

## Brazil's Micro Credit Program a Hit. Default: 1.2%.

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Within the scope of a new credit program for productive activities, in Brazil, established through a Provisional Measure signed November 29, by President Luiz Inácio Lula da Silva, a total of up to US\$ 217.8 million (600 million reais) will be available in loans.

Part of the funds will come from the Workers' Assistance Fund (FAT, Fundo de Amparo ao Trabalhador), while the rest corresponds to the Brazilian Central Bank's 2% mandatory transfer share of checking accounts.

The interest rates will vary from 2-4%, depending on the productive application. The program will start with an initial batch of around US\$ 7.2 million (20 million reais).

Current micro-credit limits in both government and private banks range around US\$ 363 (1,000 reais). They can reach US\$ 1.8 thousand (5,000 reais) in the case of FAT funds, but, according to Executive advisor José Graziano, the National Monetary Commission (CMN) plans to introduce greater flexibility into these sums.

He explained that the Provisional Measure removes obstacles to the expansion of micro-credit in Brazil and that the borrowers will no longer need to offer real guarantees.

On the other hand, the loaning agency will be required to orient the application of the loan amounts and supervise the way they are applied.

The banks that hold funds in checking accounts will be able to pass them along to credit institutions, which will loan the money to the interested members of the low-income population.

The program is intended for urban residents, and it will have technical guidance, with the advantage of involving the entire financial system, Graziano affirmed.

The secretary of Solidary Economy of the Ministry of Labor, Paulo Singer, informed that President Lula was selected by the United Nations as one of the 11 world figures responsible for the diffusion of micro-credit, which has already benefitted 100 million people around the world this year. The award is the result of the UN's declaration of 2005 as International Micro-Credit Year.

The Bank of the Northeast (BNB) is a pioneer in the concession of micro-credit in Brazil. Its loans in this area amount to 155 thousand clients, who make an average of three credit operations per year.

Up to now the BNB has totaled between 450 thousand and 500 thousand loans. The default rate has been 1.2%. 1,160 municipalities have been served.

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