Financial Management Among Brazil’s Low Income Classes: Comprehensive, Diversified, Engaged

Plano CDE and Bankable Frontier Associates
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Abstract
Low-income Brazilian households have complex and active financial lives, using a broad range of financial instruments to manage daily cash flows. Credit seems to dominate both in terms of the number of instruments regularly employed and their intensity of use. Extensive consumer credit has undoubtedly helped many acquire physical assets that make life easier, but easy credit also fosters greater temptation and carries risk. Many C, D, and E class Brazilians dream of purchasing their own home or car, but very few are managing to put away money towards long-term goals. Instead, transformational aspirations are often relegated to lotteries and sweepstakes, in which playing is extremely common, but winning is not. The landmark feature for financial access in Brazil, the banking correspondent, has enabled millions to pay bills—including payments into these numerous and varied credit arrangements—more quickly and easily, fundamentally changing the time spent and distance traveled for bill pay. Access to more comprehensive banking services through correspondents, however, varies by region and municipality type, with people in the North and Northeast using correspondents for a greater array of services. Quantitative research as well as deep dives into individual financial portfolios are needed to better understand the impact of correspondents and how this network can be leveraged to provide a broader range of financial services for low-income Brazilians.

Knowledge about how lower income Brazilians manage their money has been limited. Previous research has tended to focus on specific geographies (like Rio’s slums or the Amazon), specific services (like credit or banking correspondents), or perceptions of banks. There is very little survey data or comprehensive anthropological analysis of Brazilians’ financial behaviors and portfolios. With the sponsorship of the Bill & Melinda Gates Foundation, Bankable Frontier Associates and Plano CDE have undertaken a series of qualitative research exercises that will ultimately lead to a national survey of financial access in 2012. As we analyze the qualitative data we have collected so far, we begin to understand how lower income Brazilians in the C, D, and E economic classes—85% of the population—make ends meet. The emerging picture is fascinating and unique,

1 With sincerest gratitude, the authors would like to thank research assistants Dahlia Domian, Felipe Szahzon, and Juliana Estrella, translator Paulo Takaki, and all of the respondents who shared so openly the intimate details of their financial lives.
5 For an exception see the work of Eduardo Diniz with the Fundação Getulio Vargas.
6 Brazilian social classes are divided into five groups, A through E, where A includes the highest income earners, and E the lowest. Classes C, D, and E contain 85% of the population, those individuals with household income less than R$3180 or 10 multiples of the minimum wage. Brazilian social classes are defined according to two different criteria. One, applied by ABEP (Brazilian Association of Research companies) that considers household structure, asset ownership and education level. Another, applied by FGV that considers
particularly compared to countries like Kenya and South Africa, where much more research on the financial behaviors of low-income households has been done.

CONVERSATIONS WITH BRAZILIAN CONSUMERS
To better understand how families in the C, D, and E classes manage their money, we turned to conversations with consumers, alone and in groups, seeking their descriptions of financial management as a lived experience. In April 2011, we facilitated seven focus groups and held 14 one-on-one interviews with a total of 49 beneficiaries of Bolsa Família in urban, peri-urban, and rural communities of Rio de Janeiro state. Over the course of October 2011, we conducted eight focus groups in the metropolitan areas of São Paulo, Recife, and Belém, speaking with a total of 64 people across the lower C, D and E economic classes. Also in October 2011, we conducted a series of in-depth interviews with a wide range of urban, peri-urban, and rural households in southeast, central and northern Brazil. In all, we spoke with around 160 individuals, probing their experiences earning and spending money. Details on the research methodology can be found in Appendix A at the end of this note.

We find that lower income Brazilians are active financial managers, using a wide variety of different types of financial instruments. However, while both sides of their balances sheets are active with frequent flows in both savings and credit instruments, the liabilities side appears to be heavier than the asset side, with many families accumulating significant debt. The regularity of base income, upward flexibility of side income, financial risk well matched with support from social networks and the widespread availability of bite-sized credit arrangements have culminated in a scenario in which families budget their expenses with their many credit limits in mind. However, while such adaptable credit appears to have helped families acquire small to medium physical assets, such as TVs, appliances, cell phones and even motorbikes, few appear to be building up significant financial assets for the future. The only way they imagine acquiring a big asset like a home or car is to win it – through a lottery or lottery-linked savings bond. With dozens of bills to pay each month, it ought to be unsurprising that 75% of transactions at the country’s network of more than 149,000 banking correspondents are for making payments rather than conducting other banking transactions. One thing is certain: among Brazil’s poor, credit, rather than savings, rules. And banks, while viewed as safe, are not used primarily for saving, but rather as conduits for credit and payments.

SOCIAL CLASSES AND THE GROWTH OF THE MIDDLE CLASS IN BRAZIL
In Brazil, the excitement and optimism surrounding the growth of the middle class— both in population and in volume of assets—is almost palpable. Brazil uses a socioeconomic classification ranging from A (the very rich) to E (the very poor).

As shown in Figure 1, the classification is based on multiples of the minimum wage, with the E class covering monthly household income of 0 to 2 minimum wages (up to about US$ 350 per household per month), increasing in increments up to over 20 minimum wages (Above US$ 3,510 per month) for earners in the A class. But, since the early 1990s, the hierarchy of socioeconomic classes depicted as a pyramid with a large, destitute base, has morphed into a diamond shape, as depicted in Figure 2.

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Social programs targeting the poor, stabilizing economic policies instituted by the Cardoso and Lula administrations, and strong economic growth in Brazil since the 1990s have allowed the middle class to flourish. The number of Brazilians classified as C class increased from 25% in 1992 to 34% in 2009. This social mobility can be partly attributed to the expansion of formal employment, which increased by about 8% (15 million jobs), primarily in low income segments, over the past 10 years. Not only did the number of these jobs expand, but also the real wages in the formal sector. The minimum wage increased by 100% in real terms from 1995 to 2010. More formal jobs, along with the expansion of social protection programs, including income transfers to the very poor.

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9 Plano CDE calculations based on IBGE and PNAD data.
poor, created more stable, predictable income bases even for the very poor. Simultaneously, purchasing power in lower class families increased as birth rates and real food prices fell, as shown in Figure 3. Low income groups gained both more stable incomes and space in their budgets to invest in assets during this period.

There also seems to be a redistributive component to this reorganization of the social strata. The concentration of wealth in the A class fell by 6 percentage points from 1992 to 2009, while the concentration of wealth in the C class increased by 5 percentage points. Although the growth in the size of the middle class is impressive, overall inequality appears to be shrinking only slowly. And while the C class makes up the largest population share in every region, the income distributions in the North and Northeast are still skewed towards the D and E classes, which together accounted for 62% of the population in the North and 71% in the Northeast in 2009.

**Figure 3: Evolution in minimum wage and food prices, 1990-2010**

![Graph showing the evolution of minimum wage, consumer price index, and food prices from 1990 to 2010.](image)

*Source: Plano CDE Study based on the consolidation of IBGE data and Brazilian Ministry of Labor 2010. Consumer price index is the Índice Nacional de Preços ao Consumidor (INPC).*

THE EVOLUTION OF FINANCIAL SERVICES FOR THE LOW INCOME MARKET IN BRAZIL

In conjunction with these social changes, the relationship of financial service providers to the middle and lower classes shifted dramatically. Eager to capture new market share and capitalize on growing disposable income in middle and lower classes, public and private banks developed new strategies to serve these segments. In the public sector, Caixa Econômica and Banco Popular began opening bank accounts for the very poor. From 2003 to 2004, a period marked by an economic recovery and a drop in poverty rates as a consequence of social policies implemented thus far, 1.1 million new accounts were opened at Caixa Econômica. Of these new accounts, 85% were opened by people with monthly incomes less than R$ 500. Private banks and lenders

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10 These social transfers increase family income (Bolsa Família and rural retirement) and also reduce the cost of healthcare (SUS – universal access to health system), education (public school) and food (Merenda Escolar – school meals).

11 The fertility rate in Brazil fell below the replacement level (1.85) in 2009. Source: IBGE/PNAD 2009.

12 Despite the economic growth that took place in recent years in Brazil, inequality is falling slowly. The current Brazilian GINI coefficient is 0.543. Following the same economic trends, by 2030 the country is expected to achieve a GINI coefficient close to that of Argentina in 2006 (0.488) and in the most optimistic scenario, the U.S. in 2000 (0.408). Source: Calculations done by Plano CDE based on IPEA data and World Bank Database.

13 Calculations done by Plano CDE based on IBGE and PNAD data.


capitalized on the growing share of formal workers and pensioners by offering low risk payroll loans (crédito consignado - credit through payroll deduction) and a range of other loans provided via financeiras, private lenders often backed by banks. In order to gain access to low income clients specifically, many banks formed partnerships with retailers, particularly for consumer credit for purchases. These partnerships provided the opportunity for banks to share information about the credit history of low income clients with retailers. With more consumer information in hand, these retailers became the major issuers of credit cards in the country, reaching 127 million cardholders in 2004. By 2010, Brazilians held 628 million cards (including credit cards issued by stores). Figure 4 shows the growth in debit and credit card usage and the decline in checks from 2006 to 2010.

Figure 4: Non-Cash instruments (usage) – Billion transactions/ semester, 2010

Now, nearly all large retailers offer some type formal or informal credit to the end customer, including for groceries. For low income families in particular, there is a perception that getting credit through retailers is easier and less bureaucratic. At the large national chain, Casas Bahia, for example, low income consumers account for 80% of sales, and the store has an active portfolio of 11 million borrowers. Casas Bahia does not require proof of income or guarantors to provide credit. In some cases, retailers adopt measures such as compulsory delivery of products to confirm clients’ addresses and taking references from neighbors. These retail chains have extraordinary reach and are able to extend credit to even the most remote parts of the country.

UNCOVERING A UNIQUELY RICH AND BRAZILIAN WORLD OF FINANCIAL MANAGEMENT

Through a range of different methods of field research across many countries, we find evidence suggesting that low income Brazilians have access to and use a very wide variety of financial instruments, with more diversity in the types of tools they use than in Kenya or India. While low income households everywhere save and borrow

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16 Some examples are C&A and Banco IBI (recently acquired by Bradesco), Grupo Pão de Açúcar and Itaú, Casas Bahia and Bradesco. Other retailers such as Pernambucanas and Maganize Luiza created their own banks.

17 As compared to versus 91 million for bank-issued cards. Brazil has an extensive penetration of credit cards when compared to other countries in Latin America. In 2004, Brazil had a penetration of 0.293 credit card units per capita, while Chile, that has a higher income per capita, had a penetration of 0.166 per capita. Zouain, D. M. and BARONE, F. M. Mercado dos cartões de crédito no Brasil e sua relação com micro e pequenas empresas. Brasília: Sebrae/FGV. July 2007.

18 Febraban, 2010.

19 Necessary for the consumer, credit also enhances and differentiates business services for the retailer, facilitating shopping, creating a channel of communication and promoting customer relations. Santos, A.M. and Costa, C.S. Características Gerais do Varejo no Brasil. BNDES, 1997.


22 This includes not only the qualitative work done for this Focus Note, but also draws on quantitative surveys done by BFA for banks in South Africa, Mexico, Colombia, Kenya and India on behalf of the GAFIS program. See GAFIS Focus Note 2. In South Africa and in India, we also draw upon Financial Diaries research, as reported in Collins, D et al (2009) Portfolios of the Poor. Princeton, NJ: Princeton University Press.
using a wide range of formal and informal financial strategies, our field work in Brazil suggests that low income Brazilians have a particularly large number of financial devices available to them. We have identified 46 distinct formal and informal financial instruments (see Appendix B), compared with 35 in South Africa, 36 in Mexico, 37 in Colombia, 39 in Kenya, and 42 in India.

Moreover, Figure 5 suggests that there is a broad array of financial instruments—formal and informal, short term and long term, savings, credit and emergency tools—that Brazilians use to manage their cash flows. Several of these products—like capitalization titles, consortiums, and novel insurance types—are also uniquely Brazilian, in contrast to the broad product type similarities that we see across other markets.

**Figure 5: Examples of the range of financial instruments encountered in Brazil**

![Diagram of financial instruments]

From using sophisticated financial instruments such as fixed deposit accounts, to capitalization titles (similar to small savings bonds), to relationship-based salary sharing that allows two families to make money last by splitting two paychecks, low-income Brazilians are savvy and inventive money managers. And although, as we suggest below, credit is a major driver to financial instrument use in Brazil, the people we met also used a panoply of savings devices, shown in the left side of Figure 5. The Brazilians we spoke with—even those with little education—also had a good awareness of these different devices. The C class, in particular, exhibited high levels of sophistication and ability to negotiate their use of these products. For example, in Recife, C-class respondents knew the details of interest charged on different store cards according to the number of payments.

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[23] The number of financial instruments is determined by aggregating all formal and informal instruments mentioned in piloting and fielding questionnaires, especially through targeted questions about where people would borrow in an emergency. The same criteria for being a unique instrument was used across all countries. For example, a bank deposit account is one type of instrument, credit cards another type across all countries.
to be used. C-class respondents in São Paulo reported selecting banks based on the most attractive capitalization titles they offered; others compared interest rates on loans and overdraft credit, using a few products each at as many as four banks.

One reason for these broad portfolios appears to be a core of stable income. Our work suggests that many Brazilian families have an underlying source of fairly reliable, regular income, even if they are working in the informal sector. While formally registered jobs (with “carteira assinada”) are highly coveted because of their promise of long term guarantees of steady work, regular pay, and extensive benefits, we find that informal workers have much more predictable incomes in Brazil than in many other countries we study, including Mexico or India. Even the poorest have their incomes supplemented by monthly Bolsa Família payments worth an average of R$115 in 2010 (US$ 81 PPP adjusted).24

But, beyond this stable core of income, there also tends to be a variable component. We find, curiously, that the incomes of many poor households are flexible upwards. Many low-income families take on additional income generating opportunities for casual work (“bicos”), like catering on weekends, cleaning houses, selling clothes, giving haircuts, or selling beauty products. We observe that when work is scarce, that the poor in other countries turn to savings and borrowing to cover income interruptions and unexpected expenses, whereas many Brazilians instead try to earn more from irregular, often informal sources to meet higher expenditure desires.

Extensive and reasonably effective public services and safety nets also mean that catastrophic financial risks tend to be less common and pressing on the psyche of poor families. For example, unlike many other countries, the costs of health emergencies—including the costs of emergency transportation and several months of lost wages—are covered by public health care systems and safety nets. Public social security pays pensions for those who contribute through formal jobs and small businesses throughout their careers, and the constitution ensures a minimum monthly pension even for those who reach retirement age and were never able to have the security of a formally registered job with such benefits. The security of this regular income and strong safety nets appears to decrease the pressure to accumulate financial assets to cover some of the most common financial needs that motivate asset accumulation in the rest of the low income world: serious accidents and illnesses, retirement, and loss of work.

THE LIABILITY SIDE OF THE BALANCE SHEET: Low-income consumers love, hate, and live intimately with a broad array of credit devices

If credit is always both a curse and boon to low-income households, Brazil is an example in overdrive. Brazilians we spoke with had a large range of credit sources to draw upon, which they used frequently and often considered part of their monthly budget.

*Focus group facilitator:* “The overdraft limit from the bank… it’s not for an emergency?”

*Response:* “No, it’s become routine, it’s part of the salary.” São Paulo, Class D

The types of credit available are broad and offered far down the income curve

Even some of the lowest-income households have access to formal and informal cash loans and an enormous diversity of consumer credit arrangements. Nearly every purchase can be made with formal credit, payments done in installments either billed to a credit card or store card, or repayment using a paper installment book that tracks repayment progress. As Figure 6 shows, even among those in the E class and Bolsa Família recipients, we observe extensive use of formal credit—with installment booklets and store credit cards reaching the furthest down-market—for consumer purchases of small assets. There is also much more activity in the informal credit

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space, such as credit at local shops, lending among friends and family, and borrowing others’ credit cards when individuals cannot access their own.

Bank loans for consumption and overdraft facilities also reach as far down as the D classes. D class respondents reported being able to access cash loans from the bank, and nearly everyone with a formal job can make use of ever-present overdraft facilities through their checking accounts or access payroll collateralized loans through both banks and other lending only institutions known as financeiras. Participants in our focus groups reported taking bank loans for as little as R$100 (US$ 55). Multiple respondents in our Bolsa Família sample reported taking loans of R$200 (US$ 110) from the bank to help them cope with illnesses in the family.

The most prevalent types of credit are for the short to medium term, used to finance purchases and make ends meet day to day. These are not large, long-term loans. Only in the C class did we see much longer-term borrowing for things like housing and cars. Figure 6 depicts the different instruments, formal and informal, used by respondents in the lower socioeconomic classes.

Poorer households do sometimes manage to obtain large loans, particularly for working capital, but they usually tap informal sources for these loans. For example, a fisherman in Manaus explained to us how he borrows R$6000 (US$ 3,313) from a trader in town each time he takes his boat out on a fishing expedition. Twice per month he collects this sum to pay his employees, rent for the boat, supplies, and fuel. The value of the loan—without interest—is then deducted from the value of the catch. While he manages enormous amounts of money for this business, he only makes about R$1200-1500 (US$ 662- 828) per month for himself.

**Figure 6: The range of credit arrangements available to each social class: Even the lowest classes are able to access formal consumption credit, if not cash loans.**

**Brazilian families live intimately with credit, budgeting carefully just within their credit limits**

Credit is not just an infrequent tool used to acquire large assets or cope with emergencies. Instead, it is used regularly for many purchases to smooth consumption and parcel payments to fit with cash flows.

“*The most we can do is try to buy in installments to be able to get something. I’ve just finished paying one thing off, then I take something in its place and so on. That’s the way it goes, right?*” Ibiúna, E Class
Many respondents, particularly in Class C and D, reported spending right up to the limits of their incomes and credit lines as a regular part of their budgeting:

“I take my salary, and the first thing I do is pay the credit card so I can spend again. I pay to spend money. Today I went to Banco do Brasil and deposited R$ 530 (US$ 292) in my current account…I paid my credit card with a debit to current account, R$ 283 (US$ 156), so right away, R$ 283 of the 530 (US$ 156 of the 292) was withdrawn to pay the Banco do Brasil credit card. Then, I used the balance to repay my overdraft and withdrew the overdraft limit in cash just there to use it again. I pay the small charges of R$ 20 (US$ 11)...I pay to borrow again.” -São Paulo, C Class

Similarly, a teacher in São Paulo explained to us that she maxes out her overdraft limits at the bank every month to pay her bills, which she knows well in advance will exceed her pay. Her husband usually helps fill the gap for her, and if not, she rolls over the debt and interest payments to the following month. Like her, many know in advance that their expenses will exceed their incomes. They actively and skillfully juggle payments and credit sources to stretch as far as they can, calling this “faz o salário render” (to do more with less income). It is also common to create a list of priorities among the bills to be paid, delaying payments that charge lower interest. This way of using financial instruments shows an ability to deal with complex product features and rules in order to maximize the cash flow without losing access to goods. Respondents refer to this complex manipulation “jogar com o salário” (to play with your salary), implying that they strategize as if playing a game to maximize spending with a restricted and partially uncertain income. We found that families are reaching for consumer goods with payments parcelled just within their expected income. This behavior has undoubtedly allowed many Brazilian families to acquire goods that make daily life much easier and more enjoyable. But, with such a large share of income already spoken for by credit payments, the loss of a family member’s income—even a small portion from casual “bicos,” makes it impossible to keep up, sending many people easily onto the credit bureau blacklist.

For some, getting a dirty name on the credit registry is almost expected. In a recent study conducted by Plano CDE in Recife and São Paulo with different social classes25, respondents indicated situations they find typical of their social class. People in the D and E segments reported that having the name in the blacklist is typical among individuals from their social class. But Figure 7 shows that the proportion of C class respondents who think having a dirty name is typical is also high—34-41%—, particularly in the lower part of the C class, where many earners are still formally employed.

Figure 7: What practice do you associate with people in your social class?

<table>
<thead>
<tr>
<th>Social Class</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>A class</td>
<td>17%</td>
</tr>
<tr>
<td>B class</td>
<td>21%</td>
</tr>
<tr>
<td>C+ Class</td>
<td>34%</td>
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<tr>
<td>C- Class</td>
<td>41%</td>
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<tr>
<td>D Class</td>
<td>54%</td>
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<tr>
<td>E Class</td>
<td>70%</td>
</tr>
</tbody>
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Dirty name in national credit registry


When consumers’ names are placed on the blacklist with the credit bureaus SPC or Serasa, they are considered “negativados”; they are cut off from formal sources of credit until their names have been cleared after paying their debts or after five years have passed, whichever comes first. There is no positive credit bureau, however, to help the lower classes build up a track record of positive repayment.

THREE VIEWS OF CREDIT: The Good: Taking on bite-sized credit is one way of acquiring goods that would otherwise be unattainable

The pattern of earning some irregular, supplementary income to afford additional spending is common among the C, D, and E classes. Many households have a core working person’s income—whether in the formal or informal sector—supplemented with regular distributions from social programs, like Bolsa Família or pensions, and with irregular income from small side businesses and casual work. Regular, and especially registered, work is prized for stability, and the supplemental income allows one to take on more credit.

“My husband earns R$1,200 (US$ 662), and he has a motorbike. He told me, ‘Now that you’re selling Avon, let’s see if we can buy a car. You help me at home paying some bills and with my money I’ll pay the car.’ I said that’s okay. The car’s installment is R$700 (US$ 386), and I help him; with all the money I make I help him.” - São Paulo, C2 Class

When we asked why credit is preferred so strongly over savings, respondents explained to us that credit made otherwise expensive assets attainable. And although some goods purchased on credit might seem non-essential, buying suitable clothes for an interview in style-conscious Brazilian cities, or time saved daily by using a motorbike instead of public transit can make for tangible, important improvements in people’s lives.

“I managed to furnish my entire house. I bought furniture using installment financing…Now I am paying monthly installments, but if I tried to buy all that furniture with cash, I would never manage.” - Ibiúna, E Class

Such extensive use of credit does not necessarily result from a lack of understanding or education. Many respondents keep careful track of the values and number of installments remaining, mentally filing away a large number of goods purchased on credit. Knowledge of financial products and how they work increases with personal experience, and with learning from others, especially family and friends. Even among those lacking in elementary school education in the E class, some people have a good understanding of these credit terms:

“If it was R$300 (US$ 165), it is R$300 in 30 days, without interest. It’s called ‘promissória,’ the interest is already in the price of the goods.” - Goianá, E Class

And, at the end of the day, many view credit as cheap if it doesn’t build up too much:

“Once in awhile interest is charged on the credit card, but it is little, very little. They add a small fee…a rate of R$2-3 (US$ 1.10- 1.65), but it doesn't make much of a difference.” - Goianá, E Class

The Bad: Being maxed out on credit means that it is not available for emergencies

Since people reach their credit limits on day-to-day purchases, it is often not available during emergencies.

“I think like this, for me and for most people...Your card is maxed out, but then you pay your bill and that releases [the credit line] for two, three days, or even 24 hours. You start buying again, but you’re already owing for the month. There is never money left over.” - Recife, C Class

26 The merchant must advise the individual that they are delinquent before their name goes to the Serviço de Proteção ao Crédito (SPC) or Serasa. The customer then has 10 days to repay and clear their name. If they do not, the merchant has a 5 day window to send their name to the SPC or Serasa. “Dos Bancos De Dados E Cadastros De Consumidores.” Available 2/28/2012: http://jus.com.br/revista/texto/4263/bancos-de-dados-e-cadastros
So in emergencies, people turn urgently to friends and family to get the cash they need.

“The money is gone, my motorbike broke down, I hit a car, the repairs were R$300 (US$ 165). I didn’t have money; my card was maxed out, full of debts. I went to my mother, and she lent me her card. I divided the payment in three installments. Her bill came, and I wasn’t able to pay. So she paid, and I’m paying her back slowly.” São Paulo, C Class

When all the other options run out, moneylenders give emergency loans, characterized by high interest rates and short repayment windows. Dedicating funds to pay back a moneylender loan means that additional source of emergency funds is not available in the short term.

Focus group facilitator: What percent interest does he charge?  
Response: 30, I take 100 and pay 130 (Borrow US$ 55, pay US$ 72)

Focus group facilitator: To do what, to pay for what, what emergency did you have?  
Response: “Usually water and electricity bills, or you have something unexpected: medicine for a fever. So I go there and pay later.” (Note: this person last borrowed R$ 300, and had to pay back $390 in one month, 30% interest per month). Belém, D Class

And the ugly: Out of control credit may close off options and jeopardizes personal relationships

Of course, some people avoid credit. They appear to be less concerned with cost and more afraid that credit makes them too prone to temptation spending; they fear spending out of control and losing borrowing privileges by getting a dirty name on national credit registries.

“I couldn’t clear my name. It was my sister who got me on the blacklist. Now I don’t have the courage to try and pay with a card. Instead, I split payments and pay with the installment booklet.” Recife, D Class

Some of the poorest believe that informal credit arrangements, whatever the costs and risks, are preferable to formal sources, since there is less bureaucracy in accessing the loans and because the terms can always be negotiated.

But such relationships can open the door to abuse and “contagious” bad credit behavior. For example, it is also quite common among the C, D, and E classes to charge expenses to friends’ and relatives’ credit cards. This can be for one-time needs, but is particularly common with installment purchases.28 When paying installments, the interest payments are much lower if paying by credit card where the credit risk is partially shifted to the credit card issuer instead of resting solely on the merchant. Those without credit cards will then ask friends to charge the purchase and will repay the friends monthly in cash. While this reliance on other’s financial instruments can have great utility in building assets and in times of emergency, it can also result in broken relationships and moral hazard, since it is the friend or relative who is then at risk of being blocked from accessing credit by the credit bureau’s blacklist.

THE ASSET SIDE OF THE BALANCE SHEET: Active, but not large, with low income Brazilians caught in the credit merry-go-round and rarely seeing the need to build net worth

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27 Equivalent moneylender interest rates and behavior around these loans were discovered in South Africa and described in detail in Chapter 5 of Portfolios of the Poor, cited above.

28 This behavior is also common in other countries. See for example Ossandón, J. et al. 2011. “The financial ecologies and circuits of commerce of retail credit cards in Santiago de Chile.” Available: www.imtfi.uci.edu/imtfi_2011_ossandon for an analysis of sharing credit cards in Chile.
Brazil’s consumer credit culture seems to result in cash flow patterns in low-income households that are very different than what we observe in other parts of the world. Among Brazilian low income households, the income is often spent before it’s ever received. As one D class focus group participant explained in Belém, “The money only passes through our hands.” Payday allows for debts to be repaid and new debts to begin accumulating. Saving to meet daily cash flow needs is much less common. In contrast, we found that in South Africa, a household tends to receive a large income inflow, such as a monthly salary or government grant payment, which the recipient saves and spends down slowly as consumption needs arise over the month. Figure 8 graphically depicts this difference in household spending patterns between the two countries.

Figure 8: Consumer spending patterns in Brazil are dramatically different than they are among households with similar income levels in South Africa.

To bring this contrast to life, we examine the financial behavior of a South African and a Brazilian woman. Although the economies in these two countries are structurally different, they do share some similarities, and Mimimi and Rosa’s monthly incomes are comparable. Mimimi is a 46-year-old woman living in a township outside of Cape Town, South Africa, who runs a shabeen (township bar) while her husband works as a gardener. She is an extremely savvy business woman, bringing in, on average, US$ 325 on a monthly basis from selling beer, and charging customers to use the jukebox and the pool table. Her husband earns a salary of US$ 185 per month as a gardener for a private household, receiving his salary directly into his bank account. She has three children, but two are staying in the rural areas with her mother. The youngest she keeps with her, and she receives a child support grant worth about US$ 30 every month. Despite this low household monthly income of roughly US$ 360, Mimimi manages to save nearly 60% of it in two savings clubs every month. As she explained it to us, she and her husband were anxious to build a home in the rural areas, to have as a “family home” where they could hold traditional feasts and funerals. During the year that we knew her, she and her husband managed to save slightly more than US$ 3600, most of which went towards building their home.

Rosa, from Belford Roxo, Rio de Janeiro, has roughly the same income as Mimimi, but from more diverse sources. She patches together income from working as a maid, selling cosmetics, and collecting cans, for which she gets a commission. The Bolsa Família grant payment of US$ 50 that Rosa receives for her son helps tide her over when her monthly working income of about US$ 390 has run out. Although Rosa and her husband are separated, they still live together because neither one can afford the cost of living on alone. Over many years, they pooled resources to build their home little by little, a project that continues whenever the budget allows. Desiring to acquire appliances and finalize the divorce with her husband, Rosa spends more than she earns, and at the time of our interview she owed US$ 833 to her friend who paid her appliance installments at Casas Bahia.

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29 According to the World Bank, Gross National Income per capita, PPP-adjusted was $10,360 in South Africa and $11,000 in Brazil in 2010. See http://data.worldbank.org/country.
and made payments to Rosa’s lawyer. The most salient information for Rosa is not the balance of her loans, but the value of her installments and how many she has remaining: three on the stove, nine on the washing machine. Once one installment finishes, she’ll take on a new one. And if there is a purchase she finds simply too tempting to postpone, she will boost her income by selling cosmetics door to door that month.

Figure 9 shows the striking contrast between Mimimi and Rosa. Though Mimimi also extends herself slightly with credit from her beer supplier every month, she has few credit options to commit herself further than this. On the contrary, she saves a huge portion of her monthly income with her savings group in order to progress her family’s dreams of building a house in the rural areas. Rosa, by contrast, focuses much of her energy on her installments to buy a stove and washing machine, to make her life easier where she lives. Granted, Mimimi is a star saver among the South African Financial Diaries households, but most saved quite a bit out of their monthly income, on average 21% every month.\(^\text{30}\) The ubiquitous use of savings clubs is the primary driver of these high savings rates. Whereas Mimimi seems to find comfort and security in a cushion of financial assets, Rosa, like other Brazilians, prefers to have the immediate benefits of the physical assets first, even before she can afford to pay the full price.

Figure 9: Contrasting proportional reliance on assets and liabilities in portfolios from Brazil and South Africa\(^\text{31}\)

<table>
<thead>
<tr>
<th>Mimimi’s balance sheet, South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
</tr>
<tr>
<td>• US$ 214 in Bank</td>
</tr>
<tr>
<td>• US$ 3618 Savings group</td>
</tr>
<tr>
<td>• US$ 4 Saving in house</td>
</tr>
<tr>
<td>• US$ 10 credit given to consumers</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES US$ 10</strong></td>
</tr>
<tr>
<td><strong>TOTAL ASSETS $3846</strong></td>
</tr>
<tr>
<td><strong>Net financial worth $3836</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rosa’s balance sheet, Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
</tr>
<tr>
<td>• US$ 29 in the house for spending this month</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS US$ 29</strong></td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
</tr>
<tr>
<td>• US$ 589 paid to friend who’s credit card she borrowed to buy stove and washing machine on installments</td>
</tr>
<tr>
<td>• US$ 273 owed to lawyer for divorce</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES US$ 862</strong></td>
</tr>
<tr>
<td><strong>Net financial worth -$833</strong></td>
</tr>
</tbody>
</table>

Despite a heavy emphasis on the liabilities side of Brazilian balance sheets, the asset side is by no means inactive among our respondents. Like low-income families everywhere, one of the most common ways for them to save is to hide cash in the house. It is uncommon, though, to build up large sums of money in the house.


\(^{31}\) It should be noted that to compare the balance sheets more completely, we should consider the value of non-financial assets, including the goods Rosa has purchased. Unfortunately we do not have this data.
“I keep money at home for a rainy day. If I need to catch a cab in the middle of the night…This money at home is just to buy some meat, bread, medicine for the kids.” Recife, D Class

Another potential contender for savings, bank accounts likewise tend not to accumulate high balances. Rather, they are opened for the purpose of receiving payments—salaries, pensions, child support or alimony, or government benefits (like Bolsa Família)—or for accessing credit.

“I opened [the bank account] precisely to receive this child support, for him to deposit, understand?…Because the judges ordered him. And I opened an account for him to deposit the money.” Varre Sai, E Class

“I opened [the bank account] because they give you the opportunity to get a card with a limit and you have the opportunity to take out a loan if you need it. So, it helps us a lot.” São Paulo, D Class

On the few occasions that respondents opened bank accounts for the purpose of saving—or at least holding—money, it was because they had just received or were expecting to receive a lump sum payment, like a severance (fundo de garantia) package or gift. Respondents receive regular payments into these accounts, but rarely leave a balance from one month to the next. They respect and admire savings, but find it too tempting to spend.

“I make plans based on the amount I get paid. If I get paid R$500, I plan for the total cost of R$500. Even if I plan to save R$20, I end up using it. These R$20 are extra. What would it be for? I would end up taking my daughter out to eat on the weekend. If I keep it in the bank, it is not going to stay there long.” Natividade, E Class

In our fieldwork, finding someone who was saving up in the bank was rare, and they often exhibited exceptional discipline. One woman in a peri-urban area of Rio saved up in a Bradesco account for a big trip to visit her home in Paraíba every two years, a trip that normally cost about R$3000-4000 (US$1,656–2,208). Another saver was a shopkeeper who was managing to save in the bank by directing all incoming credit and debit card transactions to a bank account from which she never withdrew, building up a nest egg for herself and her family.

Like Mimimi in South Africa with her savings clubs, some use commitment mechanisms to put money away for purchases for which installments are not possible. For example, a São Paulo woman who relied on a “money guard,” a common arrangement we see all over the world in poor communities, leaving a lump sum with a relative, friend or even a shopkeeper or employer to save.

“I left money saved to travel at the end of the year. I told her, hold on to this 300 Reais, because otherwise I’ll end up spending it beforehand, and we need to save to go to the beach. Then I took it and gave it to her to save. Then I added 200 more. I ended up saving 500 Reais for us to spend at the beach. If I’d kept it, I’d have spent it.” – São Paulo, D Class

Ironically, such commitment is seen to be embedded in financed payments, precisely because of the obligation they evoke. Unlike savings, credit repayments enforce the discipline of working towards a goal little by little.

“[Installments] become an obligation. It weighs on your conscience: I made this commitment, I have to pay. Saving isn’t like that. With savings, I make excuses: Not this month, the interest is so low, I grab a meal at McDonalds instead, or the temptation is killing me, so I buy an outfit for my daughter. The savings vanishes.” São Paulo, E Class

This demand for commitment in financial products is not uniquely Brazilian, but appears in many contexts and countries. For example, Jonathan Morduch and co-authors, in field experiments in rural India, found an expressed preference for commitment devices linked to microfinance.32

32 Bauer, Michal, Chytilová, Julie and Morduch, Jonathan, Behavioral Foundations of Microcredit: Experimental and Survey Evidence from Rural India. IZA Discussion Paper No. 4901
Widely available games, raffles, and dreams fuel optimism

Low-income Brazilians are also using a range of other fairly unique ways of building up and holding onto financial assets. While there are some informal savings clubs, they are not particularly common. However, when such groups do exist, they often incorporate an element of chance, in which members hold a drawing, or “sorteio” to see which lucky member will be the first to collect the internal fund. Such groups are often gathered when all of the members want to buy something of similar value, like a motorbike or microwave. Formal financial service providers—banks, financeiras33, even automobile insurance providers—have adapted such groups for financing asset purchases as well in an arrangement known as a “consórcio.” People interested in buying a television, motorbike, or car begin paying installments towards the asset purchase, and an internal lottery determines whether they will receive the asset on the first payment, the last payment, or some payment in between.

Big dreams and a charismatic TV mogul, Silvio Santos, have drawn millions of low income Brazilians towards prize-linked mini savings bonds known as capitalization titles, the most popular of which is Santos’ product, Tele Sena. For a very small investment, such as R$ 8, you purchase a small bond, which also serves as a lottery ticket, entitling the holder to entries in a series of drawings. Once the title is mature, it can be redeemed for principal and sometimes a small amount of interest. The most popular capitalization, Tele Sena, depreciates over time, but many banks, including Caixa Econômica and Bradesco, also offer titles with both lotteries and small interest payments.34 Our interviews suggest that Tele Sena—though exceptionally popular—is viewed more as a game than an investment. In contrast, particularly in the C and D classes, we did find some families investing more heavily and intentionally in bank-held capitalizations. But even here, it is the lottery component rather than the interest (which is quite small in this context) that is the real attraction to these products.

The informal, and illegal35, jogo do bicho (“animal game”) lottery is another popular way Brazilians test their luck, looking for a nice income bonus. Especially popular in Rio de Janeiro, entries in the jogo do bicho lottery are sold at many informal businesses and by individual organizers. Often inspired by their dreams, players select a lucky animal or a number linked to that animal and place a bet—as little as one cent—on it from a drawn or painted card. Those picking the winning animal split the profits proportionally. Many play jogo do bicho because it is small and allows for small bids, but few can win a transformative prize.

“I won in jogo do bicho once... I dreamed about a child, so I knew I had to play the rabbit. After that I’ve never played again... but I won some nice money that time.” – Belford Roxo, E Class

However, playing or selling the illegal game is risky: one focus group respondent in Recife was arrested for running the game. He had to borrow from a moneylender to repay the fines, and this led him into a spiral of debt.

But, long-term financial planning centers on asset building and is buoyed by public pensions

A long-term financial need, retirement savings, is ameliorated by a strong public pension system. Those with regular work contribute via their employers. Some small business owners also contribute independently. Those in the lowest classes who are unable to contribute, however, are also guaranteed a minimum wage at retirement. Few respondents express concerns about making ends meet in old age, they value the pension system, and most consider this an adequate resource for their retirement financial needs.

In addition to public pensions, those with formal work receive a fundo de garantia (like a provident fund) payment when they retire or are laid off from their jobs. These large lump sums are rarely saved for long, but are instead used to make a large purchase or investment in a home or vehicle. We see very little use of programmed savings

33 Financeiras are lending companies, often partnered with larger banks.
34 For example, according to bank employees in Brasilia, longer term (24 month and longer) Ourocap capitalization titles from Banco do Brazil pay 0.5% interest.
35 Paraiba is the only state in which the game is legal and regulated by the state.
accounts, long-term bank savings, or stock purchases. Our respondents, particularly those in the D and E classes, didn’t see as much value in holding onto wealth in the financial mediums of bank and investment accounts as they did in quickly converting what lump sums of money they did come by into physical assets that could make them feel secure about their future. First and foremost, this means owning a home. Second, comes a car. But it is possible that such extensive use of small scale credit keeps poor families constantly running just to stay in place, never building the assets needed or being able to access the long term credit needed to achieve the prevailing financial aspiration: owning a home.³⁶

The practical Brazilian sees that she can have a washing machine today if she pays little by little, but can have a home only if she wins big. Purchasing chances in lotteries, capitalization drawings, and betting on informal lotteries is extremely common. Even though she may be poor, she can have a universe of consumer goods—on installments. It’s no wonder temptation lurks around every corner, turning its nose up at values of thrift.

When credit doesn’t fill the gap, people rely on social networks and borrowed financial instruments to carry on

With so little savings, what do low-income households do when faced with catastrophe not covered by social safety nets? Most either borrow or turn to their network of friends and family for some creative fundraising.³⁷ Respondents told us about “vaquinhas” (little cows), in which everyone pitches in a little something into a common pool. Raffles of one’s personal goods or donated items can also be quite common, and bingos are sometimes held to bring in cash for an important purpose. While vaquinhas, raffles, and bingos are most often held for communal purposes, like financing a community celebration, supporting a local church, or maintaining a public park, they can also be used on occasion to help someone in truly dire need. One respondent remembered:

“In my case, my daughter passed away. It all happened so fast. For her medicine and the funeral I borrowed some money from my sister, and my brothers helped me. Then we did a vaquinha: everyone chipped in R$300 (US$ 165) each, which helped. But the rest of the funeral expenses I paid with the credit card in installments”. São Paulo, D Class

We also found some evidence that, rather than accumulating financial assets, families would acquire physical assets, like appliances and electronics. If respondents faced very hard times, such things could be pawned or sold.

As in South Africa, funerals can be expensive events to arrange in Brazil. Rather than seeing savings in anticipation of these types of expenses, we observed that people pool money from friends and relatives, put expenses on their credit cards to repay slowly, or purchase funeral insurance, with small monthly payments. In other projects, Plano CDE has observed that the usage of funeral insurance among low income segments has increased over the last five years, likely due to previous lack of knowledge about the product and high price perception. In this study, we identified a change in the way people relate with this instrument. Select respondents in Recife, Ibiúna, and São Paulo were contributing to funeral insurance. One very poor family we interviewed in rural Goiás paid R$ 17 (US$ 9.38) per month for funeral coverage. They had been watching the prices of coffins soar and wanted to be sure that the family members could be buried with dignity when the time comes.

**Banking correspondents increase the ease of paying bills, but the impact of correspondents on broader use of financial services is ambiguous**

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³⁶ A lump sum is usually needed to secure a plot—even without a good title. This is a major barrier to home ownership in the lowest classes. However, once the land is obtained, people often tend to build and renovate a little at a time, buying bricks, appliances, tiles, etc. in small increments and often on installments as well.

In understanding financial behavior, it is not just *what instruments* people use, but *how* they use them, that counts. A defining factor of financial inclusion in Brazil has been the growth of banking correspondents. This has been a recent and rapid change: while the number of bank branches remained stable from 2000 to 2007, the number or banking correspondents increased significantly from an average of 1.1 per municipality in 2000 to 15 per municipality in 2007. Out of 5,507 municipalities sampled in 2007, only 117 did not have a banking correspondent. Brazil is unique in the size of the agent network, but questions remain about the impact of banking correspondents outside of bill pay. We address this in the final section of this note.

Correspondents are agents from large banks such as Caixa Econômica, Bradesco, and Banco do Brasil that offer banking services at pharmacies, super markets, post offices and the ubiquitous *Lotérica*, or lottery store chain. There are two broad types of correspondents: transactional correspondents that allow bill pay and sometimes account opening, deposits, and withdrawals, and credit correspondents where clients may apply for, be disbursed, and repay loans, mostly payroll loans (*crédito consignado*). Small and medium sized banks rely heavily on fixed credit administrators and their “*pastinhos*” (roving agents named for the folders they carry) to sell their credit products. Given the diversity of correspondent services available at different correspondent types, it is difficult to isolate consumers’ understanding and use of correspondents more generally. To date, our research has focused most of its attention on transactional correspondents.

Our research has found that these correspondents are used most universally for payments. But this is not a bad thing—people love the time and transport savings. Nor does it mean that correspondents have failed to expand access to financial services. In fact, many of those bills being paid are tied to the consumer credit arrangements that reach all the way down to the poorest Brazilian households. Correspondents appear to be used for a wider range of purposes in Belém and Recife and in small towns without access to bank branches.

**Benefit #1: Consumers appreciate the convenience that banking correspondents offer for bill payments**

The overwhelming majority of individuals we’ve spoken with use correspondents—lottery houses, supermarkets, pharmacies, drug stores, and the post office—to pay their bills. These bills are not just utility bills, but also payments for services like higher education and towards financial services, installments owed to retail merchants, credit card bills, and insurance premiums. Households may have between two and a dozen bills to pay every month and being able to make these payments in a wide range of convenient locations has shortened lines everywhere and saves people significant amounts of time and transport costs. Respondents recall waiting hours in line to make payments when they could only use bank branches; it would take the entire day. In Belém, focus group respondents reported still waiting four hours in line for bank services, especially around payday. Some complained that lines at lottery houses (particularly in densely populated peri-urban areas and at times when the Mega Sena lottery has a large jackpot) still had long lines. But, at least when it came to paying bills, these primarily urban respondents didn’t mind, because there were many other options of bill pay locations that were quick, convenient, and open for long hours. Our respondents said it now takes about 10 minutes to pay bills, and they could be paid while one is running errands or doing other shopping:

> “Now you go to the bakery to buy some bread—and to pay some bills.” Belém, Class D

**Benefit #2: Correspondents appear to be used for a wider range of services in small towns and in the North and Northeast**

Aside from paying bills, respondents across cities and classes are often aware that *lotéricas* can be used to withdraw government benefits, in particular, Bolsa Família payments. But, in the country’s largest city, São Paulo, we observe that the use of correspondents for anything other than paying bills and withdrawing benefits is quite rare. However, use of correspondents for a greater range of purposes is much more common in the North and Northeast, where long distances between settlements and urban centers make correspondents more

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38 Assunção, Juliano. Draft, January 2012 “Eliminating Entry Barriers for the Provision of Banking Services: Evidence from Banking Correspondents in Brazil.” According to the 2010 census, there are 5561 municipalities in Brazil.
attractive and where retailers (with bank partnerships) tend to be quite sophisticated. Additionally, in the North and Northeast of Brazil, where there is a concentration of low-income segments and unbanked populations, the coverage of bank branches is 46% lower than the national average. Banking correspondents have amplified the reach of the Brazilian banking system in this region, and banks have commensurately leveraged their correspondents to a greater extent.

Here, respondents open accounts, make deposits, deposit in the accounts of their informal creditors or distant family members, and withdraw cash from correspondents, particularly lotéricas, correspondents of Caixa Econômica. They view the lotéricas as faster and less bureaucratic than bank branches and are satisfied to fulfill most of their banking needs there. Interestingly, in our small sample, geography and the type of municipality plays a bigger role than socioeconomic class in predicting the range of services people use at correspondents. Figure 10 explores the differences we observed in correspondent use by settlement type.

In the urban areas we studied in Belém and Goiana, focus group respondents in class D had used lottery houses for paying bills, buying capitalizations, withdrawing money, depositing money and opening accounts. Banco Postal was also used for account opening and withdrawals. In Recife, our respondents in both C2 and D classes were aware of a wide range of Caixa services available at lottery stores, but knew little about correspondent services at any other outlet or for any other bank. Respondents in these areas appeared to be more knowledgeable about the bank associated with each correspondent, even at supermarkets and pharmacies, which was less common in larger cities and higher classes.

Residents in peri-urban areas around São Paulo, Rio de Janeiro, and Curitiba mentioned that while correspondents were closer to home and had better hours, they may be overcrowded. Some respondents did not have a good sense of all services offered by correspondents, as they had more options to choose from in the nearby city. People also felt that correspondents were not well-informed and may not have the expertise to perform more complicated transactions.

In small towns in Goiás, São Paulo, Pernambuco and Rio de Janeiro states, we found that people were also knowledgeable about correspondent services, but if a branch were available, then they often did most of their non-bill pay transactions there. Branches were not crowded and bank staff was helpful, so they felt there was little need to visit a correspondent for banking transactions. Small town residents mentioned that correspondents can’t always answer questions, but if you can get to a branch, you’ll probably get good service. Respondents in Rio de Janeiro state explained that they learned to use ATMs by asking the person at the Caixa branch. Caixa had people wearing t-shirts saying “posso ajudar?” (can I help you?), and they take them through step by step. However, if one branch gets overcrowded, this dedicated attention is unlikely.

While respondents in Recife and Goiana in Pernambuco state reported making withdrawals at the banking correspondent, they complained that early in the day correspondents may not have cash to pay out, suggesting that Brazil is not immune to the liquidity challenges that affect agents around the world, which may inhibit the use of agents for withdrawal transactions.

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39 71% of the population in Northeast belongs to the D and E social classes (IBGE 2009).
40 The coverage of bank branches distribution per 10,000 adults for the north and northeast is 0.75 and 0.72 respectively, while the national ratio is 1.36. Source: Banco Central do Brasil, Relatório de inclusão financeira, 2010.
41 Southeast has a higher number of bank correspondents, followed by South and Northeast regions. Source: Banco Central do Brasil, Relatório de inclusão financeira, 2010.
42 The challenges of liquidity management in Kenya’s M-PESA mobile money product are well documented in: Bridges to Cash: The Retail End of M-PESA.
Research suggests that in some areas banking correspondents have reduced transaction costs and travel times, and reportedly stimulated economic growth in small towns by getting cash to these remote areas. But even correspondents do not reach everyone. Some small towns we visited in Goiás and Rio de Janeiro states do not have correspondents at all. In one area, the entire town pays its electricity bills late since the bills come on Tuesday, are due on Thursday, and there are no buses to town until Friday. Residents of indigenous reserves similarly still travel long distances to access financial services. Respondents living in reserves in Amazonas told us that they aggregate their bills and Bolsa Família payment cards, assigning one person the duty of going to pay and collect everything. Since such individuals still have to travel to access financial services, they were ambivalent about whether they went to a correspondent or a bank branch.

Figure 10: Experience and use of banking correspondents by settlement type visited

These findings may suggest that knowledge of and use of correspondent channels is tracking demand. Perhaps people are using correspondents for more types of transactions where they don’t otherwise have as easy access to branch channels. A CGAP-FGV-PlaNET Finance study from 2010 suggested that bill pay accounted for 88% of transactions at urban correspondents, but only 40% in rural areas where deposits and withdrawals were also quite common. And, perhaps the high usage of correspondents for bill pay reflects the reality that many families have many bills to pay every month, perhaps even more so in urban areas where formal retail credit is even more readily accessible.

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Outstanding questions: Knowledge of services and security
One obstacle to wider use of correspondents for more diverse transactions appears to be that people don’t know all the functions—such as withdrawals, deposits, applying for loans—offered by banking correspondents, and they do not view correspondents as a good place to get information about bank services. Our respondents told us that the only place to find out about products, fees, and check your balance was at the branch itself. Correspondents—particularly in large cities—were not seen as bank insiders. Furthermore, while respondents in Ipuína in São Paulo state and Varre Sai in Rio de Janeiro state reported that they started using the correspondents to collect their Bolsa Família payments, some people said that they did not have the need to use more formal banking services other than paying utility bills. These people tended to borrow, repay, and loan money to friends in cash, pay with borrowed credit cards when needed, and pay their installments to the store directly.

When there are many options available for banking transactions all of which have similar waiting times, security and comfort become deciding factors around which someone chooses one channel over another. Many felt that banking correspondents attracted fewer criminals, but were also much less protected than bank branches. They preferred to do banking transactions at a correspondent that had taken some security measures. They said that post offices tended to have security guards, for example, where lotéricas did not. One person in Belém told us that she knew she would spend some time waiting to pay bills whether she went to the branch or the lottery store. She preferred the branch where, “There is air conditioning, you have water, a cup of coffee, you can sit down. They don’t have that at the lottery store. You stand up, but they serve you fast, faster anyway.”

Could correspondents be improved, and if so how?
Should we be disappointed that correspondent transactions seem to be dominated by payments? We think no. Those payments reflect financial inclusion—heavily dominated by credit—on a very wide scale. Correspondents are quite effective at facilitating this credit-consumption lifestyle, making it easy, quick, and convenient for all to pay their many monthly bills. If they’re not used for much else, it may not be a failure of marketing or information, but rather a gap in financial culture—a gap in the demand for a broader range of financial services.

We might ask if the banking correspondent system can be improved. Certainly it seems people would benefit from a better understanding of which transactions can be executed at correspondents, so they can make fully informed decisions. And if correspondents are not perceived as secure, there is little hope for expanding beyond small, low profile transactions at the correspondents. In other countries, improving use of formal banking services often involves capturing savings that are stored in informal reserves—in the house, in livestock, or in savings groups. But in Brazil the competitor for deposits, through correspondents or elsewhere, is often credit. And with easily accessible credit for emergencies and often supportive social networks ready to give a small loan or lend a credit card to someone in need, increasing savings deposits might not be a priority for C, D, and E class Brazilians, and perhaps it needn’t be.

Towards more nuanced understanding of financial management in Brazil
The qualitative fieldwork we have done with low-income Brazilians has revealed fascinating stories of active and creative financial management. But more data is needed to more fully understand how the broader population is managing their small incomes, how liabilities compare to assets quantitatively, and how knowledge and usage of financial services vary by socio-economic status, region, and municipality type. So far we see that, shaped by a relatively generous social safety net, generally regular, stable income sources, and a pay-later retail culture, Brazilians juggle credit-heavy portfolios and transact frequently. Even among the very poor, access to formal credit brings lower income Brazilians in contact with the financial sector, especially through correspondents. This is an achievement that appears to be extending useful, innovative financial services more widely and effectively than almost anywhere else in the world. The Brazilian correspondent network has achieved remarkable geographic reach, to a large extent solving the challenge of proximity to access points, traditionally seen as a barrier to financial inclusion.
Even more than in other countries we study, this inclusion seems to have meant greater access to a broader range of innovative financial instruments. Respondents in our qualitative studies have shown us how using a range of credit devices in particular helps them stretch their budgets and improve their lives. But, they’ve also shown us that under certain circumstances, debt can induce significant strain and that the now common experience of falling onto the credit blacklist can cut an individual off from a large set of very useful financial management tools. It remains to be seen how widespread these experiences are in the Brazilian population.

Indeed, there is much more to learn about how low-income consumers manage their finances more comprehensively, the real risks and stresses they face, and how they understand, select, and use the entire range of product offerings available in Brazil’s dynamic market.
APPENDIX A: METHODOLOGY

This focus note draws primarily on qualitative data from three sources: focus groups and interviews carried out in conjunction with a CGAP study of financially inclusive government payments in April 2011; piloting of a survey instrument containing detailed questions about financial instruments, behavior, and banking correspondents in September and October 2011; and focus group discussions about financial behavior and correspondent banking undertaken in October 2011.

As part of a cross-country study on government transfers and financial inclusion, BFA conducted seven focus groups with 49 individuals and 14 one-on-one interviews (with individuals selected from the focus groups) over the course of two weeks in April 2011. The focus groups covered four locations in the state of Rio de Janeiro: a low income neighborhood in the heart of Rio de Janeiro city, a large, poor edge city outside of Rio de Janeiro city, a medium-sized city in the far north of Rio de Janeiro state, and a very small city on the northern border of Rio de Janeiro state. The primary research questions concerned how Bolsa Família recipients who receive payment through a bank account understand and interact with this account and with other financial products—both formal and informal. The table below provides more details on the focus groups.

Summary of focus group participants - CGAP study of financially inclusive government payments

<table>
<thead>
<tr>
<th>Location</th>
<th>Number Men</th>
<th>Number Women</th>
<th>Total Number</th>
<th>Average Age</th>
<th>Average Household Size</th>
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<td>8</td>
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<td>4</td>
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<td>3</td>
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<td>4</td>
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<td>7</td>
<td>40</td>
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<td>49</td>
<td>36</td>
<td>4</td>
</tr>
</tbody>
</table>

BFA, in partnership with the Bill & Melinda Gates Foundation and Brazilian partners, is planning a nationally representative survey on financial inclusion and demand-side perspectives on banking correspondents. In preparation for the survey, and to increase our knowledge of financial behavior among the C, D, and E economic classes, we carried out about 50 individual interviews with purposively selected individuals in and around Pirenópolis (Goiás), Manaus, Curitiba, and São Paulo in September and October 2011. These in depth interviews were fairly comprehensive examinations of household financial portfolios, covering sources and flows of income and the usage of a wide range of financial instruments.

Finally, to better understand low-income clients’ experience with banking correspondents specifically, Plano CDE in partnership with BFA, carried out eight additional focus groups in an assortment of large and small cities in the southeast, north, and northeast regions of Brazil. As portrayed in the table below, researchers spoke to 63 men and women ages 21-50, representing both formal and informal income profiles from the C, D, and E economic classes in São Paulo and Ibiúna in São Paulo state, Belem in Para, and Recife and Goiania in Pernambuco.

Summary of focus group participants -

<table>
<thead>
<tr>
<th>Location</th>
<th>Socio-economic</th>
<th>Number Men</th>
<th>Number Women</th>
<th>Total Number</th>
<th>Average Age</th>
<th>Average number of</th>
</tr>
</thead>
</table>

These discussions addressed elements of financial behavior including: sources and structure of household income; formal and informal financial instruments in respondents’ portfolios; use of and attitudes towards credit; and strategies for asset building and coping with emergencies. Moderators then asked if they use the services of a banking correspondent and for what purpose. Respondents were asked if they had ever paid a bill, opened an account, checked their balance, made a transfer, or asked for a loan, or done any other transaction with a banking correspondent. Respondents described their level of familiarity with services offered by correspondents and with financial products more generally. Users of banking correspondents were prompted to comment on what they like and dislike about the services. As an exercise each group came up with lists of formal and informal instruments that they tend to use most and least, sparking discussion about the merits of these financial tools and strategies.
# APPENDIX B: GLOSSARY OF BRAZILIAN FINANCIAL INSTRUMENTS

Table of financial instruments encountered in fieldwork

<table>
<thead>
<tr>
<th>FINANCIAL DEVICE</th>
<th>DEFINITION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SAVINGS &amp; INVESTMENTS</strong></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td><strong>Savings or checking account at a bank</strong> (conta bancária, conta poupança, conta corrente, conta integrada, conta salario)</td>
</tr>
<tr>
<td>2</td>
<td><strong>Fixed deposit or programmed account</strong> (depósito fixo ou poupança programada)</td>
</tr>
<tr>
<td>3</td>
<td><strong>Savings or checking account at a cooperative</strong> (cooperativa de crédito)</td>
</tr>
<tr>
<td>4</td>
<td><strong>Tele Sena</strong></td>
</tr>
<tr>
<td>5</td>
<td><strong>Other capitalization titles</strong> (Título de Capitalização)</td>
</tr>
<tr>
<td>6</td>
<td><strong>Savings account held with a microfinance institution</strong> (conta poupança com uma organização de microfinanças)</td>
</tr>
<tr>
<td>7</td>
<td><strong>Saving with a group</strong> (consórcio informal, bolão)</td>
</tr>
<tr>
<td>8</td>
<td><strong>Saving in a formal consórcio to purchase an asset</strong> (Consórcio formal, consórcio formal para comprar um ben)</td>
</tr>
<tr>
<td>9</td>
<td><strong>Saving with a money guard</strong> (Guardar dinheiro num guarda-dinheiro, dar dinheiro a alguém para guardar)</td>
</tr>
<tr>
<td>10</td>
<td><strong>Saving for yourself in the house</strong> (at home, in piggy bank, on your</td>
</tr>
</tbody>
</table>
person, under the mattress, buried in ground) (Guardar dinheiro em casac / Juntar dinheiro em casa) to save.

| 11 | Pension (aposentadoria) | Monthly payments, either from a company or the state, paid after one stops working. People who paid into the system when working receive a pension proportional to their former salary. |
| 12 | Private long term investment account, stocks, bonds, other investments (Outro poupanças, Bonos e ações) | Account with an investment company that invests one's funds, usually for long-term purposes like higher education or retirement. This includes retirement savings, mutual funds, etc. |

**CREDIT & LOANS**

a. **Lump Sum Loans**

| 13 | Loan from a bank (Empréstimos de um banco) | Loans from commercial banks that include large loans and very small loans that can be taken at the ATM. The bank may also offer loans for crediário, or goods purchased with financing. Bank loans also include government loans offered at the bank, and credito cosignado. |
| 14 | Loan from a microfinance institution (Empréstimos de uma instituição de microfinanças) | This is a loan from a microfinance institution, such as Banco do Povo, Central Cresol Baser, ANDE, CEAP, São Paulo Confia, Banco da Família, ASCOOB, Amazoncred, etc. These institutions give small loans to people—usually microentrepreneurs—and sometimes also accept savings deposits. |
| 15 | Loan from a financeira (Empréstimos de uma financeira) | This is a loan from a business that gives loans for many purposes. It is not a bank and it does not necessarily require the loan to be used for business investment. This includes credito consignado from a financeira. Many financeiras have partnerships with banks and can even be considered banking correspondents. |
| 16 | Loan directly from a government program for microcredit or rural credit | Loans offered directly through a government program, usually with low interest. These are often managed by banks, as is the case with the “Minha Casa, Minha Vida” program to help C class families acquire homes. |
| 17 | Loan from a credit union or cooperative | Credit unions and cooperatives are owned by their members, usually have lower interest rates, and divide profits among members. Borrowing may be limited to members. |
| 18 | Loan from friend, family member, neighbor WITH interest (Empréstimos de amigos, vizinhos, parentes com juros) | Loans offered by friends, family members, neighbors, or another person that are taken with the expectation that the borrower will repay the principle plus a given amount of interest. |
| 19 | Loan from friend, family member, neighbour WITHOUT interest (Empréstimos de amigos, vizinhos, parentes sem juros) | Informal loan from members of one's social network. These may be short or long term, and range from small to large amounts. |
| 20 | Loan from a moneylender (agiota) | This is a loan from a moneylender – a private individual who lends out money and often charges high interest. |
| 21 | Purchasing an asset and paying in instalments (compras em parcelas, carné de pagamentos, cadermetas, crediario, Compras a prestação) | Stores offer a variety of goods for sale on installments. Buyers take the item before it is paid for and commit to making a certain number of payments. Payments are often due monthly, and can be deducted automatically if formalized and linked to an account or credit card. The price of goods purchased on installments can be substantially higher than making a one-time payment in full. |
| 22 | Pawning an asset (penhor de bens) | Leaving an asset with a pawnshop in exchange for money. If you pay back the value... |
of the pawned item with interest before a determined deadline you can reclaim your item. Otherwise it is sold.

**CREDIT & LOANS**

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<tbody>
<tr>
<td><strong>b. Recurrent loans and lines of credit</strong></td>
<td></td>
</tr>
<tr>
<td>23</td>
<td><strong>Overdraft or ATM credit from the bank</strong> <em>(including cheques especiais, Limite da conta / Limite LINS and loans taken right from the ATM)</em></td>
</tr>
<tr>
<td>24</td>
<td><strong>Purchasing small things on informal credit from local shops</strong> <em>(fiado, pendurado)</em></td>
</tr>
<tr>
<td>25</td>
<td><strong>Loan or advance from employer</strong> <em>(“vale” “Adiantamento de salário”)</em></td>
</tr>
<tr>
<td>26</td>
<td><strong>Supplier credit arrangement</strong> <em>(small business only)</em> <em>(Acordo de crédito com o fornecedor, Limite de crédito / limite de pedidos)</em></td>
</tr>
<tr>
<td>27</td>
<td><strong>Loan from a middleman/intermediary or buyer of your products</strong> <em>(small business only)</em></td>
</tr>
<tr>
<td>28</td>
<td><strong>Credit card</strong> <em>(cartões de crédito)</em></td>
</tr>
<tr>
<td>30</td>
<td><strong>Store card</strong> <em>(Cartões de loja)</em></td>
</tr>
</tbody>
</table>

**PROVIDING FINANCIAL SERVICES**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>31</td>
<td><strong>Serving as a money guard</strong> <em>(Guardar dinheiro para alguém)</em></td>
</tr>
<tr>
<td>32</td>
<td><strong>Providing loans to friends, neighbours, or family WITH interest</strong> <em>(Empréstimos para a família, amigos, etc com juros)</em></td>
</tr>
<tr>
<td>33</td>
<td><strong>Providing loans to friends, neighbours, or family WITHOUT interest</strong> <em>(Empréstimos para a família, amigos, etc sem juros)</em></td>
</tr>
<tr>
<td>34</td>
<td><strong>Providing loans to others as a moneylender</strong> <em>(Seu próprio negócio de empréstimos, agiota)</em></td>
</tr>
<tr>
<td>35</td>
<td><strong>Providing credit to a client</strong> <em>(small business only)</em> <em>(Seus clientes compra para pagar depois)</em></td>
</tr>
</tbody>
</table>

**INSURANCE**
36. Life insurance (seguro de vida) - Regular payments are made to the insurance plan, and a payout is given at the time of the policyholder or family member’s death.

37. Medical insurance (private) “conta de convenio” - Private medical insurance purchased, usually through monthly payments. The insurance then covers a determined portion of medical expenses.

38. Women's insurance (seguro para mulheres) - This insurance offered by banks (like Bradesco, Santander) covers diagnostics and treatment specifically of women’s health problems, like breast cancer and uterine diseases. (“seguro mulher”)

39. Dental insurance (seguro dental) - Insurance for dental care, often purchased through monthly payments. Dental insurance may be provided by a private agency, but also through a union of workers or farmers.

40. House insurance (seguro de casa) - Usually purchased through monthly payments. Payout is granted in the case of fire, flood, or other unexpected event that destroys all or part of a house.

41. Motor vehicle or motorcycle insurance (seguro de moto) - Insurance against damage or liability to a vehicle purchased through monthly payments.

42. Funeral plan (Assistência Funeral Familiar, Servicios Postumos) - Funeral insurance may be offered through an insurance company, cemetery, funeral parlor, or bank. These policies allow purchasers to pay little by little in advance for funeral expenses.

43. Crop or livestock insurance (seguro agrícola ou pecuário) - Insurance often purchased early in the agricultural season, with a payout provided in the case of a poor harvest due mostly to weather conditions. Such insurance may also cover sickness or death of animals.

**OTHER WAYS TO GET MONEY**

44. Special purpose stored value cards / including vale de alimentacao, transportacao, - Cards linked to government programs or employment that are loaded with value that can be debited, either for cash at very specific locations or for a specific set of goods and services, such as food or public transportation.

45. Prepaid debit cards (cartões prepagados) - Stored value cards that can be used to withdraw cash or pay for any good or service that are NOT linked to a bank account. Such cards are usually branded and can be used in any establishment with a POS. Some employers pay wages with prepaid debit cards.

46. Salary swapping or sharing (compartilhar ou trocar salaries) - A practice in which two or more income earners exchange parts of their salary, because they are paid at different times of the month and are trying to spread out income inflows into the household. For example, if one friend is paid on the 15th of the month and the other friend is paid on the 25th, the first to be paid may give R$100 to her friend on the 15th in exchange for being given R$100 from the same friend when her salary arrives on the 25th.

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**List of additional terms**

**Cash on hand** - Money carried on one’s person— in one’s pocket or wallet— that is to be spent in the immediate term. This is not savings. Money that is received as payment, kept on one’s person, and spent within a short time frame is also considered cash on hand.

**Selling assets for money** - The sale of something that one owns —like a television, refrigerator, chickens, or other things—in order to get money.

**Auctioning assets for money (Leilão)** - This is when you hold an auction to sell something to the highest bidder. The leilão is sometimes used by informal salespersons or entrepreneurs to raise money to invest in goods or working capital. Farmers might have an auction to sell off animals.
**Raffle (Rifa)** - Raffling goods for money, or selling chances to win an asset someone offers or some other prize in a drawing (sorteio). This is done as a way of raising money.

**Vaquinha** - Group emergency funds/vaquinhas are when a person (or perhaps an organization) has a financial need, and asks many people to contribute to a group fund to help out. The person is not expected to repay the money. This is common in emergencies (funerals, emergency sicknesses, etc.) but can also be used to raise money for parties or feasts.