

Trailblazing Credit Program Provides Financing for Microentrepreneurs in Brazil



CLIENT

Banco de Desenvolvimento de Minas Gerais (BDMG) is the development bank of the state of Minas Gerais, Brazil. BDMG will offer the new credit product “Acredita” or “Believe” to high potential microenterprises and individual micro entrepreneurs from the base of the pyramid (BOP) that have recently formalized their company and officially started doing business.



IDB SUPPORT

The Inter-American Development Bank’s Opportunities for the Majority (OMJ) initiative is entering into a BRL\$21 million (approximately US\$10 million) risk-sharing facility with BDMG to help it become the first development bank in Latin America to apply a new psychometric risk assessment tool to offer specialized loans to microenterprises in Minas Gerais. The project will also mark the launch of BDMG’s own unit that finances private sector business solutions for populations at the base of the pyramid, seeking to replicate the work of OMJ in Minas Gerais.



THE CHALLENGE

Microenterprises form the backbone of the Brazilian economy, representing more than 93% of the total number of formal companies, a number that is growing fast because Brazil recently made it easier for individuals to register themselves as microentrepreneurs.

Across Latin America, microenterprises just getting off the ground have trouble accessing credit as they have no record in the financial system or the business world, and possess few, if any, tangible guarantees that can serve as collateral for lenders. Because lenders don’t have the tools to identify “good” clients within this population, they tend to avoid targeting the market despite its large potential.

Microentrepreneurs trying to start a business or get through the early stages of start-up often deplete their limited savings or resort to personal credit lines, with an average annual interest rate as high as 125%. Lack of access to affordable financing hinders their ability to grow, hire workers and make higher profits, thus contributing to a scenario in which 27% of Brazilian microenterprises fail within the first two years of operation.



THE SOLUTION

Acredita loans are offered to microenterprises for a standard amount of up to R\$15,000—around US\$7,500—for two years, with a three-month grace period. An estimated 4,000 micro businesses are expected to benefit from the program in the two-year pilot phase. Moreover, only registered businesses can apply for BDMG credit, providing an incentive for entrepreneurs to formalize their microenterprises, as BDMG will become the first institution in Brazil to serve newly registered companies with no prior business financing track record.

After the pilot phase, the model can be extended to include not just microenterprises but also individual microentrepreneurs. The model is designed to reach scale in Minas Gerais and can be replicated in other states of Brazil or in Latin America with other project partners.



An estimated 4,000 microentrepreneurs from different sectors of the economy are expected to benefit from the program in the two-year pilot phase.

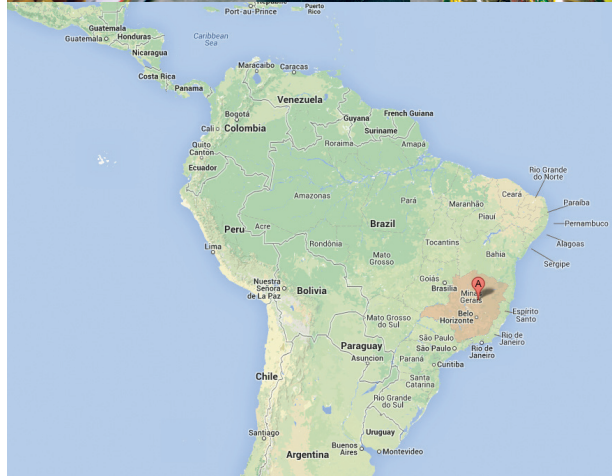


INNOVATION MAKES THE DIFFERENCE

Rethinking creditworthiness is the key. BDMG uses the Entrepreneurial Finance Lab's (EFL) automated, low-cost survey to determine risk affordably and help BOP loan applicants cut through red tape and obtain funding.

The survey tool uses qualitative factors to assess the potential of the main person operating a small business. It asks questions that determine attitude, ethics, business knowledge, ability, and intelligence. Answers to the questionnaire analyze an individual's willingness and ability to repay a loan rather than a business track record or guarantee.

BDMG is the first bank in Latin America to use EFL as part of the loan credit and underwriting process, and to develop a new loan product targeting recently registered BOP entrepreneurs. To efficiently and affordably reach as many potential clients as possible, BDMG is also partnering with the state agency that registers micro-businesses, JUCEMG, and other business partners to support application of the EFL survey tool.



OMJ 2013 Portfolio



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