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Monographic Section

Microcredit and Development: a comparative analysis between Brazilian and Italian experiences[1]

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Abstract. Under favorable conditions, credit can improve the quality of life by financing essential assets and services, such as housing and education, also by fostering entrepreneurship. Although finance inclusion can widen social and economic opportunities, the successful usage of microcredit depends on the costs (rates of interests) and on the methodology applied to grant credit. Hence, through a bibliographic review, the paper presents a comparative analysis of three remarkable experiences on microfinance. Firstly, the Brazilian Community Development Banks (CDB), inspired by the Grameen Bank and devoted to reaching the poor of the poor. Secondly, the programs applied by some Public Development Banks (PDB) in Brazil to foster entrepreneurship through microcredit. Third, the Italian Credit Cooperatives (*BCC - Banche di Credito Cooperativo*), essential in the provision of credit for small enterprises and households. Despite their peculiarities, there are some similarities in their governance and methodologies applied to grant credit. The local dimension, the relationship lending to capture soft information for risk analysis, and the purpose of serving the community providing financial services instead of generating and distributing profits are standard features. These experiences could inspire a proposal for microfinance expansion, based on the ground principles of mutuality, solidarity, cooperation, and localism.

Keywords: development, microcredit, solidarity finance, relationship banking.

INTRODUCTION

Over the last 20 years, the role of financial inclusion and microcredit in alleviating poverty arises in the debate on development policies. Successful experiences such as the Grameen Bank created by Muhammad Yunus demonstrate that access to microfinance services might benefit people to cross the poverty line through the creation of social and economic opportunities.

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On Economics, the debate about development also has changed. Some counter-theories emerged, questioning the utilitarian approach, which focusses on the Gross Domestic Product - GDP to measure development. The capability approach, theorized by Amartya Sen, proposes a broader and more complex informational basis to assess development, taking into consideration the personal characteristics and the social, economic, cultural, political, and environmental factors that could influence the quality of life. The notion of development as freedom focuses on the agency aspect of human life and considers the real freedom people have to live the life they choose. This perspective presents the task for public policy-makers to identify and remove unfreedom barriers.

In this sense, it is worth discussing if and how access to microfinance can contribute to increasing agency and foster development expanding socio-economic opportunities. Some studies question that access to microcredit, by itself, might not be efficient in improving the quality of life and alleviating poverty. It depends on two main factors: the methodology adopted in granting credit and the rates of interests applied to the loans.

This paper focuses on the methodologies of three different experiences on the field of microfinance, the Brazilian Community Development Banks - CDB, the programs of Brazilian Public Development Banks - PDB, and the Italian Cooperative Banks - BCC (*Banche di Credito Cooperativo*). Despite the differences in the legal status, the target public, and on the socio-economic environments that surround these financial institutions in Brazil and Italy, the three analyzed models have in common the principles of mutuality, solidarity, cooperation, and localism, that guide the granting credit processes. As will be seen, they are driven by stakeholder orientation, they focus on the generation of social impact on the community they serve and adopt alternative banking practices.

The paper is organized as follows. Section 2 addresses the theoretical notion of development and discusses the conditions under which the usage of microcredit can contribute to development by the creation of social and economic opportunities. Section 3 presents a comparative analysis of Brazilian CDB, Brazilian PDB, and Italian BCC, identifying the main features, the similarities, and differences of these microfinance institutions. Section 4 points out the final considerations.

DEVELOPMENT AND MICROFINANCE

Among the various conceptions of development, we adopt the notion proposed by the capability approach, which suggests a new direction to the development debate, increasing the role of human dignity and quality of life in the discussions.

The capability approach, theorized by Amartya Sen, focuses on what people can do and be in their real lives. It sees human life as a set of "doings and beings" so-called *functionings* and suggests evaluating the quality of life through the capability to function. This approach assesses several conditions of the real-life that need to be fulfilled to give people the freedom to lead the kind of life they choose. It considers the variability of personal characteristics and the social, economic, cultural, political, and environmental factors that may impose obstacles to people's freedoms and influence their abilities to convert goods into functionings (Sen 2003, p. 44). In this sense, development is a process of expanding the real freedoms that people enjoy, increasing the free agency (Sen 1999, p. 2-10).

This theory criticizes the utilitarian approach, which evaluates success in social achievement by the size of the total utility created (Sen 1987, p. 30). The criterion of sum raking measures the progress of a country by looking only at the Gross Domestic Product (GDP) *per capita*, which was strengthened by the "trickle-down theory" suggesting the benefits of economic growth are bound to improve the poor. However, there is no evidence increased economic growth does automatically enhance the quality of people's lives without any specific action in this direction, particularly for those whose existence is marked by inequality and deprivation (Nussbaum 2011, p. 47). Indeed, a country can reach a high-ranking position in GDP, even though people still living on poverty and other deprivations.

The capability approach suggests assessing development according to the real opportunities and freedoms people have to lead the kind of life they value. This perspective focuses on real human lives, taking into consideration a wide range of variables, including personal characteristics and all the environmental factors that could contribute or impose barriers to the agency's freedom to choose and to act.

Capabilities are substantial freedoms, what one person can be and do in his/her life. Nussbaum classifies three main types of capabilities. *Basic capabilities* are the innate human equipment, «the innate faculties of the person that make later development and training possible». *Internal capabilities* are the states of a person, personal characteristics (intellectual, skills, bodily and health conditions), trained traits and abilities, developed through the interaction with the social, economic, cultural, and political environment. *Combined capabilities* are the freedoms and opportunities created by the combination of the internal capabilities and the external factors that surround the person. *Functionings*, in turn, are the actual realizations of capabilities (Nussbaum 2012, p. 20-25).

The notion of freedom of choice is quite central to the capability approach. A free and sustainable agency emerges as a major engine of development. *Agency* includes each person's pursuits and choices, moral concerns, and conceptions of the good to different states of affairs (Sen 1985, pp. 201-212). A person's agency achievement refers to the realization of goals and values that one has reasons to pursue (Sen 1992, p. 56), which depends on the real opportunities and freedoms (capabilities) one has.

The capability approach presents the task to government and policy-makers to improve quality of life, identifying and removing obstacles to freedom, in a continuous process in which the removal of a barrier can reveal another hurdle, and so on (Sen 1999, p. 3-4). Moreover, it suggests promoting development through policy choices that protect and support agency, improving and developing capabilities, rather than treat people as passive recipients of benefits (Nussbaum 2011, pp. 30-31). The notion of human development applied here requires unfolding the innate power of human beings towards active striving.

The capability approach enlightens the public policy debate in two ways. Firstly, setting the goal to achieve human development through the expansion of substantial freedoms. Secondly, applying a specific methodology, taking into consideration development as a multidimensional process, which requires the assessment of a broader informational basis to address urgent human issues. Some problems like poverty and social deprivation are multifaceted and need a more comprehensive analysis to identify the adequate strategies to face them. For this reason, only access to credit, by itself, might not be efficient in alleviating poverty.

At the level of implementation of public policy, it might pay attention to two other concepts: *fertile functioning* and *corrosive disadvantage*. A fertile functioning is one trend to promote other related capabilities, where one achievement in one area is likely to have benefits elsewhere. Access to literacy and good education, access to credit and land ownership could be fertile functionings. A corrosive disadvantage is the opposite, a deprivation or disadvantage in one domain that has significant effects in other areas of life. Drug addiction, homelessness, or over-indebtedness are corrosive disadvantages. The point of looking for *fertile functionings* and *corrosive disadvantages* is to identify the best intervention points for priority policy. (Nussbaum 2011, pp. 44-45).

Access to credit can be both, a fertile functioning or a corrosive disadvantage. When it contributes to widening social and economic opportunities, the benefits generated could impact positively in several areas of human life. However, the reserve side of credit is over-indebtedness, a social phenomenon whose adverse effects affect the person herself, her family, and the whole society.

Some experiences in the field of microfinance improve the quality of life, especially for poor people. The notorious example of the Grameen Bank, in Bangladesh, demonstrates the potential of microcredit and other financial services, helping millions of people to cross the poverty line by giving them access to credit to foster entrepreneurship. Nonetheless, the efficiency of microcredit to alleviate poverty is not unanimous and has been put in check (Morduch, 1998). Hence, it is worthy of investigating under which conditions microfinance could contribute to human, social, and economic development.

Microfinance is generally understood as the provision of small credit loans (microcredit) and other financial services to poor people and small enterprises. The usage of microcredit for poverty reduction and social change is often associated with institutions such as the Grameen Bank and NGOs. They provide credit and other financial services to poor people considered not creditworthy, contributing to disseminate microfinance as «the most humane part of the international financial system» (Schmidt 2010, p. 101).

Access to credit can contribute to a fairer distribution of the opportunities for personal, social, and economic development. The lack of access to financial services is one of the reasons why massive long-term poverty is perpetuated (Schmidt 2010, p. 101). Over the last 40 years, the global microfinance movement attempted to broader financial services in poor and low-income communities, aiming to unlock their productive potential by financing small businesses, also by stimulating saving to create more stable lives (Armendáriz & Morduch 2010, p. 1).

The current debates about the role of microfinance in facing poverty and fostering development focus on the dilemma between the sustainability of the financial institutions and the achievement of the social mission. Sustainability is crucial for microfinance institutions to achieve the objective of alleviating poverty in the long-term for a simple reason: they need to survive to offer financial services continuously. It requires a balance between the social goals, the efficiency, and the cost coverage of the institution (Schmidt 2010, p. 107-109).

The 1990s was a period of expansion of microfinance institutions (MFI), inaugurating new approaches to microcredit practices and raising the debates on the ethical conflicts between the development goals and the so-called *commercial approach*. The challenge is how to achieve financial sustainability without compromise the objectives of social change. Financial sustainability requires to cover the costs of granting microcredit, which depends on a wide range of factors, such as the administrative costs (naturally higher on managing small loans), the size of the loan portfolio and its capacity to absorb the costs, the rates of interest applied to the loans, the level of revenues, the repayment rates, default and losses. At the macro level, the economic environment of the MFI also counts. One way to cover the costs is by transferring them to the MFI customers, applying higher rates of interest to the loans. The core dilemma is that, on the one hand, fully transferring the costs to the customers might elevate the rates of interest to a level that hinders using credit for the achievement of the social goals. On the other hand, cost coverage and sustainability are crucial to allow the MFI to survive, grown, and reach more customers broadening the social impact (Schmidt 2010, p. 109-114).

In other words, just offering microcredit to poor people is not enough to improve their quality of life and, in some cases, can lead to over-indebtedness (Armendáriz & Morduch 2010, p. 145-146). The lack of access to credit and other financial services is one barrier to social and economic opportunities. However, the high rates of interest applied to the loans impose another obstacle for those who need credit to expand their freedoms. The fact that the rates of interest applied by MFI still lower than those charged by moneylenders does not imply that these costs are adequate for the "unbankable" people. The successful usage of microfinance to promote development depends on both the costs and the methodologies applied to grant credit.

Regarding the costs, the discussions about the interest rate levels matter because they constitute a significant source of inequality in the distribution of assets and income. The traditional financial system runs under the assumption that poor people also small enterprises are not creditworthy or represent high risks. So, financial institutions, in general, apply higher rates of interest for poor borrowers than to wealthier clients that can offer more collaterals. However, the high repayment rates reported in microcredit experiences challenge this assumption[2]. In many cases, the high prices charged to the poor are due to the lack of competition or monopolistic situation in the credit market. Indeed, the interest rates depend mostly on the mission and the perspective of the financial institution. Since microfinance evolved combining the goals of social and financial sustainability, it is necessary not only to broaden access to credit but also to do it under interest rates that do not exceed certain limits (Hudon 2007). For instance, while Yunus suggests interest rates no more than 15% per year plus operational costs, most MFI charge rates of interest up to 35% per year, and in large financial institutions, the rates applied to customers go from 28% to 100% per year (Hudon & Ashta 2013).

The high operational costs are the standard justification for the high rates of interest on microcredit, because of the small loan sizes. Nonetheless, Hudon and Ashta (2013) argue that the leading cause is the commercialization of MFI since their RoE (return on equity) remains excellent even in crisis periods. To make financing inclusive for poor

[2] Grameen Bank, in Bangladesh, historically has repayment rates over than 98%; the Grameen America Report 2018 pointed out a repayment rate of 99% in the USA; the program Crediamigo, biggest microcredit program in Latin America had a repayment rate in 2018 up to 98,7%.

people, it is still necessary to reduce relative prices and increase relative productivities since the target public does not have the required endowment to move further. The additional capabilities obtained by the borrowers, thanks to the transactions, should also be taken into consideration in this analysis (Hudon & Ashta 2013, p. 284-289).

Considering RoE is one of the determinants of the rates of interest, the three types of microcredit-grating institutions analyzed in the next section have in common that none of them distribute profits. Despite their differences in the legal status, in the target publics, also in the social and economic environments that surround them, it is possible to notice some similarities. Firstly, the purpose, since Brazilian CDB, Brazilian PDB, and Italian BCC are driven by the social and development goals rather than profit-maximization. Second, they are stakeholder-oriented and adopt a view that takes into consideration the interests of all the parties involved, and not only the interests of shareholders (often profit-maximization for distribution). Third, their banking models are oriented to relationship lending to capture soft information for risk analysis, enforcing the long-terms relations with the customers on the communities they serve. Finally, their activities are guided by the principles of mutuality, solidarity, cooperation, and localism

Mutuality and *solidarity* require the incorporation of the logic of solidarity financing to use financial inclusion as a tool to combat poverty and reduce social inequalities. It means to shape the costs, methodologies, and process of granting credit according to clients' needs and the social goals, not under the profit-seeking aims of traditional banks.

Cooperation claims stakeholder-oriented governance and alternative banking practices based on trust and collaboration, such as the model of relationship banking. Cooperation also means making partnerships, tying diverse public, private, and third sector agents acting towards the same development goals. As analyzed in the next section CDB, PDB, and BCC, seek and firm partnerships to broaden the social impact of microfinance. Moreover, cooperation leads to thinking of collective strategies of production and consumption, and the creation of alternative instruments for collecting and support with microcredit, such as the social currencies widespread in Brazilian CDB. (França Filho et al. 2012).

Localism values the ties to the territory involving the dimensions of community and neighborhood relationships and applying microcredit under a community-based development. The successful usage of microcredit for social transformation depends on the creation of the nets of consumption and production, enforcing community bounds (França Filho et al. 2012).

Mutuality, solidarity, cooperation, and localism could enlighten new paths on microcredit, conciliating the challenges of achieving financial sustainability and widening social impact reach. An adequate methodology suiting the needs of the clients is crucial to the successful usage of microcredit and matters to obtain a good repayment rate (Hudon 2013, p. 283).

Hence, it is worthy of discussing the main similarities and differences between the methodologies of the three models of Brazilian CDB, Brazilian PDB and Italian BCC, all of them successful experiences in granting microcredit and achieving both financial stability and development goals.

THE EXPERIENCES OF BRAZILIAN CDB, BRAZILIAN PDB, AND ITALIAN BCC

The three microfinance experiences analyzed in this section have some common features, especially the stakeholder orientation, the relationship lending model to grant credit, and the local roots. Another key factor that justifies the comparison between these microfinance models is the role they play in financial inclusion. The different socio-economic contexts in Brazil and Italy contribute to identifying different strategies to foster access to microfinance to promote human, social and economic development.

The first difference in the socio-economic contexts is that while Italy is developed country poverty still an issue in Brazil. Half of the population does not have access to essential services, such as basic sanitation, and earn income up to half a minimum wage (in March 2020, less than U$100 per month). Among a population of 210 million inhabitants, there are around 40 million "unbankable" people, a significant lack of access to financial services.

The field of banking in Brazil is unique. The financial system is exceptionally concentrated; banks operate in an oligopoly, leading to high rates of interest (IMF, 2003). Despite the spread of community banks (there are around 114 in the whole country) and the programs of some public development banks, more than 90% of micro-credit loans are granted by traditional banks, under extremely high costs. For example, on the two leading public banks, the current rates of interest charged on fixed loans for natural persons are between 47,94% and 53,25% per year. In turn, some widespread MFI that target low-income borrowers apply rates of interest from 782,22% per year to 1.690,78% per year.[3]

At the macro level, credit is crucial to the Brazilian economy. Small business and consumption are its driving force. Credit is the fuel. The increase in consumption, especially on the base of the pyramid, stimulates the appearance of new small and medium enterprises (SME). 99% of Brazilian enterprises are SME, which are responsible for 60% of formal employment. Both SME and consumers depend on credit to meet their needs. Then, the high cost of credit is a barrier to their freedom and an obstacle to socio-economic development.

Another critical factor is the reduced market share of the credit cooperatives in Brazil. In 2018 they represented only 2,97% of the balance of transactions in the financial system (Bacen 2018). They have prevalent performance financing business activities, especially agricultural production, in general, under lower rates of interest than the market average. In the field of microcredit, they are responsible for 24% of transactions with SME. However, their reach is still insufficient to meet credit demand (Pauli 2019, p 81).

In this context, the microfinance inclusion promoted by Brazilian CDB and Brazilian PDB focus on the usage of microcredit as a tool to face extreme poverty and promote development, by fostering productive activities and essential consumption.

In turn, in Italy, the microfinance inclusion is devoted to promote social inclusion and face unemployment. In 2011 was created the Ente Nazionale per il Microcredito (National Agency for Microcredit), a non-economic public body that has the mission to facilitate access to credit for microenterprises and deprived social groups, promoting entrepreneurship and self-employment. Among the channels utilized to grant credit, we highlight the BCC, that act in cooperation with the Ente Nazionale per il Microcredito.

The credit cooperatives (BCC) play a crucial role in the Italian financial system. They are often small banks and represent 53% of Italian financial institutions. Despite their total weight in the loan market is less than 10%, they are essential channels providing credit to small and medium enterprises, also for household loans (Zago & Dongili 2014). Italian BCC provide microcredit and other financial services where conventional banks are less present. Their local rootedness is linked to their support to the local development (Lang, F., Signore, S, Gvetadze, S., 2016).

Hence, despite the different social and economic contexts where they operate, all the three experiences analyzed in this section have an important role to play in promoting development through financial inclusion, fostering entrepreneurship.

The Brazilian Community Development Banks - CDB are inspired by the Grameen Bank, which adopts a specific methodology on granting credit to alleviating poverty and promote human development. Before analyzing the Brazilian CDB, it might point out some features of the inspiring model. Since the beginning, the main goal of the Grameen Bank was facing the financial apartheid in Bangladesh, offering credit loans for poor people considered not creditworthy. The Grameen Bank is devoted to reaching the poor of the poor, giving them access to credit to start a business activity. Hence, the primary aspect is that microcredit is used to foster economic opportunities and generate income, not for consumption (Yunus 2007, 44-54). It was necessary to develop a proper methodology in granting credit to accomplish these goals.

Regarding corporate governance, the Grameen Bank was created as a *non-loss, non-dividend business*, which means that the profits it earns are reapplied to promote the development goals. The borrowers become shareholders of the bank, which is stakeholder-oriented since it aims to use microcredit to foster entrepreneurship and social impact for the whole community, instead of generating profits for distribution.

[3] Source: www.bcb.gov.br, access in 30.03.2020.

The methodology applied to grant credit is quite peculiar. The financial activities are developed locally, in the community centers, following the idea that the bank comes to serve people. The loans are granted based on trust without collaterals, thus requiring only the formation of a group of five people that intend to have access to microcredit. Group lending and progressive lending are standard features in its banking practices. Related to credit pricing, the Grameen Bank grants credit under simple interest, not using compound interest as the traditional financing system. The interest rates are fixed according to a cross-subsided criterion, the poor the borrower, the lower the interest rate. The repayment rates are, on average, over 98% (Yunus 2017, p. 233).

Considering poverty is a multidimensional phenomenon, the methodology includes a whole package of services, offering not only access to credit but also management training, coaching, and advice for business planning (Yunus 2017, pp. 74-83). This kind of guidance and support applied with credit granting is crucial for the removal of unfreedom barriers, helping people to convert the access to resources (credit) into capability expansion, as well as increasing agency and active striving.

The model of Grameen Bank inspired the emergence of Community Development Banks (CDB) in Brazil, with the same mission of using microfinance to improve the quality of life of poor people. Most Brazilian CDB are OSCIP entities (Civil Society Organization for Public Interest) or NGOs. They are stakeholder-oriented; the borrowers are often also the owners of the bank, which do not distribute dividends since the focus is on promoting local development to the communities they serve. Historically, the community banks in Brazil emerged in contexts of poverty, social deprivation, and the absence of essential public services. They are the results of the self-organization of civil society to solve government and market failures. The participatory structure of these institutions, governed by collective choices, makes the financial services more inclusive (Hudon & Meyer 2013).

The methodology applied to grant credit combine microcredit lines for production and local consumption to generate income and work throughout the community. They adopt the concept of «integrated territorial development,» fitting a multidimensional wealth creation that is both quantitative (job creation, increased income) and qualitative (social cohesion, reducing domestic violence, access to education). CDB understand development as «strengthening endogenous force in the community: they promote the regional capacities by creating and stimulating local networks of producers and consumers». Moreover, they offer a wide range of financial and non-financial services, including vocational training programs and support to start-ups (Meyer & Prates 2013).

CDB grant loans in two different currencies: (i) productive loans are given in the national currency; (ii) consumption loans are offered in a locally circulating social currency. By stimulating both supply and demand, they re-organize poor economies, funding stream to production (microcredit), and encourage local consumption. This combined strategy slows down the extraction of financial resources from the community, stimulating internal development, and creating employment for community members (Meyer & Hudon 2018).

The usage of alternative monetary instruments such as social currencies and local credit cards[4], widely accepted in the communities' exchanges, contributes to the local socio-economic development. In a 2008 survey to evaluate ten years of Banco Palmas, the first and most remarkable community bank in Brazil, 94% of respondents believed that the social currency contributed to the development of the neighborhood; 98% agreed that the bank helped the community, and 90% confirmed that it improved their quality of life. The results were the generation of income and employment and an increase in the local consumption from 20% in 1997 to 93% in 2009, also enhancing community ties (França Filho et al. 2012). This model of community development bank mixing microcredits and the complementary currency has been replicated in more than a hundred communities in Brazil (Meyer & Hudon 2018).

The costs of the loans are distributed based on the cross-subsided criterion to provide fair rates of interest according to the credit lines. The table bellow synthesizes the pricing method of Banco Palmas microcredit lines:

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[4] About the usage of social (or complementary) currencies by the Brazilian CDB, see Meyer & Hudon (2018). Money and the Commons: An Investigation of complementary Currencies and Their Ethical Implications. Journal of Business Ethics (2019) 160: 277-292; Fare M., Freitas C. De, Meyer C. (2013). Community currencies in Brazilian community development banks: what role in territorial development? The case of Banco Palmas. In: International Conference on Social and Complementary Currencies, 2., Haia, Holanda, Anais... Haia.

Microcredit Lines of Banco Palmas				
Goal	Essential consumption	Start a business	Foster informal activities	Promote established enterprises
Target Public	Poor of the poor	Beneficiaries of social programs	Informal sector	Entrepreneurs
Currency	Social currency	Oficial currency	Oficial currency	Oficial currency
Rates of interests	Free of interest	Up to 1,5% montth	from 2% up to 2,5% month	The higher the capital, the higher the rates

The business model is oriented to relationship banking, capturing soft information for risk analysis. The credit granting and collection is based on neighborhood relations and solidarity, imposing a control that is much more social than economic. The average repayment rates are up to 95%. (França Filho et al. 2012).

Group lending and progressive loans are also standard features, betting in long-term progressive transactions. To achieve sustainability, they focus on the reduction of costs through cooperation with other agents. They firm partnerships with supportive organizations such as university incubators and with funding institutions such as municipalities, state governments, government departments, foundations, and NGOs (França Filho et al. 2012).

The usage of microfinance inclusion to promote local and regional development is also the strategy of some of the Brazilian Public Development Banks (PDB) programs. We highlight two of these programs. *Crediamigo* is a program implemented by the Banco do Nordeste, the first public development bank to focus on microcredit programs in Brazil, recognizing the role of microfinance in social and economic development (Lavoei et al. 2011). It is the biggest program of microcredit for oriented production in Latin America. In 2018 it reached more than 3,3 million clients in the two main credit lines *Crediamigo* and *Agroamigo*, in more than 4,7 million credit transactions with the total amount of R$11,4 billion (Banco do Nordeste 2018).

The microfinance program started in 1997, in the Northeast, the poorest region in Brazil. The management of the program focuses on peer selection and mutual enforcement to achieve the long-term sustainability of the lending group. Nonetheless, the attainment of self-sufficiency was not a priority for Crediamigo since it was created by a regional development bank, a financial institution already established and experienced in financial sustainability. Regarding the costs, the program is self- sustainable; it remunerates capital invested in market interest and does not uses public funds (Neri & Buchman 2008). It is profitable and has a rate of non-performing loans lower than 2%, reaching only 1,3% in 2018 (Banco do Nordeste 2018).

The microfinance program offers different credit lines according to the financed activity, fostering rural production and entrepreneurship in urban areas. The requirements to access credit are legal capacity, run, or aim to start a business activity and a group of friends entrepreneurs. The initial loan always started as through a lending group based on a solidary guarantee. The amounts of the loans are progressive, starting with small capitals and growing up according to the repayment performance. The microfinance program also provides non-financial services, such as professional training, guidance and support to help their clients to shape business strategies and integrate the entrepreneurs to the competitive market (Neri & Buchman 2008).

To widen the reach of the program towards poorer clients, Banco do Nordeste firmed a partnership with Instituto Nordeste Cidadania, an OSCIP entity that coordinates the activity of granting microcredit for oriented production, through professional credit agents. The relation is based on the interaction of the credit agents and the borrowers on their business, following the idea that bank goes to people. (Neri & Buchman 2008).

The role of the credit agents is crucial to the Crediamo program. They act collecting soft information for defining the credit needs, interacting directly with the clients in their social environment, helping them to shape the business strategies, and monitoring the business performance. The interactions with the credit agents result in a more close relationship with the clients of the microfinance program. This model of proximity financing is also essential for the microfinance program run by Fomento Paraná.

Fomento Paraná is a public agency created in 2000, a branch of the State of Paraná, in the South of Brazil, where the socio and economic index are better in comparison to the Northeast. Since 2001, this agency starts running microcredit programs, inspired by the Grameen Bank. In the beginning, the focus was to finance the productive activities of informal entrepreneurs (SEBRAE/PR 2015). Later on, the agency launched two different programs aiming to generate social impact, summarized below:

Microcredi Programs of Fomento Paraná			
Program	Loan size	Rates of interests	Target Public
Solidary Credit	Up to R$4.000,00 (U$800 in March 2020)	Free of interest	Poor population/ Beneficiaries of social programs
Microcredit Entrepreneur Bank	up to R$20.000,00 (U$4,000 in March 2020	On average 10% per year	Formal or informal entrepreneurs

The role of the credit agents is crucial in all the stages of the program. The credit agents go to the clients, capture, and process soft information, analyze the sustainability of the business and the credit needs, also monitor the results. The credit loans are shaped to meet the specific needs of each client according to the business models and the surrounding environment (Pauli 2019, pp. 86-90).

The program counts on a public fund (*Fundo de Equalização do Microcrédito*) created to support it to offer credit under lower rates of interest. Considering the main objective of the program is to promote socio-economic development fostering entrepreneurship, the rates of interest are reduced when the borrowers attend the professional and management training offered by SEBRAE, other public branch destined to support micro and small enterprises (*ivi*: 90-91).

The sizes of the loans are progressive according to three stages of the business: the beginning of activities; consolidation (minimum of six months of revenues, even if informal); and expansion (minimum of six months of revenues under the formal establishment of the enterprise). The loans can finance working capital or fixed assets investments. Among the social impact generated, in an analysis period from 2010 to 2015 comparing the clients of the program to other micro-enterprises that did not access it, there was an increase in the survivance of the enterprises and their employability. The loans destined to fixed assets investments, which involve more administrative costs to fit the client necessities, produced higher impacts than the loans for working capital (*ivi*: 116-145).

The programs run by Banco do Nordeste and Paraná Fomento bring new paths and methodologies for PDB to promote development fostering productive activities. Besides using microcredit as a strategy to alleviating poverty, these programs have a significant role in providing credit for micro and small enterprises directly. Broaden access to credit to foster small enterprises is also one of the driven missions of the Italian *Banche di Credito Cooperativo* (BCC).

The credit cooperatives adopt a different approach to the market, distant from the capitalistic view, recognizing the centrality of human beings (worker shareholders, consumers, borrowers) in economic relations instead of focusing primarily on the capital (Zamangi, 2008, p. 32). The cooperation and mutuality, prescribed in the art. 45 of the Italian Constitution, embases their moel of economic activity (Cartabia 2017: 18-21).

The mission of the BCC is to produce mutual benefit and the common good, enhancing social cohesion and promoting sustainable development of the territory where they operate (Zago, & Dongili 2014, p. 4). They are stakeholder-oriented since they aim to generate a social impact on the local community. Regarding governance, they have widespread and inclusive ownership. In 2018, there were more than 1,3 million shareholders in Italian BCC. The local dimension is also determinant to the organization of the BCC. Their members must live or operate in the same territories where BCC undertake their activities, in most cases (93%) small cities with less than 5.000 inhabitants (Federcasse 2019).

Their activities must be prevalent toward members. Hence, the interest rates charged for loans to members are lower than those to non-members. According to legal regulation, BCC must allocate at least 70% of their annual profits to legal reserves and at least the other 3% to specific funds for the development of cooperation. They have a limited profit-seeking nature and focus on providing financial services under favorable conditions to their members (lower rates of interest on loans and higher on deposits). BCC also act broadening access to credit to groups usually excluded from the financial system, contributing to financial inclusion. Efficient management is crucial to accomplish all these goals and to maintaining intertemporal sustainability with a proper level of services to members (Zago & Dongili 2014, p. 4).

They operate collecting deposits and savings from their members and reinvesting the resources into the territory, financing activities from the real economy, such as crafts and manufacture, agriculture, tourism, non-profit, construction industry, and commerce, while granting credit for households. In other words, BCC finance both local production and consumption. The proximity financing leads to a better knowledge of local economic agents, strengthening the social capital of the local community and contributing to local growth (Capolare et al. 2014).

From 2016 to 2019, it is estimated that the microcredit granted by BCC contributed to creating more than 3.800 new jobs in Italy. To widen social impact, they also firm partnerships with other institutions, such as universities, social impact investment funds, and third sector entities (Federcasse 2019).

The BCC embrace relationship lending, which means «a bank intermediation model based on the development of a privileged, collaborative and repeated lending relationship with the firm, in respect of which the bank invests in the collection of private, or soft, information.» The customer's soft information (integrity of corporate ownership, skills and management capabilities, corporate networking opportunities, entrepreneurs' future strategic projects, etc.) get into the lending processes, contributing to widen access to credit, improve the quality of the loan portfolio and reduce the default rates. Different than traditional banks that adopt intermediation oriented to an Originate-to-Distribute model, BCC act as financial partners of their clients aiming to maximize the profitability of the overall relations in the medium and long term. Italian financial system relies on relationship banking because most firms depend on bank loans as the primary external funding source for their activities (Cotugno et al. 2013, pp. 574-575). BCC also support enterprises in hardship, renegotiating the loans in case of default, suspending interest, and extending the loan duration (Federcasse 2019). This pattern indicates another remarkable feature of the BCC: the anticyclical role, keeping open channels even in periods of a financial crisis.

Besides widening access to credit under a relationship lending base, BCC also play a crucial anticyclical role in the financial crisis. They meet an unsatisfied credit demand, continue granting loans even in periods of the credit crunch. The anticyclical role is important for financial inclusion since lack of access to credit can be an obstacle to social and economic opportunities, even in a developed country like Italy. During the financial crisis in 2008-2009 and right after, BCC maintained the credit offer while the traditional financial system restricted access to credit (Di Colli & Girardi 2012). The financial crisis affected BCC, not because of over-lending in pre-crisis, but because their main clients are households, also small and medium enterprises, which have more difficulties in recovering. The small size of their loan portfolios is challenging to absorb the losses and, in general, bailouts go preferentially for big banks. Some banks are too big to fail, and others seem too small to matter.

The 2008-2009 financial crisis motivated a reform on the system of BCC in Italy, focusing on intensifying the level of capitalization of credit cooperatives and the stability of the whole financial system. The reform was implemented in two rounds, starting in 2016 with the Decree-Law 18/2016, converted in Law 49/2016 and following in 2018, with the Decree-Law 91/2018, converted in the Law 108/2018. The regulation imposes new conditions for BCC to operate, such as an increase in the minimum numbers of shareholders and a mandatory adhesion to a *Capogruppo* (Parent Bank), to build a cross-guarantee between the group and each credit cooperative itself. The *Capogruppo* is a joint-stock company, constituted under a high requirement of minimum capital, in which 60% of the share capital must belong to the BCC. Different from the credit cooperatives, the *Capogruppo* can launch a public offering on the market to raise capital. The reform is quite recent to evaluate the impacts on BCC. The main challenge is how to conciliate the profit-seeking purpose of the *Capogrupppo* and the identity of BCC. The prevalence of the commercialization approach over the foundational principles of mutuality, localism, and solidarity throughout the belonging community can undermine the driven mission of BCC (Manara, Broccato 2018).

Despite the differences in the legal structures, surrounding environments, and specific methodologies applied to grant credit, it is possible to notice some similarities of Brazilian CDB, Brazilian PDB, and Italian BCC. All of them share the goals of using microfinance inclusion to promote the development and generate social impact in the localities where they act. Regarding their governance, none of them are profit-seekers; they all try to reach the balance between financial sustainability and the social mission.

The local dimension is also a remarkable feature, running their activities under the basis of proximity and solidarity finance. They manage the application of resources based on principles of trust and mutual help and are very rooted in the territory. Moreover, they adopt microfinance practices to mobilize local investments, promoting consumption and production, and valuing the relations of proximity (França Filho et al. 2012).

They practice "alternative banking", characterized by the following features. The organizational goals are not guided by profit-maximization to benefits shareholders but for social and economic development. Hence, the governance structure is stakeholder-oriented. The business models focus on more cautions and long term strategies to achieve social and public missions, according to the needs of geographic areas. Finally, they invest in relationship lending seeking longer-term business horizons involving sustainable returns (Mettenheim 2012).

The table below summarizes the main features of the three models:

	CDB	PDB	BCC
Mission	Human development	Local and regional development	Mutual benefit/ common good
Orientation	Stakeholder	Stakeholder	Stakeholder
Legal status	NGOs, OSCIPs	Public Agencies Public Banks	Credit Cooperatives
Governance	Community	Public	Collective
Target Public	Poor of the poor	Poor people Small business	Householders Small/medium enterprises
Modality of loans	Group loans / individual loans / progressive loans	Group Loans / individual loans / progressive loans	Individual loans
Non-financial services	Professional training Guidance/support Community centers	Guidance/support Incentive for professional training	Not directly Financing social impact projects
Business model	Relationship lending	Relationship lending	Relationship lending
Rates of interests	Free in social currency Cross-subsided	Free in microloans Lower rates than the market average	Lower rates for members
Funding	Donations, Public funds, Revenues	Public funds Revenues	Cappo Gruppo Revenues and savings

The different environments that surround CDB, PBD, and BCC contribute to shaping different strategies and practices to promote development. These experiences can inspire the usage of microfinance towards the three dimensions of human, social, and economic development.

CDB are devoted to reaching the poor of the poor and presents a high potential to improve the quality of life for the most deprived populations. Hence, from a perspective of human development for alleviating poverty, widening opportunities, and increasing agency, the replication of the model of CDB might be the most appropriate strategy.

The programs run by the PDB focus on use microcredit to generate local and regional development fostering entrepreneurship. Although these programs have some limitations to reach the poorest populations, they broaden socio-economic opportunities by giving access to credit under lower costs, with guidance and support to undertaken business activities. The combination of credit and non-financial services allows a complete approach to social and economic development at the local and regional levels.

The BCC, in turn, do not combine credit-granting with non-financial services, such as professional training and business advising. Nonetheless, they are crucial for fostering the activities of small and medium enterprises and households' consumption, meeting a credit demand of those who often are considered not creditworthy by the traditional financial system. They contribute to generating social impact by expanding production and consumption in the territories where they act. The usage of microcredit could be a strategy also to increase economic development at the macro level since both production and consumption are critical instruments for economic growth.

CDB, PDB, and BCC apply different methodologies to grant credit to different target publics in the peculiar context of their surrounding environments. Despite their specificities, all of them run the microfinance activities according to the ground principles of cooperation, mutuality, solidarity, and localism. We suggest these principles should be the basis to foster the usage of microfinance, addressing the three dimensions of human, social, and economic development.

FINAL CONSIDERATIONS

The main goal of this paper was to discuss if and how microfinance inclusion can contribute to expand freedom and promote the three dimensions of human, social, and economic development. As has been seen, the successful usage of microcredit to foster development goals depends on the methodology adopted to grant credit and the rates of interests applied to the loans. The paper focused on the methodology issue; hence the next steps are deepening the investigation about costs, especially the impact of the corporate governance, default rates and RoE (Return on Equity) on the interest rates

The main contribution of the paper is the comparative analyzes of the methodologies applied by the CDB, PDB, and BCC, identifying the main features in the microcredit granting processes. Despite their different environments, target publics, and legal structures, they drive their activities under the same ground principles (mutuality, solidarity, cooperation, and localism) and adopt alternative banking practices. Their methodologies and governances result in new strategies to use microcredit to promote development in the three dimensions of human, social, and economic development.

The study of the methodologies of CDB, PDB, and BCC contributes to identifying their business models, based on solidarity and proximity financing, and alternative banking practices as inspiring paths to achieve the development goals through microfinance inclusion.

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