SOCIAL ENTREPRENEURSHIP, MICROCREDIT AND DEVELOPMENT CHALLENGES: A CASE STUDY ANALYSIS OF BANCO PÉROLA
SOCIAL ENTREPRENEURSHIP, MICROCREDIT AND DEVELOPMENT

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Thesis presented to Escola de Administração de Empresas de São Paulo of Fundação Getulio Vargas, as a requirement to obtain the title of Master in International Management (MPGI).

Knowledge Field: Social Entrepreneurship, Microcredit

Adviser: Prof. Dr. Edgard Elie Roger Barki

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Approval Date
____/____/____

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The academic year 2014-2015 brought exciting new challenges to my life, among which the unique opportunity to write this master’s degree dissertation about Banco Pérola's own challenges.

In this respect, I would like to express my sincere gratitude to Alessandra, Adriene, Fabio, Naiara and all the staff and clients of the Bank who have warmly welcomed us in the institution and their homes and provided us with firsthand information. Their contribution to this case study is priceless, and so is the work that they so bravely perform.

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ABSTRACT

The term “social entrepreneurship” has been attracting growing interest from different sectors in the past years, driven by the possibility of employing business techniques to tackle recurrent social and environmental issues. At the forefront of this global phenomenon is microcredit, seen by many as an effective anti-poverty tool and having the Grameen Bank as its flagship program. While the prospects of social entrepreneurship seem promising, the newness of the concept and its somewhat confusing definition make conditions difficult to analyze this contemporary phenomenon. Therefore, the objective of this study was to discuss the challenges faced by social entrepreneurs and alternatives of development for social businesses through a case study on a Brazilian microcredit institution and inclusive business, Banco Pérola. The case addresses a growing need for case studies designed for teaching in the field of social entrepreneurship. It was focused mainly on understanding the development challenges within Banco Pérola, and built based on interviews carried out with top management, credit officer and clients of the institution, as well as on secondary data collected. An analysis of the case study was performed under a Teaching Notes. As illustrated by the Banco Pérola case, the main difficulties encountered by social entrepreneurs relate to the systematization of processes and creation of operational routines, including for performance evaluation (impact assessment tools); to the capture and management of both financial and human capital; to scaling up the business model and to the need of forging closer and more personal relationships with customers as against in traditional banking practices. In spite of certain limitations, such as the fact that the case might soon become outdated due to the fast-changing environment surrounding Banco Pérola, or the fact that not all relevant stakeholders (e.g. partners) were selected for interviews, the research objective has been achieved and the study can be seen as a contribution to spreading the concept of social entrepreneurship.

KEY WORDS: Social Entrepreneurship, Social Entrepreneur, Microcredit, Organizational Challenges
RESUMO

O termo “empreendedorismo social” tem sido objeto de atenção crescente da parte de diversos setores nos últimos anos, motivada pela possibilidade de empregar técnicas de negócio para solucionar problemas sociais e ambientais recorrentes. À frente deste movimento global está o microcrédito, visto por muitos como um eficiente instrumento contra a pobreza e tendo o Grameen Bank como o seu carro-chefe. Embora a perspectiva para o empreendedorismo social seja promissora, a novidade do conceito e sua definição relativamente confusa tornam difíceis as condições para analisar este fenômeno contemporâneo. Logo, este estudo teve como objetivo discutir desafios enfrentados por empreendedores sociais bem como alternativas de crescimento para negócios sociais através de um estudo de caso sobre o Banco Pérola, instituição brasileira de microcrédito e negócio de impacto. O estudo de caso responde à crescente necessidade de casos de ensino no campo de empreendedorismo social. Ele teve como principal foco a compreensão dos desafios de desenvolvimento do Banco Pérola e foi construído com base em entrevistas conduzidas com a alta gerência, agente de crédito e clientes da instituição, bem como em dados secundários coletados. Uma análise do estudo de caso foi elaborada sob o Teaching Notes. Como ilustrado pelo caso do Banco Pérola, as principais dificuldades encontradas por empreendedores sociais relacionam-se à sistematização de processos e criação de rotinas operacionais, incluindo para avaliação de performance (instrumentos de avaliação de impacto); à captura e gestão de recursos financeiros e humanos; à expansão do modelo de negócio e à necessidade de estabelecer relacionamentos mais próximos e mais pessoais com clientes quando comparado à segmentos bancários tradicionais. Apesar de certas limitações, como o fato de que o caso possa, em breve, se desatualizar devido ao contexto de rápidas mudanças em que o Banco Pérola evolui ou, ainda, de que nem todas as partes relevantes tenham sido selecionadas para entrevistas (e.g. parceiros), o objetivo de pesquisa foi alcançado e o estudo pode ser considerado como uma contribuição para a propagação do conceito de empreendedorismo social.

PALAVRAS CHAVE: Empreendedorismo Social, Empreendedor Social, Microcrédito, Desafios Organizacionais.
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<tr>
<td>BP</td>
<td>BANCO PÉROLA</td>
</tr>
<tr>
<td>BOP</td>
<td>BOTTOM OF THE PYRAMID</td>
</tr>
<tr>
<td>CVM</td>
<td>COMISSÃO DE VALORES MOBILIÁRIOS</td>
</tr>
<tr>
<td>FIDC</td>
<td>FUNDO DE INVESTIMENTO EM DIREITOS CREDITÓRIOS</td>
</tr>
<tr>
<td>GIIRS</td>
<td>GLOBAL IMPACT INVESTING RATING SYSTEM</td>
</tr>
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<td>IRIS</td>
<td>IMPACT REPORTING &amp; INVESTMENT STANDARDS</td>
</tr>
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<td>NPL</td>
<td>NON-PERFORMING LOAN</td>
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<tr>
<td>OSCIP</td>
<td>ORGANIZAÇÃO DA SOCIEDADE CIVIL DE INTERESSE PÚBLICO</td>
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<td>SOCIEDADE DE CRÉDITO AO MICROEMPREENDEDOR</td>
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<td>SEC</td>
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<td>SWOT</td>
<td>STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS</td>
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1 INTRODUCTION

“Social entrepreneurs are one species in the genus entrepreneur. They are entrepreneurs with a social mission.”

(Dees, 1998, p.2)

In 1998, J. Dees published a pioneering article on social entrepreneurship wherein he unarguably set the basis of the debate on what only existed as a practice up until then, and not yet as a concept. Since Dees’ elucidating contribution to defining the concept, social entrepreneurship has continued to expand, emerging globally as a new approach to doing business or to addressing society’s primary and most urgent needs. In the past years, the field of social entrepreneurship has thus been extensively investigated by academia, its literature has abounded and so have ventures now denominated as social or inclusive businesses.

The underlying rationale for such expansion is the alternative embodied by social entrepreneurship against traditional agents – government, international development agencies and the third sector – in the fight against poverty and inequality, considering that expressive gaps remain in spite of their joint efforts, or simply in the provision of services and goods in the sectors of health, education, finance, environment, and any other in which a social need or problem is still pending a solution. Therefore, the social entrepreneurship concept is intimately linked with the one of the Bottom of the Pyramid (Barki et al, 2015), relative to the over 4 billion people that were estimated to be living with less than US$ 2 a day as per Prahalad’s definition (Prahalad, 2004).

Social entrepreneurs share the same mindset and characteristics that business entrepreneurs usually do: they create value in the economy due to a more efficient allocation of resources, as per the early, 18th-century definition given by J. Baptiste Say (as cited in Dees, 1998); they are the innovative agents of change who conduct the “creative-destructive” process in the economic structure (Schumpeter, 1975, as cited in Dees, 1998); they are driven by opportunities (Drucker, 1985, as cited in Dees, 1998) and they do not restrain the pursuit of the latter to the resources they control (Stevenson, 1985, as cited in Dees, 1998). However, in
addition to these attributes, what makes social entrepreneurs unique is their drive for mission-related impact (Dees, 1998) and the primacy of social benefit in their value proposition (Martin & Osberg, 2007). Moreover, because social and not financial return is their core objective, social entrepreneurs envision opportunities differently and cannot measure their success in creating social value as easily as business entrepreneurs do for wealth creation. Their social mission engenders thus different entrepreneurial challenges (Dees, 1998).

The popularity of this global movement has driven the growth of so-called social entrepreneurship ventures to an extent that today, it has been said that the concept has become too inclusive, encompassing activities pertaining or related to the social sector albeit not always manifesting an entrepreneurial nature. As a result, the debate initiated by Dees is still ongoing given that the definition of social entrepreneurship remains, at best, fairly loose (Martin & Osberg, 2007). This makes social entrepreneurship a field still under construction.

At the forefront of discussions on social entrepreneurship as a strategy for addressing challenging social and environmental issues, and specifically poverty, stands microcredit. Lending money to impoverished people in exchange of no collateral has been historically practiced by informal sources, but microcredit has only reached global scale following the institutionalization of the practice through the creation of the Grameen Bank. The Grameen Bank became the flagship of the microcredit movement by demonstrating on the one hand the bankability of the poor, who could break free from the poverty cycle that shark lenders perpetuated in charging them abusive interest rates, and on the other the sustainability achieved in having a social mission deeply embedded to a business model. As of today, microcredit has evolved into a broader range of financial services, such as insurance and savings, giving birth to microfinance institutions.

Advocates of microfinance and microcredit might diverge in many aspects, outlining the extent to which social entrepreneurship is far from being a monolithic and immovable concept. Indeed, there is a dichotomy splitting microfinance into a socially oriented and a commercial-industry approach. While the first identifiable branch believes that microfinance should be guided by a “no loss, no dividend” principle and ultimately, accept the maximization and distribution of profits provided that the business is owned by the poor (Yunus, 2008, 2012), the second estimates that to leverage its outreach, microfinance should be conducted as a business,
seen as a *sine qua non* condition of simultaneously achieving scale, permanence, efficacy and efficiency (Chu, 2007, 2008) to drive the desired social change.

Regardless of the distinct existing philosophies, microcredit is acclaimed by its proponents to be an efficient anti-poverty tool due to its capacity of promoting the financial inclusion of the poor. The actual evidence of the effect of microcredit in poverty reduction is, in fact, mixed (Roodman & Morduch, 2009). But the strength of this financial inclusion argument relies on the acknowledgment that, as of 2014, around 2.5 billion adults still lacked access to credit and basic financial services, and this only in developing countries (IFC, 2014).

There is, thus, a clear gap and opportunity to be grasped by social entrepreneurs in the field of microcredit. Yet the newness of the social entrepreneurship landscape and the distinct challenges that social entrepreneurs face due to their social mission might be operating as bold obstacles and require, now more than ever, that we put our efforts into understanding this global movement through a practical perspective. Hence, there is an increasing need for case studies about social entrepreneurship that may help to increase our comprehension over this phenomenon, not only for theory building in a field under research, but also for knowledge sharing.

Having said that, the objective of this study is to discuss the challenges faced by social entrepreneurs and alternatives of development for social businesses through a case study on a Brazilian microcredit institution and inclusive business, Banco Pérola. The proposed case study addresses the existing gap in cases designed for teaching in the field of social entrepreneurship. It will focus mainly on the challenges that Banco Pérola’s social entrepreneurs deal with as this early-stage inclusive business develops, but also on the motivation behind their actions in addition to other meaningful operational aspects from the microcredit segment. It expects thereby to enrich students and scholars’ comprehension on social entrepreneurship, a highly dynamic and evolving field that stands at the crossroads of different sectors – government, business, academia and the third sector.

Aside this introduction, four additional chapters will compose this work: methodology, case study, teaching notes and final considerations. The methodology part will detail the visits and interviews conducted with staff and borrowers of Banco Pérola. The case study is the core element of this work and will require from readers the capacity to contextualize the plurality of
developmental issues faced by Banco Pérola. The accompanying teaching notes will provide frameworks of analysis. Finally, in the final considerations chapter, we shall review the key findings captured in the case as well as its potential limitations.
2 METHODOLOGY

The decision upon analyzing the social entrepreneurship phenomenon through a qualitative case study methodology was based on the fact that case studies, as highlighted by Yin (1994, p.3), are “an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between the phenomenon and the context are not clearly evident”. We have seen in the introduction that social entrepreneurship is a widespread yet blurred definition, fitting this description. Moreover, given the specific focus given to discussing and investigating the challenges faced by social entrepreneurs as stated in the introduction, an instrumental case study seemed to the most suitable type as opposed to an intrinsic or collective case study (Stake, 1995 as cited in Baxter & Jack, 2008). Indeed, when we examine in detail the model of Banco Pérola and the current issues that the organization undergoes at its individual level, we are actually seeking to expand our comprehension of these aspects at a universal level, seeking patterns within social entrepreneurship.

Given the qualitative approach adopted through a case study format intended for teaching, sampling and selection criteria did not follow such a rigorous methodology. Nonetheless, to ensure the case would cover the most relevant challenges incurred by social businesses as well as the existing standpoints over these topics, we have interviewed the main elements from Banco Pérola’s management, a credit officer and three different borrowers. The aim was to obtain from the contribution of these respective interviewees a 360-degree contextual perception of the issues raised.

Interviews were unstructured to allow more flexibility when talking to respondents and giving them space to approach topics they considered to be relevant, in addition to those we had in our agenda. All interviews (except one, with one of the staff of Banco Pérola) were carried out face to face in four different rounds, requiring regular trips to Sorocaba. Their duration would range from 30 minutes to 1 hour and the content discussed would cover a set of mixed topics, amongst which: origin of the organization, scaling up, funding structure, partnerships within the microcredit sector, impact assessment and value creation, trust-building mechanisms, to name just a few.
Table M 1 summarizes the interviews that were carried out in the purpose of data collection prior to building the case study:

**Table M 1 – Case Interviews**

<table>
<thead>
<tr>
<th>Interview Date</th>
<th>Interviewee Function</th>
<th>Interviewee Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 24, 2015</td>
<td>BP – Founder &amp; Executive Director</td>
<td>Alessandra França</td>
</tr>
<tr>
<td>April 6, 2015</td>
<td>BP – Executive Director</td>
<td>Fabio Moraes</td>
</tr>
<tr>
<td>May 29, 2015</td>
<td>BP – Co-Founder &amp; Executive Director</td>
<td>Adriene Marins</td>
</tr>
<tr>
<td>June 26, 2015</td>
<td>BP – Credit Officer</td>
<td>Naiara Carlesso</td>
</tr>
<tr>
<td>June 26, 2015</td>
<td>Client 1</td>
<td>Marta</td>
</tr>
<tr>
<td>June 26, 2015</td>
<td>Client 2</td>
<td>Lucélia</td>
</tr>
<tr>
<td>June 26, 2015</td>
<td>Client 3</td>
<td>Dina</td>
</tr>
</tbody>
</table>

Source: Author

To complement the primary data collection, other secondary sources were also explored to add background to the case, such as the institutional presentational of *Banco Pérola* and several resources found online: risk rating reports of the investment fund *Pérola FIDC*, articles, institutional videos, interviews with founders, etc. As for the elaboration of the teaching notes, they relied mainly upon secondary data from studies in the field of social entrepreneurship and microcredit as well as from institutional publications from the World Bank, the EIU, ABEP and IFC.

On October 27, 2015, a first version of the case study was applied in class to undergraduate students of public administration from Fundação Getulio Vargas (FGV-EAESP), in the presence of Adriene Marins, Co-Founder & Executive Director of *Banco Pérola*. Students demonstrated a clear comprehension of the topics raised by the case and an outstanding ability to discuss the development challenges of the institution. Nevertheless, this first testing evidenced the importance of planning ahead the class discussion through the teaching notes, in order to exploit the full teaching potential of the *Banco Pérola* case.
3 THE BANCO PÉROLA CASE

3.1 INTRODUCTION

“Banco Pérola is the way I found to plow the soil, plant a seed and be sure that harvest time will come in the future.”

Marta, client

The year of 2015 had barely started and Banco Pérola’s managers had already been sitting for hours in a small meeting room in the city of Sorocaba, southeastern Brazil, following the release of 2014 results. Fabio Moraes, Alessandra França and Adriene Marin, the executive directors of this non-profit microcredit institution that had been created in 2009, were strongly committed to the mission of turning it into a tool capable of transforming people’s lives – just as it had transformed theirs. This time, however, the scope of their annual meeting went beyond a mere review of year-end financials, presenting instead a much wider purpose that, for weeks in a row now, had pushed the three into endless discussions: deciding on which direction the microcredit institution should be steered.

For the past five years and since its inception, Banco Pérola had known an exponential growth with its credit operations expanding at an average rate of 150% per year.¹ They had managed to affirm themselves as a solid microcredit institution in Sorocaba, and were now undertaking a strategic move of serving outer cities through partnerships with local players in other low-income communities. Moreover, 2014 also meant a year of great achievement to the institution in terms of financial sustainability, with the successful launching of an investment fund intended to raise funds to finance their credit operations. All combined, these elements seemed to indicate that Banco Pérola had done a good job throughout the year and more ultimately, that such a successful path anticipated a very optimistic outlook for the year to come.

Yet there were factors that could potentially undermine Banco Pérola’s way towards further accomplishments. Indeed, having developed at such a fast pace while employing limited

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¹ CAGR calculated based on annual credit operations data obtained from Banco Pérola’s institutional presentation – See Appendix
staff, many of its internal processes and methodology had not been formalized leaving a
significant part of the business pending to be structured. The investment fund itself had not yet
fully addressed the institution’s funding problem, as on top of being a rather expensive tool, it
still had not reached break-even. To worsen the scenario, credit officers from Banco Pérola were
no longer able to prospect as much new customers as they did beforehand and the institution
sought alternative means of expanding its portfolio. While scaling up seemed very instinctively
like the next step to undertake, it was not an obvious one considering the challenge that entering
sensitive neighborhoods represented and the subsequent time and costs it engendered, requiring
potential new markets and partnerships to be cautiously thought.

The moment was crucial. Banco Pérola had managed to expand in a fairly spontaneous
manner thus far, but growing challenges required from its management defining top priorities for
the next five years to come. More than a matter of designing a new business strategy, it was the
definition of a development model for the institution that was now at stake.

3.2 ABOUT BANCO PÉROLA

“When one of the examiners in front of me asked: “Do you believe young people are reliable
and going to repay their loans?” I answered: I am young. If I didn’t believe in it, I wouldn’t be
here.”

Alessandra França

3.2.1 The path from an NGO to a microcredit institution

The early origins of Banco Pérola remounted back to 2001, when a non-profit
organization aiming at promoting social inclusion of poor young people was created in the
underserved neighborhood of Aparecidinha, in Sorocaba. Their goal was to achieve this mission
through digital inclusion, by providing computer lessons to the disadvantaged youth and
eventually incorporating citizenship lessons as well. The so-called Projeto Pérola proved to be
very successful in its endeavors. From its very beginning to 2014, it had grown from a small
structure of three employees to more than three hundred, and from sixty-four students served to
more than fifty thousand (MBA GEITec – UFSCar, 2015). By the end of the period its units were spread across six different cities in the State of São Paulo.

The non-profit organization would award its best students with scholarships from prestigious private schools of Sorocaba. Among the outstanding pupils benefited by the grant was the fifteen-year girl Alessandra França. Alessandra had left the south of Brazil as a child and migrated with her parents to Sorocaba in search of better opportunities, where they would eventually start working as micro-entrepreneurs (MBA GEITec – UFSCar, 2015). During the eight years spent in Projeto Pérola, Alessandra transitioned from a beneficiary of the program to one of its main coordinator, the highest level within the organization, at the age of nineteen. At the heart of Projeto Pérola she realized not only the extent to which education performed an important role on empowering youngsters, allowing them to develop themselves and hence become the protagonists of their lives, but mainly the enormous drive they displayed towards entrepreneurship. Pushed by this striking finding, Alessandra founded Escola de Talentos, a social project that was more specifically oriented towards helping young and poor people to create their own business.

Despite being selected in 2008 by a national competition sponsored by the pioneering organization promoting social businesses in Brazil, Artemísia, which granted Alessandra with an intensive training in the field and initial funding for the project, Escola de Talentos did not succeed as expected. In fact, although young entrepreneurs were being offered support to develop their business plan, a crucial element was still missing. Whereas these businesses required financial resources to be launched, little access to credit was provided to youngsters and so the probability they might move their project forward was inevitably thwarted. Additionally, the business model designed for Escola de Talentos was not financially sustainable in the long run. Nonetheless, in spite of not having fully accomplished its mission, the short-life project led Alessandra to a very important conclusion: she had been dealing with a very promising social group that was eager to implement new ideas, yet a social group that had been historically disregarded by financial institutions. Such lack of financial support systematically prevented these young and poor students from starting their own businesses and thereby improving their living standards.
Previously to this finding, another determining event had also contributed to spark Alessandra’s mind on the importance of giving young and poor entrepreneurs access to credit. Coming across the “Banker to the Poor” by the Nobel Peace prize winner Muhammad Yunus, at the age of sixteen, and discovering the *Grameen Bank*’s outstanding achievements on credit distribution in Bangladesh were a real source of inspiration. They quickly became a strong reference for the young woman who, up until that moment, considered transforming people’s lives with such small loans to be an extremely unlikely attainment.

### 3.2.2 Banco Pérola: mission, functioning and achievements

The outcome of these sequential events was the creation of a non-profit microcredit institution under the status of a Civil Society Organization of Public Interest (OSCIP). The idea of fomenting entrepreneurship within low-income classes had germinated during the very years of *Projeto Pérola*, it was structured following the example of the *Grameen Bank* and finally shaped and put into execution with the support of *Artemisia*, who provided the initial funding. In October 2009, only eight months after Alessandra’s completion of the intensive course on social business, *Banco Pérola* kicked off.

*Banco Pérola* was a pioneer and the very first microcredit institution of its kind in Brazil. Considering the high entrepreneurial activity of the Brazilian youth – in 2008, Brazil ranked 3rd in the world with over 25% of the population aged 18-24 holding a business (GEM, 2008) – and the credit restriction faced mainly by the lower classes, the institution decided to target low-income young entrepreneurs as its main customers. Operating in Sorocaba, it was originally created as a microcredit institution offering oriented productive microcredit to young entrepreneurs from social classes C, D and E, preferably within an age range of 18-35 years old, and who faced difficulties in obtaining credit from the traditional banking system in view of opening or leveraging their business. The institution’s foundation was mainly inspired on the business model of the *Grameen Bank*, but had also been formed from the management’s acknowledgment of different microcredit experiences in Colombia, Peru and Brazil.

The vision and mission of *Banco Pérola* were very clear and converged with the ones embraced by the *Grameen Bank*: to diminish poverty by empowering poor people. More
precisely, the goal of the Bank according to the management’s words was “to be a reference in the microcredit sector through the impact on the improvement of lives of low-income population living in Sorocaba and its area, by the means of an efficient and responsible management” (Banco Pérola, 2015). Yet a non-negligible difference between both institutions lied on the fact that Banco Pérola did not share Grameen Bank’s vision on social business as a no-dividend company. Instead, the Bank’s directors would adopt a profit distribution philosophy.

In terms of functioning, Banco Pérola did not ask for any collateral when giving credit but did perform a socio-economic analysis on the potential borrower. Similarly to its Bangladeshi homologue, the institution also employed the solidary group approach in which members of a group of three to five entrepreneurs would commit to each other and mutually respond to their obligations, symbolizing the underlying relationship of trust that sustains microcredit. The group’s members could be developing their business activities in different segments, but if by any chance one of them did not reimburse the contracted loan the others would be automatically considered as the new debtors. Banco Pérola’s clients would start repaying the loan as early as within 30 days, and the interest rate applied would originally range from 2% to 6% according to the borrower’s risk profile and the size of the loan.

Perhaps one of the main features of Banco Pérola was that in addition to credit they offered a simplified business-consulting service to their clients, in a regular basis, from the very early stage of credit analysis to a continuous follow-up on their customer’s business activities. Credit officers, in charge both of prospecting new clients and assisting their existing portfolio, would perform this task. According to Alessandra, this was the main reason explaining the low default rate of the institution, which averaged 3.5% by the end of 2013 for non-performing loans beyond thirty days: “I believe this is a reality from microcredit institutions, due to the follow-up services offered to the entrepreneurs within the network all-along the credit process. We from Banco Pérola believe in and follow the “traditional” microcredit philosophy. Although it is expensive to sustain customer’s visits every fifteen or twenty days, we will not renounce on it because this is what keeps default rates at such low levels. And in microcredit, if you don’t watch out, default rates go up”. In average, the institution would charge an administrative tax corresponding to 3% of the loan amount to cover the expenses on follow-up services. While
loans could range from R$ 500 to R$ 5,000, by the end of 2014 the average ticket size of operations stood at R$ 3,800 and about 75% of its borrowers were women.

As of December 2014, five years after Banco Pérola started its operations, it had already disbursed more than R$ 3.8 million in loans (see Annex 4). Their credit operations had grown from R$ 44,000 in 2010 to more than R$ 1.7 million in late 2014 (see Annex 3), and the loans offered by the institution had served almost six hundred entrepreneurs, growing from a tiny portfolio of only twenty-eight clients in 2010 (see Annex 5). With the support of co-founder Adriene who had also started the business as a credit officer, Alessandra had been able to effectively transform a project conceived as a teenager into an operationally successful microcredit institution. In 2014, Forbes appointed Alessandra as one of the thirty most influential Brazilian personalities under thirty years old who were reinventing Brazil.

3.2.3 Building social and human capital

In spite of offering microcredit and thus working as a financial institution, the biggest asset of Banco Pérola was not expressed in figures nor was it stated in its balance sheet. The fundamentals of the institution were anchored on the grounds of social development and therefore, promoting the wellbeing of their clients gained a more relevant dimension than did striving for increased annual profits. As a result, its biggest asset was instead the social and human capital built out of the interaction between credit officers, clients and the community.

When a client came to Banco Pérola (or had been prospected) interested in obtaining a loan, he/she would be welcomed, advised and oriented by the team. With the help of a credit officer they would define and evaluate the client’s domestic and professional revenue and expense structure, trying to recognize each cost and income flow. This exercise of financial education performed during the credit analysis phase would give the incoming client a greater awareness on his/her expenditures and on how to better manage his/her money, given that often, albeit already running a business, little attention would be paid to these non-negligent details and businesses would be managed on a very spontaneous basis, with almost no planning.
“Sometimes the client has a very simple business. The client has a store, sells things... but is unable to write on a piece of paper the cost of the product or the profit margin of the business. This is something we require and if the client cannot provide us with this piece of information, we will do it together, so that the client can be granted a loan”. (Naiara Carlesso, credit officer)

Along with the follow-up service performed by the credit officer once the loan was disbursed, this initial process was also a mean to protect the clients’ interests, being perceived as a clear sign that Banco Pérola, contrarily to any other bank, stood on their side.

“I have been working with silk-screen for the past fifteen years but had never thought about having my own screen printing business. Then I visited some banks to get a loan, but... it did not go well. It is too much bureaucratic. They are only worried about their profits and don’t care about the client. Banco Pérola, on the other hand, is always by our side – my credit officer would come every fifteen days and ask: “Dina, did you buy something at the supermarket? Then, note it down. Dina, if you sold an eraser this morning, note it down!” (Dina, Banco Pérola’s client)

Both sides of the microcredit spectrum, creditor and debtor, valued very intensely shaping trustworthy and respectful relationships. Trust, the founding pillar of microcredit and the most important condition enabling it to function properly, was a delicate working tool present at and throughout all levels and stages of the microcredit process: it permeated the relationship between donors and microcredit institution, between microcredit institution and clients, and between clients and community. Trust could take several concrete forms. It was manifested by the institution when the institution would supply credit without asking any collateral in exchange, and by the clients not only during the act of reimbursement, but also when they entered into a group and committed with each other to collectively honor their debt.

For Banco Pérola, building trust also had the specific goal of preventing their default rate from rising. As a consequence, the institution saw client visits as an essential part within the credit loop, since their mission was to verify that both client and business were doing well and thus ensure that no exogenous nor endogenous element threatened payment default. For the client, being able to obtain a credit was possibly the highest evidence of trust they could acknowledge coming from the microcredit institution. Normally underbanked, they would attach
a great significance to it and their relationship with Banco Pérola would make them feel supported, confident and socially included.

“They are very good-hearted people, and they watch at our wellbeing. The credit officers are very considerate of our needs, they want to know about us and how we are, if we are feeling well, if we are sick, what has happened, if we need something. It is like a big family.” (Dina, Banco Pérola’s client)

“My bank’s manager advised me to look for Banco Pérola saying it was the best in the region. They are indeed very thoughtful with us. If I had to pay my rent the same day as the bank, I would pay the bank first because I might need them in the future.” (Marta, Banco Pérola’s client)

“They invest in whom apparently has nothing to offer, in whom appears to own nothing. They came here and saw that the proposition I was presenting was real, and they believed in it, and they believed in me. That’s what they do – they invest in other people’s dreams. Could there be anything as beautiful and respectable?” (Lucelia, Banco Pérola’s client)

By capitalizing on its clients and on the development of a business, and thereby creating a greater interaction within the community through the solidary group approach, Banco Pérola successfully managed to build social and human capital throughout its network. These, which Alessandra referred to as “credit with quality” whereas it technically meant credit risk, represented the institution’s uttermost singularity and were embedded to its core mission and values.

“When I joined Banco Pérola I didn’t see it as a company, but rather as an opportunity of combining my work and helping people. Here, we help people who wouldn’t have any chance of getting a loan in a traditional bank, either because they have a bad credit, either because they do not have a fixed income. Sometimes despite already having a business and despite holding a bank account, they will have credit denied. So this is our singularity, today – investing in these people who other banks would not invest in.” (Naiara, credit officer)
3.3 THE ROAD TO DEVELOPMENT AND ITS CHALLENGES

“Today we are putting our efforts into building the concept of a microfinance ecosystem. We have been studying means of obtaining funding, technology and scale. These are the core challenges of microcredit institutions”.

Alessandra França

According to its executive director, Banco Pérola had now the vocation to become a breadbasket of ideas for other organizations that would be developed subsequently through spin-off. The business model of the OSCIP was close to become complete following several years of adjustments and developments, but in order to create the desired microfinance ecosystem its management had three clear upcoming tasks: to transform the Pérola investment fund into a valuable tool for the microcredit sector, to scale Banco Pérola’s business model in order to form new portfolios and, finally, to strengthen and systematize the institutions’s operational processes.

3.3.1 Striving for funding: the creation of the investment fund Pérola FIDC.

One of the main challenges for any microcredit institution was the tough issue of fundraising. Likewise any other OSCIP, Banco Pérolas’s capital had been mainly constituted of private and public donations. On one hand this external funding had granted the institution with a notorious expansion, especially given the generosity of some donors; on the other hand it meant very punctual and uncertain inflows of money, whose eventual contraction could potentially put the microcredit business at stake.

The risk of going short on funding became particularly true for Banco Pérola in 2014, when political uncertainty and economic recession had an important constraining effect on investments in Brazil. In an attempt to diminish the dependency on external sources while guaranteeing the continuity of the OSCIP, the top management of Banco Pérola made the innovative decision of creating an investment fund within the Comissão de Valores Mobiliários (CVM), the Brazilian equivalent of the Securities & Exchange Commission (SEC). The goal of this initiative was not to merely shield the institution from eventual disruptions in its operations
due to economic or political downturns. In fact, beyond this preventive measure laid a more strategic one given that having recurrent funding was key for expansion and possibly the single most important condition for scaling up. Banco Pérola was a financially sustainable business in its existing form as an OSCIP, yet it remained a business with very limited resources to consider organic growth. The creation of the investment fund, after thorough analysis, had thus been intended to complete the business model of the institution by providing it with the means of growing its credit portfolio.

The Pérola FIDC (stands for “Fundão de Investimento em Direitos Creditórios”, equivalent to “Credit Receivables Investment Fund”) was approved by the CVM in August 2014 and by the end of the year it had already raised R$ 1 million. “2014 was a year in which we provided, in terms of credit operations, the same amount as the sum of all the previous years of operations; the fund has created a lot of impact”, said Alessandra. Funds were received from professional and qualified investors who were compliant to the CVM’s rigorous requirements, and who committed to a minimum investment of R$ 25.000 on quotas ranging from junior to senior, presenting different risks and returns. Pérola FIDC was also seen as a whole business apart. The profitability deriving from investments could transform the fund into another potential source of income for Banco Pérola, which stood among the holders of junior investment quotas.

While creating the FIDC and securing constant funding for the future was irrefutably a very meaningful step for Banco Pérola, it required further issues to be addressed. To begin with, the investment fund had been projected to reach breakeven fourteen months from its inception. Meanwhile, its operationalization engendered very high costs that were partly amortized by subsidies granted to the fund. As a result of these two challenging situations, it risked eventually becoming a financial burden to be carried on alone by a single entity. In addition, since Pérola FIDC’s fundraising capacity would grow according to the number of loan agreements approved by Banco Pérola, a matter of volume was inherently involved; for the investment vehicle to reach sustainability within the 14-month period, having a larger credit portfolio was compulsory. Facing these arising constraints, the top management of Banco Pérola recognized two options: to radically expand their own credit portfolio or to invite other OSCIPs and microcredit institutions in.
The second option was considered more plausible given that developing the institutions’s operations in a very short timeframe not only was unrealistic, but too much pressure on growth could also put in jeopardy the quality of the credit given. “If we were to pursue a growth to reach sustainability with the fund, we would have to go to three, four cities at once; to move from a portfolio of R$1 million to a portfolio of R$5 million, very rapidly; to have a monthly growth rate of 40%. Monthly! This is not organic. Organic, for us, has been to grow at a rate of 10% a month, which is already high enough. We cannot risk losing the quality of credit just to enable the fund to grow rapidly”.

The quest, now, was thus turning the Pérola FIDC into an independent institution, transforming it into a multiseller fund by forming a certain confederation of other microcredit institutions that could also benefit from a more recurrent funding, while summing their portfolios and consequently increasing the sustainability of the fund. Restructuring the fund by imposing a maturity date of at least two years for investments was also necessary in order to make a better use out of the captured resources.

But how to select incoming partners? How to ensure every beneficiary OSCIP would agree upon a common system of governance, considering the existing diverging philosophies within the microcredit sector in regards to profit and investments? Although it was an intrinsic step in the development process of the OSCIP, growing the fund through the aggregation of other microcredit institutions was doomed to a big challenge – the one of breaking deep-rooted paradigms.

3.3.2 Scaling up the business: reviving the SCM project

Scaling up is certainly a conceivable step at some point in the life of any business, and microcredit institutions were not an exception to this rule. In this segment, however, scaling up involved challenges that went beyond the ones encountered by a traditional business; factors such as community acceptance and socio-economic conditions played a major role.

Two years back then, Banco Pérola had seriously considered the possibility of expanding the business to other markets. Nevertheless the plans of creating a Sociedade de Crédito ao Microempreendedor (“SCM”), a profit-seeking microfinance credit society, had to be
momentarily set aside while the top management was entirely focused on structuring the investment fund: “We had come to the conclusion that as long as the funding problem wasn’t solved, there would be no structure for scaling up. Especially because if you scale you will grow, and you will need funding. So creating a fund came before the SCM in terms of priorities.” Now that the Pérola FIDC was fully operational, in 2014, Banco Pérola’s executive directors finally had the occasion to reconsider the shelved SCM project: “We need a source of income to invest and grow, and that’s where equity makes sense. It didn’t before the creation of the fund because the business model was not completely developed. A leg was missing – the leg of funding. Now that the FIDC is running and, hopefully, about to become an independent business and institution, we decided to focus back on the construction of our SCM” (Alessandra França).

Among the reasons pushing the executive directors towards the creation of a SCM was a considerable decline in the microcredit activity in Sorocaba. By the end of 2014, with an average of three hundred active clients, credit officers from Banco Pérola were having a harder time prospecting and obtaining new customers. Prospecting was basically being performed under the sole purpose of maintaining the current credit portfolio level that allowed the institution to be financially sound. The credit operations area within Banco Pérola was formed of one supervisor and six credit officers, which were assigned a maximum portfolio of two hundred clients each. Yet the current volume of active clients stood significantly below this target; each credit officer was now responsible for a portfolio of, in average, fifty clients only, while in other comparable microcredit institutions this figure would reach five hundred instead. These low levels of activity could be risky for the sustainability of the institution. The executive directors had no choice but to reduce their staff by dismissing two credit officers, while other two left on their account, therefore only remaining two credit officers on duty.

The underlying assumption for such a decline in the microcredit activity was an alleged maturity of the market in Sorocaba. Now that the institution held an active R$1.2 million portfolio, Alessandra believed it had reached its growth limit and that it was time to enter other cities. It should be noted, however, that while Sorocaba had a population of 600,000 inhabitants, other microcredit institutions from communities of the city of São Paulo held a similar portfolio in a market three times smaller. It was thus legitimate to question to which extent credit in Sorocaba had really reached market saturation, a view that did not meet consensus among the
executive directors of Banco Pérola. According to Fabio, it could be a matter of publicity, given that the institution’s main channel of advertisement and which captured most of the prospective clients was a partnership set with a popular job search page on Facebook. “Banco Pérola has no means of investing in a more massive promotion of itself. To suppose it is a matter of market saturation could be true, but a half-truth – if we do not invest in the traditional channels of communications, we cannot be completely sure that there is no more space for microcredit in Sorocaba”. Naiara, one of the credit officers, agreed on this view but had a relevant remark: “A lot of people still haven’t heard about the Bank, so we cannot infer that the market has reached its maturity. On the other hand, it is useless to invest on advertising now and be unable to answer to a growing demand in the future due to insufficient staff”.

Regardless of the market situation, scaling up and entering new communities in other cities was still a priority for Banco Pérola and in this view, setting up a SCM to capture equity presented numerous difficulties. The first one consisted of the lack of understanding on what would be the required volume of credit operations justifying the creation of a business unit in a specific community or city. Given the low interest rates charged and the average ticket size of operations, microcredit plainly depended on a large volume of transactions to be feasible and sustainable.

Moreover, there were the costs and time involved in the entry process in a new community. Banco Pérola dealt with a very delicate public: at times because borrowers could be people living in inhuman conditions and lacking the most basic living needs; at times because in the community there were local shark-lenders unhappy to be competing with an institution, all of which made working conditions riskier for Banco Pérola’s staff. Moreover, a new unit meant having a minimum operational infrastructure and maintaining a local credit officer which, as highlighted by Alessandra, were additional costs requiring timely investments: “Forming a new set of credit officers takes an awfully long time. In less than 6 months I cannot have a trained team ready to enter a new city.” All in all, these various scenarios turned microcredit into a fastidious and expensive process, demanding that the entry into new markets, which could take several months, be meticulously thought and prepared well in advance.

Reflecting the long and uncertain process that reaching scale through the SCM meant, partnerships with other institutions and associations had been gaining growing importance in the
functioning of the OSCIP. To the eyes of the executive directors, they represented simpler ways of reaching out to other clients and cities; not only was the entry period shortened, most of the times partners already owned a physical space comprising a minimum infrastructure to operate. They pointed towards a very likely and promising path of development for Banco Pérola and, by the end of 2014, two partnerships had been or were about to be effectively established. One of them concerned a pilot project with a social business focused on humanizing the living and housing conditions of households from poor communities – the so-called Programa Vivenda. Vivenda would intermediate the credit process between Banco Pérola and the final borrower and charge a commission for performing this role. Another type of partnership was being developed with the Brazilian institution for professional education, Senac, in the nearby city of Jundiaí. In this specific case, the partner was not an intermediary but meant rather a door of entry into a new community and new market.

Banco Pérola’s top management had thus identified three different models of expansion: through the creation of the SCM (where equity would enable the institution to expand), by indirect market penetration (where partners would legally act as credit officers) and by direct market penetration (where partners’ know-how and presence in a local market would simplify Banco Pérola’s entry process). Defining an expansion model seemed to be a pressing need. Which was the best expansion method and how to structure a minimal, replicable business model? How could the top management shorten the entry process period? How could they expand while also maintaining control on future external operations, ensuring the quality of credit? Which were the minimum standards expected from an ideal local partner?

These were only a few of the decisive questions that Alessandra, Adriene and Fabio had been trying to answer.

3.3.3 Internal structuring and systematization: a quest for increased efficiency

During the five-year period since inception, Banco Pérola had developed in a few other ways. To begin with, though young entrepreneurs remained the institution’s priority in terms of ideal borrower profile, there was a noticeable target shift from clients aged from 18 to 35 years old to clients of any age, provided that they fit the requirements for productive microcredit.
Moreover, whereas in its initial steps the OSCIP would exclusively develop the entrepreneurial line of business it ended up progressively evolving into the incorporation of other types of credit, namely in professional education and housing, which albeit not yet operationalized in meaningful proportions had the effect of diversifying Banco Pérola’s portfolio.

The outstanding growth of the OSCIP had also had an impact in its organizational structure. Indeed, Banco Pérola had been an initiative of Alessandra and Adriene who had created the institution from scratch and were its first credit officers. Once the institution reached stable and satisfying operational levels, however, it needed an internal reorganization of functions. The founders of Banco Pérola were assigned to the position of executive directors, to which a former credit officer, Fabio, joined as well. They were replaced by new credit officers while also hiring and appointing staff for the newly created positions within the FIDC and the embryonic SCM management. With time, an increasing tendency towards shared power could be perceived within the institution. Commonly in charge of institutional and managing affairs as the Head of the institution, Alessandra was now delegating increasing responsibility to Fabio and Adriene, who were gradually taking on these managing roles and holding an equal participation in the decision-making process.

Despite undertaking these internal changes through the rearrangement of managerial roles, at this beginning of year there were additional features – besides the bearish Brazilian macroeconomic outlook – that could potentially block Banco Pérola’s expansion projects. As a matter of fact, the institution’s previous blooming years had not been accompanied by the required internal restructuration and formalization of processes that would create, in the future, favorable conditions for growth. As focused as its management had been in drafting plans and setting development targets, in the operational side much of it had not yet been achieved. Therefore by the end of 2014, Alessandra, Adriene and Fabio found themselves with important decisions to enforce regarding the functioning of the business: “After this fantastic growth, it is time to put our own house in order” (Alessandra França).

The first decision was to optimize the credit process by bringing more in-house efficiency. Segmenting in separate leaderships the operations area, which included three different poles, commercial, credit and recovery, had been considered as an alternative to rationalize the current organizational setting in which a set of people simultaneously performed the tasks
deriving from these different sub-areas altogether (see Annex 1). Technology, considered a key instrument for duly managing Banco Pérola’s operations, would be part of this process. The executive directors had indeed been considering the possibility of incorporating in the future prepaid cards into their business for loan disbursements, which were still executed through bank checks given that most of its customers did not hold bank accounts. Prepaid cards presented the advantage of not being linked to a borrower’s personal account; instead, they would be “electronically ‘loaded’ with cash derived from a single pooled account managed by the card issuer” (Muñoz & Galicia, 2009). This way, the borrower could withdraw the loan directly from an ATM in spite of not formally being an accountholder. Other solutions were yet to be found to diminish the amount of paper and time wasted when preparing bank billings and other administrative documents. Similarly, in view of enhancing and rendering more efficient the visits dispensed to clients, so to better align it with the rest of the business, Banco Pérola’s top management was about to start measuring the time credit officers took to perform them while also controlling the distance they covered through a GPS device.

The second top management’s required decision would be to formalize a proper methodology for the different stages of the Bank’s operations. Guidelines had been prepared for the entire credit process up to the disbursement. From that point on, whether it was on minimum requirements for validating new business partners or minimum requirements for validating the entry into a new market, no further official instruction existed. The most sensitive part requiring stronger metrics, however, was the credit analysis process. Despite following a certain established procedure, it remained an arbitrary exercise; there were no common standards guiding the credit analysis of a client, which was often performed on a judgmental, case-by-case basis. Bearing it in mind, Banco Pérola’s management sought a way of addressing this considerable issue that rendered the process riskier and lengthier. Since December 2014 they had been working on a credit analysis tool, a spreadsheet that would automatically provide them a suggested loan amount as well as a recommended interest rate according to their input on a given client.

This lack of process systematization could also be perceived in the own follow-up service, the third decision to be implemented by the top management. Banco Pérola did not carry out any type of impact assessment. Although its mission was precisely to promote well-being
and social inclusion, no quantitative nor qualitative metrics had been developed yet to evaluate and measure the impact generated by the loans they offered – though these would be particularly useful in providing a better understanding on how credit affected their clients’ lives and, moreover, could create margin for further enhancing their service and adjusting it to clients’ needs. Inversely, since the beginning the team would conduct the business based on subjective perceptions shaped during their visits and informal chats with the clients. “With over 300 clients and only 2 credit officers, our challenge today is to focus on operations. But it is extremely important that we work towards transforming the subjective information we have into more objective data. This is something that should be included in our system. (...) I wish I could turn on the system now and see how many borrowers are women, how many are men, how many have finished school, and so on. If we could input this information into the system when registering the client, and again at the end of the credit process, we would have two different pictures in time. Eventually, that could help us to generate reports and discuss about our impact. (...) This scanning would enable us to maintain a better dialogue with society” (Fabio, Executive Director).

Performing periodic assessments or simply including a socio-economic analysis at the beginning and end of the credit process, as suggested by Fabio, would certainly be time-consuming and entail additional costs. Nonetheless, Banco Pérola’s top management were conscious that these were important to help the institution to achieve its mission – especially under a scenario of rising default rates, as by December 2014 they stood at 9.6% (Liberum Ratings, 2015) and due to an adverse macroeconomic context would remain at higher levels (see Annex 2). Therefore, implementing such control was a core need; how to implement it without harming the productivity of the business flow was yet to be discovered.

The deterioration in payback rates reflected a worsening macroeconomic scenario, yet it could also be the symptom of the limits of the group-lending model and its possibly not always performing social collateral. In fact, requiring from group members their joint responsibility when repaying loans could have a double-edged sword effect, as stated by one of the institution’s clients: “Our credit officer told us that when we form a group one helps and buys from each other. That is how we have been working. The only blurred part of the story is Zé; it would be easier if there were a way of taking him out of the deal. (...) I call my credit officer and
ask her to please call Zé and explain to him that he has to pay, that it is a good thing to do things the right way. (...) He’s staining our names, and we need to have them cleared. (...) The credit process was explained, he gave us his word to pay on the 10th of the month, then he changed to the 15th (...). Today we are on the 26th and he still hasn’t paid!” (Marta, Banco Pérola’s client).

The group-based approach was a cornerstone in the institution’s business model. Would it also have to be reassessed?

In sum, several internal adjustments, systematization and rationalization of processes had to be undertaken now that Banco Pérola had chosen to voluntarily expand. As successful as the institution had been in conducting operations without proper systems, policies and procedures, the road ahead would now require more consistency and efficiency in its operational routines.

“How are we going to develop in practice? We don’t know how we are going to shape the follow-up service in view of keeping a high credit quality and how much time each visit will require. We don’t know when is the moment to create another unit, the minimum number of clients required for so and what has to be structured in order to have minimum standards of quality – and which are these standards? We need specific tools to find it out; we need system and we need methodology”. (Alessandra, Executive Director and Founder)
3.4 CONCLUSION

“In an ideal world, the fund would be working along with other OSCIPs and permanently solving our funding problems. There would be a “little box for expansion” in which we would find the minimum escalation model. And all along this process there would be a step-by-step leading us exactly where we want to be”

Alessandra França

A teenager’s idealistic project at first deemed too utopian to come true, Banco Pérola defeated conventional wisdom in many ways. Not only did it become a real life microcredit institution that would support numerous entrepreneurs through an effective operationalization of credit, the institution also gained nationwide visibility and contributed to fomenting and strengthening the microfinance sector in Brazil.

Banco Pérola had clear goals for the future; the discussion, now, in the meeting, involved ranking these objectives according to their weight. What would be the most suitable initial action to begin a new cycle of growth? And how could Banco Pérola’s top management foster further development without putting in jeopardy the quality of credit? Due to its hybrid form combining both traditional business and social mission, Banco Pérola was now facing considerable growth challenges that required a new development model with strong linkages between business activities and the human factor.

“Although we have been focusing exclusively on the fund, I am unable to determine if the expansion process is a parallel path. Maybe it is, with the fund being a little ahead in the priority of things. But if they are not followed by a process of systematization, I am not sure how they can be achieved.”

Alessandra’s outstanding doubt summarized the difficulty in selecting the appropriate strategy and defining whether it should be led by the funding, the expansion process or yet by the internal business restructuration. But whichever the preferred path for driving growth into the institution, none of them diminished the critical need of developing a business plan for the upcoming five years of operations, clearly emphasizing the chosen growth strategy and how it
should impact the institution’s performance – both financial, operational and social – year-on-year.

Whilst 2015 had barely begun, *Banco Pérola’s* staff could already expect a full year of hard work ahead.
3.5 APPENDICES OF THE CASE STUDY

Annex 1 - Banco Pérola’s organogram

[Diagram of Banco Pérola’s organogram]

Source: Banco Pérola, 2015

Annex 2 - Default rate as of June, 2015

[Chart showing default rates]

Source: Banco Pérola, 2015

*“DE”: Refer to invoice discounting (anticipation of receivables)
*“EM”: Refer to credit operations
Annex 3 - Annual credit operations, in BRL

Source: Banco Pérola, 2015

Annex 4 - Cumulated credit operations, in BRL

Source: Banco Pérola, 2015
Annex 5 - Clients

Source: Banco Pérola, 2015
3.6 REFERENCES OF THE CASE STUDY


4 TEACHING NOTES

4.1 SYNOPSIS

*Banco Pérola* ("BP") offers microloans mainly to young entrepreneurs from the metropolitan area of Sorocaba, in southeastern Brazil. This non-profit Civil Society Organization in the Public Interest ("OSCIP") was created in 2009 as a result of its founders’ acknowledgment that due to lack of collateral, stable employment or a bad credit history, access to credit was the main reason preventing impoverished young borrowers from having a business of their own. Through the initial funding obtained from the leading Brazilian social business accelerator, Artemísia, BP’s founders managed to transform into concrete credit operations what had once been a dream, the one of helping entire communities to reach financial inclusion. By December 2014, BP’s main achievements as a microcredit institution were numerous: over six hundred entrepreneurs had already borrowed from the institution; its credit operations exhibited an average growth rate of 150% per year; the total loans disbursed amounted to almost BRL 4 million and its management had registered the very first socially oriented microcredit investment fund within the Brazilian Securities & Exchange Commission, the Pérola Credit Receivables Investment Fund ("Pérola FIDC").

Given the spontaneous circumstances in which BP developed and its unpremeditated exponential growth, not only its management was now facing increasing workload but also significant concerns related to the future of the institution. Now that the institution had finally reached sustainable operational levels, what should be done next? Its three executive directors were aware that BP still presented a lot of growth potential provided that as a team, they managed to conduct the business strategically and efficiently in the years to come. As such, Alessandra França, Adriene Marin and Fabio Moraes recognized three main priorities in terms of future development to pursue: optimizing and securing their funding structure by transforming the Pérola FIDC into a multiseller fund; scaling up, through the creation of a profit-seeking microfinance credit society ("SCM") and through the establishment of partnerships with local players in other cities; and restructuring and formalizing internal processes to ensure efficiency gains in credit operations while ensuring BP to be in full alignment with its social mission.
Yet the need to keep up with business operations in an overall context of supposedly declining credit demand in Sorocaba, understaffed structure and rising default rates turned management’s vision dim, and hence impeded it from moving forward by taking further action.

4.1.1 Purpose of the case

This case is appropriate for undergraduate and graduate-level students from the fields of business administration, public administration, social entrepreneurship, finance and related subject areas, and provides rich material for class discussions on a myriad of concepts such as social business and entrepreneurship, microcredit, and the non-profit sector. It may be particularly useful for addressing specific issues in class, mainly the growth challenges faced by microcredit organizations due to their additional complexity for being a social and often looking for profit organizations.

4.1.2 Learning objectives

- Being able to fully understand the concepts of entrepreneurship and how an entrepreneurial mindset can bring important transformations through simple ideas;
- Understanding the concept of social entrepreneurship and what are social or inclusive businesses;
- Understanding the extent to which financial inclusion is still an issue in Brazil and how lack of access to credit creates difficulties to low-income population in the country;
- Understanding how a social entrepreneur, through microcredit, might be generating social and economic impact at different levels;
- Recognizing the operational and growth challenges that stem from a typical organizational life cycle and those that are inherent to a non-profit, microcredit structure;
- Being able to analyze in a critical and strategic manner the current dilemmas of a young microcredit institution that has come across multiple priorities and development opportunities;
Defining a business model for an organization in transition.

### 4.1.3 Suggested assignment and questions

1. How has *Banco Pérola* developed into a microcredit institution? Summarize the main events leading to the creation of the OSCIP.
2. What are *Banco Pérola*’s main strengths and weaknesses?
3. Compare *Banco Pérola* and the *Grameen Bank*: what are their key differences and similarities?
4. How was the institution structured and how did it function?
5. How to analyze the life cycle of an enterprise?
6. In 2015, *Banco Pérola* has different challenges to address. Which are they? Which of them, in your opinion, derive from its non-profit structure and which are connected to an overall organizational life cycle?
7. How to develop a business model for the next years for BP?
8. How can *Banco Pérola* evaluate and measure its social impact?

### 4.1.4 Teaching Plan

In this case study, students will be invited to analyze the challenges of being a social entrepreneur and the obstacles faced by a business that has to meet both social and financial goals, and to explore what could be the best possible alternatives to overcome them. At the same time, students will also be invited to think how microcredit, through its trust-building mechanisms and low-interest rates, might be helping to create financial and social inclusion in Brazil. With the suggested timeframe indicated below, instructor should calculate and set aside about 90 minutes to conduct the *Banco Pérola* discussion during class.
### Table TN 1 – Teaching Plan

<table>
<thead>
<tr>
<th>Topic</th>
<th>Points to cover and possible assignments to students</th>
<th>Suggested timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>Open the discussion and raise main points of the case&lt;br&gt;  - How has <em>Banco Pérola</em> developed into a microcredit institution? Summarize the main events leading to the creation of the OSCIP.&lt;br&gt;  - What are <em>Banco Pérola</em>’s main strengths and weaknesses?</td>
<td>10 minutes</td>
</tr>
<tr>
<td>Microcredit and the Grameen Bank</td>
<td>Provide a context for the case: definition and origin of the microcredit concept, functioning, principles and achievements of the <em>Grameen Bank</em>.&lt;br&gt;  - Compare <em>Banco Pérola</em> and the <em>Grameen Bank</em>: what are their key differences and similarities?</td>
<td>5 minutes</td>
</tr>
<tr>
<td>Brazilian social landscape and the Bottom of the Pyramid</td>
<td>Provide a context for the case: aspects from the Brazilian BoP and socioeconomic indicators</td>
<td>5 minutes</td>
</tr>
<tr>
<td>Business Model Canvas</td>
<td>Do a business model canvas.&lt;br&gt;  - How was the institution structured and how did it function?</td>
<td>20 minutes</td>
</tr>
<tr>
<td>Business life cycle</td>
<td>Analyze BP through a business life cycle perspective.&lt;br&gt;  - How to analyze the life cycle of an enterprise?&lt;br&gt;  - In 2015, <em>Banco Pérola</em> has different challenges to address. Which are they? Which of them, in your opinion, derive from its non-profit structure and which are connected to an overall organizational life cycle?</td>
<td>15 minutes</td>
</tr>
<tr>
<td>Analysis of the three alternatives</td>
<td>Analyze the pros and cons that each identified alternative presents&lt;br&gt;  - How to develop a business model for the next years for BP?</td>
<td>20 minutes</td>
</tr>
<tr>
<td>Impact Assessment</td>
<td>Explore the different existing concepts, frameworks and tools for measuring social impact&lt;br&gt;  - How can <em>Banco Pérola</em> evaluate and measure its social impact?</td>
<td>15 minutes</td>
</tr>
</tbody>
</table>

Source: Author
4.2 INTRODUCTION

To introduce the discussion, after students have read the case, the instructor could start it off by showing students parts of the institutional video of Banco Pérola, available at:

https://www.youtube.com/watch?v=4Bg10ODJadI

Then, instructor should invite students to reflect upon Banco Pérola’s history by briefly listing the most relevant events leading to the creation and evolution of this microcredit institution. An appraisal of the highlights and main aspects of the case should follow this, by distinguishing the current identifiable strengths, weaknesses, opportunities and threats of Banco Pérola.

4.2.1 Banco Pérola’s history in a nutshell

_Banco Pérola_’s history starts off well before the institution was created, in 2009, at the heart of _Projeto Pérola_.

- _Projeto Pérola_ was a non-profit organization that promoted social inclusion by offering computer classes and lessons of citizenship for low-income youngsters from the region of Sorocaba.

- One of the students from the project was Alessandra França, who had migrated to Sorocaba with her family. Her outperformance in classes awarded her with a scholarship to attend a private school. Alessandra kept progressing within the organization, up to the position of coordinator.

- The contact with poor and young students made Alessandra realize their potential for entrepreneurship, and at the same time their limitations for being credit constrained. The acknowledgment of the _Grameen Bank_ experience made her a believer of the bankability of the poor.

_Escola de Talentos_ is the first outcome of these events, an initiative that did not thrive as expected but that served as a draft version for the model of _Banco Pérola_.
- *Escola de Talentos* aimed at helping poor youngsters become entrepreneurs (e.g. developing a business model)

- Despite the training and funding received from *Artemisia* (following a selection through a national contest), the project failed: young entrepreneurs had no access to credit to sustain their businesses and the business model of *Escola de Talentos* was not financially sustainable

- This first inconclusive attempt of helping young and poor entrepreneurs led to the creation of *Banco Pérola*, in 2009

*Banco Pérola* was established in Sorocaba as an OSCIP, a non-profit structure basically functioning as follows:

- Interest rates ranging from 2% to 6%;
- Administrative tax of 3%;
- First installment falling in 30 days;
- Group lending approach;
- Targeting young entrepreneurs aged 18-35 y.o. (the borrower profile changed over time);
- Credit analysis was performed by credit officers, depicting a closer and more humanized relationships with clients than in traditional banks and as a consequence, smaller loan portfolios per credit officer
- Low levels of non-performing loans (levels increase over time)
- High concentration of female borrowers – about 75% of clients.

### 4.2.2 SWOT Analysis

Preparing a SWOT analysis at this introductory stage will enable students to get to the following sections of the discussion being fully acquainted of the internal and external factors that affect *Banco Pérola* as a business, whether in a positive or negative way. A sample of BP’s strengths, weaknesses, opportunities and threats can be found in the table below:
**Table TN 2 - Swot Analysis**

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Clear mission and positioning</td>
<td>▪ Unclear strategy for future development</td>
</tr>
<tr>
<td>▪ Pioneer microcredit institution in Brazil focused on lending to young entrepreneurs</td>
<td>▪ Potential financial burden of Pérola FIDC</td>
</tr>
<tr>
<td>▪ Strong leadership</td>
<td>▪ Dependency on donations for funding until then</td>
</tr>
<tr>
<td>▪ Less bureaucratic credit process than other banks or microcredit institutions</td>
<td>▪ Limited resources for growth</td>
</tr>
<tr>
<td>▪ Trust and close relationship with client (credit officers)</td>
<td>▪ Lack of formalization of internal processes</td>
</tr>
<tr>
<td>▪ Deep knowledge of the local market</td>
<td>▪ Difficulty to attract new customers due to low investments on marketing and advertising</td>
</tr>
<tr>
<td>▪ No Investor Relations obligations up to then (funding mainly through donations)</td>
<td>▪ No impact assessment performed</td>
</tr>
<tr>
<td></td>
<td>▪ No clear view on market demand (in Sorocaba)</td>
</tr>
<tr>
<td></td>
<td>▪ Rising default rates that put the profitability of the business model (based on a solidary group approach) at stake</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Possibility of exploring untapped markets in other communities</td>
</tr>
<tr>
<td>▪ Partnerships with organizations sharing similar values (e.g. Vivenda)</td>
</tr>
<tr>
<td>▪ Worsening of macroeconomic scenario leading to an increase of the informal labor market, driving credit demand by micro-entrepreneurs</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Shark-lenders as main competitors</td>
</tr>
<tr>
<td>▪ Credit officers exposed to dangers of underserved communities</td>
</tr>
<tr>
<td>▪ Worsening of macroeconomic scenario leading to higher default rates</td>
</tr>
</tbody>
</table>

Source: Author

Instructor can then set the basis for the following debate by ensuring students are familiar or at least have a sense of both the microcredit phenomenon and the Brazilian social landscape, as both are relevant in understanding the overall context in which the case takes place. Ideally,
instructor should start by quickly presenting to students the microcredit concept with specific emphasis on the *Grameen Bank* given the role it played in the history of BP. Finally, moving the financial inclusion discussion towards Brazil, the instructor could highlight the main social and economic indicators of the country in order to give students a broader perspective on the Brazilian bottom of the pyramid (“BoP”).

### 4.3 MICROCREDIT AND THE GRAMEEN BANK

#### 4.3.1 Definition

Microcredit can be defined as the practice of lending small amounts of money (Gulli, 1998) on minimal security to low-income people (Schreiner, 2001) who are often under or unemployed and thus ineligible to borrow from more traditional venues. Although they may be very modest, these loans are often sought in view of helping these borrowers create and/or operate small businesses in their communities, whose proceeds can provide them with means of living.

#### 4.3.2 Origin

Although informal lending has been present in society for centuries, microcredit is a more recent phenomenon that has risen and gained worldwide notoriety in the 1970s, in rural, poor and newly independent Bangladesh. Back then, Dr. Muhammad Yunus, a university Professor of Economics, realized that collateral was the main factor preventing poor people from being granted access to credit and while this prevented them from improving their living conditions, it also increased their vulnerability to exploitation by moneylenders that would charge them higher interest rates, hence perpetuating the poverty trap. Yet the experiment of lending a total of $27 to a group of forty-two persons from Jobra from his own pocket, at more reasonable terms than local, informal lenders, and being fully repaid, led to the conclusion that poor people were just as creditworthy; this conviction resulted in the creation of the *Grameen Bank* (“Bank of the Villages”, in Bengali), in 1976. Initially a microcredit institution focused on granting long-term
loans on easy terms to low-income borrowers, the *Grameen Bank* has expanded its offer encompassing a wide range of microfinance services and products.

### 4.3.3 Principles

To fight against poverty, the *Grameen Bank* operates following a set of principles (Yunus, 2004, p. 4078) that often go against conventional wisdom. To begin with, it is a bank owned by its borrowers. It believes that poverty is the result of ineffective policies and institutions and that it cannot be addressed by charity only, requiring a reshaping of such policies and institutions as well a new look towards poor people’s unmet financing needs and non-explored potential. As such, it deems credit to be “a human right” and thereby poor people should not have access to credit denied on the basis they lack collateral; in fact, they actually become creditworthy when they are trusted a sum of money.

- Overall, BP shares the same principles as the *Grameen Bank*. It believes in the creditworthiness of the poor, which proved to be true when in the case a borrower affirms that her commitment of reimbursing installments ranks higher in priority than paying her monthly housing rent.

*Grameen Bank* also prioritizes lending to women (for they are generally more credit constrained and for the greater impact it may have in the household as a whole) and to people who have less means (than to those who have more means), contrarily to the practices of the traditional banking system.

- Likewise, most of *Banco Pérola*’s borrowers have no collateral and over 75% are also women, as outlined in the case.

### 4.3.4 Functioning

The *Grameen Bank* offers mainly three types of loans aiming at improving borrowers’ livelihood: for income generation, for housing and for higher education; none of them are intended for consumption.
BP also adopts a similar approach in its credit proposition. Most of its portfolio consists of productive microcredit and the institution has recently started providing loans for education and household, albeit still in marginal proportions.

While it does not require any type of collateral from its borrowers, it is able to keep default rates low through two different levels of regulations: the group lending model, a mechanism that creates high peer pressure amongst members, and through weekly visits performed by bank workers to different centers (Mainsah, Heuer, Kalra & Zhang, 2004), not only for payment purposes but also for providing advises on how to manage household finance and carrying other group activities.

The group lending model developed by the Grameen Bank consists in the formation of groups of generally five borrowers, all from the same sex and not from the same household (Matsui & Ikemoto, 2015). In a first moment, only two members will be eligible for receiving a loan. If these two borrowers manage to repay the first six weekly installments (of principal and interest), the other members of the group become eligible to borrow from the Bank as well (Moingeon, Yunus, & Lehmann-Ortega, 2009).

Payments are made during weekly meetings held at the Bank’s centers. Each branch of the Bank covers up to 22 villages and has a number of center managers (Moingeon et al, 2009); each of these centers can host up to 8 groups of borrowers (Matsui & Ikemoto, 2015).

Not surprisingly, both the Grameen Bank and Banco Pérola share similarities in their modus operandi for loan concessions and borrowers visits. As mentioned in the case, Banco Pérola adopted the lending model approach inspired by the Grameen Bank methodology.

Nonetheless some clear differences can be pointed out. BP does not perform a preliminary lending test on selected members of the group to ascertain if the entire group can be eligible for credit. Moreover, regarding the visits, while in the Grameen Bank model a bank worker meets borrowers from different groups in a center (which enables gains of efficiency), in the BP model the credit officer visits groups, and most often borrowers, on an individual basis.
Moreover, beyond the economic sphere, borrowers must also abide by a social charter known as the “Sixteen Decisions”, comprising of a series of daily life decisions they must undertake to ensure better levels of livelihood, related to health, housing, sanitation, education and so on.

4.3.5 Impact & Consequence

In 2006, Muhammad Yunus and the Grameen Bank were awarded the Nobel Peace Prize for their inspirational work in demonstrating the bankability of the poor while using microcredit as a tool for fighting against poverty. As of December 2013, besides serving as an international reference and fomenting other microcredit initiatives worldwide, the Grameen Bank:

- Served over 8.5 million borrowers, mainly women (96.21% of total borrowers);
- Had reached over 2,567 branches;
- Had diversified its funding structure – deposits alone represented over 96% of the Total Disbursement for the year;
- Exhibited relatively high payback rates, at about 96.34%;
- Reported high levels of capitalization and profitability, with a capital adequacy ratio of 9%, and a ROE of 13.65% (Grameen Bank, 2015)

4.4 BRAZILIAN SOCIAL LANDSCAPE AND THE BOTTOM OF THE PYRAMID (BOP)

Brazil has emerged as a dynamic economy in the past decade. GDP growth reached 7.5% in 2010 transforming the country into an attractive destination for foreign direct investments. The adoption of more progressive social policies alongside macroeconomic stability, economic growth and increase of the formal labor market have contributed to lifting over 20 million people out of poverty, and to having more than 40 million people joining the new middle class between the periods of 2003-2008 and 2003-2012, respectively (Neri, 2010). In spite of these expressive social and economic attainments that enabled the country to achieve several of the UN Millennium Development Goals, Brazil remains with a twofold structural challenge to resolve – income inequality and poverty.
If the years 2000 meant a decade of progress in many aspects, the years 2012-2015, conversely, witnessed a reverse trend. The country went through a difficult period of economic adjustment, political instability and social unrest. Unemployment rates were rising, the economy displayed current account and fiscal deficits and the inflation reached 10.67% by the end of 2015, thus beyond the Central Bank’s target of 4.5% and at its highest annual level since 2002 (IBGE, 2016). Coupled with Brazil’s loss of its investment grade by S&P and Fitch, strong currency volatility corroded foreign investor’s confidence in the country. All of these pointed to a negative economic outlook for the future as the economy was forecasted to contract by 3.7% and 2.7% in 2015 and 2016, respectively, only showing the first signals of recovery in 2017 (EIU, 2016). In the banking sector, this translated into a more conservative stance towards lending and often into the reduction of the credit portfolio that not surprisingly, affected mainly SMEs. While the level of 90-day non-performing loans (“NPLs”) of the National Financial System had generally been in a downtrend up until December 2014, at 2.73%, rising NPL levels were starting to be noticed in 2015.

*Figure TN 1 - National Financial System - NPLs Evolution (%)*

Source: Central Bank, 2016
On top of the economic downturn was the political turmoil that generated further instability within the macroeconomic scenario. The disclosure in 2014 of a corruption scandal on Petrobras, the state-controlled oil company, further reduced the ruling coalition’s governability and negatively impacted the single-digit popularity of President Dilma Rousseff, who faced an impeachment proceeding initiated by the Lower House. The aftermath of these events remained uncertain.
The table below provides an overall glimpse on Brazil’s social landscape and development indicators:

### Table TN 3 - Evolution of Brazil's economic and social indicators

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (US$ billion)</td>
<td>2,615</td>
<td>2,413</td>
<td>2,392</td>
<td>2,346</td>
</tr>
<tr>
<td>Population (Total, in millions)</td>
<td>200.5</td>
<td>202.4</td>
<td>204.2</td>
<td>206.0</td>
</tr>
<tr>
<td>Inflation, consumer prices (%)</td>
<td>6.63</td>
<td>5.40</td>
<td>6.20</td>
<td>6.33</td>
</tr>
<tr>
<td>Unemployment, total (%)</td>
<td>6.69</td>
<td>6.09</td>
<td>6.50</td>
<td>6.80</td>
</tr>
<tr>
<td>Poverty headcount ratio (%)</td>
<td>5.5</td>
<td>4.6</td>
<td>4.9</td>
<td>-</td>
</tr>
<tr>
<td>Income share held by lowest 10%</td>
<td>0.98</td>
<td>1.04</td>
<td>0.97</td>
<td>-</td>
</tr>
<tr>
<td>Income share held by highest 10%</td>
<td>41.89</td>
<td>41.67</td>
<td>41.82</td>
<td>-</td>
</tr>
<tr>
<td>GINI Index</td>
<td>53.1</td>
<td>52.67</td>
<td>52.87</td>
<td>-</td>
</tr>
</tbody>
</table>


While in 2014 the country ranked as the world’s 7th biggest economy exhibiting a GDP per capita of USD 15,838 adjusted for purchasing power parity (World Bank, 2015) unequal income distribution produced high levels of social inequality. Indeed, 41% of the national income remained concentrated within the 10% richest population and Brazil’s Gini index remained high, being closer to perfect inequality (1.0) than to perfect equality (0.0), as outlined in the table above.

In 2013, 5% of the Brazilian population was estimated to be living below the poverty threshold surviving on USD 2 a day or less, as per Prahalad’s definition of the bottom of the pyramid (Prahalad, 2004). Considering both the limited scope of this definition and the multiple others that different authors and institutions have attached to the BoP concept, when approaching the Brazilian case it is customary to adopt a broader BoP definition by embracing therein the
economic classes C1, C2, D and E and their respective income (Barki & Parente, 2010). Taking into analysis these economic strata as classified by ABEP (Brazilian Association of Research Companies) in the most recent version of the “Brazilian Economic Classification Criteria” (ABEP, 2014), they represented altogether over 74% of the population in Brazil, providing a much better picture of how representative this segment is in the country.

Table TN 4 - Brazil social-economic level distribution and income, 2015

<table>
<thead>
<tr>
<th>Socioeconomic stratum</th>
<th>Population distribution</th>
<th>Household gross income (monthly – BRL)(^1)</th>
<th>Household gross income (monthly – USD)(^2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>2.7%</td>
<td>20,272.56</td>
<td>5,232.30</td>
</tr>
<tr>
<td>B1</td>
<td>5.0%</td>
<td>8,695.88</td>
<td>2,244.39</td>
</tr>
<tr>
<td>B2</td>
<td>18.1%</td>
<td>4,427.36</td>
<td>1,142.69</td>
</tr>
<tr>
<td>C1</td>
<td>22.9%</td>
<td>2,409.01</td>
<td>621.76</td>
</tr>
<tr>
<td>C2</td>
<td>24.6%</td>
<td>1,446.24</td>
<td>373.27</td>
</tr>
<tr>
<td>D-E</td>
<td>26.6%</td>
<td>639.78</td>
<td>165.13</td>
</tr>
</tbody>
</table>

Source: ABEP, 2015

\(^1\): Estimations based on data from the 2013 National Household Sample Survey (PNAD)

\(^2\): Calculated based on the exchange rate of Dec. 1\(^{st}\), 2015 (1 USD = 3.8745 BRL)

Furthermore, it is interesting to notice some cultural aspects shaping the consumption behavior of the Brazilian BoP, and how they may apply to the case of Banco Pérola and its clients’ own patterns of behavior as customers. Amongst the major findings identified by Barki & Parente (2010) were the following:

- Low-income Brazilians attach great value to having their dignity respected and being socially included. The case emphasizes it well, when borrowers mention that other banks and microcredit institutions were “too much bureaucratic” and “only cared about their profits” (p. 26), illustrating their inner feeling of being socially disregarded. Moreover, because of their lower position in the socioeconomic strata and the negative associations and situations that they are often exposed to (e.g. the poor being more often subject to frisking by police), low-income Brazilians feel a strong need to affirm their self-worth and their honesty. As highlighted in the case, clients from the Bank would stress their concern of paying installments in due time: “If I had to pay my rent the same day as the bank, I would pay the bank first (…)” (p. 27).
When they are in a client position, low-income Brazilians want to benefit from more personalized services – it is their turn to be served. Moreover, due to mistrust on institutions and formal venues, they feel more comfortable relying on word-of-mouth sources and dealing with closer relationships involving face-to-face contact. In the BP case, these attributes crystalize as the credit officer visit that makes the Bank’s clients perceive the institution as having a better value proposition than others – the Bank becomes “like a big family” (p. 27) that watches at their well-being and in which the customer/vendor relationship goes well beyond the business sphere.

To conclude this section, it is worthwhile recalling that financial inclusion, considered a major priority in developing countries given the extent to which access to credit and basic financial services affect these regions (IFC, 2014), is still a key issue to develop in Brazil. According to the 2015 Report on Financial inclusion (Central Bank, 2015), although in 2014 84.5% of adult Brazilians were registered as account holders of banking institutions from the national financial system, only 68.1% of the adult population would actually make use of such accounts (e.g. by exhibiting a current account balance or through bank transactions), leaving 1/3 of it underserved by banking facilities (World Bank, 2014). In OECD countries, this same indicator of unbanked population was only 6%. When considering only the 40% poorest households in the country, the percentage of adults that did not hold a bank account in 2014 would be even higher, climbing to 42%.

4.5 BUSINESS MODEL CANVAS

At this point, instructor should shift the focus of the debate back to the case. After having analyzed BP’s history, strengths, weaknesses, opportunities and threats in a first moment, then being introduced to the main features allowing a better grasp of the microcredit concept and the Brazilian BOP, students should now be challenged to dissect the business model of Banco Pérola so as to ensure its thorough understanding. For this exercise, it could be useful to invite students to prepare a Business Model Canvas, which requires original thinking and enables stressing the main elements that describe the functioning of a business.
The *Business Model Canvas* is an alternative and innovative approach to more traditional businesses models. It is structured around nine basic building blocks that altogether, explain how an organization can manage to create, deliver and capture value (Osterwalder & Pigneur, 2010, pp 12-41). These nine building blocks are *customer segments, value propositions, channels, customer relationships, revenue streams, key resources, key activities, key partnerships and cost structure*, as briefly described below.

- **Customer Segments** relate to the different customers that the company desires to reach. Customers are considered to come from separate segments when their attributes do not allow them to be served in the same manner.

- **Value Propositions** are the bundle of products and services perceived as a value (qualitative or quantitative) within this customer segment, satisfying customers’ need and which makes them prefer one company against others serving the same segment.

- **Channels** relate to how the company interacts with its customers – either for sales, distribution and communication purposes. May be composed of online and/or offline channels, owned and/or through partners, etc.

- **Customer Relationships** are the type of relationship the company maintains with its customers. It depends on the customer segments and their specifications, but also on the company’s own motivations towards them (e.g. acquiring new clients, increasing sales).

- **Revenue Streams** refer to the cash that the company generates from the products sold and services rendered to each of the customer segments served.

- **Key Resources** are the set of resources a company must rely upon to properly function and address its customers’ needs (e.g. physical, intellectual, financial, etc.)

- **Key Activities** are the actions a company is required to take in order to thrive and operate successfully, being deeply linked with the business model the company has (e.g. in consultancy companies, problem solving activities must be dominant).

- **Key Partnerships** relate to the different partnerships a company may establish (strategic alliances, joint ventures, buyer-supplier, etc.) to reach different objectives.

- **Cost Structure** highlights the main costs incurred by the company to deliver products and services to its Customer Segments.

A sample of canvas was prepared for the case (see *Figure TN 4*).
# The Business Model Canvas

**Designed for:** Banco Pérola  
**Designed by:**  
**Date:**  
**Version:** 1.0

---

## Key Partners
- 
 Cliente, who help to prospect new customers through word of mouth
- Strong players established in other communities, where they may act in complementary lines of business and bridge EF’s entrance into new markets (e.g. SENAC, Vivenda)
- Other SMOs and GSCPs in the microfinance area interested in joining their portfolios onto the Investment Fund initiative
- Potential investors and shareholders

## Key Activities
- Credit analysis
- Selling / Marketing
- Consultancy and follow up

## Value Propositions
- Empower low-income population who want to be entrepreneur through the offer of microcredit
- Flexible terms, no financial collateral demanded (group lending model)
- Follow-up service to ensure both borrower and business are performing well

## Customer Relationships
- Trust
- Information & guidance
- Close ties
- Social and self-esteem

## Customer Segments
- Bottom of the pyramid / Low-income population of the region of Sorocaba
- Unbanked population from other regions
- Low income entrepreneurs
- Mainly young (18-35 y.o.) & female entrepreneurs

## Key Resources
- Credit officers who present a strong knowledge of the market and who have managed to establish a deep link with the local community (established a social contract)

## Channels
- Credit officers (door to door, Telephone)
- Facebook (mainly partnership with job page in Sorocaba)
- Partnerships with local players in other communities (Vivenda, Senac Jundiaí)

## Cost Structure
- Cost-Driven
- Credit officers for prospection and credit analysis
- Minimum infrastructure to operate locally
- Operating expenses from the Investment Fund
- Default rates

## Revenue Streams
- Donations - public and private
- Interests earned on Loans (2%-6%)
- Administration fee (3%)
- In the near future: Investment Fund (Pérola FIDC)

---

**Source:** Author
It offers a concise yet non-exhaustive description of Banco Pérola’s business model, intended to provide some guidance for the instructor when executing this exercise in class. It outlines how Banco Pérola is structured in order to simultaneously generate both financial and social value.

4.6 BUSINESS LIFE CYCLE

After analyzing in detail how BP’s business model is structured, how it operates and identified its main sources of income, its clients and partners, value proposition and so on, this next section of the discussion could focus on analyzing the institution through a business life cycle perspective. Here, it is important that the instructor helps students realize that Banco Pérola has “ups and downs” just like any other company in an early stage of operations, and that its social mission might even be adding an extra layer of “downs”.

The challenges faced by Banco Pérola and highlighted in the case have a growth-related nature. Indeed, regardless of the industry in which they operate, organizations tend to move through developing stages as they grow and expand, and as they do so, different issues must be addressed. These stages pertain to a broader life cycle that covers the very developing steps of a firm from its start-up phase to eventually its termination phase, if it is unable to stabilize, adapt to internal and external changes and its operations cease. In sum, similarly to the life cycle of any other living organism, organizations life cycle are defined stages that organizations are expected to go through as they grow and settle, from birth to maturity, along with the challenging aspects each of these intermediary stages may involve.

Several scholars have explored the concept of Organizational Life Cycle up until today, whose origin dates back to late 1950’s (Haire, 1959). Although they may diverge on the number of stages organizations go through as they develop, in general, literature in the field has most often identified three to five different recognizable stages within the organization life cycle. Adizes has developed a more comprehensive model comprising ten stages: courtship, infancy, go-go, adolescence, prime, stability, aristocracy, recrimination, bureaucracy and death (Adizes, 1999). The very first stages may help students apprehend the extent to which Banco Pérola’s problems are fundamentally related to a context of organizational growth.
**Figure TN 5 - Organizational life cycle curve**

![Organizational life cycle curve](image)

Source: Adizes Institute Worldwide Website, 2015

**Table TN 5 - Main characteristics & problems of stages from the organizational life cycle**

<table>
<thead>
<tr>
<th>Stage</th>
<th>Main characteristics</th>
<th>Possible problems</th>
</tr>
</thead>
<tbody>
<tr>
<td>Courtship</td>
<td>Emphasis on idea, little action</td>
<td>No action at all – founder takes no risk (&quot;Affair&quot;)</td>
</tr>
<tr>
<td></td>
<td>“Prophet” motivational &amp; transcendental goal</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Commitment and trust building</td>
<td></td>
</tr>
<tr>
<td>Infancy</td>
<td>Results and sales-oriented</td>
<td>Need for periodic infusion of cash</td>
</tr>
<tr>
<td></td>
<td>Poor system, policies and procedures developing</td>
<td>Lack or loss of Founder’s commitment</td>
</tr>
<tr>
<td></td>
<td>Centralized management</td>
<td>Premature delegation</td>
</tr>
<tr>
<td></td>
<td>Undercapitalization</td>
<td></td>
</tr>
<tr>
<td>Go-go</td>
<td>Rapid growth and expansion</td>
<td>“Founder’s Trap” – founder as biggest asset and risk</td>
</tr>
<tr>
<td></td>
<td>Structured around people, not tasks/functions</td>
<td>Decentralizing instead of delegating</td>
</tr>
<tr>
<td></td>
<td>Poor formalization of roles and responsibilities</td>
<td></td>
</tr>
<tr>
<td>Adolescence</td>
<td>Delegation of authority</td>
<td>Administrators take over Entrepreneur</td>
</tr>
<tr>
<td></td>
<td>Change to professional management style</td>
<td></td>
</tr>
</tbody>
</table>
| Prime                          | Temporary loss of vision | Paralysis due to continuous shifts of power  
|                               |                         | Policies made, with no adherence to        |
| Trade-off: Flexibility vs. Self-control |                        |                                               |
| Organization guided by clear vision and mission |                   | Lack of trained staff                        |
| Full alignment of goals, structure and resources |                   | Complacency and maintaining the status quo   |
| Institutionalization of governance and effective decision-making |                   |                                               |

| Stability                  | Budget review in favor of profitable activities | Decline of entrepreneurial spirit  
|                            | Risk aversion                                  | Distancing from clients and increase in time spent inside the organization |
|                            | More focused in past achievements than conquering new markets |                                               |

| Aristocracy                | Increased formality in organization | Potential threat of market share loss  
|                            | Focus on control and procedures instead of objectives or proactivity | Potential threat of customer loyalty loss |
|                            | Risk aversion and low internal innovation |                                               |
|                            | Cash heavy organizations |                                               |

| Early Bureaucracy          | Managerial paranoia and increased focus on interpersonal conflicts | Organization’s activity blocked by paranoia  
|                            | Focus on who caused the problems, rather than on solving them | External customer progressively overlooked |

| Bureaucracy                | Too many systems and policies in place | Risk of bankruptcy/Death  
|                            | Organization not results or function-oriented |                                               |
|                            | Renders client communication channels or more difficult or ineffective |                                               |
|                            | Sense of impotence amongst executives due to the bureaucratic structure |                                               |

Source: Author, based on Adizes, 1999, pp. 11-85
• In the **Courtship stage**, the entrepreneur is absorbed by a dream or an idea. He/she may be completely “in love” with it but is still studying and analyzing the best way to approach it, building internal commitment to his own idea; hence the uncertainty and doubts on how and where to begin. This might become problematic if doubt and fear of failure drive the entrepreneur into inertia, in which case the company will be nothing else but a dream. (Adizes, 1999)

**Discussion:** Students could be invited to dress a parallel of the courtship stage and think about Alessandra’s situation at the time she was still a member of *Projeto Pérola*; she noticed a strong entrepreneurial aspiration amongst the students that were part of the project and wanted to help them achieving better quality of living standards - that is when the idea of *Escola de Talentos* was born. In fact, microcredit also had a strong linkage with her own personal background given that her parents had also been micro-entrepreneurs and very likely, have faced financing obstacles too. However, while it is true that *Escola de Talentos* benefited from the previous experience of the mother project, *Projeto Pérola*, Alessandra had little idea on how to move forward on this process. In fact, *Escola de Talentos* did not thrive as expected, yet the dream of helping young entrepreneurs remained unchanged and was the founding pillar of her next project, *Banco Pérola*.

• In the **Infancy stage** the entrepreneur finally undertakes the risk to materialize his/her dream. The company is born, yet very little is achieved. Instead, it will enter in a critical period of survival in which, just like a newborn, it will require founder’s full-attention and time. Infancy stage is an action-oriented stage in which there is a noticeable shift from dreams to tangible results (sales); company might face problems of under-capitalization, instable levels of activity and short-notice events, hence founders might not yet be ready to delegate tasks to employees; work is rather informal than formal; due to the focus on delivering results, little time is spent in developing systems and procedures. (Adizes, 1999)

**Discussion:** When thinking about BP’s early steps, students should recall the fact that in the very beginning founder and co-founder Alessandra and Adriene would cumulate functions (they were credit officers themselves); they had limited funding (obtained from Artemísia) and no credit
policies to filter eligible borrowers. Yet their focus was solely on growing the portfolio to secure the funding structure of the business.

- **In the Go-go stage**, sales are finally flourishing; the company has acquired loyal customers, recurrent providers and is able to handle operations more effectively. Yet, it relies on limited systems, roles and responsibilities are not clearly defined within the organization, which may lead to lack of consistencies across job profiles in the company, and it is still sales-driven and organized around people rather than tasks or functions. Within this stage, one of the major risks is the one known as the “Founder’s Trap”, represented by the dependency of the company as a whole on the skills and abilities of its founder. Therefore one of the crucial aspects in the go-go stage is to finally undertake a gradual task delegation process in order to ensure the organization exists completely independently from its founder, without decentralizing as no systems of control are in place yet. Also, as business develops at a very fast pace, priorities might not be clear as everything turns out to be a priority. (Adizes, 1999)

**Discussion:** students should think about the style of management by the time BP’s operations started to soar: there was, indeed, little delegation of functions and staff would simultaneously incorporate different roles, not to mention the persisting lack of systematization of processes. With so much going on at the same time, management was unable to ensure full alignment of BP’s mission, structure, processes and sales, as they had to focus exclusively on the latter. As a result, this may have contributed to unfavorable working conditions that may have led some of the credit officers to resign from their position within the organization.

- **In the Adolescence stage**, the organization goes through a critical moment as it faces the need to transition to a more professional style of management. In the one hand, this means ensuring the company is no longer centralized in a single authority (the Founder) and on the other hand, that it has the required policies, processes and structures required in place to foster long-term growth. Considering it is a tough transition requiring full-adherence from all levels of the company, it may also be accompanied by certain confusion on the organization’s missions and goals. The organization might desire to keep the same pace of growth while it restructures, however, these
two goals might be somewhat conflicting. In any case, growth is now assessed in terms of quality rather than quantity. (Adizes, 1999)

**Discussion:** to understand the extent to which BP might be going through the abovementioned transition, students should be invited to reflect upon the current challenges faced by BP and on the value they attach to conducting an internal reorganization prior to or while taking larger steps outside: in the case, management mentions the need to design appropriate internal systems and processes; they have transformed BP’s leadership with the promotion of Adriene and Fabio to Executive Directors under the same title as Alessandra while bringing in other independent professionals to manage the Pérola FIDC and the embryonic SCM; they envision to rearrange functions in a more efficient manner (e.g. segmenting the credit area) and now, with a diminished headcount, they are also more pragmatic towards a declining market demand in Sorocaba – to name just a few examples.

### 4.7 ANALYSIS OF THE THREE ALTERNATIVES

In the beginning of 2015, worrisome signals suggested the need of implementing proper measures to reinforce the business: rising default rates at 9.6%, difficulty to prospect new borrowers in Sorocaba and reduced staff due to dismissals and resignations. The BP case presents three alternatives recognized by management to confront such adverse scenario but above all to develop the Bank into the sought “microfinance ecosystem”. The main challenge for Alessandra, Adriene and Fabio – and thus the main challenge of the case – is having an accurate perception on feasibility, if all alternatives were to be deployed simultaneously, and timing and priority, if they were approached on a one-by-one basis.

To conclude the case discussion, instructor could invite students to debate about management’s challenge. A useful exercise at this point is assessing the advantages and disadvantages of all of the three alternatives independently. Some examples are listed in the table below:
### Table TN 6 - Analysis of Banco Pérola's alternatives

<table>
<thead>
<tr>
<th>Alternatives</th>
<th>Advantage</th>
<th>Disadvantage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Scaling up</strong></td>
<td>Possible solution to declining activity in the region of Sorocaba and to further expansion of the portfolio</td>
<td>Requires a deep market knowledge combined with a strong focus in customer acquisition (consistent investments in marketing and sales) in order to be successful</td>
</tr>
<tr>
<td>Through SCM: allows to capitalize on <em>Banco Pérola’s</em> brand equity and keep full control of operations</td>
<td>Through SCM: requires a minimum volume of credit operations to compensate the expenses with credit officers and minimum infrastructure to operate</td>
<td></td>
</tr>
<tr>
<td>Through partnerships: possibility to expand while incurring fewer operational and financial risks, at lower costs</td>
<td>Through partnerships: might be punctual or have a temporary nature (e.g. for an entry process), which may not be aligned with BP’s long-term growth strategy; partners’ values and mission might not be aligned with those of BP.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Funding:</strong> Pérola FIDC</th>
<th>To secure the funding structure by no longer depending on donations (over BRL 1 million collected in the 1st year)</th>
<th>High operating costs, potential financial burden (breakeven period of 14-month still to be reached)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>To grow the fund and increase its sustainability by inviting other microcredit institutions (SCMs, OSCIPs) to join their portfolios</td>
<td>Risk of misalignment of visions and missions of different microcredit institutions, thus putting BP’s own social mission at stake</td>
</tr>
<tr>
<td></td>
<td>To diversify the funding structure by also investing on the fund’s quotas</td>
<td></td>
</tr>
</tbody>
</table>
4.8 IMPACT ASSESSMENT

The question of how to drive sustainable social impact as an organization, and keep track of such in a quantifiable manner is strongly stressed in the case as one of the many goals of Banco Pérola for the near future. Nonetheless, measuring social impact can be a difficult, time-consuming and costly exercise.

In this section of the discussion, the instructor should thus present to students a snapshot of the existing analytical framework on impact measurement. This talk should begin with an introduction to the concepts of output, outcome and impact, cover the available metrics and
ratings for social impact provided by IRIS and GIIRS and conclude on what approach seems to be the most relevant and implementable in the specific case of Banco Pérola.

4.8.1 Output, Outcome and Impact

A recurrent debate when approaching the topic of impact assessment in the non-profit or development sector is the one revolving around the capability to differentiate output, outcome and impact (Oliveira Filho, Kiyama & Comini, 2013). In fact, all three designate distinct levels of results produced by an organization’s activity, as detailed below under OECD’s “Results Chain”:

*Figure TN 6 - Results chain*

Outputs are the immediate results of a project’s activities, easily quantifiable and measurable. In BP’s case, they could be, for instance, the number of microloans given by the institution, thus easy to count. Outcomes come as a second effect of the project and relate to the changes occurred and benefits that it delivered in the mid and long term. Taking again BP as an example, the borrowers’ gain in income and their boosted self-confidence are both examples of outcomes of the money invested on their businesses through the loans received (outputs). They
are quantifiable but harder to measure than outputs as they take longer to be observed, given the necessity of fully developing these microbusinesses prior to assessing results (outcomes).

Impacts refer to the ultimate effect of the project and ideally to its expected long-term achievements. They relate to the changes that have occurred directly because of the project – in BP case, the changes that were caused as a direct consequence of the loans. Therefore, when measuring impact a comparison should be established between borrowers and other individuals that didn’t receive the loan to assert that the gain of income, as well as other observed outcomes, were due to the loan and not to other factors.

Moreover, the fact of encompassing a more comprehensive and broader scale and in BP case, not limiting itself to money metrics, makes impact an even more difficult measurement. Indeed, BP states in its institutional presentation that its mission is “to be a reference in the microcredit sector through the impact on the improvement of lives of low-income population” (p. 24), yet the term “improvement” is vague and could be assessed in many ways: have loans from the Bank led to the establishment of businesses that resulted into higher incomes for borrowers, improving their financial situation? Have proceeds from borrowers’ businesses reverted into higher household spending in education, nutrition, housing and health, and hence into the achievement of better socioeconomic indicators? Therefore, besides time and cost-related challenges, which are meaningful, the high complexity in measuring impact stems from the difficulty in isolating the attributed part of the project in the cause-effect relationships that surround these socioeconomic evolutions.

4.8.2 GIIRS & IRIS

In addition to the concepts of outputs, outcomes and impacts, other measurement tools specifically conceived for impact investing and which aim at showing a company’s social benefits in a measurable way are the Impact Reporting and Investment Standards (“IRIS”) and Global Impact Investing Rating System (“GIIRS”). Both serve different purposes in a complementing manner:
Developed by the *Global Impact Investing Network* (GIIN), IRIS is a free catalog of common metrics and indicators that allow to assess a company, fund or investment portfolio’s social, environmental and financial performance, providing to the impact investing field a similar framework as the generally accepted standards used for preparing financial reports, GAAP and IFRS. Furthermore, the fact of being a catalog comprising multiple metrics of financial, operational, product, social & environmental performance as well as sector-specific, enables companies, funds and investors to choose and combine those that best apply to their profile and needs (IRIS, 2016).

On the other hand, GIIRS provides impact investors with independent third-party ratings that are analogous to Standards & Poor’s credit risk ratings, but which evaluate instead the social and economic performance of companies and funds by incorporating IRIS metrics in its rating methodology. Managed by B Lab\(^2\), GIIRS impact assessment is performed annually, based on a set of required fields according to the operating sector, size and region of the analyzed company or fund (GIIRS, 2010)

The value added in these two impact measurement tools lies in their standardization. IRIS and GIIRS are a valuable tool for impact investors interested in benchmarking organizations that operate across different regions and industries according to their impact and/or rating, and hence for organization themselves – adhering to these common standards not only makes them comparable to their peers, but increases their credibility towards society and mainly to the eyes of potential investors.

### 4.8.3 Impact Assessment in *Banco Pérola*

In the case of *Banco Pérola*, as mentioned in the case, the institution had neither defined tools nor systems for impact measurement purposes. How could it eventually start measuring its social impact?

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\(^2\) B Lab is a nonprofit organization that promotes a global movement in which corporations are seen as means of achieving social impact and shared prosperity.
Albeit being solid references in the field of social impact assessment, IRIS and GIIRS may be a step ahead in terms of measurement proposition and thus could be inappropriate for Banco Pérola in the present circumstances, given that it is still in an initial period of growth and structuring. As already mentioned in the Business Life Cycle section, the organization is busy focusing on growth and might not have the required time and resources to implement a more substantial tool as required with IRIS. Moreover, while IRIS is beneficial in the sense that it provides some guidance on the available metrics for impact assessment, it does not provide further support on how to collect this data nor how to analyze it (IRIS, 2016). Therefore, adopting IRIS metrics and GIIRS ratings could be more useful in a medium-to-long-term perspective. Undoubtedly, in the future the institution should exploit the possibility of adhering to these two tools considering that they could potentially enhance investors’ relations. Having a GIIRS rating, for instance, could be particularly relevant to raise funds through Pérola FIDC.

At the time of the case (2015), the institution already measures its outputs and therefore could start off by measuring its outcomes, too. A way of achieving this is provided in the case. As a matter of fact, expressing his concern towards developing an internal impact measurement tool that could address this gap in the institution’s business model, Fabio suggests that some sort of socioeconomic questionnaire be included in the credit process and applied to borrowers at two stages: when they first come to the institution, and at the end of the cycle, so as to compare the effect of credit in the meantime: “(...) I wish I could turn on the system now and see how many borrowers are women, how many are men, how many have finished school, and so on. If we could input this information into the system when registering the client, and again at the end of the credit process, we would have two different pictures in time. Eventually, that could help us to generate reports and discuss about our impact.” (p. 36). Having this double-picture of borrowers before and after the credit loop would certainly be a more practical and inexpensive way of evaluating the medium-term effects of credit; thereby, Banco Pérola should attempt to incorporate this form of evaluation into its systems as a starting point to a subsequent implementation of IRIS.

It could also be interesting to carry out a third and fourth impact evaluation after six months and one year, respectively, so as to measure those outcomes in the long term. Furthermore, it is important to try to evaluate those outcomes in regards to other families with
the same profile and that are not clients from BP so as to better understand the real impact of BP. However, this last measure is very expensive and difficult for an organization as BP to tackle.

4.9 CONCLUSION

To wrap-up the case discussion, instructor should ensure that students have been able to explore all possibilities presented by the case and shape an answer to its core question: how should *Banco Pérola* develop?

The extensive debate should have led students to realize that in spite of being a very young organization that should be supposedly focusing in growing and securing its funding structure, instead of formalizing internal processes and procedures (as discussed in the Business lifecycle section), the social nature of *Banco Pérola* slightly changes its priorities. It is true that the early structuring of internal controls and procedures could either raise the risk of inobservance of such processes; either make the organization’s structure too rigid at a time when it must be extremely flexible and adaptable. Nonetheless, the institution cannot scale up if it loses the essence of its mission. Indeed, promoting the financial inclusion and well being of entrepreneurs requires from *Banco Pérola* continuous efforts to keep close and personal relationships with its clients and communities, as opposed to traditional banks. This is not possible without relying on the support of consolidated internal systems and processes, especially in a context of expansion. Therefore, to develop its operations while conserving its essence (e.g. clients visits), *Banco Pérola* will have to work on procedures and internal systems that will increase the efficiency of its very demanding operational routine and provide a minimum work program and operational framework to be replicated when scaling. Above all, to ensure consistency with its mission, the institution will also have to work on the implementation of an impact measurement tool allowing, at least in a first moment, the assessment of the outcomes of its credit operations.

All three alternatives – expansion, funding diversification and internal structuring – are thus *Banco Pérola*’s simultaneous and inseparable priorities for the moment. Growth is conditioned to the existence of appropriate systems and tools that allow *Banco Pérola* to remain
committed to its social mission, as well as to the support of a recurrent and stable source of funding.

At the moment of the case, the investment fund is at a more advanced stage of development. Therefore, in order to fulfill BP’s business model and get closer to the project of a microfinance ecosystem, management should now focus its efforts into strengthening internal systems, including enforcing impact measurement tools, and scaling up. Indeed, regarding the latter, only SCMs have the required regulatory approvals allowing the participation of the private sector in shareholder’s equity and profit generation in the microfinance institution. In a short-term perspective, however, strategic partnerships could be a best cost-benefit solution.

4.9.1 REFERENCES OF TN


5 FINAL CONSIDERATIONS

The aim of this work was to discuss about social entrepreneurship and its development challenges, by digging into the particular case of the Brazilian Banco Pérola and its microcredit setting. As previously mentioned, these challenges arise for two main reasons. Firstly, because a social entrepreneur is someone who tries to combine two components that by definition, defy conventional wisdom: applying business methods to promoting social benefits. Secondly, because in spite of its success and manifest growth in the late years, social entrepreneurship remains a vague, inconclusive and often confusing definition, as are many of the contemporary phenomenon investigated by social sciences. This lack of consensus over what social entrepreneurs are and do hinders their acceptance and endorsement as alternative economic agents.

The research objective has been fulfilled. As evidenced in the case study on Banco Pérola, having a social mission placed at the core of a model translates into additional levels of complexity to an organization’s business operations. The effect stemming from this social factor can be very diverse, requiring, for instance, a full alignment of the organization’s operations with its mission and thereby the adoption of a different approach towards profit, growth opportunities and performance evaluation.

More specifically, we have identified through the case study a set of difficulties that social entrepreneurs might come across as they conduct their ventures. Indeed, the case has identified obstacles relative to the consolidation of processes and procedures and to the establishment of systems and operational routines that directly affect efficiency gains in the organization, as well as the possibility of assessing its outcomes. The case has also highlighted the extent to which social entrepreneurs might be constrained by the lack of sufficient financial and human capital, the capture and management of which are key not only for the rollout of daily operations, but also when envisioning expansion. In this light, the case has also shown that one of the main obstacles encountered by social entrepreneurs is the difficulty to scale up and to replicate the business model of the venture. Interestingly, the analysis of the case study has led to the conclusion that such managerial challenges revolving around the topics of growth and
business structuring are relatively similar to the ones faced by traditional entrepreneurs, and can be explained by an organizational lifecycle rationale.

Finally, the case has also brought to light how having a social mission deeply embedded to a business model might impact the social entrepreneur’s relationship with its clients. As evidenced by the Banco Pérola case, this condition reflects in the need of forging closer and more humanized relationships with customers and building networks across communities that are based on trust and collaboration.

To conclude, it is important to outline certain limitations presented by this study. To begin with, it would have been interesting if the study had also covered the standpoint of other stakeholders of Banco Pérola in order to produce a more substantial research. However, due to time and resource constraints, we were not able to include more clients and partners of the institution into our agenda of discussions and interviews for the case. Secondly, not only is social entrepreneurship a field still under expansion and thus in construction, but so is Banco Pérola at a very early stage of development and subject to undergo significant changes in its structure in the years to come. These considerations imply that the study case about Banco Pérola is likely to become outdated relatively fast. Hence the need of expanding our knowledge in the topic by building more similar case studies for learning on other social entrepreneurship initiatives.
6 REFERENCES


