entail high costs for unregulated institutions. Moreover, for regulation to be successful, it is necessary that the unregulated microfinance institutions want regulation.

Levels of governance

There is consensus that institutions should be classified according to their goals and their risks and by the characteristics of their operations. Thus, it should be a requirement to meet certain governance rules. Entities with more complex operations, particularly those that attract funds from the public through savings or insurance, would have far more rigid governance than those that operate only with microcredit, for example.

Most suitable model for microfinance institutions in Brazil

OSCIPs are an inadequate structure for the administration of large funds, because they have poor governance. They have no owner, and their board members often do not understand finances. Moreover, many OSCIPs in Brazil depend on public funding. There are good examples of OSCIPs of this type, but this model carries great political risk.

It is believed that only banks can bring about a microfinance revolution in Brazil because they are able to offer a range of products, alongside microcredit. Public banks could be an option. However, BB and Caixa Econômica Federal (CEF) have had negative experiences in this field and chose to act through banking correspondent. With the exception of the Bank of Northeast of Brazil (BNB), the presence of banks in this market is immaterial. It would be interesting to know the barriers that have hindered the success of banks in this market.

Cooperatives would be an interesting option for rural activities, but would not be a model for microfinance, as they cover a limited number of people.

Round 1

Regulatory framework

The regulatory framework is poor: the labor issue remains unresolved, because microfinance institution professionals have been granted banking status through the Labour Court, which raises the cost of microcredit operations; the National Program of Oriented Productive Microcredit (PNMPO) enforces the single-product, but the market demands product diversity; the limits for interest rates prevents the development of the microfinance market.

Governance

Governance is poor in microfinance companies. Responsibilities are not well defined in these institutions. There is funding in the market that could be made available for microfinance operations if governance was good.

Integration between the agents

For the microfinance market to develop properly, there needs to be more integration between the actors: BCB, MJ, MTE, among others.

Outros assuntos

Banks need microfinance institutions such as OSCIPs, to reach the poor. Therefore, it is necessary that they have good governance. If the BCB regulates the OSCIPs, the banks would provide them with funding.

The tax wedge is a problem, because it is the same for large and small sized operations.

It is necessary to professionalize the microfinance market, offering good training for professionals working in the area.

Group B

Round 1

The starting point for discussion was a quote mentioned by one of the debaters, of some concepts and principles of corporate governance, taken from the Code of Best Practice for Corporate Governance, released by the Brazilian Institute of Corporate Governance (IBGC), which included transparency, fairness and accountability.

It was quoted that for an organization to achieve its goals and fulfil its mission, it needs to have a vision for the future, shared by all its employees. Additionally, it should have well-defined management bodies, efficient internal and cost-effective risk controls, an effective audit system and well-designed guidelines. It was said that in order to have good governance, programs would be needed for awareness and continual development for institution professionals.

Later, it was stated that the legal framework should consider the differences between MFI profiles. OSCIPs were not designed to be MFIs, but government partners, in other words, Non Governmental Organizations (NGOs) with a social role. However, the governance that is required for OSCIPs is the same as that asked of MFIs. A debater asked "What model of governance are we talking about? Cooperative, OSCIPs, SCMs? What kind of governance do we expect or want? It depends on the profile of the institution".

Other debaters stressed that, regardless of the model of institution, all had missions and principles, and that problems occur because the principles of good governance are not followed. There are variations between MFIs, however, transparency is crucial for all of them.

The way to include people in the market (financial inclusion) was then discussed. It was said that for MFIs to be successful in financial inclusion, it is necessary that they have scale, as in the example of Compartamos. One of the debaters said that the current model of some MFIs is not sustainable, such as OSCIPs, who have funding difficulties, as the banks which could pass funding to these institutions do not do so in a volume that is satisfactory or desired by them. OSCIPs have difficulty achieving their goals due to lack of funding, which could be modified if other agents were to be partners with these institutions.

In response, it was said that the current regulatory framework does not allow other agents to increase the availability of funding in the market.

Moreover, it was said that the Development Bank of Minas Gerais (BDMG) has difficulty in transferring resources to the OSCIPs because it cannot get key information to make a proper credit analysis. According to the debater, "Today we need to be paternalistic with some MFIs, because if we do not teach them, it is not possible". The same debater affirmed that a policy of long-term financial education is needed for the sector. Moreover, it is necessary to reduce the requirements, without losing control of inherent risks.

Another debater noted that "There is a gap between government and operators". He cited the cases of an application for transfer of resources from the Worker Support Fund (FAT) through BNDES and of a consultation with the BCB, with respect to transfers of compulsory deposits, which the response was slow. It was proposed that in order to have progress in a legal framework, the microfinance should be taken away from the general text and a legal framework should be developed specifically for this sector.

They then dealt with some issues relating to OSCIPs and Law n. 9790, of March 23rd, 1999, as follows.

- There is a dilemma, according to one debater, of sustainability vs. financial inclusion - “How to navigate between the notion of business and keep in mind that it is serving the poor?”
- Issues of OSCIP assets – It was emphasized that they “do not have owners”, their directors are subject only to moral hazard.
- No remuneration of directors – It was said that the existing legal framework prevents board members from being paid, beyond covering costs related to day to day work, because only the leaders who work in executive management can be paid. “How to weigh commitment against accountability?” The majority of directors are voluntary, “idealistic”, however, compensation is required for the OSCIP mission to be achieved. An example was given of some contracts with banks, which required personal guarantees from spouses.
- Lack of protection for people who make decisions and risk their personal assets to make public policy.
- Corporate governance vs. training or up-skilling of directors: “Should there be a minimum requirement of business knowledge?”, “How to invest in HR (training), if the OSCIPs do not have resources?”
- Impasse in the transformation of OSCIPs into Microentrepreneur Credit Companies (SCMs) due to the difficulty of disposing of the constituent assets of those bodies.
- Difficulty of access to funding, which delays growth of OSCIPs. It was said that legislation could remedy the problem of sector funding.

A representative for cooperatives mentioned his concern to find a means of ensuring mission compliance and representivity of members. He noted that there is no difficulty with the legislation in general, except for the rules to form a cooperative, which, according to him, are the same as to form a bank. It was questioned if, in order to have financial inclusion, there should be an easing of legislation, considering the nature and characteristics of the institutions.

Another point discussed was the need to establish joint action, since there are sectors in difficulty. There is a need to move forward in joint dialogue, since the BCB claims that OSCIPs are not included among those it regulates (SCMs and others). The role of the Ministry of Justice was questioned with respect to microfinance.

Some difficulties were expressed in relation to the regulatory framework, namely:

- capping the rate of interest, the amount financed, products and access to funding;
- inefficiency of the model established for OSCIPs (Law n. 9790, 1999) to meet sector needs;
- difficulty in transforming OSCIPs into SCMs;
- need for “deregulation” of PNMPO;
- excessive tax burden for the sector, particularly for OSCIPs – Financial Operations Tax (IOF), Contribution to Social Security Financing (Cofins), Social Integration Program (PIS) and others.

Additionally, it was proposed that Resolution 2682, of December 21st, 1999, should be applied to OSCIPs, since development banks have funding to transfer, but did not do so, because the guarantees given by OSCIPs are insufficient, and the professionalization of the sector is inadequate.

The debaters expressed a difficulty with the labor laws, especially with recent decisions of the judiciary that equated loans agents to bank employees. It was said to be a matter of concern and will result in higher costs with labor issues for the sector.

The solution suggested by the group is the creation of a legal framework specific to microfinance, and the rupture of ties with various government agencies. The proposal is to designate only one agent, which would be at the same time, partner and regulator. Its goal would be to facilitate dialogue, accountability and the development of microfinance in Brazil. It was considered that the BCB take on the issue, given the proximity to the matter.

Round 2

The debate began with a quotation by one of the debaters, of some concepts and basic principles of corporate governance, among which were mentioned transparency, fairness and accountability.

Later, the question was asked: "What legal framework should we consider to bring about advance in governance?" A historical account of OSCIPs was given, in which it was emphasized that they were instituted to implement policies of social development organizations (NGOs), but that later they took on another role. To perform this role, several competing institutions exist, making it necessary for OSCIPs to adapt to this new reality. However, for this to happen, it is necessary that legislation advances, for example, in areas related to the transformation of OSCIPs to SCMs. It was commented that the rules for opening OSCIPs are the same as for the opening of other MFIs, too rigid, which makes it impossible to discuss new forms of financial inclusion.

The attending representative of the MJ was asked: "How are OSCIPs seen today by the Ministry of Justice?" The representative said that the ministry has started reviewing the regulations that govern the 3rd Sector. He pledged to bring the issues raised in the discussions to the Secretary and made his department available for discussions related to this.

Some issues related to OSCIPs were also addressed, such as:

- difficulty of access to public and private funding;
- difficulty of receiving foreign funds because of the fact that some foreign financial institutions are not able to register in the National Register of Legal Entities (CNPJ) in Brazil;
- difficulty of access to FAT resources;
- problem in the foundation of OSCIPs, which were not designed to operate on microcredit logic (market logic), but for achieving public policy. It was said that, "When OSCIPs grow, they are seen as in the wrong by the government";
- "Lack of clear definition of regulators and players" in the sector.

Later there was discussion about the necessity, or not, of diversification of products as a means of enhancing competitiveness and increasing the scale and the participation of MFIs. It was said that single-product logic no longer meets market needs or customer demands, which hinders the development of the sector. Next, one debater said that to achieve scale, it is necessary in the initial phase of MFIs, to work with the single-product logic, and, subsequently, look at diversification.

Another point discussed was the difficulty, in the regulatory framework, of OSCIP transformation to SCMs, as well as the difficulty of defining control of the newly transformed institution in view of the make-up of their capital, both public and private.

For OSCIPs there was a proposal to professionalize management of the sector, which would involve financial education for leaders and other professionals in these institutions.

Representatives of the SCMs noted that the model of the SCMs was inadequate until a short time ago, but there was clear progress, especially after May 2008. It was suggested that this evolution should take place as well with OSCIPs, with the "flexing of the current rules."

The IFC representative made a report that gave examples of institutions that had been successful after their transformation, namely, Compartamos, Banco Sol and others. Asked whether there was a "magic formula" for one institution to turn into another, acquiring new legal status, he replied that there is no "magic formula", but that this occurs in institutions that can demonstrate ability, vision and commitment.

One of those present supported the thesis that there should be subsidies for sectors that operate with low-income. One debater noted that the subsidy would be a tool to measure whether OSCIPs reached the capacity to be self-sustaining. It was agreed that Sebrae is an important support.

A question was addressed to the representative of the Institute of Applied Economic Research (Ipea): "What should be the role of the Ipea and how does it see microfinance in Brazil?" The Ipea representative responded that this institute has initiated studies on this subject, they are only isolated studies, but that the microfinance issue is seen as crucial in the process of financial inclusion.

It was said that the BCB needs to rethink banking models to operate in microfinance, the National Financial System (SFN) needs to create banking models that work for the wealthy and poor.

It was then said that the legal framework was formulated some ten years ago and that since then, there has been no evolution, making it necessary to revisit the role of the BCB, the MJ and other regulatory bodies, sector regulators and supervisors.

The establishment of a committee or working group was proposed to conduct the legislation review, which should listen to all the players involved, in order to find solutions for the microfinance sector in Brazil.

Group C

Rounds 1 and 2

Issue: Model of governance for the microfinance market

The formulation of the model should be guided by the definition of the range of stakeholders to be considered and how to meet the diversity of their respective interests: shareholders, managers, civil servants, employees, lenders, funders, customers, suppliers, auditors, regulators, community and others that are relevant.

Governance covers aspects of structure and information that should form a balanced arrangement to meet the interests of the defined stakeholders. Shareholder interest is ensured by defining the business mission, and, in its service, must be against the interest of the client.

The inclusion of the community in the model speaks to the question of transparency, of the consumer code and of business ethics. Transparency can lessen the problem of representivity in MFI governance.

Balancing meeting the demands for control with operational flexibility should be the objective of the model.

The approach to governance should be varied, consistent with the characteristics and categories of MFIs: different governance structures for different types of business. The degree of governance should be prescribed according to the nature of activities, vision, mission, maturity, the degree of regulation, the possibility of fund-raising, size and impact on the system, alongside other defining characteristics of each type of initiative in the market.

Minimum benchmark standards of governance could be suggested by the BCB. It would be up to companies to implement them to the level compatible with their situation and their interests.

It is necessary to adjust the requirements of the current standards for credit unions: accountability, internal and external audits and others. These governance requirements exceed the capacity of OSCIPs. More representivity in management could be obtained by reviewing the regulatory norms.

The construction of the model of governance for MFIs should be led by the BCB.

Issue: Qualification, remuneration, commitment and accountability of advisors

Professionalism and skills are imperative for the sustainable development of the microfinance market, but a strong limitation exists, represented by the scarcity of well-trained professionals, because of the peculiarities of the market and lack of incentives for professionals from the traditional financial market, which suggests a need to prioritize institutional training and development activities for employees and managers. There are no national academic or specific technical training courses for working in the microcredit market.

The regulatory requirement for professional development envisaged for board members is limiting and conflicts with the most important factors required of the role performed by these members. The requirement could be restricted to the technical advisory body of the institutions.

The legal framework should encourage the professionalization of management in microfinance.

Board members should be paid, or have other compensation for the responsibilities that they assume and personal exposure they undergo, particularly in legal issues.

Issue: Relevance and importance of guidelines for good practice in governance

Standards of good practice require careful evaluation with regard to their application to real cases. There are well known success stories that did not follow recognized "handbooks".

The standards should not be imposed – a "straitjacket"of regulatory requirements – but be a guide to be adopted freely, and, perhaps, encouraged by market developers.

The standards could include grading, so that companies could choose between basic (low cost) forms and more sophisticated (more expensive) forms, most favoured by the market. They should reflect the idea of differential treatment on grounds of structure, nature, complexity and turnover of the organizations for which they are intended.

Issue: Sustainability and subsidies

Sustainability is the paramount concern of MFI business. It implies good governance, of a form that ensures continuity of the organizations, or in other words, their durability.

Subsidy may lead to market distortions, clouding of results and increasing dependence on government agencies. It should be linked to the mission of the MFI and the market segment in which the institution operates. A clear choice should be made: commercial microfinance or social microfinance.

Grants do not imply dependence. The restricted list of products that OSCIPs can offer, for example, is reflected in high operating costs. The understanding is that subsidies can be targeted to institutional development, credit for first time lending, mobile agencies, external audit and new forms of operation of a predominantly social nature. Subsidies could be allowed, moreover, in situations where their absence would result in higher interest rates, prohibitive for the very poor.

There should be careful evaluation of whether it is necessary to treat sustainable business and subsidized business separately to meet the social mission of the institution, or whether it is possible to resolve the question, with the aim of covering both sides of the sustainability issue.

Also the differentiation between the operational subsidy and credit subsidy is important to guide its use in the market in a way that is non-predatory.

The coexistence of subsidized operations and unsubsidized operations causes governance problems that are difficult to administer, as well as conflicts in the area of taxation.

The subsidy should not be taken into account when assessing the sustainability of the business.

Clear identification, quantification and control of subsidy are useful to avoid “infecting” or frustrating commercial initiatives.

The use of subsidy is permissible, provided it does not create competition between MFIs and commercial initiatives, but serves the businesses in a helpful way.

Issue: Risk and information technology

Risk is a barrier to the growth of microfinance. Credit rating is based on personal agent judgement (“bottleneck”). The support of computerized systems is required for more speed and safety in the process. The appropriate combination of the use of technology with agent expertise, built in the customer relationship, should be sought.

In microcredit operations, the client’s relationship is with the agent and not with the company, and satisfaction and customer loyalty are determined mainly in the nuances, through the interpersonal relationship. This translates into high cost and increased exposure to the potential risk of discontinuity caused by losses in the portfolio.

There is inconsistency of information in relation to risk, which must be addressed.

Everything indicates that investment in information technology would be the way of enabling the development of the microfinance market.

The market needs a specific risk model, which is a precondition for the issue to be taken forward objectively.

There lacks centralization of loans (centre for credit risk), which leads to a risk of undesirable exposure of the income of borrowers.

The shared use of a centre for credit risk, with integration of basic customer information, combined with agent expertise, would enable elimination of a significant “bottleneck” in the growth of microfinance. Each company could choose the “tuning” most appropriate for the character of its operations.

Development initiatives and sharing of information systems could occur with the involvement of institutions with public capital, such as CEF and BB. The promotion of access to technology could perhaps be based on the governance structure.

There is significant potential, still largely unexplored, for MFIs to share systems. MFIs should talk among themselves about the development and use of common systems. Grameen already uses system sharing.

MFIs should not duplicate what the banks do, but link what MFIs currently do with existing banking technology and develop it. There are international examples that illustrate this statement well.

Accountability is key issue, but imposes high costs. The legal framework should be challenged with not inhibiting growth.

Standardization of information would eliminate the effects of inconsistency related to credit risk and allow meaningful comparisons of performance and market position.

The lack of standards is evidenced by demands for varying information by regulators.

A chart of accounts would be a solidifying agent and even allow the testing of models (pilots), contributing to sector development.

Issue: Production of scientific knowledge and its use by market

The production and dissemination of specific knowledge by the university and its outreach activity with the market, such as incubators, can perform an important role in the development of governance in MFIs.

Issue: Legal framework

The access of MFIs to specialized courts would help in expediting the collection of loans, reducing the risk and the cost of judicial access.

The use of funding must be rethought, today defined by regulation, concerning the 2% and its obligatory targeting for microcredit operations. It is proposed to evaluate the establishment of a fund, managed by the BCB, through application, that is aimed at the public good with more effectiveness.

Group D

Round 1

In round 1, debaters quickly made the diagnosis: there is not good governance in microfinance institutions. Many reasons were cited for this fact: there are no criteria for good governance in small companies; it takes more technology than that to which they have access; and there is a lack of a widely accepted concept of transparency, which is essential for governance.

A debater cited the perverse effects of the reverse of financial inclusion. They would be consequences of outsourcing services, carried out through banking correspondents. This commentator stated that they would not be adequately prepared, providing a low quality service. Moreover, they would be very vulnerable to risk and violence. Another debater disagreed, arguing that, despite all the cons, the action of these correspondents is granting citizenship to the population.

Another much-discussed reason for lack of good governance in microfinance institutions is the culture of these institutions. The board members are not remunerated, and it is difficult to find people well qualified for the job. The lack of training for managers makes it difficult to obtain funding. In addition, volunteer work feeds the informality and lack of concern regarding quality.

The legislation that regulates this activity, whilst forbidding the compensation of board members, leaves gaps for subjective interpretations and inferences. Therefore, it was suggested that the legislation be amended, so that those positions become paid. A debater argued that better prepared managers and better vertical integration of labor relations would be ways to achieve scale.

Another point of controversy was how to implement governance criteria for small companies. The difficulty has already surfaced at the point of defining the criteria. One debater stresses that there is no model of sustainability that considers the operational risks. Another argues that governance for the excluded should take place through the social commitment, and not through the market economy.

There was more disagreement among participants regarding the way in which these criteria should be implemented. One debater cited the difficulty of working with institutions that are outside of the SFN, arguing for the incorporation of OSCIPs into this system. Many supported the imposition of standards by the BCB, arguing that the comparison between the institutions and the accounting standardization are essential for the growth of the sector in Brazil. For them, the BCB is the only body capable of encouraging governance by way of its demands. Other debaters, concerned with the growth of microfinance institutions, proposed a minimum of obligatory requirements, but combined with several measures, without which the fulfilment of the requirements would become unachievable for these institutions, such as subsidies in the form of tax exemption for small agencies, rule segmentation, in accordance with the type of funding the entity receives or with its size, and the establishment of guarantee funds for loans. One debater argued that independent audits are very expensive, and there are few professionals in the area prepared to perform them, in spite of the fact that they are essential for raising funding from abroad.

It was also explained that governance needs to be implemented in stages. First that which concerns the internal workforce, then the relationship with partners that serve the public.

The partners have a key role because, as microentrepreneurs are not sufficiently trained and capable, they need proper care, with clarification. One debater spoke of the importance, when dealing with this population, that contact should be by relationship and familiarity, not just formality and completion of contracts.

At this point, it turned into a very strong debate on financial education. One debater spoke about social issues, considering that they must be discussed more at the universities of the country, but less as regards the marketing of social responsibility, more with regard to issues social themselves. It was the unanimous view that financial education should be more valued not only in universities but also in elementary and middle school.

The round ended with the words of one debater, who stressed the importance of the close relationship with stakeholders and constant contact between regulators and lenders, suggesting the formation of a relationship committee to meet frequently and regularly.

Round 2

In the round 2, one debater began his speech by highlighting the importance of building a governance model with the minimum possible of absolute requirements for financial institutions of any size, small, medium or large. Another debater replied, saying that this would not be possible because it depends on the profile and mission of each institution, or its size and complexity, in other words, the degree of integration with the system.

This topic generated much debate. Some stressed the importance of the size of the entity. Others said that even though its size was different, there are basic principles such as ethics and strategic planning, which apply to all types of institution.

The lack of audits for these entities also worried the debaters. They would be very expensive, but essential to growth and attracting investors to microfinance institutions. One debater said that although the OSCIPs already have a finance board, this does not replace the audit, since it is comprised of individuals from within the institution, without adequate training and, crucially with high turnover, since the position is unpaid. Another debater drew attention to the confederation of cooperatives, which manages to provide audit services at low cost, and emphasized that the auditors should be specialized in this matter. It was further said that the contracting or otherwise of external auditors should be decided by the institution, according to the need.

Another important reason for the lack of governance in microfinance institutions would be the lack of professionalism of those working in these entities. The group considered that professionalization of the governing body, which would cover both managers and board members, would be essential to better serve the communities and to enable these companies to grow and succeed in raising more funds, since they would gain credibility and transparency. A debater warned that training is a challenge for these institutions, but that’s not all. Since they are not conventional financial institutions, it is not enough that their managers are well trained, they must also have social sensitivity. He added that the dissemination of good governance practices can help the process. It was suggested that Sebrae remain responsible for administering training courses, both for board members and operators, and for auditors.

In the same vein, a representative of the academy stressed that the scientific area is very dispersed. He said it would be necessary to align the centers of practice research, because their studies could become more useful, being much more advantageous to the sector. Another debater highlighted the importance of developing more concrete studies and suggested that the BCB take responsibility for disseminating the information and research produced.

The round ended with the suggestion to set up an online forum for the sector as well an occasional committee, which would bring together regulators and financial institutions to ensure the possibility that the products are offered to the public and used by them.

Core theme: Transparency

Group A

Round 1

The first interventions made were to define as very fragile the transparency of the agencies in the microfinance system. This refers to all the agents in the system. One cause of this weakness is the lack of standardization of concepts. An example is the issue of default, which has different levels for institutions in the market. At root, it was an issue of the lack training of agents of the system.

Another debater stated that transparency has different connotations for each type of institution given the lack of clear rules, the cost and the lack of incentives to be transparent. This position later received support from another debater, who added that, without benefits, administrators will not be transparent.

For this participant, the BNDES, lacks clear standards of conduct to be followed to meet the demands. He did not understand why the demands did not reach BNDES and suggested a reduction in the value limit for OSCIP service. Moreover, he said the PNMPO and BNDES are trying to standardize the indicators of transparency.

In the opinion of this debater, the microfinance system faces three main issues: (i) lack of training of those working in this market, because there are no specific courses for qualification in this area; (ii) the cost/benefit ratio involved in the issue, which causes just the good information to be made transparent, and the neglect of poor, which is omitted from market; (iii) existing welfare policy in Brazil and discontinuity of government actions. Accordingly, a debater highlighted the Institutional Development Plan (PDI) as a program that was discontinued.

Another actor supported the minimum standardization of concepts and information to be provided to the supervisory bodies in the microfinance system. Along the same lines, the debater argued that standardization is a tool to improve comparison between the institutions in the market. For standardization to happen, there must be consensus among the regulatory and supervisory bodies and the developers involved (BCB, MTE, MJ and BNDES). The standardization of transparency criteria should be conducted and managed by the BCB, be carried out in the institutional arena and targeted at the public.

The next contribution was that transparency is a requirement for large firms that hope to raise funds from abroad; that the lack of resources, to implement a proper system of transparency, ceases to exist the moment the whole microfinance system grows, because it brings money “in its wake”. In this way, transparency increases as the system grows.

At this point, there was a proposal to make queries to the BCB Central Risk System free for non-regulated institutions (OSCIPs) in order to increase the efficiency of these operators.

It was considered that a credit bureau is an essential condition for growth of the microfinance sector. Furthermore, a proposal was put forward to establish a central system of national information services that would decrease the costs of MFIs. It was also said that the positive list, that would facilitate access to funding, should be anticipated in a general law of microfinance and have its value reduced from R$5,000.00 to R$1,000.00.

In the opinion of this participant, the system is in need of specific legislation that sets transparency standards for institutions, the BNDES does not meet even 10% of the market demands, and the OSCIPs need to grow to meet the demand.

There was disagreement over the inclusion of OSCIPs in the regulated financial system. Some see inclusion as a way to broaden access to funding, give impetus to development of a historical series of data on OSCIPs and increase the transparency of the sector. Others believe that these organizations should stay out of the regulated system, because regulation would act as an inhibitor of financial innovation and they argue that the requirement of transparency of MFI should be staggered according to the profile and degree of development of the MFI. Moreover, regulation can generate shrinkage in the sector.

It was suggested that the BCB and the BNDES were responsible for bringing, to financial institutions in general, more information on how the microfinance market works, in a way that would establish confidence for the release of more resources for lending by banks.

Ignorance of how the MFI operates and what it represents in the sector was pinpointed as a reason why banks, risk-averse, do not grant loans.

The group members, thus, seemed to converge on the idea that OSCIPs should be governed in a hybrid format. So, despite the fact that the OSCIPs would not be subject to BCB supervision, those that provided information about their balance sheets voluntarily would receive a certificate of transparency, since the group identified that BCB approval would facilitate access to funding.

Round 2

After a brief presentation of the topics that were most prominent in the discussions by the two groups in round 1, the first point of round 2 was to state the agreement of the group with the idea that the regulatory framework for microfinance should take into account the specificities of MFIs and be accepted by all agents in the system.

There was extensive debate about the causes of the lack of growth in the OSCIP sector. The main causes were pinpointed as the absence of regulation and the fact that OSCIPS are not under the BCB. However, debaters agreed with the statement that regulation could lead to shrinkage and loss of quality with regard to the OSCIP sector's characteristic development of innovations in the financial arena. It was later assessed that the lack of growth is due to lack of funding and not to lack of regulation.

There was consensus about creating standardization of the information that would be accepted by the main agencies in the microfinance sector. There was also agreement on the idea that disclosing information to the public, through the BCB, should be the prerogative of the MFI (at the discretion of the society).

It was agreed that the BCB should open their dissemination channels to MFIs (specifically OSCIPs), and that the availability of BCB data would serve as a quality certification for the MFIs that participated in the BCB program of minimum standards of information transparency. In summary, there was a proposal of semi-regulation, as is done in Bolivia, where there would be publicizing of data, through BCB channels, except that it exercises no direct supervision of the company. For some of those present, the quality certification granted by the BCB to the OSCIPs participating in the minimum transparency program must have the consent of the bodies that, in some way, are involved in the process (the MTE, the MJ, and the BNDES).

Group B

Rounds 1 and 2

The group determined that transparency is needed by all stakeholders. The developers should be transparent about the projects evaluated, regardless of project approval.

Microfinance institutions should seek transparency both in relation to the developer, to reduce the cost of funding, and in the relationship with their clients, to avoid excessive debt in the low-income population.

There should be a minimum set of indicators released by the institutions to ensure transparency. The basic information should also be required of unregulated institutions. There is no uniformity of information required by the resource providers. Standardization of data requested by developers will reduce the cost of generating information.

Regarding the information required from microfinance institutions, the following positions were noted:

a. information would be the same for all microfinance institutions, however, the frequency could vary according to the legal nature;
b. information would be differentiated, taking into account the legal nature and size of the institution.

Customers should be properly informed about the nature of the loan. Credit must be provided in a responsible manner. Microcredit should be tied to financial education.

According to one debater, transparency does not necessarily involve regulation. However, most of the debaters identified regulation as necessary for improving the transparency of microfinance institutions.

Regulation should be in accordance with the legal nature of each institution. Standardization should occur in the information, not in regulation.

There was evident need for a central body for microfinance institutions in order to strengthen the microfinance sector. Some debaters recognized that this function could be exercised by the BCB.

The social importance of OSCIPs was stressed because they serve a very specific public (high risk). OSCIPs do not exist for profit, but have an economic purpose. Transparency of OSCIPs requires monitoring of their leaders. There is a long-term tendency towards the regulation of OSCIPs. The existence of a regulating body and of financial education will combine to reduce the risk for OSCIPs, making funding less onerous.

The need was identified for legislation that allows SCMs to offer new products and raise public funds through savings, insurance, leasing, housing finance or otherwise, to become more attractive and, thereby, stimulate OSCIPs to turn into SCMs.

Public bodies should issue transparency certification for MFIs. The formation of a positive register for the microfinance industry and a credit bureau for transactions less than R$5,000.00 is important.

The group reported the need for research to better understand the public and the microfinance sector to clarify issues such as sector size, participants' characteristics and purpose.

During the debate the following question was put to the BCB: "How will inspection classify the microcredit portfolios of a bank? Will the rating "h" be assigned to these claims?"

The problem was mentioned of the cost of severance pay for workers of the correspondents, once the correspondents have been made equivalent to banks.

The microcredit regulation needs to be revised, since it was established in a different economic setting to the current one.

For greater microfinance stability, public policy for the sector should be by the state and not by the government.

Group C

Rounds 1 and 2

One of the points most commented on by the debaters was the great inconsistency of information existing in the microfinance industry, with significant impacts on the opportunity cost and lack of investment in the segment.

Although there is consensus regarding the fact that lack of standardization of accounting information impedes, principally, obtaining financing, there was disagreement about the way by which this standardization could be achieved: by way of imposition of a regulatory authority, by the requirement of the entities own of funder, or by a process of self-regulation.

Debaters who were in favour of standardization of information coming from a regulatory requirement argued that this could be achieved by inclusion of OSCIPs and NGOs under the supervision of the BCB. This would allow the establishment of a database for the segment, which does not exist, and a credit bureau, which could assist the process of granting credit on the part of these agencies.

The establishment of a credit bureau was cited by traders as a tool for fraud prevention in the granting of credit transactions, given that the absence of more effective mechanisms to refuse certain customers makes OSCIPs more vulnerable to events of this nature. However, alongside the issue of access to the bureau, concern was noted at the cost of maintaining such a register, since the information would be used by other institutions, hence the suggestion to create a simplified layout for system maintenance.

In this vein, the government representative indicated that the BCB is the only agent capable of forming a national information system, such as the Accounting Plan of National Financial System Institutions (Cosif), applicable to the microfinance industry. Microcredit as public policy, with BNDES as funder, was the argument used by the government to justify the need for regulatory enforcement for the submission of a minimum of information to obtain financing, since it is public funds, not private sector resources.

In contrast, the government representative is concerned to position the regulation as a "lifeline", arguing that market forces also require that the industry acts in pursuit of efficiency.

Most debaters felt that the process of self-regulation would bring more benefits for OSCIPs in promoting the standardization process, which would lead to more transparency. Government intervention would lead to higher costs for production of information. Thus, the mechanism of autoregulation was seen as an incentive for standardization, and particularly, for the production of information.

Representatives of the developers commented on the difficulty of producing a database for the sector, due to the absence of a culture of transparency in unregulated agencies. The research conducted with the aim of building national benchmarks for the industry was not successful due to a lack of response from the consulted, even knowing that transparency is fundamental, and that the international indicators are not applicable to our market.

The operators challenged this assertion, arguing that microfinance institutions do not respond to these surveys because they do not understand clearly the purpose of the information requested. Since the process of collecting and organizing such data is expensive, it is necessary that the institutions understand how this information will generate a return to help the segment. In this sense, it is necessary to implement incentives, so that these unregulated entities are encouraged to invest time, effort and money in order to generate information for the purpose of building a national benchmark.

In this respect, a representative of the developers commented on the need for a paradigm shift by the managers of these agencies in order to demonstrate that this can lead to more investment into the sector. The professional management of these organizations was mentioned as the best strategy to make them viable, because the opportunity cost of entry in this market is high.

The Government representative agreed with the statement that there are costs to generate information, but said there were also costs for no having this information. Accounting issues, as well as existence of audits, for example, are analyzed at the time of granting financing and can be crucial factors for the approval of credit.

Questioned, the operators' representative said that OSCIPs would not become SCMs as hoped, because they would then be governed by the BCB. He questioned the inability of the development agencies to transfer Interbank Deposits for Microfinance (DIMs) for OSCIPs. Another representative of the operators suggested that the BCB open that market to qualified investors, which, in their view, would promote more transparency as a requirement for the granting of funding.

In relation to this matter, the government representative commented that there was an embryonic program of grant funding for SCMs.

There was consensus with regard to the statement that financial education is the way to transparency.

Group D

Round 1

The discussion of the round 1 began with consensus that there is much disagreement over the concept of transparency. One debater argued that transparency as something absolute, i.e., an institution either is transparent or not. Others preferred to support the uniqueness of the various institutions that operate in this market.

Another criticism presented in the discussion was the lack of propagation, appreciation and dissemination of the culture of transparency between the stakeholders of the Brazilian market. Debaters stated that transparency is essential for the proper functioning of the market, for its growth and the confidence of suppliers, who bring funds to the financing institutions, and customers.

The way to establish this culture, however, generated much controversy. Some argued that the government should require, through regulation, the involvement of all institutions. That would be the only way to implement a new culture in the organizations. They supported the presence of regulators, the availability of initial advice to institutions at low or no cost provided by non-governmental organizations and audits, to ensure data quality and comparison. Others, in turn, said that the government should set the rules, without directly interfering, since interference could jeopardize some financial institutions. The high cost of this process could be prohibitive for an institution that was in the early stages of operations, for example. For these debaters, incentive, dissemination of information and the requirements of market would be enough to push the institutions that would become aware over time, by themselves, of the need for comparison. It would make clear that the less a financial institution can report about its activities, the lower the supply of funding available to it.

A debater, at that moment, emphasized that many of these services already exist available, as consultancy, for low cost, even at no cost, offered by non-government institutions, but that few Brazilian institutions have taken advantage of this opportunity. For him, lack of circulation of information about these services is more damaging than the lack of regulation.

All, however, agreed that the government should establish the rules for standardization of processes and information, unifying the reporting requirements for some bodies, such as CEF, BNDES, BCB. This set of data would be useful for government, academia and institutions. It was also unanimous that the standardization and regulation of OSCIPs must respect their distinctiveness, and that the requirements for such institutions should be compatible with their size.

The desirability of standardization of contracts was emphasized, with the aim of ensuring legality of contracts for the end customer. Another point was the need for a database with credit information of customers – credit bureau. Because there is no transparency about information of this nature, the institutions cannot prevent people from getting multiple concurrent loans from different institutions.

The lack of methodology for calculation of default indicators is also felt. The absence of these resources not only makes financial institutions stop using the benefits and available services, but also keeps the population ignorant of the possibilities.

Many debaters stressed the importance of financial education and broached the possibility of discussion with other public entities, advocating the long-term effect of a policy to teach the people, from childhood, to manage the available resources.

Concluding the discussion, one debater argued the importance of regulation and transparency. He said that they must coexist for funding to become viable and stressed that the social balance sheet and standardization should be considered by Brazilian institutions as investments rather than as expenses.

Round 2

The round 2 started with a summary of all topics discussed earlier. A debater stated that regulation and transparency are linked and that they are preconditions for good functioning of the microfinance market.

All agreed that the establishment of a credit bureau is essential, or a free system that communicates with the BCB system, where uploading is through the web.

Although it was the unanimous opinion that you cannot do without effective regulation, transparency and a database, once again the debaters disagreed about how a system appropriate to the field of microfinance should be created. Some argued that the microfinance should be fully inserted in the SFN, because that way it would be easier to control and encourage transparency in all MFIs. Others suggested the establishment of a data system similar and parallel to that already existing in the BCB, with values between R$700.00 and R$1,000.00.

The discussion about the obligation to adhere to standardization and transparency criteria also generated controversy in this round, and concern over excessive standardization in the regulation of financial institutions came to the fore again. A debater, saying it would be important not to repeat previous mistakes, stressed the importance of not looking at foreign models that cannot be applied in Brazil. In his opinion we should formulate our own model.

One item that was not highlighted in the 1st round and gained considerable force in this discussion was people's knowledge about services and financial products. This group said the population is not aware of the transactions available and therefore does not use them. Other times, faced with the wide range of product offerings, the customer finds it difficult to find one that matches to their actual need.

The debate ended with the comment of one debater about the importance of stakeholders moving closer together to build a comprehensive system, that gives consideration to all the needs of population and enables national growth.

Main theme: Credit

Group B

Round 1

The debate began with the concept of credit, whose pillars are the "five Cs", namely, character, capacity, capital, collateral and conditions. It was said that the granting of credit should be driven by purely technical and economic criteria, however, it would be essential to standardize credit policies for the sector. The debater cited the example of banks, which, he says, have funds of around R$1.2 billion of mandatory deposits collected in the BCB, but that these resources are not directed to microcredit because there is "excessive regulation". He stressed that the current regulatory framework is "scattered, outdated, born of inflationary circumstances and established without technical criteria, only political". He said the BCB, to govern, "was on the edge of regulation". Given this, the operating costs of microcredit operations discourage banks to operate in this market segment.

Asked by one of the participants as to whether the banks intend to operate directly with microfinance, the debater said that banks want to operate, but that the current regulatory framework makes it impossible to do so. The debater again criticized the regulatory framework (Resolution n. 3422, of November 30th, 2006), principally in relation to the mandatory "Directing of credit", along with the existence of "impositive caps and limits" and the "table of interest rates and the maximum loan amount". He then said the guarantees should be agreed between the parties, that the current BCB surveillance "penalizes operations". Another criticism was related to the IOF of 1.5% in financing operations of 12 to 24 months, which, he said, involves extremely high costs, especially compared to the Selic rate. As for the Risk Centre, the debater suggested reducing the cut off limit from R$5,000.00 to R$100.00, which would require more transparency and broaden the database for microfinance operators.

The debater said that although banking correspondents represent a successful model, they are threatened by recent decisions of the judiciary that equated some professionals in banking correspondents with bankers, because that will mean higher labor costs and make the model unviable. He also revealed that same process of equivalence is happening with loan officers. Another concern is the supervision of the National Health Surveillance Agency (Anvisa), which prohibits pharmacies from acting as correspondents together with the intention of the Federal Police to require a security presence at each physical point where there is a banking correspondent.

One debater pointed out that the OSCIPs face problems with the technical training of their directors and staff. He said that "the current law is confusing and haphazard", which leads to high costs and makes 3rd Sector development unfeasible.

Later, one of the debaters asked, "Who regulates and monitors the OSCIPs?" He said there is confusion between the Ministry of Justice, Ministry of Labour, the BCB and other bodies with regard to regulation, monitoring and dialogue with the OSCIPs, which, he said, causes the feeling that the segment "has no owner".

It was said moreover that it is necessary to have personal accounting legislation for OSCIPs, since the application of the Corporations Law is inappropriate for the sector. He reminded all that International Accounting standards, already in force, will bring even more problems for OSCIPs. Another difficulty noted was the fact that there are no specialized audit firms for these institutions, as to establish them would be too costly. Finally, he criticized the lack of professionalization of the sector.

With regard to OSCIPs, other issues were addressed such as:

- difficulty in converting to SCMs;
- lack of standardization of data and information required by the MJ;
- financial education as a important aspect for development of the 3rd Sector, both internally (HR and managers) and externally (microcredit end borrowers);
- dilemma: logic of the market vs. public interest of the OSCIPs;
- existence of high costs, with the necessity of hiring loan officers;
- concern about the possibility of equating OSCIP loan officers to bankers;
- difficulty of access to funding.

One of the debaters said the current model of OSCIPs is “doomed to failure”, and it is necessary to establish a new legal format for them. He said that if OSCIPs “were to operate in a professional manner”, they would have access to funding.

It was reported that the regulation of the cooperative sector, in recent years, had gone ahead, and that despite the increased costs with monitoring by the BCB, the new regulatory framework for cooperatives brought stability and security for the sector. It was said that the possible equating of cooperative professionals with bankers is also worrying the cooperative segment.

Next, the SCMs representative complained of excessive regulation of that sector, highlighting the need to relax the current rules so that entrepreneurs would be interested in establishing new SCMs. He complained that the need for an internal ombudsman has raised the costs for the sector. He related that “the resources of the banks do not reach SCMs”, which makes it impossible to direct microcredit to the end borrowers.

Finally, there were some proposals, namely:

- establish, in labor legislation, new regulations specifically for microfinance activity;
- include the discipline of financial education in school curricula;
- formulate “new architecture” for OSCIPs and redefine their role (legislation);
- diversify products for MFIs to gain scale, through insurance and credit cards, for example;
- encourage the use of other technology tools for access to products and services, such as mobile banking.

Round 2

The debate began with a critique by one of the debaters regarding the current legal framework, with rules that assume all institutions are equal. For him, there is “over-regulation”, the BCB issued “heavy regulation, unhelpful for the industry”, to establish, for example, limits on capital and equity and rigid rules for loan loss provisions (LLP) (Resolution n. 2682, of 1999). He said that the requirement of “Credit guidance immobilised the segment” (Resolution n. 3422, of 2006) and, as an example, he cited that the rate of 4% per month might be relatively low for the Southern region, but high in the Northeast. The same occurs for other types of operations, since the institutions could establish different rates for consumer credit and financing, for example.

Next, one of the debaters criticized the Febraban, saying that the regionality and individuality of each client should be respected, but, according to Febraban, it seems that this does not happen.

The Febraban representative replied, saying that "the banks support the service of all, without exclusion", but that the legislation (Resolution n. 3422, of 2006) prevents banks from operating with microcredit because of some constraints, namely:

- obligation to direct 2% of demand deposits to microcredit operations;
- limiting the amount to be borrowed or financed to R$1,000.00 for individuals;
- limitation of 4% interest rate in such operations.

He reported that banks have about R$2.6 billion of available resources, but of that total, about R$1.2 billion is deposited in the BCB in the form of compulsory deposits, resources that could be used as funding for microcredit.

Another debater pointed out that banks offer products according to the profile of borrowers of credit, and to standardize these products would not be the proper path. He said the legislation is restrictive regarding the limiting of the rate of interest and amounts of loans and financing. He stressed that banks, to lend money to OSCIPs, are required to classify these operations as level "h", i.e. 100% of LLP, as established by Resolution n. 2682, of 1999. This fact, he said, discourages banks from financing the OSCIPs.

There followed comments on some issues relating to OSCIPs, including:

- lack of transparency, making necessary standardization of information, which would facilitate knowledge and study of this market segment;
- no set accounting plan for these organizations;
- need to establish a single regulatory body for the segment. It was suggested that the BCB should be regulatory and monitoring body for OSCIPs, as occurs with SCMs;
- need to establish a new regulatory framework for the sector, with a "new legal form"for OSCIPs, and to redefine the role of these institutions;
- lack of professionalism and training for the sector. While many managers have "willing spirits", they lack technical skills;
- lack of audit and technical advice for the segment.

Some criticisms were made of the MJ, questioning the technical ability of that body in relation to OSCIPs.

The representative of the MJ asked what would be the representation of OSCIPs in the microcredit market. He said he was surprised at the emphasis given to this in the discussions, given its representation in the microcredit market.

One of those present said that the regulation of the cooperative sector in recent years has changed significantly. He said that despite rising cost of supervision by the BCB, the new cooperative regulatory framework brought stability and security to the segment.

It was said, next, that banks make grants to cooperatives, because they are regulated by the BCB, which does not happen with OSCIPs, making access to funding difficult for them.

Subsequently, the SCMs representative stressed that, despite the above, the cooperatives do not operate with production targeted microcredit, only with their associates and members. He said the crucial issue would not be whether the MFI be regulated or not, but more whether there was interest on the part of the banks to provide funding to MFIs. The example was given of some bank managers that "do not know what the National Program of Oriented Productive Microcredit is".

Another debater reported that banks are not intending to operate with microcredit, that the awareness is lacking to transfer the funds available so that MFIs could serve the segment.

Subsequently, the banks representative said that banking institutions are concerned with recent decisions by the Judiciary that equate banking correspondent professionals with bankers and with the intention of the Federal Police to require a security presence at each physical point of banking correspondent operation. He mentioned that the governor of Amazonas recently published a decree on this topic.

At the end of the discussion, the critique was made of the current regulatory framework, saying that "over-regulation or the lack of regulation" would be the greatest obstacle to developing the sector.

Group A and C

Round 1

Legal framework

The legal framework for microfinance is bad. It does not include good governance; it is unclear and imposes limits on rates of interest and maturities, which prevents the development of microfinance in Brazil.

Financial education

It is necessary to invest in financial education for people working in microfinance institutions. Only people with good knowledge can develop appropriate products for microfinance clients.

Appropriate products

There is a need for research to identify exactly which products the microfinance customer needs. Today, the microfinance market offers standardized products, which do not always meet the need.

Inconsistent information

There is inconsistent information in the microfinance market. If the rules of the market are not clear, resources remain scarce.

Round 2

Issue: Meeting the demand of the target customer and market growth

It is necessary to enable MFIs to develop through diversification of operations with products, even if this requires more rigor in their governance. The housing deficit in the country represents a great opportunity for the microfinance sector, but its exploration needs balancing of issues peculiar to this segment, such as long-term financing, structure of securities, instruments for collecting, which present characteristics different to those of current microfinance operations.

A problem for the development of microfinance in the country is that few companies are in fact, focused on low-income clients, innovating products to meet the specific needs of that audience, typical of the MFIs.

There are some factors that inhibit initiatives along these strategic lines: the need to simplify regulatory frameworks and to demystify the image of banks, and also cultural factors. These are important issues to confront.

There is, however, some observable movement from the banks to establish a relationship with the client, the core concept of the microfinance market.

Issue: Provision of microcredit and public policy

Microcredit currently has no owner. It should be subject to specific public policy for the establishment of environmental conditions for its development.

The role of public banks should be considered, as shown by international experience.

The government should not compete with private companies; only promote additional actions in those market areas hostile to private capital.

It was also mentioned that public banks should act without limitation, withdrawing from the market space only in so far as there is solid and significant market occupation by private capital.

Issue: Private microentrepreneur and access to credit

The legislation concerning the microentrepreneur is very positive about encouraging financial inclusion in the informal market. But, there are problems to be overcome, related to the tax issue (issuing of invoice vs. taxation system).

Issue: Loan officers and banking correspondent

The microcredit officer must not behave as a banking correspondent. The correspondents are trained to "sell transactions" and not "to sell credit", as is the case for officers.

Despite the success of the initiative, the correspondent solution is fragile with respect to the legal framework, by not having established, in a simplified and clear way, the rules of the game, in the national arena, with legal force.

There are risks regarding labor issues which involve the correspondents, that also apply to the officers (equating to bankers), which must be eliminated, so that the correspondent model can be preserved and continue to grow.

Issue: Regulatory framework: costs and restrictions on the development of microfinance institutions

The setting of limits on interest rates cause inconsistencies in the market and inhibits the development of microcredit in the country.

The standard of 2% and the allocation of that amount should be subject to reconsideration, given its low effectiveness in the current format, in promoting market development.

It is essential that there be legislation to eliminate the dark specter of risk regarding labor matters for the development of the microfinance market.

There is need for comprehensive legislation for the microfinance industry in the country.

The growing interest of international investors in this industry in the country requires reflection about actions of cooperation and regulatory model, which cover relations in the international arena, which enable advantage to be taken of the growing opportunities that are emerging, specifically, in light of the excellent position of the country in the international context.

Legal limitations of funding from large investors should be relaxed.

OSCIPs and SCMs should be able to raise funds.

Issue: Inconsistency and information systems

The use of a credit bureau by the sector is a point to be considered.

There is a lack of effective tools for monitoring the degree of indebtedness of the low-income population, the onus being on the officer to minimize the resulting risks.

The suggestion is that the BCB reduces the minimum amount, so that the operation becomes visible to MFIs (R$100.00, for example) on its system.

Credit bureau systems give late indication of the problem of appointed debt.

Sharing of information is fundamental to safe market development.

Perhaps the development and administration of a centralized system for sharing information should be assigned to the public sector, considering the conflicts of interest that may arise from the exchange of information between competitors.

Sharing should not lead to predatory competition. Regulation can prevent this from happening. More appropriately, self-regulation would make the initiative workable by the market itself, central to the whole sector, satisfying the strategic issues of sharing.

Issue: Market expansion through credit card use

It is not appropriate in the current microfinance market, to use the credit card product in its conventional mode, i.e. as a means of payment and consumption. The possibilities are credit to microbusiness, limited by the current scale of MFIs, and the cell phone for the transaction.

It is possible to combine other forms of transaction using cell phones. Also local or regional credit cards could be implemented, which would represent a leap in offer, in accordance with the strategy of popularization.

Issue: Financial education and delinquency

Financial education of loan officers can help in improving the quality of sale, impacting positively on defaults.

Group D

Round 1

The round 1 started with a discussion about the role of the loan officer. One debater said that these officers significantly reduce the business risk, by working in communities and can bring financial and business education to people. However, he cautions that there are difficulties relating to employment law, because sometimes the officers are considered as bankers. To preserve the model, it is advisable not to raise labor costs.

Another debater defended the possibility of individuals acting as correspondents because by registering sales promoters and other agents as loan officers, monitoring becomes easier, the process becomes more transparent, and responsibilities are assumed by both parties. However, this issue was not consensual: some of the debaters argued that loan officers should not act as correspondents, only performing the transactions, “without messing with money.”

To this end, one debater emphasized that, by selecting and training agents well, which covers the emotional field, and holding them responsible for their actions, it is possible to gain much in the process, even in relation to client debt – for this reason they should not be correspondents. The “Badge”of the loan officer also represents, according to one commentator, a key issue for small OSCIPs, since he must inspire confidence and for this, should be well selected.

For others, the loan officer could also be a private microentrepreneur, authorized for both activities. In this vein, another commentator argued that making officers correspondents is a way to legalize them, which would provide training, certification, control, among other things, i.e. the agents would be regulated, and, therefore, would lead to more standardization and accountability – an idea supported by other debaters. In his opinion, there must be regulations for “briefcase” agents, promoters and other professionals, so that they have increased access to financial education. Thus, loan officers would be able to make good credit analysis and provide a product that is useful and accessible to their customers. In the view of another debater, financial education is necessary for there to be good credit analysis.

The question was then posed of the issue of client indebtedness faced by MFIs, citing the fact that some institutions “clone” client portfolios, hiring the same loan officers, that is, some officers refer the same clients to various institutions to request loans.

According to one commentator, there should be a credit bureau, with a positive list, in order to get to know people with low ticket (R$100.00, for example) and provide good credit analysis for this client, so people pay according to these parameters – an idea supported by others throughout the discussion.

Some argued that this system should be managed by the BCB, others by private enterprise, but all agreed that its establishment is vital for the proper functioning of the market.

It was suggested that sharing is not limited to information about customers, but that it was extended to the structure of distribution channels – ATMs, for example – that could be accessed by MFIs, although with a fee. In the same vein, it was said, by another commentator, that it is necessary to find a suitable model for access by low-income people, for example, the cell phone.

For one commentator, the BCB credit risk centre should lower its minimum value for logging operations to R$1,000.00. Another flaw he pointed out is that operations realized with state funds would not be covered in such a centre.

Some debaters argued that correspondents should increase the portfolio of products offered. Others said they did not know how to sell credit well and it would be interesting to copy the model of independent insurance brokers.

In this line of expanding services, one debater argued that SCMs should expand their services, offering financing and insurance.

The issue of difficulty of access to credit lines also surfaced. There was criticism of the high value (minimum R$1 million) stipulated by BNDES few years ago. The option used, according to the debater, is the development agencies, which, however, only exist in a few states. Another debater recalled that the credit of these agencies is exclusively “for production”. Other ways must thus be sought for OSCIPs to have more access to credit lines, so that they are able to have access to the 2% provided for by law.

The discussion about why the 2% of demand deposits intended for microcredit does not reach this target, being largely deposited in the BCB, was fierce. OSCIP representatives said that the requirement that this transfer takes place through DIM makes the process more onerous and confirmed that there was little access to these funds.

A debater endorsed the idea, saying that banks do not have the necessary structure to work with this market, nor do the agencies that deal directly with it. Banks lack the appropriate methodologies for the efficient transfer of funds to microcredit institutions. On the other hand, these institutions also are not sufficiently trained to negotiate effectively with the banks and thus draw the available funding. According to him, this will always generate loss, so it is better to leave the money sitting than transfer it through DIM. To solve this problem, it was suggested that these 2% were transferred under the form of tariff exemptions to institutions.

Another debater argued that there lacks only information for use of compulsory funding for microcredit – which he said to use. In his view, banks have no professionals with knowledge about the application of these funds, but that does no harm to them.

A suggestion presented by one commentator to reduce transaction costs in microfinance was (the necessity of) joint signing (to be facilitated) with the use of technology, besides adopting the credit register, already mentioned.

Another point was that was criticized was that the SCM only provides production credit to its clients, arguing that they could extend these services to finance, insurance, especially consumer credit, because that would complement their work and avoid diversion of production credit, since they can not control the spending of customers. It was proposed, then, that this limitation should be removed from regulation.

Another option mentioned was funding for housing reform: if these bodies could offer this service, the default rate could fall.

For one debater, the differential of an MFI should be the monitoring, the financial education, even if these services generate costs, since they must be carried out by contracted agents, therefore, organization professionals.

There is need for financial education, regulation and training to show funders that MFIs are subject matter experts, because there is ignorance of this market on the part of financial agents, according to one commentator.

In the view of one debater, credit unions might be able to contribute by investing in technology and training for low-income people.

Excessive regulation, such as compulsory ombudsman for regulated institutions and compulsory provision of excessive information to the PNMPO, generates too many costs, in addition to the tax costs, which end up being paid by bank spreads and interest credit, limiting the resources available to clients in the opinion of another debater.

One participant understood it to be essential that the country can attract the greatest possible number of bodies that grant credit, but, for this it is necessary that procedures are standardized.

Thus, it was suggested that the BCB assume the role of integrating the sector, without, however, limiting it, as occurred with the BNDES few years ago. In the past, BNDES was the only source of funds for the microfinance sector institutions, which, therefore, depended heavily on that bank. The suggestion was that the BCB act in order to integrate the sector, without, however, producing "dependency" or "propping up" the market.

Round 2

The round 2 started with discussion on the costs of microcredit operations, which, understood one debater, should be very cheap. Another felt that they are an inhibiting factor for the development of microfinance. Another pointed out ways to cut costs, such as direct transfer to the supplier of goods to be purchased and the use of solidarity groups in the grant process. There were also those who said that in the case of credit unions, the existence of three spheres in the system would help reduce funding costs and in operations in general, suggesting that OSCIPs and SCMs were organized in a similar way, lest they become too dispersed – an idea supported (subsequently) by another debater, who added that this centre or this association could certify its affiliates, which would even help to promote collective education.

One debater argued that to form networks for OSCIPs is very difficult, since the directors are different from the members of a cooperative and the OSCIPs are not used to communicating with each other. The only way out, in his view, would be for the MJ to intervene in this matter. For another debater, the OSCIPs cannot get together in networks, in view of their governance problems; for him, it is necessary to better define the role of leaders (board members), considering their social objective.

Another debater shared the example of tourism operators who have joined, and with this, managed to contract insurance operations for consumers at a better price – action that, in his view, could be used for fundraising for microcredit. He believes there needs to be a new legal framework, but one that does not make the industry rigid and that is under the responsibility of the BCB, since the dispersion of powers in ministries and government bodies, as it is currently, is harmful, an idea supported by other debaters.

For another debater, this would mean pooling, of funding or insurance, but he understands that, in preference to this, there should be sharing of facilities (ATMs, by example), which would be more efficient for reducing costs.

One debater said that for credit unions, the BCB has been an "excellent father, but very severe", which had been very important for strengthening the culture of mergers of "unviable" cooperatives. From the moment that the cooperatives are strengthened, the BCB will gradually be "more liberal". He recommends that the BCB is assigned the role of organizer of the sector.

For another debater, the approximation of FIs to microfinance depends on the cost of opportunity and regularity of information, which is hampered by regulation – he explicitly criticized the 2% compulsory deposit. He proposed as a solution the introduction of incentives to the banks. As an example, he suggested that for every 2% invested in microfinance, the BCB releases 2% of the compulsory deposit. According to him, the big banks cannot provide long-term lending to the OSCIPs due to legislation.

One participant advocated a review of the prohibition of development agencies transferring DIM resources through OSCIPs, which, he says, know their public better. However, he acknowledged that, after this transfer, the BCB would no longer be able to see the application of funding in OSCIPs.

One commentator supported the idea that there is limitation on the part of the BNDES to transfer resources to OSCIPs, since, because of operational difficulties; the minimum limit today is R$1 million – an amount which, he said, should decrease. He added that the BNDES cannot be the only agent to provide funds for OSCIPs. In his view, there must be several funding suppliers, to avoid the risk of dependence on only the BNDES, as the institution is subject to political interference. He cited what happened in 2003 when the BNDES ceased transfer – considered an "error" by the institution, which is now trying to rebuild the model. According to him, if the OSCIPs have more transparency and better governance, they could raise funds from institutions abroad, for example. Another debater questioned the need to seek funds abroad, given the availability of FAT resources. He recalled the loss of funding from BNDES, which occurred in 2003 as a "traumatic relationship", an idea supported by another debater, who said the BNDES "let the sector down".

Another debater added that the role of the BNDES as funder is important, because it sends signals to the market about the risk quality of institutions to which it lends. For him, the more important the BNDES becomes, the better for the market because this would mean it (the market) is now strengthened.

Another said that OSCIPs could have different classifications and corresponding grades of requirement, until they become banks, for example. But, for this, there must be a leader for the area. For him, the credit culture is developing, being more present in the Northeast of the country. Only when this occurs there will be continuity of funding. He recalled the case, cited above, of the BNDES cut in 2003. Nevertheless, he said, the industry survived, and very well: "We need a permanent channel of funding, that is not so influenced by rain and thunderstorms".

The issue of the necessity to conduct research to understand the needs of the sector was addressed.

According to one debater, the regulation should be relaxed in a radical way, since, in his view, it "delays the granting of credit to the poor in Brazil". Another debater spoke about the complementary nature of production credit and credit for consumption, claiming that the non-distinction facilitated the sustainability of MFIs.

Another stated: "We know that microfinance is not subsidized credit". For him, it is necessary to organize the system, with a simplified regulatory structure, user friendly, so that people understand, i.e., there must be simple standards to regulate the microcredit system, so that the population can understand them. In his view, for the banks, microcredit will be just another product in their portfolio, not needing them to be specialized in the area, as they can be associated with credit transfer agencies, such as OSCIPs.

One debater recalled that the MDS had a financial inclusion program linked to "Bolsa Família" income transfer program, with banking and financial education for the beneficiaries.

Core theme: Technology and distribution channels

Group A

Rounds 1 and 2

Initially the discussion focused on the issue of the source of financing for the development of information technology. The consensus was that the funds for financing should not only come from the state but from different sources. In the case of cellular network technology, the developers' representative argued that the funds for network expansion, aimed at expanding the facilities for the low-income population, should come only from the government.

Agreeing with this argument, the government representative stressed that the existence of cellular technology does not necessarily mean access to financial services, and thus, in this way, public funds could end up being used by the technology innovation industry. He considered misinformation from mobile operators as the cause of failure to reduce costs of the distribution of financial services. As an example, he cited the failure to use correspondents as a low cost structured channel for distributing products and services, due to lack of knowledge of their operation, which makes this channel underexploited in many locations. In conclusion, he said that synergy between the correspondents and the means of payment could optimize the delivery of services in the country.

There was consensus for the idea that, to establish public policies that increase distribution channels, it is necessary to better understand the demand and identify the location where they are necessary. The government must make investments to map those needs.

The sharing of channels is highlighted as a way of reducing distribution costs for products and services for low-income populations. The developers' representative cited the postal bank as an example, noting that it is a private initiative.

The need to formulate public policies to facilitate transactions between these channels was again mentioned.

The government representative stressed that microfinance institutions make little use of the available resources for distribution of products and services in order to reduce the cost of their operations. As an example, he cited the Internet, which could be used for completing registration, and cell phones, to perform the registration search. A local credit card could also help reduce usage costs, because it would promote less circulation of funds. In his view, for these experiments to be widely disseminated, it is necessary that the public, and the needs of the public, are known.

The statement was corroborated by all debaters. All agreed with the statement that there is no point in developing a very large range of products unless the population wants or is ready to use them. However, there should be differentiation between the technology used for products that require more, or less, contact between the issuer and the applicant.

Agreeing with this statement, the representative of the operators pointed out that Brazil still is very weak in services related to microfinance, and for that reason, we need proximity technology.

The issues involved in the process of expanding the use of microcredit operations versus improvement of the existing channels for related products was the subject of great debate.

The government representative said that, to have microfinance products, there must be scale, and to have scale, you have to expand. Operators added to this, stating that the expansion of credit operations requires mastery of microcredit technology.

The developers agreed with the idea that the technology delivers benefits in scale and cost reduction, but does not replace, for example, a well-trained loan officer.

The operators' representative commented that there are countries where the role of loan officer is a profession, unlike in Brazil, where he is underpaid and abused as a discoverer of new products for the institution.

According to the developers' representative, the figure of the loan officer is needed because there is no automatic way of loaning to people with low incomes. However, the labor cost of these agents is progressively higher, and labor law in Brazil imposes several restrictions on mass operations, which explains why some microfinance institutions resort to informal processes to supply operations.

The labor issue was also commented on by the government representative, when asked on how to use transactional channels such as correspondents to cover other types of services such as granting credit. According to him, the more the correspondent deviates from purely transactional services, the more risk he runs (in labor relations and security requirements). For this reason, he believes that the expansion of the role depends on some improvements in regulation, so that there is "protection" for this channel.

There was agreement about the little use made of existing technology by microfinance institutions to distribute their products and services. The Internet was cited as an example of a channel that could be used to generating more customers and gathering information about them.

This observation was challenged by an operator, according to whom, although the Internet can be used as a distribution channel, it does not reach the neediest population. There are different degrees of evolution in the technology used by OSCIPs. Some OSCIPs are technologically evolved; others are still using obsolete technology.

Also mentioned in this discussion was the importance of financial education for operating institutions, because there is no point making technology resources available unless the customer is educated to use them. It's not enough to just sell the product. If the sale is being made by cell phone or interactive TV, it is important that you are educated to do that.

The government representative commented that the non-formalization of a credit history for microfinance institutions eventually causes the linking of a client to a specific institution, to avoid the repetition of the registration process. Accordingly, the debate ended with the proposed formulation of a positive list and the decrease in value of transactions to be reported to the BCB Credit Information System (SCR).

Group B

Round 1

Initially, the issue of integration of channels as a vital factor for accelerating process, reducing cost and consolidating this process, was addressed. It was emphasized that sharing among market players can lead to reduced technology costs and thus help in inclusion. In this regard, sharing of ATMs and points of service was suggested, as well as centres, which make the necessary transactions. Moreover, there was the idea of a mobile service, which would reach municipalities where there are no bank branches. The example of clearing checks was given. Finally, the establishment of a network for cooperative solutions comprising market agents was suggested, which would encourage reduction of technology costs.

The debaters highlighted the importance of understanding the target audience and offering products that serve it. It is considered essential to employ technology to serve the customer and make it intelligible for everyone, including those who do not even have basic documents. It is essential to expand the portfolio to better meet the needs of the population, and to formulate standardization that will enable implementation of technology on a larger scale.

The challenge was highlighted, for the microfinance market in Brazil, of the expansion of targeted microcredit, being considered the technology frontier.

The cell phone was mentioned as a good resource, but the SMS (acronym corresponding to Short Message Service) is not considered appropriate. They stressed it was important to invite the phone operators to address this problem. The idea was suggested of establishing a virtual cell phone account regulated in the SFN by the BCB.

There was also the suggestion of an option of a mobile service, for regions that do not have bank branches.

The loan officer was a subject much discussed, considered an important social integrator, because they are present in 5,600 municipalities. It was suggested that the bodies should unite to establish mechanisms of protection for correspondents and flexibility of legislation. It was also suggested there should be two types of correspondent, offering differentiated products and with different training. The credit broker was pinpointed as an option to offer additional products other then credit. It was proposed that officers would work with an entrepreneur's register and an estimated balance sheet, with the economic profile of the proposed business and the social profile of the client's family.

The insurance market was represented and the industry, which has been expanding its operations at the base of the pyramid, was used as an example. It was emphasized that the current legislation for banking correspondents does not include insurance.

The idea of empowering and training these professionals, through agreement, for the services of financial education was much suggested.

Round 2

The round 2 started with a summary of the topics discussed in first round. This group demonstrated much concern about the products to be offered, as they should be formulated according to the needs of the customer, the entrepreneur, and developed so that all types of clients and their needs are included. One debater noted the importance of observing the seasonal income flow of some clients.

It was also called for cooperation with government and education bodies, in a way that expands financial education systematically, so that people can make proper and full use of the facilities offered. The extension of credit to enterprises was suggested, because currently these customers can only be served as individuals.

It was emphasized that technology is critical to optimize available funds and reduce expenditure with correspondents. While it is essential to have some type of service that reaches the entrepreneur, many debaters stressed that the cost of this undertaking makes it impossible. Moreover, they had concerns about the workforce, security and the regulation of other bodies.

The challenge is to increase technology that enables inclusion in the microcredit market. It needs to provide security, to be distributed throughout the national territory, be automatic and involve as few people as possible. There were some solutions proposed for this. One was the cell phone, as previously mentioned, as being available to almost the entire population of Brazil. However, for some debaters, it does not seem to be a secure device for this purpose. Others argued that it's a question of a less expensive mechanism, because the rental of points and machines would be very costly. Another well-accepted suggestion was the use of Postal services as a distribution channel, for its comprehensiveness and the trust given it by the population.

Another suggestion was to develop a card with a local flag, with a range of values. It would generate reductions in cost and movement of money, promoting a regional value chain. A debater added that the structure for working with credit analysis in microfinance is very different from the structure used in traditional credit analysis. He said banks, because of their structure, size and the type of services they offer, do not have the ability to offer this new type of product and suggested establishing partnerships with microfinance institutions, to generate more products channels for clients.

Core theme: Other products

Group A

Round 1

The first contribution of the debaters in round 1 on the theme of other products was about the product options to be brought to the public by the unregulated institutions (OSCIPs). One of the options would be the credit card as a form of inclusion in the microcredit system, to minimize the time spent by administrators dealing with banking bureaucracy, with the aim of liberating credit.

There was disagreement and long debate in relation to products that should be offered by agents in the microfinance market. For some, there should be no restrictions, and all products should be offered by all MFIs. For the most part, however, OSCIPs should not make transactions involving savings and microinsurance, because they are concerned with operations where there is raising of funds from the population that occupies the base of the social pyramid.

It was commented that the OSCIPs must be regulated in order to grow and operate with diversified products. In addition, product diversification should be viewed as a given for those MFIs that wish to remain in the market. Another debater argued that regulation should be done gradually and should be preceded by self-regulation in the sector.

One of the debaters highlighted the benefits arising from the integration of financial inclusion products, specifically in the area of microcredit and microinsurance activities, and stressed that regulation must exist, in a form that protects the end consumer, which is a low-income public.

At this point there was discussion of the issues of insufficient data and the lack of specific research in the area, that identifies the real need of this low-income public, quantifies the need and indicates the geographic distribution of needs. The lack of historical series, research and market evaluation of new products, other than microcredit, was highlighted.

Attention was drawn to the research, sponsored by the BNDES, on the sector in 2007 and 2008. The results of Forum 1 should be checked with the results of that research. Furthermore, a debater stressed the importance of information exchange between government bodies, such as the Superintendence of Private Insurance (Susep), FGV and IBGE.

Round 2

The debate began with a speech by one of the debaters about the current regulation, which restricts market operators in the area of supply of financial innovations.

Next, there was consensus about sustainability. For most of the debaters, there is an understanding that any offer of products in the microfinance market should add value to the profit of the MFI. This being so, who would finance a free consultation public credit bureau? It must exist, nevertheless, in the form of a sustainable business.

At that point, the need was once again addressed for financial education of the low-income public, before offering new products, as a way to reduce the degree of default in the new products, whether they be consumer, or targeted credit. Continuing, another debater proposed that financial education happens through the S system – Sebrae, Industry Social Service (Sesi) and the National Industrial Training Service (Senai) – and go hand in hand with financial inclusion.

One of the debaters suggested that the growth of OSCIPs should happen through the fusion of these with SCMs. Thus, a deficiency in one would be matched by provision in the other. OSCIPs have the knowledge of the target public through loan officers, and SCMs have the potential to access funding through their regulation by BCB. Thus, merger was imagined where an SCM would be controlled by an OSCIP. Continuing, another debater gave an example of partnership that involves education and credit in the union of an SCM with an OSCIP. In this case, there would be no loss of efficiency, a fact that was common in cases involving partnerships for the raising and supply of credit.

Another debater said that the need for an MFI to offer other products lies in the fact that, if you do not, the client will look for this product on the market and, for lack of proper financial education, will be liable to contract credit without the ability to pay and become delinquent for the initial MFI. Thus, an MFI should be able to offer all products and provide proper financial guidance, to ensure that the customer assumes debts within their ability to pay.

Group B

Rounds 1 and 2

Although microfinance had its origin in productive microcredit, other products are necessary to meet the needs of the low-income population (micro-insurance, financing for renovation, construction and others). This population, for the most part, does not have reserves to meet contingencies, such as unexpected health expenses, damage to residences by accidents or natural phenomena, expenses arising from the death of a loved family member.

To serve its public more effectively, institutions need to have the results of research, to better understand the needs of this segment, taking into account the economic and social aspects of each region of the country.

The existing financial products must be customized to serve the low-income population. This adaptation requires, through innovation, lowering of costs of products offered. The electronic point of service is a facilitator of microfinance. Thus, microcredit cards would facilitate the supply of products. The cell phone, due to its popularity, would also be good instrument to supply financial services. Correspondents are very important because they facilitate access to banking services for more isolated populations.

Product diversification and the minimum cost credit bureau, with positive and negative information, were considered important for strengthening and developing the sector.

The debaters stressed that commercial institutions are already offering credit for consumption, but at high cost, to the low-income population.

The product offering must be tied to financial education with the aim of disseminating clearly the characteristics of each product offered and of preventing irresponsible borrowing by the low-income population. The products must be offered in a responsible manner.

The majority of debaters indicated the need for minimum regulation for the sector, although there have been movements that prioritized the organization of institutions in a proactive way, with the development of projects and action plans as a means of strengthening, independently of regulation.

The products offered by OSCIPs could vary in accordance with the degree of governance and transparency of the institution. The most reputable OSCIPs could offer a varied range of services.

It was diagnosed that institutions must improve their governance and transparency before offering products through which they would attract funds from the public. Raising of funds allows for expansion of microfinance and requires regulation. Coverage by the Credit Guarantee Fund would be interesting. Raising of funds should happen with qualified investors. The group also expressed concern at the lack of legislation regarding electronic crimes.

Social currencies, community banks and other initiatives

November 18th, 2009

Introduction – Banco Central do Brasil and social currencies[1]

Although, in the capitalist system, the existence of alternative money has been constant in the past three centuries, it was from the 1980's, with the establishment of Local Exchange Trading Systems (Lets) in Canada, that they began to have more expression. The social character of the instrument comes from being able to integrate and generate local development, to be administered by the users themselves and through their circulation being guided by mutual trust among members of a community. Experiences such as these have already spread to several countries like the United States, Spain, England, Mexico and Argentina.

In Brazil, there are several experiments with local social currencies, backed by Reals, issued by community banks, supported by the federal government through solidarity finance public policies, encouraged by the Senaes, established in 2003, in the MTE structure. In partnership with the BNB, Senaes made agreements with fifty development bodies for the establishment of rotating solidarity funds in the Northeast, managed by the communities themselves, which supplied credit and provided facility for community savings.

As community banks are non-profit community organizations, that have contractual relationships with banks, either as correspondents, or as microcredit agencies, the BCB, as executor of monetary policy and exclusive issuer of currency on behalf of the Union, has a direct interest in the study and monitoring of experiences of social currencies.

The study and monitoring of social currencies by the BCB will enable better understanding of the scope and distribution of social currencies throughout the nation and, if deemed appropriate, will make feasible the implementation of specific measures to avoid distortions or damage to users of these tools.

Furthermore, exploration of the experiences in social or complementary money provides: the potential to anticipate issues relevant to the functioning of social currencies, in the area of economic theory, as evidenced by the analogy between social currencies and other exchange systems already studied; (ii) the possibility of comparing the systems of social currencies in Brazil with those of other countries, with the aim of understanding specifically the actions of monetary authorities; (iii) contribution to the development of economic relations guided by cooperation and solidarity; and (iv) contribution to the strengthening of public policies of inclusion formulated by the federal government.

In this context, the Social Currencies project was developed, approved by the Collegiate Board at its meeting on 19th April, 2007 (Vote BCB 109/2007), in order to understand and monitor, in a continuous manner, the process of creation and dissemination of social currencies in Brazil. Activities planned in this project began in September 2007. Among the progress achieved in the first months, worth mentioning is the survey and analysis of relevant literature and field visits, together with studies and research on social currencies based on national and international experiences, led by a team from Deorf and the Office of the General Counsel of the BCB (PGBC).

[1]Text prepared based on the BCB Vote n. 400/2009, approved by the Collegiate Board at its meeting on 11th November, 2009.

In Brazil, there were technical visits to the Palmas Community Bank, the Community Bank Bem, and it was conducted fourteen interviews with community development banks during the Palmas Bank Seminar – 10 years, held from February 28th to March 1st, 2008, in Fortaleza, Ceará. Abroad, it was conducted interviews with officials and/or debaters to collect information on a visit to Victoria Lets and Salt Spring Dollar, Canada; Tianguis Tlaloc and Xico, Mexico; Berkshare and Ithaca Hours, United States; and Crom Alternative Money in Croatia.

There was also the acquisition of literature intended to provide technical support for activities to be developed; participation in events, conferences and meetings in Brazil and abroad, to collect information and debate about social economy, deserving mention, the submission of a paper in the 1st International CIRIEC Research Conference on the Social Economy, Canada – 22nd to 25th October, 2007; and the publication of an article in the International Journal of Community Currency Research (IJCCR) in 2009. However, after six months of implementation, it was impossible to continue the project activities, due to the surfacing of problems, anticipated in the project risk assessment, such as shortage of manpower. Project activities were thus suspended in March 2008, without affecting those ongoing activities that did not depend on financial resources and that could be performed without extensive use of manpower. Since the problem of shortage of manpower remained, the project was not formally resumed.

At its meeting on July 2nd, 2009, through Vote BCB 253/2009, the BCB Collegiate Board approved the Financial Inclusion project, promoting a specific event on Social Currencies, with the objectives of discussing the issue with players linked to the theme, discussing the limits and possibilities of these instruments and determining the best way to achieve systematic monitoring of the evolution and use of social currencies in Brazil – the main goal of the Social Currencies project.

With the approval of the Financial Inclusion project, there was opportunity to propose a new path for the Social Currencies project, in a manner more consistent with the actions of the BCB to promote financial inclusion in the country. It is the case that the rapid proliferation of local social currencies issued by community banks stems from the dissemination of solidarity finance public policies, encouraged by Senaes, in the three spheres of government (federal, state and municipal). The belief of this secretariat is that, in the coming years, at least 180 of these institutions will be functioning, acting simultaneously as an institutional alternative for access to financial products and services and as a promotional agent for local development, particularly in poor communities.

The incorporation of the Social Currencies project with the Financial Inclusion project was approved by the Collegiate Board at its meeting on November 11th, 2009 (Vote BCB 400/2009). This eliminated the risks related to staffing, reduced costs and made it possible that, in synergy with other BCB initiatives, directed at promoting financial inclusion in Brazil, the BCB Financial Inclusion Committee – composed of representatives of areas directly or indirectly involved with the issue, under the coordination of the area of Financial System Regulation and Organization – could properly define and lead the matter, considering the federal government guidelines, the legal possibilities and the BCB's competences. In the same decision the finalization of the Agreement of Technical Cooperation between the BCB and the MTE was approved, aimed at the establishment of a coordinated action of study activities and for monitoring the evolving use of social currencies in Brazil, as well as for information exchange and other activities related to the matter.

Thus, the third day of the I Brazilian Central Bank Forum for Financial Inclusion, 18th November, was dedicated to social currencies, community banks and other initiatives, with the purpose of discussing the limits and possibilities for social currencies in Brazil, based on the early results of studies conducted within the Social Currencies project. During the occasion, the Agreement on Technical Cooperation between the BCB and Senaes was signed.

The presentations that follow were selected in order to provide an overview of the situation in which the national and international experiences with social currencies are located and to provide elements for deeper discussion about the limits and possibilities of the use of social currencies in Brazil. The importance of the issue lies in the same plane as the discussions held in the first two days of Forum 1 and respects the need to build an efficient financial system, sustainable and inclusive, using technological innovations or methodologies to ensure wide access for the low-income population to products and services offered by financial institutions.

The papers that comprise this report were prepared by the Forum 1 editorial team and only summarize the presentations made, recording the outline of the variety of aspects addressed, which deserve much further examination. The subjective coverage of the ideas presented does not indicate the position of the authors or the BCB on any question of fact or law involved in the matters discussed, nor replace the presentations made, which are available on the BCB website at <www.bcb.gov.br/?microfin>.

Panel for the event opening

Luiz Edson Feltrim – Head of the Financial System Organization Department
Francisco Siqueira – General Counsel of the Banco Central do Brasil
José dos Santos Barbosa – Deputy Head of the Currency Management Department

The opening of the discussion of social currencies, community banks and other initiatives was by the Head of Deorf, Luiz Edson Feltrim, a unit of the BCB in charge, at that time, of the implementation of two strategic projects – Financial Inclusion and Social Currencies – and had the participation of the General Counsel of the BCB at that time, Francisco Siqueira, and the Deputy Head of the Currency Management Department (Mecir), José dos Santos Barbosa.

After a welcome to the debaters by the head of Deorf, the chief of Mecir quickly recalled the episode involving the Palmas Bank, in 2001, when the BCB informed the Public Ministry (public prosecutors) of the existence of evidence of a criminal offence based on news published that the Residents Association of the Conjunto Palmeira, Fortaleza, would be issuing money, noting that the situation was subsequently clarified. For his part, the General Counsel said the episode would be overcome, stating that he visited the Palmas Bank and found a community association, which aims to promote development in the community in which it is located.

Panel 1 – 1st Session – Social Currencies and Community Banks

Moderator: José dos Santos Barbosa – Deputy Head of the Currency Management Department, Banco Central do Brasil

Survey of Alternative Money Currently in Use in Brazil (Cordel/BNB)

Sheila Sztutman – Researcher from the Center of Studies for Local Development

The lecture, entitled Survey of Alternative Money in use in Brazil (Cordel/BNB), presented the results of research conducted by the Center of Studies for Local Development (Cordel) in partnership with BNB in 2007, about some products offered by community banks for low-income populations, who have limited access to the traditional financial system.

The research objective was to determine how the experiences with alternative money in use in Brazil function, what are the social motives for this money to exist and what is its significance. The survey also aimed to support public policies and strategies of territorial development.

The research results showed that social currency practices are part of the construction of proposals for generating employment and income. Social currencies are created and used by solidarity economy enterprises, originates in the communities themsleves, and may be found in exchange clubs or community banks. In general, they are not issued randomly by community banks, since there exist a link to the Real. Printing is done with their own graphics, with the necessary care to avoid falsification.

The community banks have rules and regulations and exercise an educational function for the population in the area of finance. With the exception of the Community Bank of Rio Grande do Sul, these organizations act as correspondents of banks, facilitating access to financial services. The credit provided by community banks to the low-income population may be either in Real or in social currency, without interest charges or with interest rates much lower than those seen in the majority of microcredit programs. Community banks are found in towns that lack conventional banks. The most significant experiences are Palmas Bank, in Ceará, which served as a paradigm for most community banks, and the Bank Bem, in Espírito Santo. The Bank Bem, located in Espírito Santo, also delivers the transfers of the "Bolsa Família" program.

Finally, the speaker mentioned that community banks have led to strengthening of the communities they serve. Whilst, because of the values and amount of transactions, the impact of these experiences in the monetary base is small, it is seen to have a high social impact in the communities.

The Experience of Palmas Bank (CE) and the Brazilian Network of Community Banks

João Joaquim de Melo Neto Segundo – Coordinator-General of the Palmas Institute

The talk about the experience of the Palmas Bank, in Fortaleza, and the Brazilian Network of Community Banks was delivered by the president of that institution, Joaquim de Melo.

The speaker stressed the importance of public recognition, manifested by the General Counsel of the BCB, that the use of social currency in the form proposed by Palmas Bank does not constitute a criminal offence.

He recalled that, at some point in the existence of the Palmas Bank, whilst he was invited to give a lecture in the premises of the BCB to explain the operation of community bank, he received a warrant of arrest triggered by a process that began in another section and said that the position, now standardized within the BCB would change the history of community banks in Brazil, to bring more legal security to practices proposed by the Palmas Institute.

Next, Joaquim de Melo reported on several points, dating back to the founding of the institution, which began its activities in 1988. He said that the institution of Palmas Bank was started to furnish the need to bring financial resources to remote locations, without access to the financial system and regular banking. He explained that community banks provide financial solidarity services under the logic of the solidarity economy with the objective of developing the local economy. Acting as correspondents for the banks and suppliers of production microcredit or microcredit for consumption, which can take place through a contract signed with the same bank, as in the case of the BB.

All transactions made with the local social currency palmas are backed in a ratio of 1 x 1 in relation to reals, i.e., palmas are only issued when linked to currency. As an incentive to use local currency, payments and purchases made with use of palmas receive 5% discount on face value. This way, much of the output of the region is retained and is fed back to expand the movement of goods and services in the local economy.

Since 2005, in partnership with the Senaes, it has encouraged the expansion of a network of community banks. Today there are 51 active community banks, and the Palmas Institute is the network manager in partnership with the BB. For this network of community banks continue to grow, the presenter mentioned the following points, which need to be further examined.

- How to deal with risks? The risks are currently borne exclusively by the community bank despite the partnership with banks. For example, there are no guarantees in case of theft.
- Who is the lender's bank? Existing credit, being bank credit, is generally expensive.

- What are the guarantee mechanisms? It is necessary to establish a guarantee fund.
- What are the right products? Simplified accounts must have the maximum deposit increased from R$1000 to R$5000.
- What are the main difficulties? The mandatory period of cash relief should be extended.
- What standards should be followed? A legal and regulatory framework must be established.
- How to strengthen community banks? A national program for strengthening new community banks and OSCIPs would enable the maintenance of these institutions for at least, three years.

The Experience of Bank Bem and the Atelier of Ideas Association (ES)

Leonora M. L. Mol – Founder and Executive Chairman of the Atelier of Ideas Association

Leonora Mol made a presentation on the experience of Bank Bem that originated in the Atelier of Ideas Association, formed by a group of seamstresses in 2003, in a community marked by poverty and violence in Vitória, Espírito Santo. The bank's capital began with only R$300.00, donated by people from the local church. The money was loaned successfully.

With the little money earned, the community began to lend part of this result for two enterprises so they could start their activities. It was thus that the communities surrounding Bank Bem realized the importance of credit to fight poverty and lack of opportunity of employment and income.

Two years later, given the initial success of the venture, the same church group decided to make a more substantial donation, this time of R$19,000. With that money Bank Bem opened. Of the total donation, R$9,000 were focused for granting community credit. Later, the bank received additional contributions of R$130,000 from the city hall and R$25,000 from Petrobras. Today there is a cooking group, a group of cleaners and an ecological brick factory.

Bank Bem is strictly solidarity and community focused in nature. The community has the determining role in credit decisions. The residents and clients hold a wealth of diverse information that helps make the lending process more efficient.

The business principles of Bank Bem involve a vision of solidarity lending and proximity finance. Bank and residents are partners, and all participate in the process of granting credit.

Bank Bem has a social currency, the "bem", widely used in the community. Interest on loans in social currency is zero, and interest on loans in reals ranges from 0.5% to 1%.

There is partnership with the CEF, the institution for which Bank Bem is a banking correspondent. Through this partnership, the community bank offers different types of credit, production credit, credit for consumption and housing credit, which involves credit, technical assistance and construction of houses with green technology.

Panel 1 – 2nd Session – Social Currency and Community Banks

Moderator: José Ricardo da Costa e Silva – Senior Advisor, Research Department, Banco Central do Brasil

The Experience of Community Banks Incubation in Local Eco-Sol Networks: the case of Ites/UFBA

Genauto França Filho – Professor of the School of Management, Federal University of Bahia and Coordinator of the Incubadora Tecnológica de Economia Solidária e Gestão do Desenvolvimento Territorial, Federal University of Bahia (Ites/UFBA)

In the talk The Experience of Community Bank Incubation in Local Eco-Sol Networks: the case of Ites/UFBA, Professor Genauto França Filho argued that to combat poverty, one must go beyond conventional economic theories and stated that community banks should be considered instigators of the reorganization of local economies. These banks merge market rationale with non-market rationale, with non-monetary rationale, to use the so-called social currency. Social currencies should be considered as innovative technology and socially appropriate to promote local development, because, in addition to keeping income in the community, they foster interaction between the individual and their social environment.

By multiplying the social relations of neighborhood, social currencies encourage the strengthening of the local economy, causing a lot of production and consumption to be conserved in the community. Four experiences were mentioned by the presenter with community banks accompanied by the Incubadora Tecnológica de Economia Solidária e Gestão do Desenvolvimento Territorial at the Federal University of Bahia (Ites/UFBA): Guia, in Salvador, Eco-Luzia, in Simões Filho (BA), Ilhamar, in Vera Cruz (BA), and Casa do Sol, in Cairu (BA), which use, respectively, the currencies Guine, Trilha, Concha and Tinharé.

Genauto warned that the instrument should not be seen as a conventional mechanism of inclusion into the traditional economic system of competition, in which there is a continuous deficit between the supply and demand for labor, creating a situation where there is not opportunity for all and enhancing the possibility that the market economy becomes a market society.

The community banks offer a new way of thinking and acting in the public arena through cooperation, in the light of practical problems experienced by communities in their day to day lives, and assume a new form of political action, self-managed, focused on the transformation of everyday processes, that experiments with other values and rationales in relation to economic work.

The Experience of the Bank of Cocais in Partnership with the City Hall of São João do Arraial (PI)

Francisco das Chagas Limma – Mayor of São João do Arraial

Mayor Francisco das Chagas Lima introduced himself and began his lecture on the experience of Cocais Bank in partnership with the City Hall of São João do Arraial, by showing some slides of the municipality located in northern Piauí, one of the poorest states in the country, in the territory of Cocais, almost on the border with Maranhão, with only 7,822 inhabitants.

The region, accustomed to much rain, has a concentration of babassu plantations, called babaçuais, that are fundamental to economic dynamics of the municipality. This plant is used in handicrafts, in charcoal production, the manufacture of furniture and ornaments, and especially in the production of oil. Mesocarp – the fiber between the hull and kernel of babassu and almond – is used to make babassu flour, used to prepare typical dishes and produce babalate, the regional chocolate. Besides this culture, the city municipality has subsistence agriculture – rice, beans, corn and cassava – and small animal breeding as its main economic activities.

According to IBGE, the municipality had a population of 7,822 inhabitants in 2008, with a Human Development Index (HDI) of 0.528 – the 21st lowest in the state. About 72% of the population had incomes less than half the minimum wage. Despite these numbers, the city stands out as a pillar of local sustainable development, due to the growth of solidarity enterprises.

The mayor said that, in 2006, the currency circulating in São João do Arraial was only R$850,000. According to the speaker, of the R$850,000, which circulated through the city, only R$80,000, or less than 10% came from production.

Early in his tenure, the money leaving São João do Arraial to be used in other commercial centers was a factor that hindered the development of trade and the city. From this observation came the idea of forming a type of banking institution resulting from partnership of government with the community. After several meetings, it was decided to establish a community bank.

Thus, in 2007, the Bank of Cocais was established, with its own currency and local scope. The community bank is managed by a local currency board, comprising representatives of the government and various organized civil society groups, all sheltered by the “umbrella” of the Center for Community Organization and Support for Social Inclusion (Cocais).

Actions and activities developed by the Bank of Cocais, which has begun to act as an agent for solidarity microcredit, were, the presenter stated: to provide services to public administration for the payment of municipal employees and benefits; acting as banking correspondent; receipt of accounts and public taxes; and exchange of currencies.

According to Francisco das Chagas Limma, after two years of operation, the Bank of Cocais is already a regional reference for local development, and the main positive results generated were the following:

- improved employment and income generation in the locality;
- strengthening of local production groups;
- more investment in education and culture;
- increase of money circulating in the municipality;
- improved self-esteem of its inhabitants;
- publicity for the municipality throughout the country, through receipt of awards and articles.

The Experience of Partnership between the Banco do Brasil and Community Banks Acting as Banking Correspondents

Paulo Odair Pointevin Frazão – Executive Manager of the Sustainable Development Unit, Banco do Brasil

In the first part of his presentation, Paulo Odair Pointevin Frazão reported that, in the BB, the Sustainable Development Unit, which deals with issues of Socio-environmental Responsibility (RSA) and the solidarity economy, is responsible for partnerships between the BB and community banks that act as correspondents. The establishment of a structure to guard the RSA with a management to focus on the development of community banks in the BB shows the recognition that these issues are part of the corporate world. Since 2004, the BB has tried hard to ensure the sustainable regional development of business (DRS), and is seen to be progressing by the leadership authorities of the institution in supporting and discussing actions in this field.

In this sector of work, the BB meets with communities to develop a production activity. First, a mapping of production and consumption is carried out, in accordance with the interests of community and an action plan is developed that includes the financial issue. As the work involves participation of communities, they are trained at local or regional forums, and the instruction is by their own community, creating sustainable businesses and inclusion. The projects in this area also contribute to education and culture, empowerment of people and granting of credit with reduced risk. Once people understand and act in a solidarity approach, there is less default.

Next, Paulo Frazão spoke particularly about the partnership between the BB and community banks, beginning with the Palmas Bank, which won the Fundação Banco do Brasil (FBB) award for technology innovation. All investment in this partnership is realized through FBB, and the goal is to bring banking convenience to communities. In 2007 there were sixteen community banks in operation, when the partnership was signed with the MTE, which enabled the expansion of these experiments. In 2008, a campaign of financial citizenship was carried out, which involved the establishment of ten community banks in Ceará, one of which was located in an indigenous community. In 2009, four community banks opened in São Paulo and one in Minas Gerais. Currently there are 42 community banks that use the banner of BB: 29 in Ceará, 3 in Piauí, 1 in Maranhão, 1 in Paraíba, 1 in Pará, 5 in São Paulo, 1 in Minas Gerais.

Established on principles of solidarity economy, community banks create a correspondent solution where the management is by the community, bringing social technologies, microfinance products and services, including oriented productive microcredit, promoting local development in poor communities, by offering banking products and services with perspective of generating jobs and income.

The community banks are set up in partnership with the BB and offer the following products and banking services: simplified account opening, upon presentation of ID card and the number of the Individual Taxpayer Registry (CPF); balances and current account statements; cash deposit and withdrawal with magnetic card; production credit (up to R$10,000.00); contracting loans in reals and social currencies (consumption); payment of securities; utility payment (water, electricity, telephone etc.); life insurance; receiving benefits from the National Institute of Social Security (INSS); other BB transactions.

For BB, partnering with community banks expands and makes more significant the presence of the institution in the country, especially in small municipalities and the outskirts of large urban areas, where the cost of installing an agency is very high. Besides strengthening the brand of the BB, this partnership increases the volume of credit and contributes to financial inclusion.

To conclude, Paulo Frazão spoke about the next steps in the BB project in relation to this matter, emphasizing their intention to support the establishment of community banks, doubling the number of partnerships by 2011 and producing a manual on how to set up a community bank, through partnership between the FBB and the third sector entities. Among the actions needed to address the challenges ahead, the presenter outlined:

- develop a more appropriate correspondent model for this type of initiative;
- offer new products and services tailored to customers of community banks;
- improve the management of community banks;
- expand strategic partnerships (government and companies) to take part in the project of expansion of community banks as correspondents of the banking institutions;
- promote change in the norms, in the light of the reality of community banks (relief, for example);
- regulate the issuance and use of social currencies in the country;
- ensure the credibility of the model in society, partner agencies and government;
- develop social capital in communities.

Panel 2 – Other Initiatives and the Effects of Social Currencies

Moderator: Marden Marques Soares – Chief Executive of the Agency for Promotion of Alagoas

Social Networks, Law and Money in the Information Age

Marcus Faro de Castro – Coordinator of the Research Group for Law, Economics and Society (GDES) Faculty of Law, University of Brasília

At the start of the presentation Social Networks, Law and Money in the Information Age, Marcus Faro de Castro compared the fundamentals of the market economy with those of other types of economies, pointing to concepts and ideas that support the view that there is opportunity, afforded by virtual communities, to skip the stage of subsistence economy, achieved through current complementary social policies, for that of a competitive economy – industrial and commercial – based on an industrial policy that embraces digital social currency as the central instrument.

In the development of the theoretical foundations, issues related to the paradigm shift were considered, which support the contribution made by work: information can replace money as an alternative means of cooperative coordination of interests in production arrangements in order to increase the degree of confidence in community life. He also spoke about the interconnectedness of interests and values in the market economy, among other topics relevant to the topic.

According to the presenter, in this context in which the realization of the potential for the expansion of social capital in our society can come from increased use of digital networks, monetary pluralism would be welcome, especially because of its potential countercyclical effects, social networks and electronic currency can contribute twice: they can both complement social policies, and can serve as an instrument of industrial policy.

Monetary Methods Supported by the Social Trade Organization (STRO, Netherlands) and their Impact on Different Social and Economic Environments

Camilo Ramada – Manager of Methodology and of Projects of the Strohalm Institute for Integral Development (InStroDI)

In the talk entitled Monetary Methods Supported by the Social Trade Organization (STRO, Netherlands) and their Impact on Different Social and Economic Environments, Camilo Ramada presented monetary innovations that, according to the STRO group, are indispensable for economic development and more access to working capital by micro and small enterprises.

The STRO has existed for 40 years in the Netherlands and, in the past 15 years, has focused attention on the money market. This organization, which has several projects in Brazil and other countries, developed and provides, via the Internet, free Cyclos software, open source, which is a tool for making virtual payments.

For the STRO group, in the next decade, monetary issues will receive special attention and there will be many innovations in this area. The goal of STRO is to generate means of payment that enable commercial transactions made in the domestic market, regardless of fluctuations that occur in national financial systems or instabilities that occur in the international financial system.

The speaker said that, currently, working capital for micro and small enterprises is scarce and very expensive in the Brazilian market. There is, however, an important type of credit, which is independent of the financial system: it is commercial credit. This is the type when a company delivers your product and receives payment in thirty or sixty days. Cash on delivery, in these cases, is rare. The greater the difficulty in obtaining financial credit, provided directly by banks, more important commercial credit becomes. That happens when buyers and sellers want to do a deal, they may provide optional forms of payment if there is little availability of financial credit.

The alternative means of payment have grown quite a lot, assuming an important role for sustainable socioeconomic development. The entities affiliated with the STRO group work with the development of alternative means of payment. An example of commercial credit developed by STRO is the Commercial Credit Loop – C3, which might be interesting to microfinance clients. In this case, a company "A" receives a product for which he makes deferred payment to supplier "B". A reputable financial company "C3" enters the loop, providing the administrative balance of the amount owed by "A". This administrative balance is transferred to "B", which, in turn, can pass it to company "D", and so on. At maturity, "A" pays the amount owed to the reputable company "C3" which, in turn, pays the company holding the respective administrative balance.

The speaker concluded by saying that this type of operation, still under test by STRO, is an option for lack of working capital. As "C3" does not lend resources, there are no interest charges, only the administrative fee. In this example, "A" could act as "C3" even if it only has collateral, not needing to have credit at "B". This is an example of an innovative methodology that can meet market needs with a positive impact in different social and economic environments.

Complementary Credit Networks and Macroeconomic Stability: the case of WIR Cooperative Bank, Switzerland

James Stodder – Professor of Lally School of Management and Technology of Rensselaer Polytechnic Institute of Hartford, Connecticut, United States

Professor James Stodder presented on the case of the cooperative bank WIR, of Switzerland, founded in 1934, which has annual revenue of around 1.6 billion Swiss francs (Equivalent to 1.5 billion dollars). Bank customers have two accounts at the institution, one in Swiss francs, the other in WIR. WIR is an electronic social currency that can only be used between the bank's customers. WIR means "us" in German and is an abbreviation for the German word Wirtschaftsring, which means economic cycle. Thus, the cooperative bank retains the idea that the economic cycle formed by the community. Since 1973, Swiss law prohibits that the credits held in WIR by bank clients can be exchanged for Swiss francs.

The presenter commented that, although mainstream economists do not usually conduct studies on social currency, the use of economic theory can contribute significantly to a better understanding of the subject. Thus, in using economic theory and its econometric models, his research seeks to fill this gap and aims to verify the thesis that the use of the WIR has lead to countercyclical behavior in relation to the level of employment and monetary policy in the Swiss economy.

In his presentation, the speaker sought to demonstrate: (a) why a system like WIR, based on electronic credit, not paper, can be self-regulated; (b) why these electronic credit systems are countercyclical, especially for small and medium enterprises; (c) why these counter-cyclical electronic credit systems are better for fighting poverty; and (d) why such systems are not inflationary.

According to the results of research conducted, use of the WIR has negative correlation with the change in Gross Domestic Product (GDP) and positive correlation with the change in unemployment. In other words, as the WIR coexists with the Swiss franc, it is a secondary currency whose acceptance increases when the official currency is weak and decreases when the official currency is plentiful. Moreover, since the behavior of the WIR is countercyclical and the behavior of M2 (basically cash, demand deposits and fixed-term deposits in banks) is procyclical, the expansion of WIR in inflation tends to generate less inflation than the expansion of official means of payment. When the formal economy slows, the participation of social currency, in a less inflationary form, increases, which mitigates the problem of lack of capital on the part of economic agents. Research also demonstrates that the countercyclical effect of the WIR declined after 1973, when it was forbidden to exchange WIR for Swiss francs.

Faced with the findings of his study, James Stodder supported the importance of electronic social currencies such as the WIR also for macroeconomic policy makers, since traditional monetary policy, based on monetary aggregates, cannot determine wealth distribution. The use of electronic credit systems would enable the monetary authorities to be guided not only by macroeconomics signs, but also by microeconomics signs. For this reason and because social currency remains in the community, according to him, all who are concerned with microfinance should also be concerned with social currency.

Social Currencies, Exchange Clubs in Argentina and the Sun Project in France: lessons to remember

Heloisa Primavera – Professor, specialist in the School of Solidarity Economy, Faculty of Economic Sciences, University of Buenos Aires

Presenting on the history of social currencies in the world, Heloisa Primavera said that, from 1988 to 1996, there were 465 initiatives with complementary currencies in 136 countries, with emphasis on Canada, United States, Mexico, Argentina and Brazil, the latter having a network of 51 community banks (2009), as detailed in the presentation given by Joaquim Melo.

The first experience with exchange clubs in Argentina occurred in 1995, with 23 people in Bernal, Buenos Aires province. In 1998, exchange clubs reached 60,000 members, and the model began to spread in Latin America. With the end of the conversion Argentine peso/US dollar (2001), the exchange clubs peaked with 6,000,000 participants. The political and financial crisis in 2003 led to the implosion of the model, leaving only about 50,000 participants. Currently, although there are no major networks, there are groups of 30, 60 and up to 600 people, with a deep emotional relationship and trust. Among the lessons to be remembered, the presenter noted: (a) the impact of social currency is individual: large number of participants in these systems are led by efficient "entrepreneurs", and (b) social currency is an instrument of participatory democracy, which requires understanding the paradigm of abundance and strong regulatory mechanisms, transparency in management and equitable distribution of wealth.

The presenter noted that the Sun Project in France, inspired by the report "Reconsider Wealth", by Patrick Viveret, is a pilot project, financed by the European Union Equality Programme, proposed by a cooperative group for the implementation of three categories of Sun social currency (Sun Cooperation, Sun Managed and Sun Commitment), in five regions, with a focus on local development, social and ecological sustainability, as well as social inclusion. The use of appropriate technology (smart card and Internet banking) proved essential to the success of the project. Lessons to be remembered, the presenter said were: (a) the model is viable, but very laborious because it requires highly specialized training to meet the different target populations; (b) the use of appropriate technology is essential to the success of project; and (c) the formalization of a central agency, together with new partners in the cooperative financial sector, will replace the initial support of the European Union.

Lastly, Heloisa Primavera spoke about the Colibri project. Seeking to focus on youth and information technology (social networking and free software), the project consists of introduction of technology resources that use the paradigm of abundance in multiple institutional spaces, to promote the solidarity economy as a development model and social currencies as an instrument of radicalization of democracy. During her talk, the Colibri video was shown about the project, which mentioned the importance of three axioms: (1) the planet's resources are sufficient for the well being of all its inhabitants, in harmony with nature; (2) Power is an inescapable fact, permanent, necessary and creative; and (3) each one of us is responsible for their part and for the whole.

Panel 3 – Do social currencies really help local economies? What are the main problems associated with their use? What supervision do they require?

Moderator: Laden Gomes da Rocha – Regional Prosecutor of the Banco Central do Brasil, Rio Grande do Sul

Academic discussion with Professor Paul Singer, National Secretary of Solidarity Economy (Senaes/MTE)

Debating Professors

Gilson Schwartz – Professor and researcher in the Department of Film, Radio and TV, School of Arts and Communication, University of São Paulo

Cláudia Lúcia Bisaggio Soares – Researcher at the Center for Studies in Solidarity Economics, Federal University of Santa Catarina (Nesol/UFSC)

Gilson Schwartz began the discussion by talking about the experiment with the Garatuí, a social currency, at a resort in Praia da Pipa, Rio Grande do Norte, with cultural aims, that can be used in restaurants and hotels and for activities like fishing and boating. Moreover, it can be used to pay for their own workshops and events. The experiment was carried out by the City of Knowledge, a project of the University of São Paulo (USP), which promotes the use of the Internet to engage the population in social, economic and educational projects.

With regard to the academic debate about social currencies, Gilson Schwartz presented the following topics, which should be further examined and discussed.

- Are social currencies complementary?
- Do social currencies promote financial disintermediation?
- Can the use of social currencies be considered a kind of "slumming"of public policy?
- Is there a risk in the use of social currencies by local politicians ("coronelismo")?
- Can we talk about virtual worlds?
- Do social currencies promote the denationalization of money?
- National regulation vs. local supervision.
- Public loyalty?

Claudia Soares said that experiences of social currencies begin for different reasons, as some people have access to the SFN, and even then, they want new options. Therefore it is difficult to speak of social currencies in one single way.

According to her, many social currencies do not have "exchange" with the Real and have different characteristics from those used by community banks. Therefore they must be examined from another perspective. It is a great challenge to study all these forms of social currencies. For this reason, the researcher questioned to what extent universal policies have to be at the mercy of voluntarism in the end.

One must look critically at different monetary experiments, since monetary plurality can increase the resilience of the economy. Moreover, as there are various types of currency due to various social reasons, it is difficult to talk about regulation.

For Professor Paul Singer, it makes no sense to have an academic vision of social currencies out of the context in which they are located. In this sense, he noted that the social currencies presented at Forum 1 are linked to a social economy, or serving a local community and are managed by it.

The professor said he has huge admiration for the solidarity society. For him, “poverty is the school of solidarity” and “he who is not for solidarity is already dead”. In the slums of Rio de Janeiro and São Paulo, studied by the disciples of Ruth Cardoso, no one goes hungry because, the neediest eat in houses where there is leftover food. This kind of solidarity gets help from churches of different religions that support the social economy.

The solidarity economy requires people to believe in each other, to have confidence in things. It also requires personal knowledge, unlike the big banks, seeking to collect data about people to extend credit. These data, in general, are “abstract”, impersonal, and may be wrong.

In the solidarity economy, marked by social relations of neighborhood, default is extremely low. Moreover, there is always a relevant reason to explain delinquency in solidarity economies. According to the professor, the correct policy would be to lend more to the needy who have valid grounds to be in default. All experiments indicate the possibility to work with trust and have zero default.

What does it signify to not pay a debt to the Palmas Bank? It’s very different from not paying to the BB or Itau. This is the logic, and because of this it can work. Palmas Bank began with this logic of trust and has been successful since 2000. The communities that have social banks have to form pacts with participants to survive.

For Professor Paul Singer, inclusive regulation is needed to avoid non-solidarity behavior. For example, what prevents access to the currency Palmas by people who do not live in Palmas region? The growth of this community cannot take place in detriment to neighboring communities.

There will have to be as many seminars as needed to reach conclusions appropriate for the theme. However, it is true that many communities that work with social currencies will be substantially less poor in the coming years.

Mr. Joãozinho, of the Community Bank Verde, Vila Velha, Espírito Santo, intervened from the auditorium, to say that the social currencies and social banks were founded to reduce social differences. This transformation happens through the partnership of three sectors: government, business and community. According to him, more people believe in themselves, and social currencies have contributed to this. Furthermore, with social currencies it would be possible to deal with more social people.

Another person from the audience (who was not identified) took the floor to say that social currencies have strong ties with the particular geographical area. For this reason he asked Professor Paul Singer: “What would be the size limit of the catchment area for a social currency to be viable?” After all, the larger the area, the harder it is for the solidarity economy to work. The professor responded that this is a great difficulty, and that there are experiences of areas of various sizes throughout the world. He said that, without doubt, there is a limit to the catchment area size, but the ideal size is still the subject of discussion.

However, the professor remarked, all the authors stress that personal knowledge is important for the solidarity economy to be viable. For this reason, you cannot make a community bank with over twelve thousand people. In such a case, people would not know each other and there would be a communication problem. To solve this problem it would be necessary to establish an "indirect democracy" that would link a number of community banks, thus running the risk of being necessary to professionalize its management. For Professor Paul Singer, professionalization is the death of solidarity economy, it is the death of self-management. This is learning that comes from the experiences. Professionalization individualizes knowledge. The idea of self-management is "all monkeys in all branches", knowledge should always be shared with the collective. The networked organization has been the answer for self-management. Approximately 40% of solidarity economy enterprises are connected with a more complex solidarity economy organization.

Daniela Negri, Sebrae, Espírito Santo, said she had witnessed the creation of a social currency in Vila Velha (ES). For her, the communities are waiting for credit from the social banks. The challenge is to work with the funding of these banks and lending policy. For Claudia Soares, the answer to funding and lending policy is not trivial, and there is no recipe. There should be different solutions, and this is the biggest challenge.

For Gilson Schwartz, the community bank does not integrate itself to the banking system in a trivial manner. It can be a form of financial "disintermediation". Therefore, the term "bank" may not be the most appropriate. The scenario brings these issues that must be resolved.

Paul Singer disagreed with Gilson Schwartz. He said that community banks should be called banks, because they provide services and offer financial products to their participants, sometimes as microcredit agents, sometimes as banking correspondent, while still being self-organized, such as Palmas Bank.

Panel 4 – Technical Cooperation between the Banco Central do Brasil and the National Office of Solidarity Economy, Ministry of Labor and Employment

Limits and Possibilities of Social Currencies in Brazil – Proposed agenda

Marusa Vasconcelos Freire – Deputy General Counsel of the Banco Central do Brasil
Antonio Haroldo Pinheiro de Mendonça – General Coordinator of Fair Trade and Credit of the National Office of Solidarity Economy (Senaes)

Marusa Freire, at the start of her presentation, said that with the signing of Agreement of Technical Cooperation between the BCB and Senaes, we will leave Forum 1 with many challenges, since social currencies are on the agenda of national public policies. Therefore, as agreed with Antonio Haroldo, representative of Senaes, present at the table, in this panel there would be presented a proposed agenda to be fulfilled by the two institutions for the definition or construction of a regulatory framework suitable for social currencies in Brazil.

According to the presenter, the solidarity economy has proved itself as a strategy and development policy with completion of the First National Conference on Solidarity Economy, of 26th to 29th June, 2009, convened by the MTE, the MDS, and the MDA. The Conference worked as a space for dialogue between government and civil society to propose principles, guidelines, strategies and priorities for policies aimed at strengthening the solidarity economy, including public policies of solidarity finance, community banks, and local social currency as instruments for democratizing access to credit and suitable financial products and services.

In this sense, the speaker noted that item of the final paper of the Conference refers specifically to a national system of solidarity finances.

> 78. An action aimed at the democratization of credit should enhance existing initiatives in the area of solidarity finance. With regard to financing agencies, credit unions, microcredit OSCIPs, community banks, public foundations and public development funds should be encouraged, in addition to rotating funds and local systems of social currencies, backed by the national currency (real) and other systems of social currency with creative methods of backing. The democratization of credit and its accessibility by solidarity enterprises requires the consolidation and expansion of the presence of a vast network of these organizations in the country, creating a National Solidarity Finance System, which requires a specific financing fund with social control, but also the development of an appropriate legal framework, capable of dealing with tax issues, the problem of capitalization of institutions, the holding of savings, charging, among others.

On the one hand, solidarity finances find legitimacy in the fundamental objectives of the Constitution of the Federative Republic of Brazil, established by article 3:

> Article 3 The fundamental objectives of the Federative Republic of Brazil are:
> I - to build a free, just and solidary society;
> II - to guarantee national development;
> III - to eradicate poverty and substandard living conditions and to reduce social and regional inequalities;
> IV - to promote the well-being of all, without prejudice as to origin, race, sex, color, age and any other form of discrimination.

The speaker noted the existence of alignment of this recognition of the solidarity economy as a strategy of public development policy in Brazil with the fundamentals of several relevant actions aimed at generating employment and income, alleviating poverty, and democratizing access to credit in other social environments, even at an international level, citing some examples, listed below.

- Social finances program of the International Labour Organization (ILO), which proposes management of currency or money in a way that results in social dividends and economic return.
- Agenda for sustainable development in the era of globalization (UNCTAD XII Declaration, Accra, 21-25 April 2008).
- Initiatives of the International Poverty Centre, resulting from partnership between the United Nations Development Programme (UNDP) and the Brazilian federal government, through the Institute of Applied Economic Research (Ipea), that involved cooperation between southern countries and proposed that human beings should be considered the central objective of economic and social policies.
- Social Finance experiments conducted by the International Association of Investors in the Social Economy (Inaise).
- New vision of microfinances – Consultative Group to Assist the Poor (CGAP), putting the customers at the center of the goals of microfinance programs.

Similarly, the importance of the solidarity economy is recognized by the Catholic Church as can be seen in the Encyclical of Pope Benedict XVI – Caritas in Veritate, of June 2009.

> What is needed, therefore, is a market that permits the free operation, in conditions of equal opportunity, of enterprises in pursuit of different institutional ends. Alongside profit-oriented private enterprise and the various types of public enterprise, there must be room for commercial entities based on mutualist principles and pursuing social ends to take root and express themselves. It is from their reciprocal encounter in the marketplace that one may expect hybrid forms of commercial behaviour to emerge, and hence an attentiveness to ways of civilizing the economy. Charity in truth, in this case, requires that shape and structure be given to those types of economic initiative which, without rejecting profit, aim at a higher goal than the mere logic of the exchange of equivalents, of profit as an end in itself (item 38, end).
>
> In order to defeat underdevelopment, action is required not only on improving exchange-based transactions and implanting public welfare structures, but above all on gradually increasing openness, in a world context, to forms of economic activity marked by quotas of gratuitousness and communion. The exclusively binary model of market-plus-State is corrosive of society, while economic forms based on solidarity, which find their natural home in civil society without being restricted to it, build up society. The market of gratuitousness does not exist, and attitudes of gratuitousness cannot be established by law. Yet both the market and politics need individuals who are open to reciprocal gift (item 39, end).

On the other hand, according Marusa Freire, social finances are related to social function of the SFN to promote the balanced development of the country and serve the interests of the community in all its component parts, in accordance with article 192 of the Federal Constitution:

> Art. 192 The national financial system, structured to promote balanced development of the country and to serve the interests of community in all its component parts, including credit unions.

Taking up, therefore, that constitutional provision as a reference, important questions emerge. If all people are obliged to accept in their business transactions, the national currency, they are users of the currency circulating in the SFN, and as such, are part of the community whose interests are protected by this constitutional command.

However, in any financial system, it is possible to observe a structural imbalance between demand and supply of money based on the relationships between the quantity of financial assets and number of persons holding financial assets. This structural imbalance affects, in particular, the poorest strata of the population, which, located at the base of the financial pyramid, have no access to credit or appropriate financial products and services, despite being required by virtue of law, to use the official currency in the contracts they make.

Now, if there are no traditional institutions in the financial system to ensure that these users of national currency have access to credit and appropriate financial products and services, we must examine the extent to which social currencies and solidarity finance can help to increase access and evaluate whether these institutions should, or should not, be considered part of the national financial system, for regulation and supervision purposes.

According Marusa Freire, to ensure a sound and efficient financial system, the BCB must also strive to ensure that the SFN is at the same time, inclusive and sustainable. For this reason, solidarity finance public policies, backed by the federal government should integrate the agenda of this discussion, particularly in regard to the establishment of community banks and the issue of social currencies.

For this purpose, the Central Bank and Senaes, through the Agreement of Technical Cooperation signed during Forum 1, propose a joint agenda for the collaborative establishment of a regulatory framework for social currencies in Brazil, carrying out a public consultation, freely accessible through the Internet, so that the needs and opinions of society on the subject are captured.

This public consultation has five objectives:

- recognize the concepts employed in the social economy;
- establish, clearly, the responsibility of different actors involved;
- establish parameters for governance and transparency, in agreement with the convergent guidelines for state action in the sector;
- establish principles for financial and technology education;
- collect suggestions for the formulation of a monitoring mechanism for the use of social currencies in Brazil.

The process will be divided into three stages, which will occur at a timescale to be defined by the working group established under the Agreement of Technical Cooperation between the BCB and the Senaes. In the first step, the perspectives of citizens and institutions regarding the proposed issues should be collected, based on a basic text adopted by the working group. For this, there will be four public hearings in solidarity finance meetings organized by Senaes. In the second stage, the debate will have the object of the dissemination of a technical memorandum based on the opinions received. The third step will involve the progression of proposed norms or regulations if any.

For the success and legitimacy of this initiative, the principles of broad public participation and a plurality of voices concerned with the experiences of solidarity finance, community banks and social currencies, are fundamental. Therefore, contributions will be sought through the wide dissemination of the project to the public and the institutions concerned in the matter. Furthermore, representatives may be appointed to monitor the process as required by institutional representatives.

The basic text that will be generated should contain the following items.

- Legal positioning of social currencies:
  - prohibitive standards;
  - permissive standards.
- Limits of jurisdiction of the National Monetary Council (CMN) – Credit and mobilization of funding, solidarity finance, means of payment.
- Clear definition of the role of non-profit organizations and rotating solidarity funds, taking as reference the definitions of financial institution and rotating solidarity funds that are used by the BCB.
- Variety and diversity of community banks (technology of Palmas Bank, Bank Bem and others).
- Variety and diversity of social currencies (other technologies).
- The anticipated role of community banks as banking correspondents, as well as the use of the term “bank”.
- Other issues that merit attention by the State and the people involved with solidarity finances, community banks and the social currencies.

Annex 1

16th: Integrating the microfinance industry

8:00	**Participant registration**
9:00	**Opening** Antonio Gustavo Matos do Vale – Deputy Governor for Liquidation and Surveillance of Farm Credit Operations, Banco Central do Brasil Carlos Alberto dos Santos – Director of Administration and Finances of the Brazilian Service of Support for Micro and Small Enterprises (Sebrae National) **Presentation Coordinator** José Linaldo Gomes de Aguiar – Head of the Secretariat of Institutional Relations, Banco Central do Brasil
10:00	**First presentation** **Success Factors for Microfinances: what have we learned so far?** Sergio Navajas – Investment Manager of the Multilateral Fund of the Inter-American Development Bank (IDB)
10:30	**Coffee break**
10:50	**Second presentation** **The Importance of Governance in Successful Microfinance Institutions: the case of Compartamos** Carolina Velazco – Deputy Director of Strategy of Compartamos Bank
11:20	**Third presentation** **Transparency for Microfinance Institutions in Brazil** Renso Martinez – Regional Manager for Latin America and the Caribbean of Microfinance Information eXchange (MIX)
11:50	**Explanation of the methodology of the working groups** Elvira Cruvinel – Manager of the Financial Inclusion project, Banco Central do Brasil
12:10	**Lunch**
14:00	**Round 1: Governance and Transparency**
15:45	**Coffee break**
16:15	**Round 2: Governance and Transparency**
18:00	**Cocktail and launch of the book Prospects and Challenges for Financial Inclusion in Brazil: a view from different authors**

17th: Integrating the microfinance industry

Presentation Coordinator
Luiz Edson Feltrim – Head of the Financial System Organization Department, Banco Central do Brasil

9:10 First presentation
Financial Inclusion and Microfinances: challenges and opportunities for the individual entrepreneur
Carlos Alberto dos Santos – Director of Administration and Finances of the Brazilian Service of Support for Micro and Small Enterprises (Sebrae National)

9:40 Second presentation
Lessons from Establishing a Sustainable Microfinance Sector and the relevance for Brazil
Terrence Gallagher – Operations Officer International Finance Corporation (IFC)

10:10 Third presentation
Technology and Inclusive Finance
Eduardo Henrique Diniz – Professor and Researcher at the Centre for Studies in Microfinances of the Fundação Getulio Vargas in São Paulo

10:40 Coffee break

11:00 Round 1: Technology for Products and Services

12:10 Lunch

14:35 Round 2: Technology for Products and Services

16:15 Coffee break

16:45 Keynote presentation
Financial Education
John Hope Bryant – Founder and Director of Operation Hope
Moderator: Sergio Almeida de Souza Lima – Coordinator of the Group of Social Responsibility and Financial Education, Banco Central do Brasil

17:30 Plenary session
Presentation of outputs from the working groups
Coordinators: Luiz Edson Feltrim, Elvira Cruvinel, and Alessandra Dodl

19:30 Closing of Integrating the Microfinance Industry
Luiz Edson Feltrim – Head of the Financial System Organization Department, Banco Central do Brasil

18th: Social currencies, community banks and other initiatives

8:30 Panel for the event opening
Luiz Edson Feltrim – Head of the Financial System Organization Department, Banco Central do Brasil
Francisco Siqueira – General Counsel, Banco Central do Brasil
José dos Santos Barbosa – Deputy Head of the Currency Management Department, Banco Central do Brasil

Panel 1 – 1st Session
Moderator: José dos Santos Barbosa – Deputy Head of the Currency Management Department, Banco Central do Brasil

9:00 First presentation
Survey of Alternative Money in use in Brazil (Cordel/BNB)
Sheila Sztutman – Researcher from the Center of Studies for Local Development

9:20 Second presentation
The Experience of the Palmas Bank (CE) and the Brazilian Network of Community Banks
João Joaquim de Melo Neto Segundo – Coordinator-General of the Palmas Institute

9:40 Third presentation
The Experience of Bank Bem and the Atelier of Ideas Association (ES)
Leonora M. L. Mol – Founder and Executive Chairman of the Atelier of Ideas Association

10:00 Debate

10:30 Coffee break

Panel 1 – 2nd Session
Moderator: José Ricardo da Costa e Silva – Senior Advisor, Research Department, Banco Central do Brasil

10:50 Fourth presentation
The Experience of Community Bank Incubation in Local Eco-Sol Networks: the case of Ites/UFBA
Genauto França Filho – Coordinator of the Incubadora Tecnológica de Economia Solidária e Gestão do Desenvolvimento Territorial, Federal University of Bahia (Ites/UFBA)

11:10 Fifth presentation
The Experience of the Bank of Cocais in Partnership with the City Hall of São João do Arraial (PI)
Francisco das Chagas Limma – Mayor of São João do Arraial

11:30 Sixth presentation
The Experience of Partnership between the Banco do Brasil and Community Banks Acting as Banking Correspondents
Paulo Odair Pointevin Frazão – Executive Manager of the Sustainable Development Unit, Banco do Brasil

11:50 Debate

12:20 Lunch

18th: Social currencies, community banks and other initiatives

Panel 2 – Other Initiatives and the Effects of Social Currencies
Moderator: Marden Marques Soares – Chief Executive of the Agency for Promotion of Alagoas

14:00 First presentation
Social Networks, Law and Money in the Information Age
Marcus Faro de Castro – Coordinator of the Research Group for Law, Economics and Society (GDES) Faculty of Law, University of Brasília

14:30 Second presentation
Monetary Methods Supported by the Social Trade Organization (STRO, Netherlands) and their Impact on Different Social and Economic Environments
Camilo Ramada – Manager of Methodology and of Projects of the Strohalm Institute of Integral Development (InStroDI)

15:00 Third presentation
Complementary Credit Networks and Macroeconomic Stability: the case of WIR Cooperative Bank, Switzerland
James Stodder – Professor, Lally School of Management and Technology of Rensselaer Polytechnic Institute of Hartford, Connecticut, United States

15:30 Fourth presentation
Social Currencies, Exchange Clubs in Argentina and the Sun Project in France: lessons to remember
Heloisa Primavera – Professor, specialist in the School of Solidarity Economy, Faculty of Economic Sciences, University of Buenos Aires

16:00 Debate

16:20 Coffee break

Panel 3 – Do social currencies really help local economies? What are the main problems associated with their use? What supervision do they require?
Moderator: Laden Gomes da Rocha – Regional Prosecutor of the Banco Central do Brasil, Rio Grande do Sul

16:40 Academic discussion with Professor Paul Singer, National Secretary of Solidarity Economy (Senaes/MTE)
Debating Professors
Gilson Schwartz – Professor and researcher in the Department of Film, Radio and TV, School of Arts and Communication, University of São Paulo
Cláudia Lúcia Bisaggio Soares – Researcher at the Center for Studies in Solidarity Economics, Federal University of Santa Catarina (Nesol/UFSC)

17:20 Debate

Panel 4 – Technical Cooperation between the Banco Central do Brasil and the National Office of Solidarity Economy of the Ministry of Labor and Employment

17:40 First presentation
Limits and Possibilities of Social Currencies in Brazil – Proposed agenda
Marusa Vasconcelos Freire – Deputy General Counsel of the Banco Central do Brasil
Antonio Haroldo Pinheiro de Mendonça – General Coordinator of Fair Trade and Credit of the National Office of Solidarity Economy (Senaes/MTE)

19:00 Close
Paul Singer, National Secretary of Solidarity Economy (Senaes/MTE)
Silvio Giusti – Market Analyst of the Brazilian Cooperative Organization
Carlos Alberto dos Santos – Director of Administration and Finances of the Brazilian Service of Support for Micro and Small Enterprises (Sebrae National)
Luiz Edson Feltrim – Head of the Financial System Organization Department, Banco Central do Brasil

Annex 2

Pre-Forum 1 Financial Inclusion
Government participants
August 26th, 2009
Unibacen – Brasília – DF

Suggested questions about transparency

- Possibility of establishing levels of transparency for unregulated institutions (e.g. the levels of governance used in Bovespa).
- Evaluation of public policies about the information provided to beneficiaries (format, language, vehicle).
- Fundraising – Regulated or not, with the right to raise public funds or not.
- Public disclosure of loans made by microfinance institutions.
- Regulatory framework to prompt the transparency of microfinance institutions (MFIs) and financial inclusion.
- Support for training of MFI professionals so that they operate effectively, generating trust, security, inclusion and sustainability.
- Discussion about transparency of MFIs into three layers:
  a. in the organization (members, applicants, investors);
  b. in the financial system for reasons of control;
  c. in society in order to attract resources that will expand the capacity of inclusion.

Suggested questions about governance

- Development of management mechanisms.
- Level of segregation of functions for achieving good governance.
- Manual of good practice.
- Social effectiveness in processes of governance in MFIs.
- Professionalism in the process of financial inclusion (cooperativeness, solidarity revenue).
- Independence in fundraising.
- Allowances – for specific sectors targeted at the defined public (low income).
- Guarantee of transactions between microfinance operators and financial agents.
- Pact between the stakeholders: defining goals, indicators and guidelines.
- “Levels of Governance (similar to what occurs in Bovespa).
- Participation of universities and critics from the left in the development of skills for the system.

Suggested questions about technology for products and services

- Microcredit vs. Microfinance: who should offer? Should it be of public policy concern?
- Diversification of products and distribution channels.
- Use of credit card for microcredit (innovative products).
- Tools to attract the excluded public.
- Promoting financial education aimed at the sustainability of the system – access to information to ensure credit and its timely payment.
- Establishment of a free public consultation tool for the protection of credit: Credit bureaus – “inexpensive”.

Suggestions

- Working the “credit through credit”, which, shifted to the broader context of development, is likely to continue focusing on the groups already covered.
- Bring about the propagation of microcredit as an important instrument in building a proposal of development with social inclusion and reduction of inequalities.

Debaters	
Name	**Organization**
Anderson J. L. Brandão	MDS
Antonio Carlos Silva	MINC
Benedito Oliveira de Castro Filho	MDA
Eriberto Buchmann	MDA
Guilherme C. F. Montoro	BNDES
Marcelo de Sousa	MDS
Max Brito Coelho	MTE
Paulo Roberto Anderson Monteiro	BNDES
Rafael S. Barreto	MDS
Vital de Carvalho Filho	MDA

Suggested questions about transparency

- Regulatory framework vs. operating cost.
- Clarity and ease of implementation and the relevant legislation.
- Transparency of the regulatory body for standardization: imposing standardization without prior knowledge of the form of operations or difficulties of the sector.
- Bill on regulatory bodies and lenders for the fulfilment of their role.
- Approach regarding employees and credit borrowers (not the governance).
- Implementation of credit bureaus in a way that increases transparency.
- Lack of standardized information on the subject.
- Information and dissemination of transaction costs.
- Information flow – collection of queries to credit bureaus.
- Combating fraud.
- Financial education for the saver.

Suggested questions about governance

- Revisit the laws for the sector.
- Revisit the regulation of OSCIPs for issues of sustainability and responsibility.
- Establishment of relationship committees between operators, regulatory bodies and funders.
- Responsibilities of the management agencies that operate on the ground.
- Cosif Standardization – Confidence – Transparency.
- Deeper discussion about the requirements of management reports and their presentation, to serve the stakeholders.
- Establishment of an organizational structure that enables the “continuity” of organizations and inhibits the possibility of mission interrupt.

Suggested questions about technology products and services

- Comparison with different markets.
- Credit: products that serve the client for all his needs.
- Information technology: emphasizing the importance of wide distribution and of financial inclusion, as well as its development backed by funders and the government.
- Banking correspondent: linking the community with the support of loan officers that act as correspondents.
- Cell phones: optional distribution channel, with relative efficiency.
- Credit cards: sector closed to microfinance on account of the requirements and costs.
- POS – payment terminals: ATMs are still expensive.
- Debit cards can be an option to reduce the circulation of currency.
- Standardization of technology for the industry through Institutional Development Plan (PDI).
- Establishment and channelling of resources so that the institutions that operate in the sector have more access to technology.
- Discussion about legislation of individual entrepreneurs to improve credit.

- The importance of information technology, not being relevant or the best time to discuss some distribution channels.
- Improvement in format and purpose of the credit for the entrepreneur – for improvement in their quality of life.
- Improvement in the quality of credit and banking correspondents as developers of operations.
- Sustainability for operators through offering new products.

Suggestions

- Identification of demand.
- Government policy.
- More effective involvement of the governors of institutions of social development and improvement.

Debaters	
Name	**Organization**
Ademiro Vian	Febraban
Almir da Costa Pereira	ABCRED
Amadeu Trentini	ABCRED
Cristiano Mross	ABCRED
Eloisa C. Maron	Febraban
Fabio Moraes	Febraban
Isabel Belem	ABDE
Jacy Diniz Nogueira	ABSCM
Jonas Klein	Ancosol
Lincoln Loh	OCB
Luiz Cláudio Dias Reis	ABDE
Marcelo Rocha	ABSCM
Márcio Gambin	OCB
Nabia dos O. Jorge	OCB
Pedro Verdino	ABCRED
Rodrigo H. Morigua	ABDE
Rubens de Andrade Neto	ABSCM
Stelio Gama Lyra Junior	ABDE
Wanilva Carvalho	ABCRED
William T. Salazar	Febraban
Wilson A. S. Gutierrez	Febraban

Pre-Forum 3 Financial Inclusion

Developers and Scholars

October 21st, 2009
Banco Central do Brasil – Rio de Janeiro

Suggestions

Questions about transparency

- Why have OSCIPs not turned into SCMs as expected?
- What are the difficulties and potential for developing an information system for the sector, aiming to reduce information inconsistency?
- It is true to say that only 5% of potential of microcredit clients are served by MFIs in Brazil?
- Segmentation by institution type.
- Segmentation by different public.
- Cost vs. incentives – audits (report templates, systems and channels).
- Enforcement of the sources of funding – operators in general.
- Lack of standardization of transparency.
- Grades of transparency (bigger = need to be more transparent).
- Standardization, performance, benchmarks.
- Use of a broader definition. Transparency should apply to institutions that operate in the microfinance market.
- Inclusive Financial System.

Questions about governance

- Segmentation of the public.
- Cost of governance.
- Qualification of those who governor.
- Suggested agenda: regulation.
- Adherence to best practice: extending the model of accountability and compensation to OSCIP board members.

Questions about technology products and services

- Map channels that already exist:
  - check synergies;
  - check gaps.
- How to expand the role of correspondents in microfinance:
  - Transactional;
  - Relational.
- Mobile.
- Product innovation.

Debaters	
Name	**Organization**
Alexandre Darzé	Planet Finance
Alexandre Guerra Araujo	Sebrae
Bettina Wittlinger de Lima	Acción Internacional
Christiano Toupitzen Cavalheiro	Planet Finance
Cíntia Tavares de Souza	FGV-RJ/MIX Brasil
João Silvério Junior	Sebrae
Lauro Gonzalez	FGV-SP
Luciano Schweizher	BID
Luisa de Castro Ferreira	FGV-RJ/MIX Brasil
Mauricio Blanco Cassio	IETS
Robson Vitor Gonçalves de Matos	Sebrae
Tatiana Cruz Amaral	IETS
Terence Liam Gallagher	IFC

Annex 3

Themes and Issues of Pre-Forums

Developed on the basis of the suggestions made in the pre-forums of the Financial Inclusion Project

Note – The discussion need not be restricted to this list.

Core theme: Governance

- How should relations be established between the stakeholders of the institution?
- How should the jurisdictions of power be structured?
- What level of "accountability" should be exercised?
- How should remuneration and accountability of board members be dealt with?
- How to create an organizational structure that enables the "continuity" of organizations and inhibits the possibility of mission interruption?
- Should there be a qualification requirement for managers of institutions that work in microfinance?
- What should be the qualification (vocational, training) for employees of institutions that work with microfinance?
- What is the relevance of a manual of good governance practices?
- How should it be developed?
- How should the issue of segregation of duties be addressed?
- How can changes in the regulation of OSCIPs influence issues of sustainability and responsibility?
- Should there be subsidies for specific sectors directed at the defined public (low income)?
- How does this affect governance?
- Is it important to have a guarantee system for transactions between operators and microfinance financial agents?
- Is it important to set up a relationship committee between operators and regulator and funding agencies?
- What should be the involvement of the universities in developing this theme in the country?

Core theme: Transparency

- Should there be different requirements for the degree of transparency of the institution according to its legal status?
- How to standardize relevant information for the microfinance sector?
- Is standardization a relevant practice and should it involve all stakeholders?
- The transparency issue must be addressed in accordance with the different target public for the information about the microfinance industry, such as the organization itself, the regulatory bodies and the community, amongst others?
- What is the role of regulatory bodies and funders in promoting industry transparency?
- Should the process of promoting transparency be accompanied by a regulatory framework "prompt"?

- Is there a need for more clarity in laws and regulations governing microfinance?
- What are the difficulties and potential for developing an information system for the sector, aiming to reduce the existing imbalance?
- How important is the implementation of credit bureaus to increase sector transparency?
- How does, or can, financial education act to stimulate to a greater degree of transparency in relation to savers?
- What is the importance of public policies to improve and expand the information provided to beneficiaries?
- Is it true to say that only 5% of the potential microfinance clients are serviced by Brazilian MFIs?

Core theme: Credit

- Credit: how to develop products that serve the clients in all their needs?
- Who should provide microcredit? Should it be a public policy concern?
- How important is the identification of demand? How should identification be carried out?
- Is it true to say that only 5% of the potential microfinance clients are serviced by Brazilian MFIs?
- Does legislation of individual microentrepreneurs facilitate access to credit?
- Should loan officers act as correspondents? How?
- What is the influence of the regulatory framework on the operating costs of institutions working with microfinance (microcredit)?
- What are the difficulties and potential for developing an information system for the sector, aiming to reduce the existing inconsistency?
- Can the use of credit cards help to expand and improve microcredit delivery?
- Will the promotion of financial education, with more access to information, contribute to reducing delinquency?

Core theme: Technology and distribution channels

- Will the promotion of financial education, with more access to information, contribute to reducing delinquency?
- How to expand the possibilities of correspondent operations?
- How to improve the quality of services provided?
- Can or should loan officers work as correspondents?
- Should there be public funds and donations for the development of information technology, with the objective of wide dissemination?
- Do cell phones represent an efficient distribution channel option?
- Today, in Brazil, are cell phones important tools in financial inclusion?
- How to reduce cost of using ATMs and POS terminals?

Core theme: Other products

- Should unregulated institutions be able to attract funds from the public?
- Do credit cards contribute to promoting microcredit? How to minimize both constraints and costs?
- Can financial education be a “product” to give sustainability to the system?
- Will access to information improve credit and timely payment?
- What does a public credit bureau for free consultation look like? Is it a viable model?
- Does comparison with other markets encourage the promotion of new products? How should research and investigation for this purpose be conducted?
- Does the availability of new products contribute to the sustainability of microfinance providers? How and why?
- Microcredit vs. Microfinance: who should supply?
- Should it be a public policy concern?

Annex 4

Debaters			
Name	**Organization**	**Name**	**Organization**
Ademiro Vian	Febraban	Edson Luiz de Paula Pinto	ABSCM
Ailton Deli Martins Croda	Ancosol	Eduardo Henrique Diniz	FGV-SP
Alda Muller	Consultor	Eduardo Rocha	ABDE
Alessandro Chaves	Sebrae	Edzia Paula de Medeiros	BNB
Alessandro Flávio Barbosa Chaves	Sebrae	Eli Moreno	EMS Consultoria
Alexandre Darzé	Planet Finance	Elza Fagundes Gonçalves	ABCRED
Alexandre Flores de Almeida	OCB	Evanda Burtet Kwitke	Crear Brasil
Alexandre Guerra de Araújo	Sebrae	Fernando Simões	MDS
Almir da Costa Pereira	ABCRED	Flavio Marcos da Silva	Ancosol
Amadeu Trentini	ABCRED	Francisco Marcelo Garrito Barone	FGV-RJ
Ana Maria Canton	Febraban	Guilherme Castanho Franco Montoro	BNDES
Ana Paula Ramos	Abcred	Helda Kelly dos Santos Pereira	BNB
Ana Paula Soares de Carvalho	ABBC	Hermes Bonfim Filho	ABCRED
Ana Paula Uchoa	Ministry of Justice	Isabel Baggio	Banco da Família
Anadete Apoliano Albuquerque Torres	BNB	Ivana do Carmo Guimarães Della Croce	ABDE
Anderson André Silva	Febraban	Jacy Diniz Nogueira Filho	ABSCM
Anna Paula Borges e Vasquez	ABDE	Jayr de Lima Pinto Júnior	Febraban
Antônio Carlos Rosa Pimenta	ABDE	Jesu Teodoro da Silva	OCB
Antonio Carlos Silva	MINC	João Albuquerque da Silva	Sebrae
Antonio Marcos Hoelz Ambrózio	BNDES	João Carlos Carita	ABSCM
Arnaldo Fagnani Lucca	ABBC	João Silvério Júnior	Sebrae
Bartholomeu Antonio Gonzaga Ribeiro	Febraban	José Antonio Bof Buffon	ABDE
Benedito Oliveira de Castro Filho	MDA	José Nélio Monteiro Corsini	ABCRED
Bettina Wittlinger de Lima	ACCION	José Ventura Sobrinho	ABCRED
Christiano Toupitzen Cavalheiro	Planet Finance	Juliana Estrella	Advisor
Claudia Cisneiros	ABCRED	Julio Themes Neto	ABDE
Claudia Forte	Mackenzie RJ	Kátia Madeira Blaha	ABBC
Cláudio Augusto Rotolo	ABBC	Leandro Gomes	Abracam
Claudio Risson	Ancosol	Leonardo Pamplona	BNDES
Cristiana Martins	OCB	Luciano Hiromitsu Hayata	Abracam
Cristiano Mross	ABCRED	Luiz Ademar Panzer	Ancosol
Dionisio Carvalho da Cunha Neto	OCB	Luiz Ajita	OCB
Dora Parente Costa	Sebrae	Luiz José Bueno de Aguiar	ABCRED

Debaters

Name	Organization	Name	Organization
Luiz Possamai	Ancosol	Rodrigo Cid M. M. Rondon	ABDE
Manuel Thedim	IETS	Rogério de Wallau	ABDE
Marcello George de Melo Pinto	ABSCM	Rubens de Andrade Neto	ABSCM
Marcelo Azevedo Texeira	BNB	Taniara Costa Jannibelli Castro	Sebrae
Marcelo Cardoso Mesquita de Souza	ABDE	Terence Liam Gallagher	IFC
Marcelo Espíndola	OCB	Thiago Sevilhano Martinez	Ipea
Marcelo Gonzaga Rocha	ABSCM	Valdi de Araujo Dantas	ABSCM
Márcia B. L. Timótheo	Sebrae	Wanilva M. F. A. Carvalho	ABCRED
Márcia Monteiro	Sebrae		
Márcio Gambin	OCB/Febraban		
Maria de Fátima Oliveira	ABDE		
Maria Fernandes Neres Senna	ABDE		
Marina Pereira	MDS		
Mateus Queiroz Medeiros Ramos	BNDES		
Michael Esrubilsky	ABBC		
Nicolau Jorge	ABSCM		
Nicolau Santos Neto	ABSCM		
Nilton Gratão	Febraban		
Paulo César Bezerra de Souza	MTE		
Paulo Henrique Valadares Pereira	Febraban		
Paulo Memoria Franco Amorim	MDS		
Paulo Roberto Monteiro	BNDES		
Pedro Claudio de Medeiros Bocayuva Bulcão	Insurances		
Raimundo Nonato Nogueira da Costa	ABSCM		
Ranúsio Santos Cunha	OCB		
Regina Lídia Giordano Simões	Susep		
Renato Martins Oliva	ABBC		
Renato Pasqualim	Febraban		
Roberto Gomes do Nascimento	MINC		
Robson da Silva Sena	Ancosol		
Robson Vítor Gonçalves de Matos	Sebrae		
Rodolfo Francisco Ern	Seguros		
Rodrigo Hervar Noriguti	ABDE		