

## **Information for Accountability and Performance Evaluation of Civil Society Organizations Providing Microcredit: a multi-case study**

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**ABSTRACT:** This work investigates the generation of information by public-interest civil society organizations (*organizações da sociedade civil de interesse público*, or OSCIPs) that operate with microcredit to support their accountability, and the use of this information in analyzing their financial performance. In the process of building up scientific knowledge for this work, an exploratory study was conducted of organizations of the third sector, focusing on public-interest civil society organizations that provide microcredit and the information they use to render accounts and evaluate their performance. It is an exploratory work, guided by bibliographical and documental research and a multi-case study carried out through an interview assisted by a semi-structured checklist, whose data were then treated through the technique of content analysis. The conclusion is that albeit still incipient, the microcredit organizations studied seek to measure their performance and act in a transparent manner, including meeting the requirements of the agents that provide their funding, and that this openness is a differential in obtaining new funding.

**Key words:** third sector, OSCIPs, performance evaluation, microcredit, accountability.

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## 1. INTRODUCTION

The economic stabilization in Brazil in 1994 marked the emergence of microfinance institutions in the country, a development that was in line with the growing interest of municipal and state governments to support the creation of non-governmental organizations (NGOs) specialized in microcredit.

An important landmark in this respect was a revision of the legal framework, articulated by the Community Solidarity Council, which culminated in 1999 with enactment of the so-called Third Sector Law (Law 9790/99), sometimes also called the OSCIP Law. One provision of this law is that OSCIPs are not subject to the rule against usury (which limits the interest rate to 12% a year)<sup>1</sup>, and it also instituted the so-called Partnership Instrument (*Termo de Parceria*) to specify the mutual obligations between these institutions and government entities when receiving official support. The intention behind the creation of this instrument was to enable the third sector to be held accountable by the public sector, providing for transparent relations between the two and also enabling a relationship based on results.

Due to the rapid growth of the third sector, the competition for funding and the need to internally measure and evaluate the performance of OSCIPs, as well as to determine the feasibility of their projects, have increased the importance of more professional management, and the vigilance exercised by society to ensure that, through good management, they continue their activities.

According to Olak (2000, p. 1), three elements characterize the new management posture of third-sector organizations: “transparency (accountability), evaluation reports (performance) and communication instruments (accounting reports).”

This assertion highlights the importance of accountancy as an instrument to supply information for the management system of any organization depending on scarce resources to achieve its objectives or mission.

The information generated by third-sector organizations to render accounts and analyze performance tends to be established by internal agents, as well as by legal guidelines and external agents, namely those that finance the projects. This increases the importance of accounting as one of the main management instruments.

Based on these observations, the following questions arise: What information is generated by OSCIPs providing microcredit to render accounts to their funding and other specific agents and how is this information used internally? What information is generated by these organizations to enable funding agents to evaluate their performance and how is it used internally?

To address these issues, we consider the following assumptions: a) Microcredit OSCIPs generate traditional and non-traditional accounting information and other information to satisfy the demands for accountability and to supply the needs of funding agents and other specific

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<sup>1</sup>This rule is spelled out in the Usury Law, dating to 1933, and also in the 1988 Constitution. But neither of these provisions states whether the limit refers to the nominal or real interest rate, allowing a good deal of flexibility in practice. In any event, the rule was totally unworkable in the economic climate of spiraling inflation the held sway before the Real Plan stabilized the economy, during which inflation at times reached over 80% per *month*. Brazil still has among the highest nominal and real interest rates in the world (the benchmark rate has only recently fallen below 12%), and for many structural and legal reasons the spread on bank lending is also very high, so holding banks to such a usury limit is untenable. Hence, financial institutions authorized to operate by the Brazilian Central Bank (thus deemed part of the National Financial System) are formally exempted from this limit. However, to qualify as a financial institution depends on capitalization, management and reporting requirements beyond the reach of NGOs, hence the enactment of the OSCIP Law was fundamental to provide legal security to microcredit entities, so that they are not equated with loan sharks.

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bodies to evaluate their financial performance. b) Microcredit OSCIPs internally use information aimed to meet the demands of funding agents and other specific bodies to evaluate the financial performance of their activities.

The overall aim of this study is to investigate the generation of information by microcredit OSCIPs used to render accounts and evaluate their financial performance. The work is divided into four sections. The first maps out the characteristics of these OSCIPs. The second analyzes the information for rendering accounts and evaluating performance. The third section discusses the methodology used, and the fourth describes the results, followed by a brief conclusion.

## 2. CHARACTERISTICS OF OSCIPS WORKING WITH MICROCREDIT

Microcredit has been a successful alternative for reducing poverty and unemployment, especially in underdeveloped countries. More precisely, this entails programs to make small loans to individuals and small businesses. Microcredit was born from the need to create an officially sanctioned line of credit to individuals and small businesses that face difficulties in obtaining formal credit (from the traditional banking sector), to set up or expand small businesses. Rocha (2001) points out that one of the dividing lines of social exclusion in Brazil is clearly seen in the banking system, where 75% of the people do not qualify to open accounts, a figure that rises to 85% if counting holders of passbook savings accounts without checking privileges.

Recognition of the importance of microcredit to the country prompted discussion in 1995 by the Community Solidarity Program, in partnership with the Institute for Applied Economic Research (IPEA), the government of the Federal District and Gesellschaft für Technische Zusammenarbeit (GTZ), or the German Technical Cooperation Agency, of a proposal to foster the future development of microcredit programs in the country, in particular to resuscitate the former Popular Productive Credit Program of the National Social and Economic Development Bank (BNDES) (BARONE et al., 2002).

In 1997, the Community Solidarity Council promoted a policy roundtable on alternatives to boost occupation and income, and microcredit was pointed out as one of the strategies in this area. From this point on, fundamental measures were implemented to develop microcredit in the country, such as: a) enactment of Law 9790 in 1999, which recognizes microcredit as an area for action by OSCIPs; b) enactment of Law 10,194 in 2001 and its regulation, currently by Resolution 2874/01 from the Central Bank's National Monetary Council, seeking to encourage the participation of private initiative in the sector, by creating MicroEntrepreneur Credit Enterprises (*Sociedades de Crédito ao Microempreendedor*, or SCMs); and c) issuance of Provisional Measure 2172-32 in 2001, which excludes OSCIPs from the Usury Law (BARONE et al., 2002).

According to Barone et al. (2002, p. 23), "the structure of the microfinance sector is formed by two overall blocks of institutions, whose actions are complementary." The first block is composed of the so-called first-line institutions, those that interact directly with end clients, supplying the small loans. The first-line institutions can be grouped into three categories, according to the legislation in effect and their legal form: civil society institutions, public-sector institutions and private-initiative institutions.

The civil society segment includes the OSCIPs, belonging to the third sector, which although extending microcredit, are not part of the National Financial System, but which can nevertheless act as:

- private nonprofit legal entities, subject to usury restrictions;

- private nonprofit legal entities, classified as OSCIPs, whose activity is regularized by Law 9790/99, and as of issuance of Provisional Measure 2172-32/01, are protected against lawsuits under the Usury Law, which limits interest to 12% a year (BARONE et al., 2002, p. 24).

The second block is composed of institutions called second-line or second-tier, which offer training and support and provide funding, in the form of loans, to the first-line institutions, seeking, according to Barone et al. (2002, p. 23):

- establishment or expansion of their working capital funding;
- institutional development, by passing on resources, often in the form of donations, aimed at meeting part of the expenses of the initial operating phase (seed capital) and for technological modernization, through implementation of tools that contribute to their consolidation;
- training of loan agents, managers, boards of directors and local leaders.

Operating on the first tier, OSCIPs that provide microcredit (particularly those funded by donations or based on Partnership Instruments) need to use management mechanisms that ensure the necessary equilibrium for their continued existence, such as risk control policies, microcredit methodologies, adequate prices/rates, financial solidity in general, efficient loan default controls, and low non-financial costs (simplified loan processing).

### **3. INFORMATION FOR ACCOUNTABILITY AND EVALUATING PERFORMANCE OF OSCIPs PROVIDING MICROCREDIT**

It is fundamental for third-sector organizations to adopt a management model based on accountability through generation and communication of traditional and non-traditional accounting information. According to Falconer (1999), for many reasons, these organizations in Brazil do not have a culture of accountability. Many of them were created in a repressive context (during the military dictatorship lasting from 1964-85), and for many years operated as semi-clandestine entities. Institutions that traditionally were subsidized by the government were accustomed to obtaining the necessary funds by obscure means, beholden to special interests. Also according to Falconer (1999), many OSCIPs did not develop the perception of their social and public role, whether due to the purpose they proposed to achieve or the tax exemption from which they benefited.

According to Ferrarezi and Rezende (2001, p. 19):

The expansion and strengthening of the third sector is a responsibility, in the first place, of society itself, which must establish mechanisms for transparency and accountability able to provide for the construction of their self-regulation, independent of the State. The existence of accountability (responsibility in the final analysis) will help increase the credibility and trustworthiness of third-sector institutions.

According to Falconer (1999), accountability can be equated with the need for transparency and the responsibility of organizations to render accounts to the various publics that have legitimate interests in their regard.

According to Nakagawa (1993, p. 17), accountability means:

The obligation to render accounts of the results obtained, in function of the responsibilities that arise from a delegation of power. [...] always corresponds to the obligation to carry something out, which results from the authority delegated, and is only discharged upon rendering accounts of the results attained.

At present the institutions belonging to the third sector are already obligated to render accounts to their financiers and even to submit to audits. Regarding OSCIPs, Law 9790/99, which established them in its Article 4, VII, provides as follows on the rendering of accounts and what the entities must observe:

VII – the rules on rendering accounts to be observed by the entity, which shall determine at least:

- a) the observance of the fundamental principles of accounting and Brazilian Accounting Rules;
- b) the requirement to give publicity, by any effective means, at the end of the fiscal year to the report of activities and financial statements, including clearance certificates of no debts to the INSS and FGTS, making them available for the examination of any citizen;
- c) the realization of an audit, including by independent auditors in the case of employment of any funds obtained under a Partnership Instrument, as set forth in regulations;
- d) the rendering of accounts of all the resources and goods of public origin received by the OSCIPs shall be done according to the determination of Art. 70, sole paragraph, of the Federal Constitution.

Besides respecting the laws and obeying all their contractual obligations, the OSCIPs must supply the public with sufficient information to take a position in their respect, particularly in cases where they request donations from the public, such as those belonging to the third sector (FALCONER, 1999).

Therefore, OSCIPs must use management mechanisms that help strengthen their credibility and trustworthiness in the eyes of their various financiers and users. Because of this, it is crucial for these organizations to have methods of managing funds and strategies for communication and analysis of results that are reliable, transparent and efficient. In this scenario, accountancy plays a fundamental role, as the leading generator of information for managing these organizations.

Brazilian legislation covering the third sector is ample regarding the legal aspects for their establishment and functioning, as well as in relation to the specific segments in which some organizations act.

On some points the legal aspects related to the constitution and operation of organizations that act in the third sector are different from those pertaining to the second sector. However, given the diversity of entities belonging to the third sector, and by the characteristics of their goals (missions), many classify them, in the matter of accounting, as totally or partially subject to some legal provisions that cover private firms, in this case Law 6404 of 1976 (the Law of Corporations), which is also the main Brazilian legal mechanism in the accounting sphere. According to Araújo (2005, p. 53), “this law can be applied to other enterprises that use scarce resources in attaining their objectives.”

Therefore, third-sector organizations can call in part on the Law of Corporations, mainly its provisions on accounting statements and booking of operations.

In line with its legal duties and internal regulations, the Federal Accounting Council (CFC) issued Brazilian Accounting Standard – Technical n. 10 (NBC T 10) – SPECIFIC ACCOUNTING ASPECTS IN DIVERSE ENTITIES, which includes 22 items, 5 of which (4, 8, 16, 18 and 19) are dedicated to the recording of operations and format of the accounting statements for third-sector organizations, thus standardizing the accounting rules and procedures of these entities, which until then used the rules of the Law of Corporations by analogy.

These items are:

- NBC T 10.4 – Applies to foundations;
- NBC T 10.8 – Applies to cooperatives;
- NBC T 10.16 – Applies to entities that receive subsidies, contributions, assistance and donations;
- NBC T 10.18 – Applies to unions and trade/professional associations;
- NBC T 10.19 – Applies to the accounting aspects of nonprofit entities.

It can be seen, then, that there is no recognition or classification by the CFC of those organizations as specifically belonging to the third sector. Perhaps for this reason, the rules are issued in segmented form, even though the main characteristic of such entities is that they are not for profit.

According to NBC T 10.19 (item 10.19.3.1),

The accounting statements that are to be prepared by nonprofit entities are determined by NBC T 3 – Concept, Content, Structure and Nomenclature of the Accounting Statements, and their disclosure is covered by NBC T 6 – Disclosure of Accounting Statements.

NBC T 3 (consolidated in CFC Resolution 847 of June 1999) and the Law of Corporations converge on the matter of the accounting statements required of these entities, namely: balance sheet, income statement, statement of accrued profits and losses or statement of changes in stockholders' equity and statement of changes in financial position. The preparation of the statement of changes in stockholders' equity is not required by the Law of Corporations, but it is by the Brazilian Securities and Exchange Commission (CVM), in its Instruction 59 of 1986, for publicly traded companies. The observance of fundamental accounting principles is also made explicit in the referred NBC.

According to the Brazilian Accounting Standards issued by the CFC, the accounting statements required of the third sector are: balance sheet, statement of deficit or surplus, statement of changes in net equity and statement of changes in financial position.

NBC T 10.19 stipulates the substitution of the Capital account by the Organizational Equity account, part of the Net Equity group, and also substitution of the Accrued Profits and Losses by the Surplus or Deficit for the Year (CFC, 2003, p. 182).

According to NBC T 10.18, “the income statement should evidence the revenue and expense accounts, in segregated form, and these, when identified, by type of activity” (CFC, 2003, p. 176). In preparing this statement, the expectations of users should be met, by disclosing more objective information, in a way that is easy to understand. For this, it is suitable to separate the revenues according to their respective natures: from services rendered, from members, from contributions and donations and contracts, among others. Similarly, the expenses should be suitably classified, showing the destination of the resources.

Besides this alteration, NBC T 3 replaces the rubric “*earnings/profit*” from reversals and transfers from earnings reserves and the rubric “appropriations of net income for the year” by the term *surplus*, and the term *loss* by the term *deficit*. The same rule eliminates the expression “*profits distributed*”, given the very nature of nonprofit organizations.

Therefore, except for the adaptations explained above, these entities must present the same financial statements and respective contents, structure and nomenclature as private firms in general.

There are no specific recommendations for the preparation of notes to the financial statements by third-sector organizations. However, regarding entities subject to the Law of

Corporations (and third-sector entities can also employ this law), NBC T 10.19 determines some information that must compose this statement (CFC, 2003, p. 182).

It can be concluded from the above that the accounting statements for the third sector follow the same normative and legal framework as for organizations of the second sector, while the first sector (the government), in accounting matters, is subject to Law 4320/64.

It is worth mentioning institution of Accounting by Funds (defined as a form of keeping accounts in which an entity segregates its assets, liabilities and even net equity in function of the nature of the resources used, according to the need to control the use of these resources), which by itself already clarifies all the uses made of funds in the period, is of great importance to complement the information by means of notes, as a way to give greater transparency to each entity's actions, and thus to ensure greater credibility with the public.

Concerned with helping the good management of institutions offering microcredit, Ferreira and Winograd (2002) propose a minimum set of reports considered essential to meet the main needs of the various users, as shown below.

| <b>Minimum set of reports of a microcredit institution</b>    |
|---|
| <b>Lending Activity Reports</b>                               |
| 1. Ranking of rescheduled debts                               |
| 2. Activity of the loan accounts                              |
| 3. Performing loans per agent                                 |
| <b>Portfolio Quality Reports</b>                              |
| 1. Loans in arrears per agent                                 |
| 2. Summary of the maturity of the portfolio at risk per agent |
| 3. Report of loans written off and sent for collection        |
| 4. Loan maturity and reserve calculation                      |
| <b>Income Statement Reports</b>                               |
| 1. Consolidated income statement                              |
| 2. Detailed income statement                                  |
| 3. Detailed statement of forecast vs. realized income         |
| 4. Adjusted income statement                                  |
| <b>Balance Sheet Reports</b>                                  |
| 1. Consolidated balance sheet                                 |
| 2. Detailed balance sheet                                     |
| <b>Cash Flow Reports</b>                                      |
| 1. Revised cash flow  |
| 2. Projected cash flow  |
| <b>Consolidated Reports of Operations</b>                     |
| 1. Consolidated operations report                             |

Chart 1 – Minimum set of reports of a microcredit institution. Source: Ferreira and Winograd (2002, p. 94).

Bruett et al. (2002) write about the ideal frequency of the reports. Based on their opinion, Chart 2 shows the specific information necessary and the minimum frequency to ensure that the managers are conducting a microcredit institution professionally, responsibly and sustainably, based on analysis of the financial performance, using reference indicators for the activity.

| <b>Due Date</b>                               | <b>Report</b>   | <b>Frequency</b>            |
|---|---|-----------------------------|
| By the fifth day of the following month       | Income statement  | At least once per month     |
| By the tenth day of the following quarter     | Balance sheet   | At least once a per quarter |
| By the first day of the following week        | Portfolio report  | At least once per week      |
| By the fifteenth day of the following quarter | Indicators containing comparisons with previous periods and/or industry standards             | Quarterly                   |
| By the fifteenth day of the following quarter | Report of the budget variation, with comparison between the actual and estimated expenditures | Quarterly                   |

Chart 2 – Minimum frequency of the management reports. Source: Bruett et al. (2002, p. 189).

As can be seen in Charts 1 and 2, much of the information mentioned by the authors consulted originates from accountancy, and in the case of microcredit OSCIPs would imply generating more information than required by law.

### 3. RESEARCH METHOD

In the process of building scientific knowledge for this work, we researched third-sector organizations, focusing on OSCIPs that provide microcredit and the information for rendering accounts and evaluating performance specific to these entities.

To delineate the research, we used a bibliographical and documental survey and a multi-case study. The bibliographical and documental consultation provided the theoretical underpinnings to construct the categories for analyzing the information generated to render accounts and evaluate performance of microcredit OSCIPs.

The multi-case study involved three OSCIPs, authorized to operated with microcredit under the National Program for Guided Productive Microcredit (PNMPO), in their position as of April 2006: Fundesol, Instituto Nordeste Cidadania and Agência do Crédito. These entities were chosen because of their suitability, and particularly due to their accessibility, ease of access to accounting data, documentation and database, besides the easy communication with the people to be interviewed.

Therefore, we used as data sources documents, interviews and observation. We collected documentary data to investigate the information generated to render accounts and evaluate performance of the microcredit OSCIPs. We conducted interviews with the key people of these entities, such as members of the executive board (president/officers), managers and accountants. In Fundesol, we interviewed the executive director of the institution since its founding and the person in charge of accounting. In Instituto Nordeste Cidadania we interviewed the president, in that position since its founding, the person in charge of accounting and its project manager. And in Agência do Crédito we interviewed the president, in the position since its founding, and the financial director.

We used two types of observation: direct and participative. Direct observation was used in two organizations, through systematic visits. The observation in the third organization was participatory.

To carry out the interviews, we prepared a semi-structured checklist, including the categories of analysis we wanted to investigate, prepared from the theoretical references consulted. The interviews were held in June 2006. We then used content analysis to analyze the data gathered.



We divided the theoretical framework for this study into two categories of analysis: (a) accounting information for accountability; and (b) information for evaluating performance. We subdivided each of these, for a total of five elements to enable analyzing the use of this information. To aid the process of interpretation, improve visualization of the evidence and facilitate analysis, we prepared a scheme of categories for analysis, as shown in Chart 3.

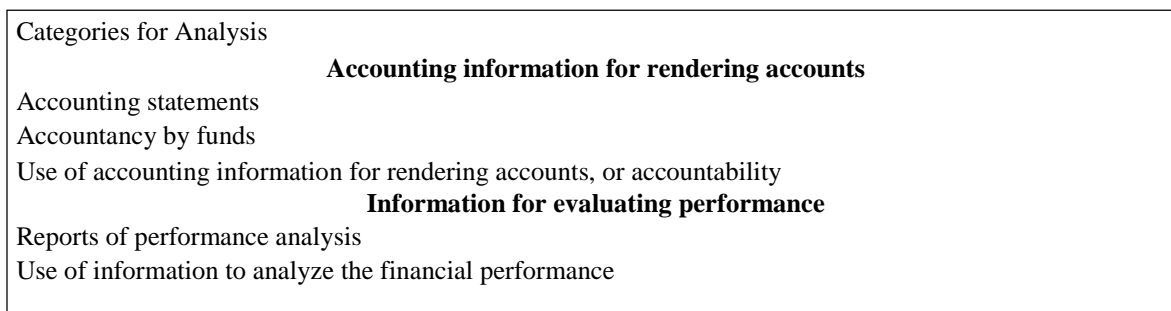


Chart 3 – Categories for Analysis. Source: Authors.

## 4. RESULTS OF THE STUDY

### 4.1 The entities studied

Fundesol was founded in November 2001, for the exclusive purpose of promoting the socioeconomic betterment of needy families, by providing microcredit and professional training courses. The entity is an outgrowth of the Minimum Income project developed by the Herbert de Souza Center for the Defense of Life (CDVHS), in the Pantanal *favela* (shantytown) in the city of Fortaleza, Ceará. In November 2005, through funding from the PNMPO, the Banco Popular do Brasil (BPB) signed a Partnership Instrument with Fundesol to finance microcredit policies aimed at the needy population of many neighborhoods of the Fortaleza. Fundesol also has Partnership Instruments with the Banco da Mulher (“Women’s Bank”) and Caixa Econômica Federal (the federal savings and loan institution). Besides the credit lines it provides, the entity also operates a solidarity card – the Credsol – which stimulates shopping at businesses within the neighborhood itself, to help develop the local economy.

Instituto Nordeste Cidadania (“Northeast Citizenship Institute”, whose official name is Instituto de Ação da Cidadania dos Funcionários do Banco do Nordeste) was founded in 1993 by a group of employees of Banco do Nordeste do Brasil S. A. (BNB), who spontaneously contributed money and participated in the activities and actions carried out by the entity. It has undergone various transformations since 1993, and in 2003 obtained its certification as an OSCIP from the Justice Ministry, in conformity with Law 9790/99. The entity is active in rural communities in the Northeast region, especially in the state of Ceará. Its mission is to contribute to the socioeconomic and cultural development of rural communities, aiming at making them self-sustaining and encouraging their members to exercise their citizenship rights and spurring their collective strength. In the area of microcredit, it operates throughout the Northeast, the northern part of the state of Minas Gerais, the state of Espírito Santo and in Brasília, the nation’s capital. The institute’s main backer is BNB, with which it has signed Partnership Instruments covering the Microcredit Program (CrediAMIGO) and the Rural Microcredit Program (AgroAMIGO). It is responsible for operating these two programs, which includes recruitment, hiring, training, dismissal and payment of salaries and payroll

charges for all the loan agents and the central staff that supports the program in terms of marketing, accounting, finance and management.

Agência do Crédito is an OSCIP seeking to overcome poverty and encourage the exercise of citizenship rights. It uses microcredit as an instrument of social inclusion. Created in December 2002, it began operating in March 2003, with funding from a Partnership Instrument signed with the Pernambuco state government. With head office in Recife, Agência do Crédito operates throughout Brazil, through formation of a national network. In this form, the lines of credit can be integrated with other governmental and civil society programs aimed at social inclusion and fighting urban and rural poverty. Its direct objective is to provide loans aimed at suitable financial solutions to entrepreneurs and populations excluded from the traditional financial and productive systems, generating improved life quality and social inclusion. Its priority is to promote access to credit to small and micro businesses, either urban or rural, formal or informal, and to self-employed workers, entrepreneurs and artisans who want to expand or start a business. It offers credit lines for working capital, fixed investment, agricultural credit, social credit, community credit and other innovative microfinance products, adapted to the needs of the principal beneficiaries. Agência do Crédito has partnering arrangements with Fundo de Aval para Estímulo à Concessão do Microcrédito (Funaval), for urban microcredit, and Renascer, for rural microcredit; and with Estação Futuro, for operations to provide jobs. To put these projects into operation, Agência do Crédito has 22 loan agents on its staff.

#### 4.2 Accounting information for accountability

According to the data gathered from the accountants during the interviews, the OSCIPs studied – Fundesol, Instituto Nordeste Cidadania and Agência do Crédito – systematically prepare financial statements, including the balance sheet, statement of changes in equity, statement of deficit or surplus for the year and statement of changes in financial position, and publish them as required by the OSCIP Law. Further according to the respondents, the financial statements are prepared according to Brazilian Accounting Standards for third-sector organizations.

Fundesol discloses all its accounting statements quarterly at its website, for access by its partners (in an area protected by a password), besides sending printed versions to them. As its executive director said, “transparency is a part of Fundesol’s policy”. He added that:

Both Caixa Econômica and Banco do Brasil, before signing partnerships, carried out audits of the accounting statements, besides verifying all the clearance certificates from the local, state and federal tax authorities, because they wanted to make sure they were investing in an upright institution.

Fundesol’s accountant added, “both Caixa Econômica Federal and Banco do Brasil send auditors without advance notice to check that everything’s in order.”

Instituto Nordeste Cidadania, at the end of each monthly trial balance, sends all the financials to BNB, its main backer, addressing them to the special projects and programs superintendence area, the microfinance area (responsible for the CrediAMIGO program) and the managers of Pronaf (responsible for the AgroAMIGO program), besides the internal auditing department. According to the entity’s president,

After updating the website, all the accounting statements will be available there, for society to have access to the actions the Institute carries out, as a means of

accountability, because the Institute works with public funding (BNB), besides receiving donations from BNB's employees.

Another example of the Institute's concern for generating transparent accounting information to render accounts, besides external auditing, is the contracting of a firm to prepare its social balance sheet, as a way to guarantee greater transparency to its social actions, and its use of this instrument as a management tool. This statement is not obligatory, and is printed in enough copies to send to its partners and other interested parties.

Agência do Crédito is still in a process of expansion, so it does not make its statements available at a website, since this has not yet been developed. But it prepares quarterly financial statements to render accounts to its financial backers, because, as its president said, "the partners are very demanding, they ask for all the accounting statements."

According to the interviewees, accountancy by funds is realized at the three entities studied, since they receive funding from various sources and have signed Partnership Instruments with various organizations.

The forms of using the accounting information prepared by Fundesol and Agência do Crédito are very similar, but differ from that adopted by Instituto Nordeste Cidadania.

At Fundesol and Agência do Crédito, the accounting statements are used to facilitate internal planning, control, performance analysis and the decision process, as well as to meet the requirements of determined external users, besides giving awareness to stakeholders on their economic, financial and equity situations. The executive director of Fundesol justifies this use saying that "because of the exacting demands of the credit financing agents, we use these statements as a base for making decisions." The statements are generated quarterly, but according to the entity's accountant, "we intend to do this monthly by the end of the year." Besides this, the targets are set based on the accounting information, and the strategic planning is also delineated from this information, according to the respondent.

In the case of Instituto Nordeste Cidadania, the accounting information became important after signing the Partnership Instruments with BNB, because the arrangements involve large sums of money. According to the accountant interviewed there,

Because of technical problems, the accounting information is still not updated, and for this reason is not generated for purposes of strategic planning. However, the information from the accounting area necessary for Banco do Nordeste to calculate its indicators and the performance of microcredit programs is sent in Excel spreadsheets.

Also according to the accountant of Instituto Nordeste Cidadania,

Based on the accounting information sent by the Institute to the BNB areas, the variable compensation of the loan agents is calculated, compensation that determines the monthly performance of these agents, according to the cost of each unit.

The information conveyed by the Institute also is used by BNB in its rendering of accounts to the World Bank, which provides the funding for the CrediAMIGO program. According to the Institute's accountant,

The main expense group items in BNB's income statement that are supplied by the Institute are in the Personnel Expenses group, under Salary Expenses, Training Expenses, Travel Expenses, Per Diem Expenses, Commuting Expenses, Food Expenses and Other Personnel Expenses.

The frequency with which the reports are used depends on how often the accounting information is updated, but according to the entity's president, "by the end of July, we intend to have the accounting information updated, and from then on it will be used for management purposes."

Since the funding received under the Partnership Instrument with BNB exceeds R\$600 thousand, after the information is updated, NBN will send it regularly to its auditing area, for analysis not only of the accounting procedures, but also the operational management, and the internal auditors will issue an opinion on the suitability of continuing the partnership. The Institute also retains an external auditor to analyze the statements, and its president says that, "auditing is a way to prevent future errors, and serves as a tool to monitor the actions of its management."

At Agência do Crédito, as mentioned before, accounting information is used in nearly the same way as at Fundesol, and according to its president "we render accounts of everything, and although there is transparency in the relationship with our public partner, it does not interfere in the process, but instead tries to help." When he receives the accounting information, the president gives it suitable treatment, cross referencing it against what was planned. He stresses, however, that "this is the most difficult part, because there are many changes in the microfinance environment in a short time frame."

According to its president, the vision of the future and commitment to the specialization required by the microfinance sector, as well as the information from accountancy, served as the basis for the 2005-2008 Business Plan,

under which the strategic and operational planning are carried out as interrelated processes, adopting short, medium and long-range perspectives that, in a participative process, will help develop capacities and competencies that support the consolidation and sustainable growth of the organization.

### **4.3 Information for analysis of financial performance**

At Fundesol the following reports are used: lending activity report, portfolio quality report, income statement report, balance sheet report, cash flow report and consolidated operational report. According to its executive director, besides this, management accounting is carried out, and a management bulletin is posted on its website so its partners can have access to the figures on the entity's performance, efficiency and productivity.

Fundesol's partners require all these reports monthly, because under some of the Partnership Instruments, such as that with Caixa Econômica, the risk rests with the latter, while under the arrangement with Banco do Brasil the risk is split equally. Thus, these reports enable close monitoring of the productivity, performance, efficiency and effectiveness of the moneys lent. As its executive director said, "the Banco do Brasil manager calls us on weekends to keep up on the data."

Instituto Nordeste Cidadania does not produce any performance report, because the operating risk rests with BNB, which is justified by the extensive experience of this bank with microcredit. The CrediAMIGO program has now completed nine years of microlending activity, so it has all necessary credit monitoring systems, something that does not apply to the Institute itself. According to its accountant,

The Institute only controls, through its payroll, human resources, financial and accounting systems, all the payments that are being made to the employees who provide services to the two microfinance programs of Banco do Nordeste; but in relation to the

lending activity, portfolio quality and others related to the operation, these fall under the control of Banco do Nordeste.

Agência do Crédito uses the portfolio quality report, consolidated and detailed income statement report, consolidated and detailed balance sheet report and cash flow report. This last one, however, “is only used by the organization for purposes of cash control, and is not requested, nor is it sent, to the partners,” according to its president.

The Pernambuco state government, as the main backer of Agência do Crédito, requires besides the traditional accounting statements, statistical reports containing the number of loans extended, the amount contracted, average loan value, number of performing loans, number of jobs created and strengthened, average loan maturity (number of installments), working capital (%), investment/mixed (%), participation of women (%), joint and several guarantee (%), surety (%), other guarantees (%), loan ranges up to R\$ 1,000.00 (%), productive sector (%), commercial sector (%), service sector (%), informal segment (%) and value of the performing portfolio. According to its president, “they request this information so they can analyze the portfolio quality.”

According to the executive director of Fundesol, the information from its reports is used to analyze the entity’s overall performance, identify the results obtained, guide the strategic actions and actions to obtain future results, and direct the strategic planning, which is revised yearly. All of these aspects are monitored by the partners.

“The employees are also evaluated based on this information,” according to the respondent. Based on this information, he says that:

We check whether the loans are being used properly, what percentage of borrowers are men and women, where default is concentrated, and measure the loan portfolio risk. We also analyze which borrowers are behind in their payments, which loans need provisioning for loss and which should be placed in the risk portfolio. And through this information we establish the institution’s cash flow.

Agencia do Crédito utilizes the performance reports to “analyze the portfolio quality, compare our efficiency with that of other institutions, evaluate the performance of loan agents and of the administrative team,” according to its financial director. And the president completes that “since the microfinance environment is constantly changing, these performance analysis reports serve to guide the changes that need to be made quickly in our strategic planning.”

In all three entities studied, the respondents stressed that their funding agents monitor all the results by means of the financial statements and some performance reports.

The summary in Chart 4 provides a better understanding of the results of the research on the information for accountability in microcredit OSCIPs and the use of this information in performance analysis.

| Category of Analysis  | Fundesol          | Instituto Nordeste Cidadania | Agência do Crédito |
|---|-------------------|------------------------------|--------------------|
| <b>Accounting information for rendering accounts</b>                                  |                   |                              |                    |
| <b>Accounting Statements</b>  |                   |                              |                    |
| - Balance Sheet   | Generates         | Generates                    | Generates          |
| - Statement of Deficit or Surplus for the Year  | Generates         | Generates                    | Generates          |
| - Statement of Changes in Equity  | Generates         | Generates                    | Generates          |
| - Statement of Changes in Financial Position  | Generates         | Generates                    | Generates          |
| <b>Accounting by Funds</b>  | Utilizes          | Utilizes                     | Utilizes           |
| <b>Use of accounting information for accountability</b>                               |                   |                              |                    |
| - Facilitates planning  | Utilizes          | Does not Utilize             | Utilizes           |
| - Internal control  | Utilizes          | Does not Utilize             | Utilizes           |
| - Analysis of performance   | Utilizes          | Does not Utilize             | Utilizes           |
| - internal decision process   | Utilizes          | Does not Utilize             | Utilizes           |
| - To meet the requirements of certain external users                                  | Utilizes          | Utilizes                     | Utilizes           |
| - To inform stakeholders on the economic, financial and equity position of the entity | Utilizes          | Utilizes                     | Utilizes           |
| - Others  | -                 | -                            | Utilizes           |
| <b>Information for analysis of financial performance</b>                              |                   |                              |                    |
| <b>Financial Performance Reports</b>  |                   |                              |                    |
| <b>a) Lending Activity Reports</b>  |                   |                              |                    |
| 1. Ranking of rescheduled debts   | Generates         | Does not Generate            | Generates          |
| 2. Loan accounts  | Generates         | Does not Generate            | Generates          |
| 3. Performing loans per agent   | Generates         | Does not Generate            | Generates          |
| <b>b) Portfolio Quality Reports</b>   |                   |                              |                    |
| 1. Loans in arrears per agent   | Generates         | Does not Generate            | Generates          |
| 2. Summary of the maturity of the portfolio at risk per agent                         | Generates         | Does not Generate            | Generates          |
| 3. Report of loans written off and sent for collection                                | Generates         | Does not Generate            | Generates          |
| 4. Loan maturity and reserve calculation  | Generates         | Does not Generate            | Generates          |
| <b>c) Income Statement Reports</b>  |                   |                              |                    |
| 1. Consolidated income statement  | Generates         | Does not Generate            | Generates          |
| 2. Detailed income statement  | Generates         | Does not Generate            | Generates          |
| 3. Detailed statement of forecast vs. realized income                                 | Does not Generate | Does not Generate            | Does not Generate  |
| 4. Adjusted income statement  | Does not Generate | Does not Generate            | Does not Generate  |
| <b>d) Balance Sheet Reports</b>   |                   |                              |                    |
| 1. Consolidated balance sheets  | Generates         | Generates                    | Generates          |
| 2. Detailed balance sheet   | Generates         | Generates                    | Generates          |
| <b>e) Cash Flow Reports</b>   |                   |                              |                    |
| 1. Revised cash flow  | Generates         | Does not Generate            | Generates          |
| 2. Projected cash flow  | Generates         | Does not Generate            | Generates          |
| <b>f) Consolidated Operational Reports</b>  |                   |                              |                    |
| 1. Consolidated operations reports  | Generates         | Does not Generate            | Generates          |
| <b>g) Others</b>  | -                 | Generates                    | -                  |

**Chart 4 – Summary of the Analysis of Results. Source: Authors.**

## 5. CONCLUSION

The analysis of the data collected enabled us to answer the research problems, verify the assumptions and attain the objective. Regarding the overall objective, we found that, although still incipient, the OSCIPs try to measure the performance of their work and are making an effort to meet the demands of the agents that fund them, so that based on transparency, they can build a differential in the search for new funding sources.

We found that: (a) the entities studied draw up all the accounting statements and produce specific reports to meet the needs of their funding agents; (b) much of this information does not have a fiscal nature; and (c) the law governing OSCIPs obliges them to publish these statements as a way of rendering accounts of society about the use of the funds under their responsibility.

We also verified that the microcredit OSCIPs generate traditional and non-traditional accounting information and other information to satisfy the needs of their funding agents to analyze their financial performance. So, it can be concluded that besides the traditional statements, the OSCIPs generate reports and information according to the needs of their respective financial agents.

Finally, we found that the OSCIPs use in analyzing the performance of their activities the same information generated to meet the demands of their funding agents and other specified bodies, whose managers also employ parameters created by the institutions themselves in order to administer their results.

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