

## Chapter 14

# The State, Public Policies, and Financial Inclusion

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### 1. Introduction

This chapter addresses the evolution of financial inclusion in the country and highlights the peculiarities of the Brazilian case, in particular the role of the state and public policies in this process. The term ‘financial inclusion’ was recently coined, its origins being connected to microfinance and microcredit. The definitions that are commonly presented in the literature characterise microfinance as providing financial services for the low-income population through a differentiated methodology to increase its quality of life. The differentiated methods refer to innovations, such as group loans and credit agents ([Morduch, 1999](#)).

Financial inclusion can be defined in a similar way to microfinance. The use of the concept financial inclusion seeks to recognise the crucial role of the formal financial system in overcoming the large-scale challenge of reaching out to the lower-income population. In other words, there is no way to promote solutions on the necessary scale without linking microfinance institutions (MFIs) and the traditional financial system. Hence, the term often ends up being interpreted as more appropriately incorporating microfinance. It is worth remembering that, despite its importance, there is evidence that the traditional financial system does not have the necessary agility to build models and business arrangements capable of effectively reaching the low-income population ([Gonzalez et al., 2015](#)).

Microcredit, one of the financial services provided under the umbrella of microfinance, represents a way of promoting inclusion and development by fostering income-generating activities. The process is based on the multiplication of micro-enterprises. In its recent version, it gained popularity because of the fame achieved by Grameen Bank, which was created in Bangladesh by Muhammad Yunus, who is known as the ‘banker to the poor’ and who won the Nobel Peace Prize in 2006 ([Schmidt, 2010](#)).

The supply of credit and other financial services is challenging because it cannot be limited to offering the existing products and services to the low-income population that are generally designed for the more affluent classes; the needs are not the same, and the local reality needs to be considered. The scale of the provision of financial services to the low-income population is also enormous. The World Bank estimates that about 30% of the world's adult population does not have access to bank accounts. This means that alternative initiatives and arrangements linked to the traditional world of microfinance are not enough to overcome the challenge of providing financial services to people living on low incomes (Gonzalez et al., 2015).

This chapter is divided into five parts in addition to this introduction. The second part offers a conceptual view of the dimensions of financial inclusion, while the third includes ways of acting to mitigate situations of financial exclusion. The fourth part deals with income transfer programmes and their potential for inducing financial inclusion. In the fifth we examine some of the cases in Brazil in recent years that shed light on the potential role of government in financial inclusion. Finally, our concluding remarks point to the importance of joint financial inclusion initiatives for facing up to poverty and reducing inequality.

## 2. Dimensions of Financial Inclusion

Financial inclusion has three dimensions: access, use, and quality.<sup>1</sup> Access seeks to measure the availability of the services and financial products on offer. Use is related to the intensity, extent, and depth of use of financial services and products. Finally, the quality dimension, the most complex of the three we discuss below, concerns the effects of financial services and products on consumers' quality of life, including consumer protection frameworks and institutions, such as consumer protection agencies (Gonzalez et al., 2015).

Data from the World Bank survey – FINDEX (Table 1) – show a positive evolution in the access dimension across different types of countries. Gender and account access data in Brazil also show a gradual reduction in the gender gap. Despite the improvement, however, there is a persistent difference in access according to income level (Figs. 1 and 2).

Table 1. Percentage of People Over 15 Who Have a Bank Account.

Year	High Income	Middle Income	Low and Middle Income	Lower Middle Income	Low Income
2011	88%	43%	42%	29%	13%
2014	93%	58%	55%	42%	23%
2017	94%	65%	63%	58%	35%

Source: Global FINDEX 2017 – World Bank.

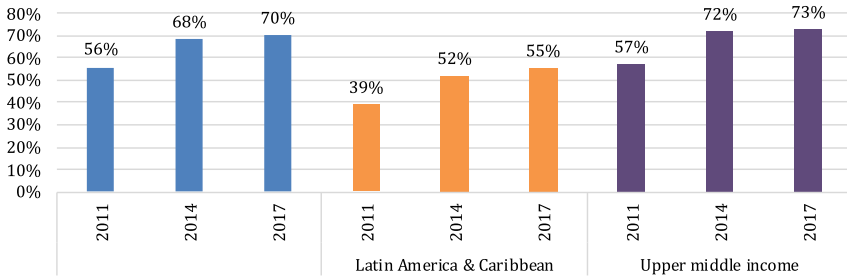


Fig. 1. Comparison of the Percentage of People Who Use a Financial Institution. *Source:* Global FINDEX 2017 - World Bank.

Several reasons limit the low-income population's access to and use of financial services. Tables 2 and 3 show the results for a global sample (Global FinIndex, 2017) of countries and specific outcomes for Brazil (FGVcemif and CDE Plan, 2017). In global terms, aspects related to the transaction costs of the account and the physical distance of financial institutions emerge. The main reason for not having an account in a financial institution in Brazil is 'Having little money/what I earn is not enough to have a bank account', with 71.3%.

The quality of the services provided is another crucial point for including classes CDE (low-income). Many users complain that they have difficulty understanding the various services offered. When asked about the incidence of interest on specific initial capital, more than 40% of people could not answer correctly. These percentages show that people often fail to understand interest rates and finances (Yu et al., 2015). Progress must be made to adapt banking services to the reality of low-income people.

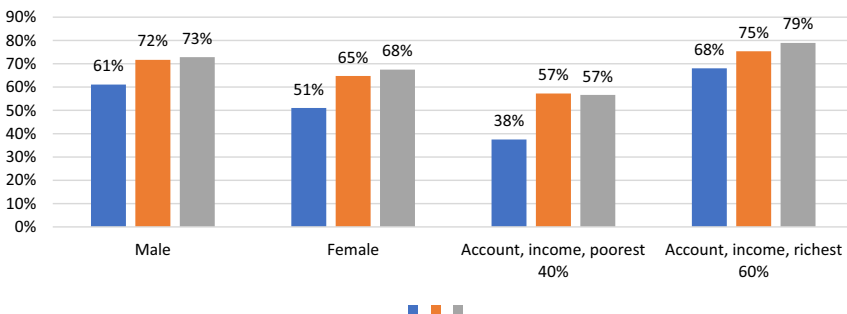


Fig. 2. Comparison Between Women and Men and the 40% Poorest and 60% Richest People Over 15 Years of Age in Brazil That Use a Financial Institution. *Source:* Global FINDEX 2017- World Bank.

Table 2. Alleged Reasons for Not Having a Bank Account.

Reasons	%
No account because financial institutions are very far away	11%
No account because financial services are very expensive	20%
No account due to a lack of required documentation	7%
No account due to a lack of trust in financial institutions	9%
No account for religious reasons	2%
No account because of insufficient funds	21%
No account because someone in the family has an account	18%
No account because there is no need for financial services ONLY	0%

Source: Global FINDEX 2017 – World Bank.

### 3. Financial Inclusion and Forms of State Action

The limited role of the traditional financial system in microfinance and the insufficient resources of MFIs create room for potential action from the government. Fig. 3 analyses how the different state roles can be formulated and implemented.

The figure demonstrates that access to financial services and their use by those on low incomes depend on the integrated action of actors on three levels: the micro, meso, and macro. The state is one of these actors. Analysing the figure in generic terms, the beneficiaries of the services are at the centre because their

Table 3. Answer the Question: ‘What Is the Main Reason Why You Don’t Have a Bank Account?’ – CDE Plan 2017.

I’ve had problems with banks, and I don’t want to relate to them	6.9%
I have little money/what I earn is not enough to have a bank account	71.3%
I get paid in cash	7.8%
The bank is far from my house, and it’s not worth going there	0.4%
Bank fees and charges are too high	2.7%
Banks don’t have services/products for people with little money like me	1.3%
I’m not treated well	0.4%
I can’t talk to my manager	0.4%
I can’t get information/nobody explains anything to me	0.2%
I don’t understand bank language/I find bank products confusing	2.9%
Name restrictions/I cannot open a current account	5.8%

Source: Global FINDEX 2017 – World Bank.



Fig. 3. An Inclusive Financial System. *Source:* Helms (2006, p. 14).

demands determine and influence the actions of groups and institutions on the other levels. The micro-level comprises the institutions that relate directly to the beneficiaries. The meso-level includes those institutions responsible for the system's infrastructure, which are involved in reducing transaction costs, producing and sharing information, promoting transparency, consumer protection services, etc. Finally, the macro-level comprises those institutions whose actions affect the other levels (meso and micro), for example, by determining the 'rules of the game'.

Fig. 3 could comprise exclusively state institutions working on all three levels. Starting at the macro-level, the best examples are probably the central banks that formulate and effectively implement regulatory frameworks. Acting at the meso-level are the agencies responsible for the protection of consumer law, such as PROCON in Brazil, an organ of the Secretary of State for Justice, Citizenship and Human Rights, which has the formal objective of informing, defending and guiding consumers in the search for a solution to any consumer problem, which includes those involving financial services. Finally, at the micro-level, public banks generally act in direct contact with the beneficiaries through their various financial services: *Caixa Econômica Federal* (Caixa – a state-owned savings and loan bank) and *Banco do Nordeste* (BNB) are examples of state institutions acting at this level.

A detailed analysis of each of the above levels goes beyond the intended scope of this study. Instead, we will offer further examples of the role of the state and public policies and their direct or indirect relationship with financial inclusion.

#### 4. Income Transfer Programmes

Income transfer programmes have an essential synergy with financial inclusion. In formal terms, social transfers are payments made by the government to the population. These transfers are made via distribution channels that reach the lowest-income people. Table 4 presents figures for Brazil and middle-income countries. In terms of the scope of these programmes, 18.75% of the population in Brazil benefit, compared with 12.23% of other countries. In the case of Brazil, most government transfers are paid into bank accounts that are held by 14.89 percentage points of the 18.75% of beneficiaries.

The effect of transfers on the welfare of beneficiaries may be more significant if inclusive financial services are coupled with the payment of the benefit. This is because there is evidence that these services, when appropriate to the needs of those on a low income, allow for the mitigating effects of adverse shocks, such as natural disasters or epidemics. This usually occurs by way of credit, whether emergency or not, or by the accumulation of assets. Exploring the synergies that exist between financial inclusion and income transfers can, therefore, be a way of more effectively formulating policies for combatting poverty and inequality. This situation is true in countries that already have large-scale transfer programmes, such as Brazil, Mexico, and South Africa.

The main payment channel in Brazil – *Bolsa Família* (BF), a large-scale transfer programme – has been using banking correspondents, which are non-banking entities (supermarkets, pharmacies, lottery houses, and post offices) that partner with banks in order to offer financial services (Gonzalez et al., 2015).

This model is used in Brazil because of the intensive use of information and communication technology (ICT) in the banking sector. The need to pay the BF

Table 4. Comparison Between Brazil and Other Middle-Income Countries.

Series Name	Middle-Income Countries		Brazil	
	2014	2017	2014	2017
Percentage of the population that benefits	13.11%	12.23%	15.02%	18.75%
First account opened to receive government transfers	2.67%	3.66%	7.65%	5.43%
Receiving government cash transfers	4.80%	2.20%	1.64%	1.66%
Receiving government transfers via an account	7.42%	7.77%	13.16%	14.89%
Receiving government transfers by cell phone	0.16%	0.62%	0.13%	0.00%*

\*Figure not found in the reported databases, was not informed, or is less than 0.01%.

Source: Global FINDEX 2017 – World Bank.

programme, especially in smaller cities, meant that Caixa had to expand its network of correspondents, notably by including its lottery outlets in the programme's payment logistics (Jayo et al., 2014).

Having BF as one of its main drivers, the model of correspondents quickly expanded to become the main access channel to financial services for the low-income population. More than 150,000 correspondents are currently allowed to receive deposits and make withdrawals, while some 169,000 are authorised to receive credit cards and loan proposals from 18,000 traditional bank branches (BCB, 2018; Gonzalez et al., 2015). It is also worth noting that this system of correspondents contributes to the construction and functioning of the current FinTechs ecosystem in the country. This situation implies that the BF programme has indirectly contributed to boosting innovation in the financial services market.

## 5. Cases That Illustrate Financial Inclusion

We now present some experiences that illustrate the role of government and public policies in financial inclusion. The first initiative was implemented by the federal government to minimise the financial and economic impacts of the COVID-19 pandemic. We then describe the case of the city of Maricá, where municipal income was transferred into a social digital currency, an initiative that was created by community banks. We conclude by presenting a microcredit programme that was designed and implemented by a public bank.

### 5.1 Emergency Aid

With the advent of the COVID-19 pandemic, economic measures were explicitly taken to minimise the financial impacts on the most affected population, especially those on low incomes, which include the unemployed, small traders, casual workers, and other people living in a situation of vulnerability.

Emergency basic income (EBI) schemes have been adopted in various countries (Gonzalez et al., 2020). Nine installments of the EBI were paid in Brazil in 2020, five of R\$ 600.00, or R\$ 1200.00 (to mothers as head of the family), and four of R\$ 300.00, or R\$ 600.00 (to mothers as head of the family) at a later stage, with approximately 67 million people receiving the first installment (Gonzalez et al., 2020). The EBI was discontinued during the first three months of 2021, but payments resumed in April of that year when seven additional installments (the benefit was reduced to an average of R\$250) were paid to low-income people.

Implementation of the Emergency Aid programme involved two stages: registration/analysis of the eligibility criteria and payment logistics (Gonzalez et al., 2020). The first stage involved registering and analysing, albeit minimally, the possible beneficiary's eligibility for the resource; i.e. compliance with the predefined criteria for receiving the benefit. This stage made it necessary for the federal government to improve its Single Register (*CadÚnico*) since many who were not on the *CadÚnico* nevertheless met the eligibility criteria.

To overcome this challenge, Caixa developed and then launched two mobile apps: the first was known as Caixa's *Auxílio Emergencial* (Emergency Aid), so that people could claim assistance by self-declaring. A few days later, it launched the second mobile app – Caixa *Tem* – to facilitate consultations and transactions involving the emergency funds.

The second stage was the actual transfer of the funds, or the payment logistics. This was another challenge because, in addition to the fact that the *CadÚnico* was not complete, as mentioned above, not all the potential beneficiaries had or used a bank account (Demirguc-Kunt et al., 2018). The option was to promote rapid banking, which meant opening new bank accounts exclusively with Caixa.

In this sense, the EBI programme has led to 'unexpected progress' by boosting access to digital accounts for millions of previously excluded people. Considering the definitions we presented at the beginning of this chapter, it is clear that the EBI has had a positive effect on the access dimension of financial inclusion. The potential impact on the other dimensions – use and quality – still needs to be investigated.

## 5.2 *The Maricá Case*

A fascinating example involving the potential synergy between public policy and financial inclusion is the Mumbuca Community Bank in the municipality of Maricá (RJ) (Cerneve, 2019), where municipal income transfer programme funds are paid by way of a digital currency that circulates locally, the so-called complementary digital currency. This type of programme became more relevant in the context of the pandemic precisely because it offers improved solutions for the two stages of the Emergency Aid programme: registration/analysis of eligibility, and payment logistics.

Another feature is using digital platforms – the e-Money app in the case of Marica – to deliver the benefits. E-money enables people to use '*mumbuca*' (the digital currency) in a digital version, which is an essential innovation in the implementation of a municipal income transfer programme. Recent studies acknowledge the importance of digital social currencies when it comes to facing up to an economic crisis and promoting local development.

In 2019, the municipality's various programmes were incorporated into the Basic Income of Citizenship (RBC), which is now distributed per inhabitant and no longer by family, which led to a significant increase in the number of beneficiaries. As a result of the pandemic, an emergency benefit package was implemented in Maricá, which, among other actions, temporarily increased the value of the municipal transfer amount from 130 to 300 *mumbucas* per person. Prior knowledge of the beneficiaries and the availability of e-Money mitigated the two main problems that the federal government's EA faced: analysing eligibility and paying the benefit.

Maricá's case shows how new technologies, along with the infrastructure of community banks and local action, can help with the implementation of public basic income policies. The link between local governments and those that are



active in the payment ecosystem is a concrete example of the synergy between public policies and financial inclusion for promoting development.

### 5.3 Crediamigo Programme

The *Crediamigo* programme was created in 1997 by the Banco do Nordeste do Brasil (BNB) to serve the poorest urban areas in the northeast of the country (Neri, 2008). The programme took its inspiration from Grameen Bank, which was created in 1976 by Bengali professor, Muhammad Yunus, who received the 2006 Nobel Peace Prize (Neri, 2008). One of the main innovations of BNB is its adoption of a group-lending methodology, in which groups are formed and one person provides the collateral for the others in the same group. *Crediamigo*'s mission is 'To contribute to the socio-economic development of entrepreneurs through microfinance products, services and business advice in a sustainable, timely and easily accessible way'.<sup>2</sup>

*Crediamigo* can be accessed by a mobile app that allows borrowers to consult their financial situation, such as account balances, statements, and loan transactions, and to pay loan instalments. Despite the advantages of using an app, studies indicate that the main driver of microcredit use in Brazil is the credit agent (Hernandes et al., 2018). Credit agencies capture new customers and maintain them over the long term, thus generating a personal relationship that ensures the continuity of the process of identifying needs and making new loans, in addition to assisting in the personal development and business of the microcredit borrowers.

The programme focusses predominantly on low-income people and females. Recent data indicate that most borrowers have incomes of up to R\$ 1,000.00, 63% are women, and 61% have fewer than eight years of schooling (Souza, 2018). BnB data indicate that about 55% of the customers registered with *Crediamigo* were also on the *CadUnico* at the end of 2020. Data suggest that *Crediamigo* customers have increased their income by more than 40% in the last three years (2017–2020).

In 2020, *Crediamigo* was considered the most extensive microcredit programme in Latin America, covering entrepreneurs from both the formal and informal sectors (Maciel & Maciel, 2020). In that year, more than R\$ 15 billion (around \$ 3 billion) were spent in microcredit operations, of which R\$ 12.1 billion was spent through *Crediamigo* and another R\$ 2.9 billion in its programme dedicated to rural microcredit, *Agroamigo*. These resources are part of BNB's strategy, which follows the guidelines of the federal government's National Program for Productive and Oriented Microcredit (PNMPO) and indicate an increase of 16% over the previous period.

The programme accounts for about 82% of the total volume of resources earmarked for microcredit for individuals in Brazil (Souza, 2018), is present in 1481 municipalities, and has more than two million active customers (Gussi, 2020). In addition to north-eastern states, the programme also serves micro-entrepreneurs from other regions (states of Minas Gerais and Espírito Santo).

With regard to *Crediamigo's* participation in combatting the effects of the pandemic, the credit line worked in terms of reducing the negative impacts caused by the COVID-19 crisis, as indeed did other federal government initiatives in 2020, such as the Emergency Aid programme. Through the FNE Emergency *Crediamigo*, a programme aimed at minimising the effects of the pandemic on people who depend on microcredit, R\$ 1.04 billion was applied, which was of direct benefit to 129,775 businesspeople.

## 6. Final Remarks

Financial inclusion has received increased attention from policymakers worldwide (Ozili, 2018). Due to the potential scale of its outreach to the estimated 1.8 billion people not served by formal financial services (Demirguc-Kunt et al., 2018), financial inclusion is perceived as a strategy to achieve the United Nation's Sustainable Development Goals (Demirguc-Kunt et al., 2018). In this sense, there are incentives for government initiatives and public policies that may boost financial inclusion, such as conditional cash transfers.

Access to and use of financial services by low-income populations demand government actions to improve financial literacy and consumer protection levels, at the risk of them having a counterproductive effect on the poor, such as over-indebtedness and excessively high transaction fees (Ozili, 2018), thereby reinforcing the role of government in financial inclusion.

The history of microfinance and financial inclusion has been linked directly or indirectly to governments and public policy. Achieving the SDGs may be a new chapter in this long-term relationship aimed at ensuring a better world.

## Notes

1. A discussion of the dimensions and their respective variables can be found in Roa (2015). *Financial inclusion in Latin America and the Caribbean: Access, usage and quality*. CEMLA.
2. <https://www.bnb.gov.br/crediamigo/sobre>

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