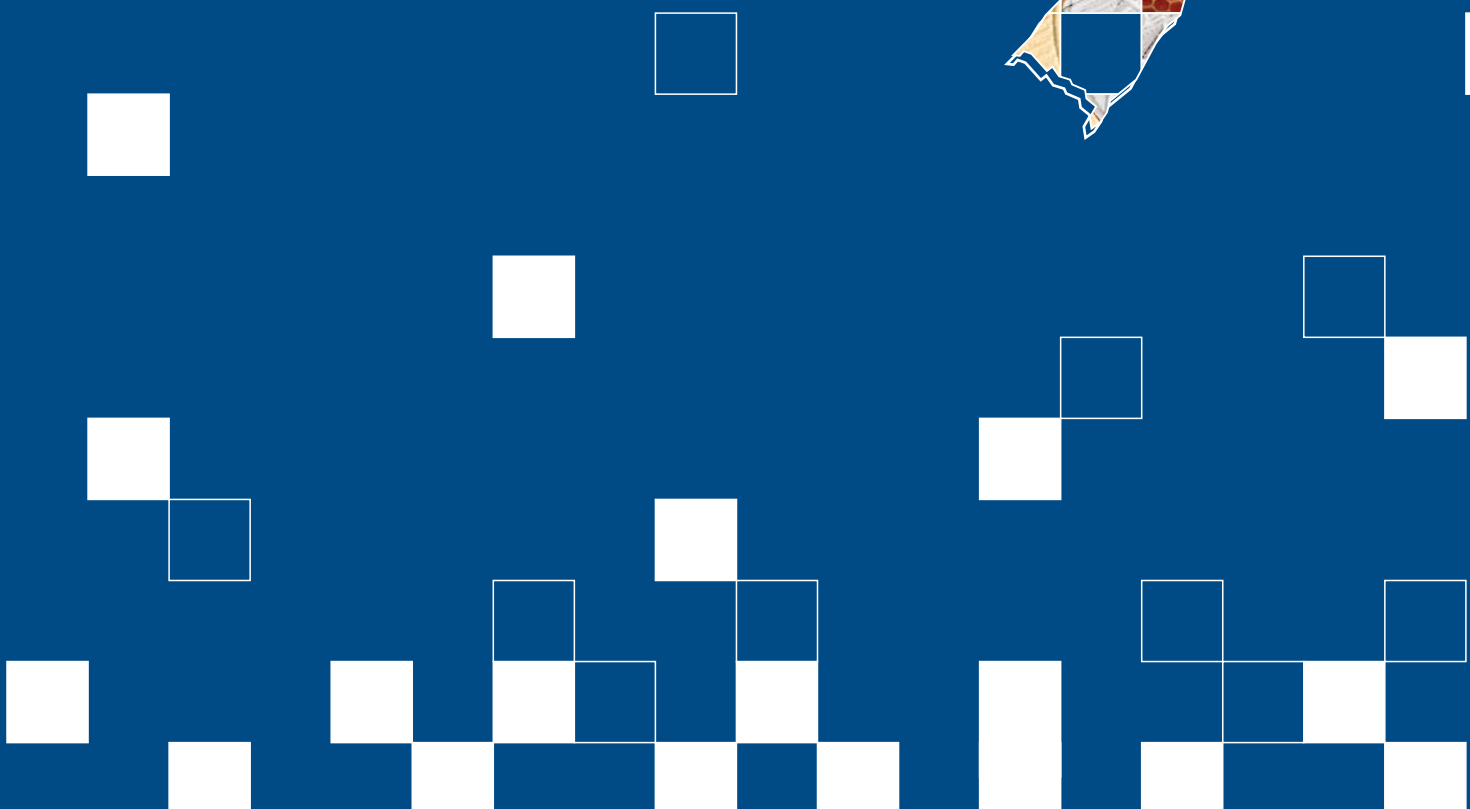


Report on

# Financial Inclusion

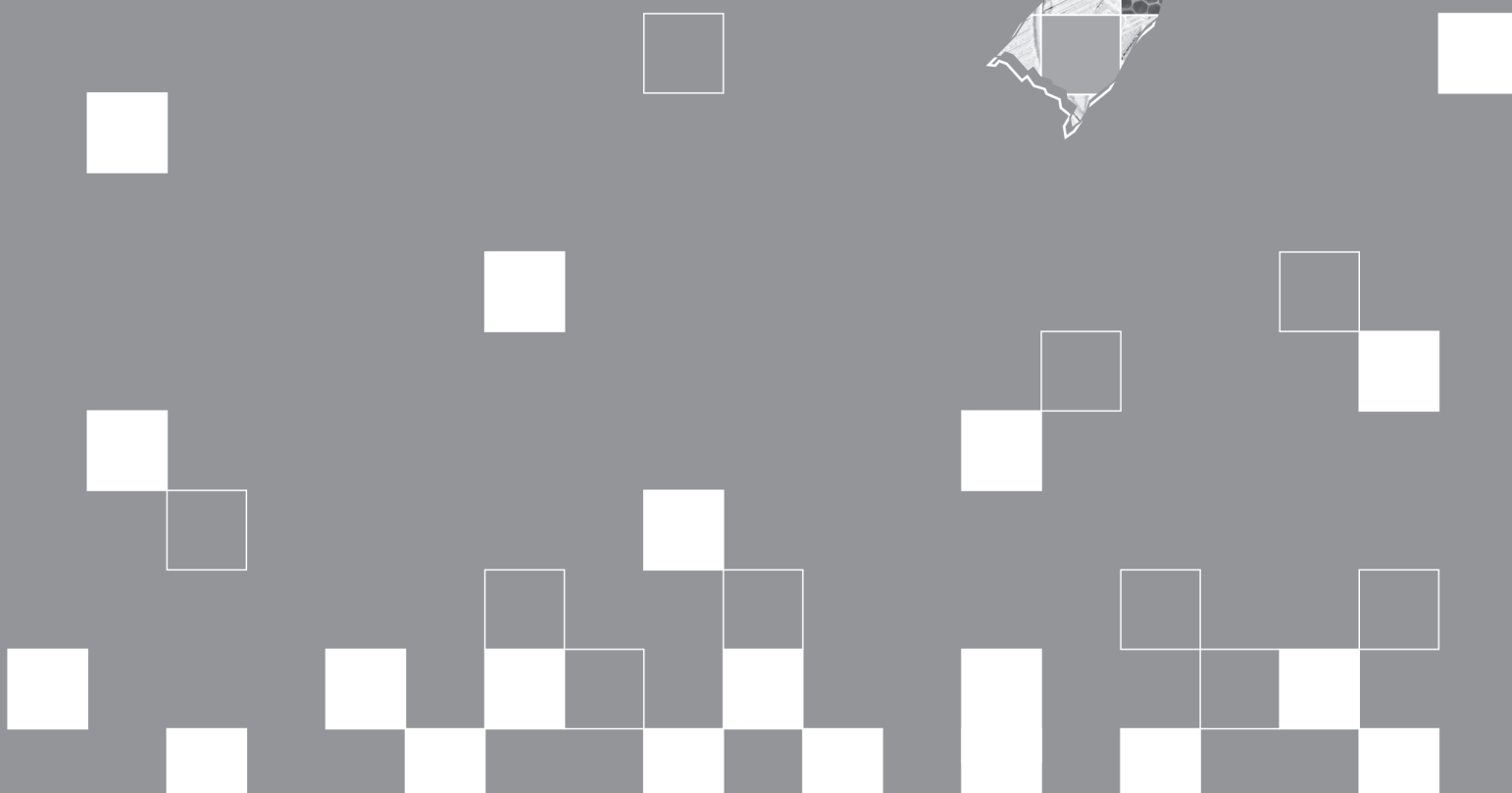
Number 1 – 2010



**Report on**

# **Financial Inclusion**

Number 1 – 2010



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Banco Central do Brasil.

Report on Financial Inclusion. – N. 1-. 2. ed. –. Brasília : BCB,  
2010 -  
n. ; 29,7 cm.

Annual Report

ISSN 2179-6696

1. Financial System – Periodical. 2. Finance – Periodical.

CDU 336.7(05)

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# President's Letter

In 2010, the Brazilian central bank, Banco Central do Brasil (BCB) defined the promotion of financial inclusion as one of its strategic objectives. This commitment to financial inclusion was identified as one way for the BCB to fulfil its institutional mission with respect to ensuring the soundness and efficiency of the National Financial System (SFN).

The publication of this first Report on Financial Inclusion (RIF) is a crucial step towards meeting this objective. The RIF aims to consolidate BCB's data and information in order to examine the issue and construct a map of financial inclusion in Brazil. This undertaking is motivated by a conviction that, in order to develop targets and indicators and establish effective public policies on financial inclusion, it is necessary to define, categorize, and measure it.

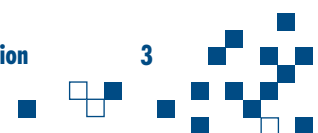
This is not the first step taken by the BCB to promote financial inclusion. Since the 1990s, the Brazilian central bank has been working with public and private agents to articulate knowledge and actions on the issue. We have focused on regulatory improvements and on raising public awareness about financial inclusion in both the public sphere and financial system. Efforts aimed at publicizing financial inclusion initially focused on microcredit, then microfinance. Today, we are articulating financial inclusion as the right of all to social inclusion and a better quality of life, as well as a tool for strengthening the country.

In the suite of actions aimed at improving the regulatory framework for financial inclusion, some areas of normative changes may be highlighted: correspondents and simplified accounts, credit unions, and Microentrepreneur Credit Companies (SCM), which later became Microentrepreneur and Small Business Credit Companies (SCMEPP).

In April 2010, BCB dedicated a segment of its Financial System Regulation Department (DENOR) to deal specifically with financial inclusion and other issues related to socio-environmental responsibility in the financial system.

As part of the Financial Inclusion Project, the BCB hosted the First Brazilian Central Bank Forum for Financial Inclusion in 2009. One of the main outputs of the Forum was ratifying the need to organize BCB's existing financial inclusion data and information. The Financial Inclusion Project also incorporated activities of the G20 Financial Inclusion Experts Group (FIEG), in which Brazil leads with Australia the work of the Access Through Innovation Sub-Group (ATISG).

As a product of the Financial Inclusion Project, this report will illustrate the current state of financial inclusion in Brazil through data that regulated institutions send to the BCB, and will provide a comparative analysis with other countries' scenario.

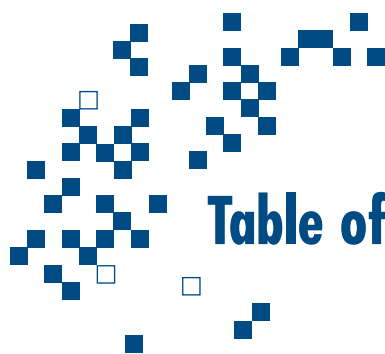


We hope this report will ultimately contribute to public policy decisions that promote financial inclusion for the people of Brazil. In the short term, we expect that it will raise the profile and intensify analysis of financial inclusion, not only by prompting discussion among those directly involved, but by shining a light on the issue for everyone to see.

Happy reading!

**Henrique de Campos Meirelles**  
President, Banco Central do Brasil (BCB)





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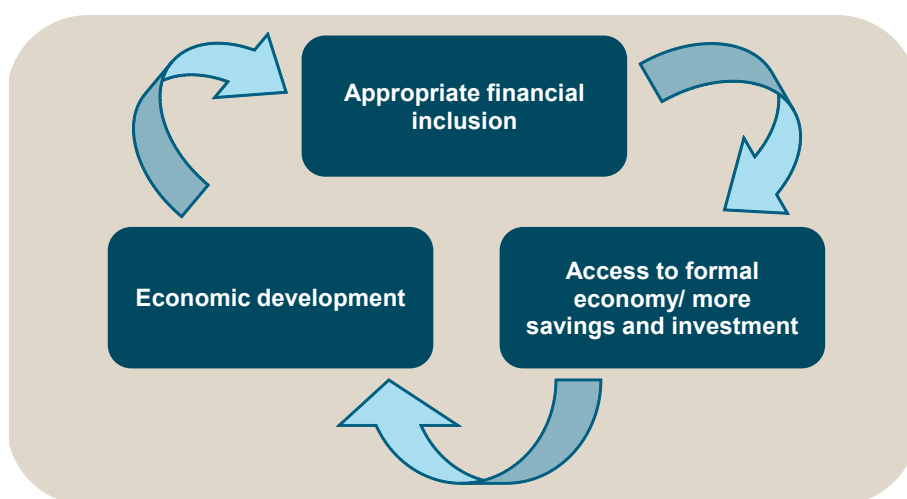
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Banco Central do Brasil’s (BCB) institutional mission is to “ensure the stability of the currency’s purchasing power and a solid and efficient financial system.” The BCB adopts prudential measures aimed at ensuring the health of financial institutions and an effective system of financial intermediation to meet the needs of all economic agents in the country.

Recognizing that stability, integrity, and financial inclusion are complementary, the BCB progresses in improving the regulatory framework and in coordinating the various agents that are involved somehow with the provision of financial services. This work is guided by a conviction that finding mechanisms for financial inclusion is essential for reducing social inequalities and enhancing economic development. These mechanisms are expected to produce a “snowball effect” whereby greater access to the formal economy promotes progressively greater access to savings and investment, which in turn expands the production sector and contributes to economic growth.

**Image 1.1 – Financial inclusion virtuous circle**



Although financial inclusion has traditionally been associated with access to credit, it is important that it is seen as more than this. There is a universal need for savings, payment, and transfer services, and access to them empowers less advantaged social groups to grow or stabilize their incomes and become more resilient to economic shocks. In terms of supply, financial inclusion tends to leverage the financial services industry by stimulating the offering of innovative services and highlighting opportunities to provide differentiated services through microfinance institutions (MFIs), aimed at reaching segments of the population that are generally excluded from the traditional banking system.





Gathering information and arriving at an accurate appraisal of financial inclusion in Brazil is a crucial step towards developing public policies that create more efficient tools for financial intermediation and promote the financial inclusion of the Brazilian population. This Report on Financial Inclusion (RIF) 1, which collects and analyses information on access and use of financial services in Brazil, helps the BCB to fulfil its institutional mission and meet one of its strategic objectives, “to promote the efficiency of the national financial system and the population’s financial inclusion.”<sup>1</sup> The report draws on data that financial institutions and other institutions authorized to operate by the BCB send to the BCB. It is worth emphasizing that this report is only the first step; by analyzing the current state of financial inclusion in Brazil, we will be able to define an ideal future and draw up plans to achieve it.

## 1.1 Objective

The purpose of this report is to consolidate the data and information on financial inclusion already collected by the BCB in order to construct a picture of the current state of financial inclusion in Brazil. As mentioned previously, BCB’s short-term goal for the report is to provide an overview that helps the BCB and other government agents to enhance the efficiency of the National Financial System (SFN) and promote socioeconomic development. Another objective of the report is to provide information to other agents involved in financial inclusion efforts, including institutions that are part of the SFN, MFIs, academics, instigators, and countries with shared interests in financial inclusion. It is hoped that this information will also support the development of new businesses and opportunities tailored to the needs of the population.

In the medium to long term, the objective of the report is to construct a map of financial inclusion in Brazil that becomes progressively more accurate and complete. If financial inclusion is considered an essential element of an efficient national financial system, it is expected that the progress of this work will result in a report on the financial system’s efficiency.

Finally, from a broader perspective, the RIF will assist in monitoring and assessing the impacts of financial inclusion policies and actions in Brazil, and, therefore, become an important tool for improving these policies and developing and implementing new initiatives over time.

## 1.2 Structure

The report is divided into six chapters.

Chapter 1 presents a brief introduction to the theme and outlines the scope and methodology of the report.

Chapter 2 defines the concept of financial inclusion and reviews how the BCB has supported it, both on the domestic and international stage.

Chapter 3 examines macroeconomic data and describes the operating environment of SFN member institutions in Brazil, as well as supervising institutions.

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1 BCB Strategic Objectives 2010-2014, <http://www.bcb.gov.br/?PLAN>.



**Table 1.1 – Information on macroeconomy and on the National Financial System (SFN) structure**

Variant	Type
Inflation (variation of Extended National Consumer Price Index – IPCA)	
Public Sector Net Debt/GDP	Percentage
Primary Surplus/GDP	
GDP growth	
GDP in 2009 prices	R\$ billion
Unemployment rate	Percentage
International reserves	US\$ billion
Gross External Debt/GDP	Percentage
Microentrepreneur and Small Business Credit Companies (SCMEPP) credit portfolio	Change index
Development agencies	Quantity
Credit portfolio:	
- development agencies	Change index
- SFN	
Institutions authorized to operate by the Banco Central do Brasil (BCB)	Quantity
Participation of the 5, 10, and 20 biggest banks and Caixa Econômica Federal in the total banking sector assets	Percentage
Universal banks with foreign capital participation/Total universal banks	

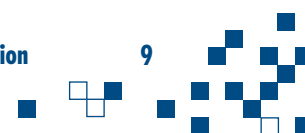
Chapters 4 and 5 analyse the current level of financial inclusion in Brazil, focusing on two main indicators: access to financial system's infrastructure and use of financial services.

Chapter 4 deals specifically with access. The indicators used to measure access help to compare the size of the service network to the size of the population and geographical area. To assess the reach of the SFN, the chapter analyses the level of access to financial services in Brazilian municipalities. Table 1.2 presents the variables used to support the analysis, which were also used to develop the indicators.

**Table 1.2 – Information on access to the National Financial System (SFN)**

Variant	Type	Level
Headquarters of institutions authorized to operate by the BCB	Quantity	National Region
Channels:		National Region
- Bank branches, correspondents, Bank Service Outposts (PAB), Advanced Service Outposts (PAA), Electronic Service Outposts (PAE), credit unions, Cooperative Service Outposts (PAC)	Quantity	
Electronic equipments:		State
- ATM, POS		
Municipalities served exclusively by correspondent or by correspondent and PAE Municipalities by level of access (quantity of types of channels*)	Quantity	National
Regional distribution of municipalities served exclusively by correspondent Regional distribution of municipalities served by 3 or 4 types of channels*	Quantity	
Municipalities by level of access (quantity of types of channels)/Total municipalities	Percentage	National Region State

\* Here, the channels of access were divided into four types:  
- bank facilities (bank branches, PAAs, PABs, and PAEs);  
- correspondents;  
- credit unions facilities (credit unions and PACs);  
- others (SCM and Microcredit Service Outposts – PAM).



**Table 1.3 – Information on use of financial services**

Variant	Type	Level
Amount of credit to individuals segmented by range of value (up to R\$5,000, from R\$5,000 to R\$50,000, over R\$50,000)	Percentage	National
Credit to individuals (housing finance / other credits)	Index change	National
Credit (to individuals / to corporations)	R\$ billion	Region
Default (of individuals / of corporations)	Percentage	Region
Segmentation of credit transactions by value and region	Percentage	
Operations under the National Program of Oriented Productive Microcredit (PNMPO)	Quantity of contracts Amount of funds (R\$)	National
Amount of demand deposits required to be directed to microcredit operations		
- Legally required	R\$ billion	National
- Effectively used in microcredit operations (separated by: consume / investment)		
Total rural credit	Quantity of contracts Amount of funds (R\$)	National
Rural credit under the National Program for Strengthening Family Agriculture (Pronaf)	Quantity of contracts Amount of funds (R\$)	National Region State
Deposits (total, term, savings, and demand deposits)	R\$ billion	National
Total deposits	R\$ billion	Region
Simplified bank accounts	Quantity	National
Average ticket:		
- credit card	R\$	National
- debt card		
Use of channels:	Quantity of transactions Amount of funds	National
- Internet banking		
- ATM		

Chapter 5 provides an overview of how the Brazilian population uses financial services, such as credit, deposits, and payment tools. The indicators used to measure usage reveal geographical and demographic detail.

Table 1.3 includes the variables considered in Chapter 5, which, again, support the analysis and contributed to the development of certain indicators.

Chapter 6 briefly examines the challenges of achieving sufficient levels of financial inclusion in Brazil.

## 1.3 Methodology and the development of indicators

To paint a picture of access and use of financial services in Brazil, this report uses data mainly from the BCB and the Brazilian Institute of Geography and Statistics (IBGE).

Data on geographical area and total population were gathered by IBGE. Because state and regional data were not available until 2010, data on the adult population (in this report, age equal or over 15 years old) are based on IBGE's estimates of total population by Federative Unit (UF)<sup>2</sup> and on IBGE's 2008 data on adult population by UF. For each estimate, a calculation was used as exemplified below:

---

Estimate of total population of São Paulo (SP) for jun/2010 x Number of people over the age of 15 in SP in 2008

---

Total population of SP in 2008

Tables 1 to 5 in Annex 1 include the data on population and geographical area that were used to develop the indicators in this report.

The importance of international comparative analysis was considered when constructing these indicators, as well as the value of contributing data on financial inclusion in Brazil to international studies, such as those conducted by the International Monetary Fund (IMF) and the Consultative Group to Assist the Poor (CGAP).<sup>3</sup>

Tables 1.4 and 1.5 summarize the indicators used in the report.

**Table 1.4 – Indicators of access**

Variant	Type	Level
Channels:		
- Bank branches	Demographic (by 10,000 adults)	National Region
- Correspondents		
- Other channels	Geographic (by 1,000 km <sup>2</sup> )	State
ATM		
POS		

2 IBGE, 2008, "Brazil, Major Regions and Federative Units: Population Estimates with reference dates on the first of each month: 1991/2031 – Population Projection by Sex and Age for the Period 1980–2050; 2008 Revision". Available at: <[ftp://ftp.ibge.gov.br/Estimativas\\_Projecoes\\_Populacao/Revisao\\_2008\\_Projecoes\\_1980\\_2050/](ftp://ftp.ibge.gov.br/Estimativas_Projecoes_Populacao/Revisao_2008_Projecoes_1980_2050/)>

3 2009.



**Table 1.5 – Indicators of use**

Variant	Type	Level
Amount of credit	% of GDP	National
	Demographic (by 1,000 adults)	National Region
Total amount of population's deposits	% do GDP	National
	Demographic (by 1,000 adults)	Region
Average time deposit	% of <i>per capita</i> income	National
Average savings deposit		
Quantity of on demand deposit accounts (semester average):	Demographic (by 1,000 adults)	National
- total		
- active accounts		
Month average of the quantity of operations in the active credit portfolio (in the semester):	Demographic (by 1,000 adults)	National
- up to R\$5.000,00		
- over R\$5.000,00		
Use of distribution channels (remote access, ATM, bank branches, correspondents, call centers, mobile phones, and PDAs):	Quantity of transactions	National
- general use		
- payments		
Use of non-cash instruments (cheque, debit card, credit card, credit transfer)		
Active cards	Quantity	National
- debit		
Issued cards	Demographic (by 1,000 adults)	National
- credit		
- debit		
- credit		

Data used to develop the indicators are derived mostly from sources and records kept in the BCB. These consist generally of data submitted by financial institutions and others authorized by the BCB (required by regulation in order to supervise and monitor the SFN). Thus, the scope of this report is confined primarily to the information the BCB has already collected about the institutions it regulates and inspects.

The examination of the macroeconomic structure of the SFN in Chapter 3 draws primarily on information from the BCB Bulletin (monthly and annual),<sup>4</sup> as well as data from the IBGE and information from the BCB Focus Report<sup>5</sup>. The examination of the structure and composition of the SFN is based primarily on data submitted by member institutions, consolidated in UNICAD and the Accounting Plan for Institutions of the National Financial System (COSIF)<sup>6</sup>. It also draws on information from the BCB report “Foreign Participation in the Capital of Institutions in the Banking Sector”.<sup>7</sup>

In Chapter 4, the overview of access to financial services provides information on SFN institutions – banks, savings banks, credit unions, and others – and their distribution channels, including branches, service outposts, Point of Sale (POS), domestic correspondents, and Automated Teller Machines (ATMs). This information was gathered primarily from UNICAD data. In building its indicators, the report also

4 The BCB Bulletin is a monthly and annual publication available at: <http://www.bcb.gov.br/?BULLETIN>.

5 Weekly report published by the BCB with estimates of indicators of the national financial and economic situation. Available at: <http://www.bcb.gov.br/?FOCUSREPORT>.

6 See box on pages 14-15.

7 Report RCFJ011A, “Foreign Participation in the Capital of Institutions in the Banking Sector”.

used data from the IBGE and, for comparison with international indicators, data from the CGAP report, “Financial Access 2009: Measuring Access to Financial Services Around the World”.<sup>8</sup>

In Chapter 5, the overview of the use of financial services utilizes data from the BCB Credit Information System (SCR), particularly data relating to credit. It is worth noting that the SCR keep data of credit operations separated by client, but just to those whose total financial responsibilities, due and overdue, and relating to securities and guarantees, exceed R\$5,000. With respect to clients whose total responsibilities do not exceed R\$5,000, the SCR just keep aggregated data (do not separate it by client).

Information regarding rural credit was drawn from the 2010 BCB Statistical Yearbook of Rural Credit<sup>9</sup>, which gathers information submitted by financial agents via the programme PCORW10 – Joint Registry of Rural Operations (RECOR).<sup>10</sup>

Accounting data from COSIF was used to calculate the total fund that financial institutions are legally obliged to direct to microcredit. Information regarding active microcredit investments was accessed from the BCB Information System (SISBACEN) database.<sup>11</sup> Information on the amount of funds originating from the National Program of Oriented Productive Microcredit (PNMPO) comes from the Ministry of Labor and Employment (MTE).

Information about deposits is drawn from the monthly balance sheets of commercial banks and universal banks with commercial portfolios (by municipality), using a statistical subsystem of the COSIF System (Code ESTBAN) and the documents 4510 (Global ESTBAN) and 4500 (Monthly ESTBAN).

With respect to payment tools and channels of distribution, the report uses data gathered and managed by the BCB Department of Banking Operations and Payments System (DEBAN).

The RIF concludes with a brief description of the challenges of achieving sufficient financial inclusion in Brazil, drawing on the experience and outputs of the Financial Inclusion Project, as well as information from the analysis conducted for this report.

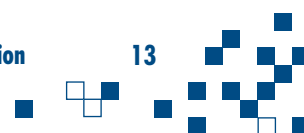
This report draws on data until June 2010 and will be issued annually. The decision to publish a report every year reflects BCB’s commitment to observe and monitor the progress of financial inclusion in Brazil, and to improve how financial inclusion is assessed.

8 Consultative Group to Assist the Poor (CGAP), 2009, “Financial Access 2009: Measuring Access to Financial Services Around the World”, <http://www.cgap.org/p/site/c/template.rc/1.9.38735/>.

9 BCB, 5 Oct 2010, <http://www.bcb.gov.br/?RELRURAL2010>.

10 Communication n. 6,142 of 27 April 1998.

11 Transaction PMFI300, based on Circular n. 3,240, 9 June 2004.



## BCB Data System

### **UNICAD (Information System on Entities Related to the Central Bank)**

UNICAD is the unified registration system of the BCB, which aims to integrate various registration databases into a single system that is complete, comprehensive, and secure. The main objective of UNICAD is to capture high quality and current registration information from individuals and corporations of interest to the BCB. All units of the BCB, financial institutions, and authorized professional associations and government agencies can consult UNICAD. Several bodies use UNICAD to register and keep information current, including BCB-supervised institutions, the Securities and Exchange Commission (CVM), external entities, and BCB departments. The information in UNICAD includes registration data on the companies supervised by the BCB, their facilities, and various individuals and corporations associated with these companies or their area of operations.

### **COSIF (Accounting Plan of National Financial System Institutions)**

COSIF was established on 29 December 1987 with the publication of Circular n. 1,273. Its objective was to unify various accounting plans and standardize procedures for registering and preparing financial statements in order to facilitate monitoring, analysis, performance evaluations, and control of SFN member institutions.

### **SCR (Credit Information System)**

The SCR is a database that provides the BCB with information it needs to supervise and monitor the credit market, as well as evaluate the credit portfolio of financial institutions. This information, submitted by financial institutions on a monthly basis, helps the BCB to identify potential credit risk problems and take preventive action to avoid banking crises.<sup>12</sup>

The SCR is also a BCB-mediated mechanism for exchanging information between financial institutions. Information about customer debts and liabilities is entered into the SCR by the financial institutions. This information is gathered on customers of development agencies, savings and loan associations, commercial banks, foreign exchange banks, development banks, investment banks, universal banks, savings banks, credit unions, mortgage companies, security brokerage companies, security distribution companies, leasing companies, microentrepreneur and small business credit companies, consumer finance companies, real estate credit companies, and the Brazilian Development Bank (BNDES).

The SCR database currently stores individual customer transactions with total liabilities equal to or greater than R\$5,000. It also stores, in aggregate, transactions of customers whose liabilities do not reach this amount, including securities and guarantees, both current and past due. The information in the SCR database includes all transactions that are a customer's responsibility, regardless of whether they are in arrears. Transactions written off as losses are only stored in the database for 48 months, so the SCR primarily includes positive customer information. Information is accessible to the market for one month after the transaction is completed.

The requirements and procedures for submitting data to the SCR differ from other credit registries, to which lenders only reports if a debtor is in default and just if they wish to register. In contrast,

<sup>12</sup> The BCB's requests for information about customer debts and liabilities with SFN financial institutions are supported by the power conferred by Article 10, items VI and IX of Law n. 4,595 of 31 December 1964, and the Complementary Law n. 105 of 10 January 2001. Article 1, paragraph 3, stipulates that it does not constitute a breach of banking secrecy to exchange information between financial institutions for recording purposes (if the rules issued by the National Monetary Council (CMN) and the BCB are also observed).

financial institutions must submit to the SCR, by the tenth of each month, the balance due on the last day of the previous month. This information is available online for 13 months.

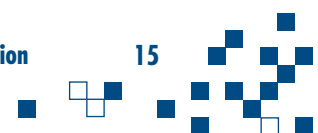
The responsibility for submitting, updating, and deleting data in the SCR lies exclusively with the financial institutions supplying the data. These institutions are legally liable for inconsistencies in the data they submit and may be required to establish an administrative process for correcting them. Customers may take legal action against institutions that have provided inaccurate information, and financial institutions can change customer information in the SCR to meet legal requirements. Data challenged in court can be changed in the system by court order before a final decision has been reached on the case.

**SISBACEN (BCB Information System)**

SISBACEN is a suite of information technology resources at BCB linked in a real-time network.

**ESTBAN (Banking Statistics System)**

ESTBAN is a statistical subsystem of the COSIF system, represented by the reports 4510 (Global ESTBAN) and 4500 (Monthly ESTBAN). The balance of ESTBAN entries must correlate with the balances of Document 4010 – General Analytical Balance Sheet in COSIF. The accounting data in the file, “ESTBAN balances by municipality”, are the sole responsibility of the financial institutions submitting the data to the BCB.







## 2.1 Defining Financial Inclusion

The definition of financial inclusion must be suitably broad to include varied initiatives and projects that promote financial inclusion. When the Financial Inclusion Project strategy was being drafted in 2009, the following definition was used:

### Financial Inclusion (2009):

to provide access to financial services that are **appropriate** to the needs of the population.

This definition emphasizes the notion of “appropriate” financial inclusion, highlighting that not everything offered on the market contributes to the population’s welfare and to the economic stability. In this sense, financial inclusion is not an end in itself. It should be understood as a way to improve the quality of life of a country’s citizens and strengthen economic agents. It is also a prerequisite for long-term financial stability, as those who join the formal financial system come to understand how new services and access channels serve their needs, such as savings and credit, payments, and fund transfer services.

Financial services should be accessible to all citizens and should be appropriate to their specific needs and circumstances. Therefore, this report does not aim to a unique and absolute indicator of financial inclusion. It aims to provide the reader with a picture of both access to financial system channels and use of financial services in Brazil. In a part of the chapter on use, it is given particular attention to the needs and demands of low-income populations (especially with respect to credit).

Financial inclusion contributes to poverty reduction in two directly related ways. First, it helps to develop the financial industry and foster economic growth. Second, by providing adequate financial services, it improves the quality of life of the population.

Deficiencies in the provision of services to low-income people, as well as the poor use of financial tools, have highlighted the need of broadening the definition of financial inclusion – it was necessary to go beyond access to bring to light the need for effective utilization of services.



In this report, financial inclusion is considered as:

### Financial Inclusion (2010):

**process of effective access and use by the population of financial services that are appropriate to their needs, contributing to their quality of life.**

This new definition embraces the idea that financial inclusion is a dynamic and multi-levelled process that develops gradually over time. It also seeks to express the idea that the aimed financial inclusion is the one that contributes to quality of life and reflects the principles of sustainable development.<sup>1</sup> Therefore, policies targeted at promoting this understanding of financial inclusion must incorporate elements of regulation, financial education, and consumer protection.<sup>2</sup>

This new definition is also broad enough to encompass a multitude of actors and issues, since the provision of financial services is not restricted to the activities and concerns of member institutions of the SFN<sup>3</sup> — other actors and issues are also involved in financial inclusion initiatives. One example is factoring companies, which offer financial services but are not members of the SFN. These companies typically serve smaller businesses that are unable to obtain conventional bank loans. Funds are released primarily through the purchase of cheques and credit documents, through trade transaction under civil legislation.

Another example is Civil Society Organizations for the Public Interest (OSCIPs). Legally established in 1999,<sup>4</sup> these are nonprofit organizations that may enter into partnership contracts with the public sector to implement particular projects and activities. Although OSCIPs may have a range of goals, flexibility in granting funding allows them to participate in microfinance initiatives. This flexibility comes from being exempt from the Usury Law,<sup>5</sup> which permits market interest rates to be charged. OSCIPs can also pay their directors, unlike other microfinance nongovernmental organizations (NGOs).<sup>6</sup>

In sum, when financial inclusion is defined more broadly, it can include a wide spectrum of possibilities and involve diverse entities.

## 2.2 Assessing BCB's performance<sup>7</sup>

In the 1990s, the BCB began to evaluate and study how to expand the supply of financial services to low-income populations. This was considered a matter of fundamental importance in the fight against social inequality in Brazil, and, over the years, the BCB has worked with representatives from the private and public sectors, and also the so-called third sector, to build a regulatory framework for financial inclusion.

1 Sustainable development, according to the Brundtland Report, "Our Common Future" (1987), is that which "meets the needs of the present without compromising the ability of future generations to meet their own needs." ADD TO REFERENCES.

2 CNBV, 2010.

3 The SFN is comprised not only of financial institutions regulated by the BCB, but also by insurance companies (supervised by the Superintendence of Private Insurance – SUSEP), closed pension funds (overseen by the National Superintendence of Complementary Pensions – PREVIC), stock exchanges (supervised by the Securities and Exchange Commission – CVM), among others.

4 Law n. 9,790 of 23 March 1999.

5 In order to meet the conditions necessary for the sustainability of NGOs and other microcredit operating agencies, some institutions have been exempt from the conditions contained in the Law of Usury (MP n. 2,172-32 of 23 August 2001) since 1999.

6 Microcredit NGOs have operated in Brazil since the 1970s. The Northeastern Union for Assistance to Small Organizations (UNO) was a pioneering experiment conducted in Recife in 1973 that sought to link "credit, for technical assistance and training as an effective method to leverage the economic and social conditions of citizens with low income, first in urban contexts, later in the interior of northeastern Brazil" (Schreiber, 1973, *apud* Feltrim, Ventura, and Dodl, 2009, p. 16).

7 Part of the text of this item was transcribed from Feltrim, Ventura, and Dodl (2009).

For example, on purposes of reducing market failures, the National Monetary Council (CMN) and the BCB have worked together to develop regulations governing access to financial services. Since 1999, improvements have been made in regulations governing correspondents, expanding the number and scope of services.<sup>8</sup> As a result, every municipality in the country now has some form of access to financial services, either branches of financial institutions or correspondents. Since 2003, with Resolution n. 3,156, all institutions authorized by the BCB can contract correspondents – a new advance in financial inclusion regulation.<sup>9</sup>

Once of the most important aspects of financial inclusion in Brazil is the use of services and tools that have developed in response to CMN regulation by beneficiaries of federal government income transfer programmes like the “Bolsa Família” (PBF).

## Payment Network of the “Bolsa Família” (PBF) Program

The “Bolsa Família” program, or PBF, is responsible for transferring funds totalling R\$1.2 billion to approximately 13 million households each month.<sup>10</sup> Beneficiaries receive these payments in various ways:

- Since March 2008, 2.8 million beneficiaries have opened simplified deposit accounts to receive payments. Approximately 1.8 million currently use these accounts.
- 7.8 million receive PBF benefits via correspondents.
- About 1.5 million withdraw their payments at bank branches.<sup>11</sup>

A large proportion of the programme’s beneficiaries use Brazil’s network of correspondents to access their payments, and more than 1.5 million others use the especial accounts, a new type of instrument known as simplified account.<sup>12</sup>

**Table 2.1 – Channels used by beneficiaries of the “Bolsa Família” program**

CORRESPONDENTS		CREDIT IN ACCOUNT		BANK BRANCH <sup>1</sup>					
				Online Financial Station		Offline Financial Station		Convenience room	
Quantity (1,000)	Amount (R\$ mi)	Quantity (1,000)	Amount (R\$ mi)	Quantity (1,000)	Amount (R\$ mi)	Quantity (1,000)	Amount (R\$ mi)	Quantity (1,000)	Amount (R\$ mi)
7,865.4	798.5	1,769.6	177.4	14.9	1.5	81.1	10.4	1,339.3	131.4

Source: MDS – September/2010

1/ See footnote n. 11

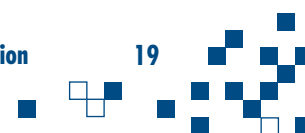
8 Resolution n. 2,640 of 25 August 1999, as amended by Resolution n. 2,707 of 30 March 2000 (now Resolution n. 3,110 of 25 June 2003) and subsequent amendments and supplementary rules.

9 Consultative Group to Assist the Poor (CGAP), 2006, p. 1: “For those on a low income, ‘banking without branches’ at retail agents can be much more convenient and efficient than going to a bank branch. For many low-income people this is the first time they have had access to any formal financial service (...)”.

10 According to data from September 2010, drawn from the Ministry of Social Development and Combating Hunger (MDS).

11 Including: (1) online financial stations, where the customer withdraws funds using a magnetic card at the service counter of a bank branch or bank service outpost (PAB); (2) Offline financial stations, similar to online stations except the customer uses a withdrawal slip instead of a magnetic card; (3) “convenience rooms” where customers withdraw funds using a magnetic card from a self-service machine at a bank. Data from September 2010, drawn from the Ministry of Social Development and Combating Hunger (MDS).

12 Originally governed by Resolution n. 3,104 of 25 June 2003 and by Resolution n. 3,113 of 31 July 2003. Currently governed under the provisions of Resolution n. 3,211 of 1 July 2004.



Improvements in access to the financial system, together with the development of appropriate financial services, have helped to integrate policies aimed at improving the quality of life of Brazil's poorest citizens.

The credit union sector has strengthened significantly since the 1990s, due in part to changes in regulation.<sup>13</sup> Growth in the number of cooperatives was particularly pronounced between 1980 and 1990, and, by 2008, there were 1,451 credit unions in Brazil. These include singular cooperatives (first level) that provide services directly to their members, and central cooperatives (second level) that provide services to associated singular cooperatives. The steady growth of cooperatives has been accompanied by mergers and increased numbers of service points, both fruits of the search for economies of scale and rationalization measures that most sectors have implemented.<sup>14</sup>

When the door opened to creating cooperatives of small entrepreneurs, microenterprises, and microentrepreneurs in 2002,<sup>15</sup> microcredit began to increase its share of cooperative transactions.<sup>16</sup> In 2003, another important measure (Resolution n. 3,106) permitted the creation of free-entry cooperatives (respecting some regulated demographic limits) and raised requirements that strengthened the role of central credit unions.<sup>17</sup> The scope of services offered by credit unions expanded and the number of cooperatives grew, reaching 4.5 million in 2010.<sup>18</sup> This has altered the profile of credit unions in Brazil – in June 2010, there were 228 free entry cooperatives in a field of 1,382 singular credit unions.

Of the various types of cooperatives, special attention should be paid to those serving family farms. Providing financial services to small farmers represents an important step for financial inclusion in Brazil and demonstrates the social reach of cooperatives.<sup>19</sup> In 2008, the establishment of a confederation (third level) further strengthened and expanded these cooperatives' potential.

For almost 20 years, the CMN has been working on regulations that expand the number of financial institutions focusing on microfinance. The Microentrepreneur Credit Company (SCM), an institution specializing in productive microfinance, could initially only perform transactions of productive credit worth up to R\$10,000 per client. However, when CMN issued new regulations on transaction limits,<sup>20</sup> SCM changed its name to the Microentrepreneur and Small Business Credit Company (SCMEPP) and raised its limit on transactions to 5% of Adjusted Net Worth (PLA). This regulatory change expands the scope of services these institutions can offer and gives options to small businesses that do not have adequate access to credit services in the traditional financial system.

With the aim of encouraging microfinance in Brazil, Law n. 10,735 of 11 September 2003<sup>21</sup> required banks to allocate 2% of demand deposits to microcredit transactions. Unused funds are deposited in the BCB without any remuneration. The rule limits the effective interest rate to 2% per month (p.m.), in general, and 4% p.m. in the case of oriented productive microcredit transactions. Credit is generally limited to R\$2,000 for individuals, R\$5,000 for microentrepreneurs, and R\$15,000 for oriented productive microcredit transactions.

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13 Regulatory improvement began in the 1990s. Of note is the formation of banks controlled by central credit unions, enabled by Resolution n. 2,193 of 31 August 1995, and the incentive to restructure the sector in integrated systems overseen by central credit unions. Central credit unions became responsible for some special assignments, such as operational monitoring, inspection, and technical training of administrative staff of individual affiliated cooperatives (Resolution n. 2,608 of 27 May 1999).

Read phonetically

Dictionary -

14 Soares, Balliana, *et al.*, 2009

15 Resolution n. 3,058 of 20 December 2002.

16 "As a precaution, the regulation demanded additional requirements in relation to other types of cooperatives already in existence – the bond of occupation or work – especially the need for affiliation to the central credit union and the publication of financial statements in a newspaper of general circulation in the area in which they operate, in order to provide more external control and transparency in the activities of this new type of cooperative" (Soares, Balliana, *et al.*, 2009, p. 20).

17 Soares, Balliana, *et al.*, 2009.

18 According to data from the Organization of Brazilian Cooperatives (OCB), 2010.

19 Soares, Balliana, *et al.*, 2009.

20 Resolution n. 3,567 of 29 May 2008.

21 Regulated by Resolution n. 3,422 of 1 December 2006, as amended by Resolution n. 3,706 of 27 March 2009.

In 2005, the Ministry of Labor and Employment (MTE) established the National Program of Oriented Productive Microcredit (PNMPO).<sup>22</sup> Resources allocated to PNMPO come from the Worker Support Fund (FAT) and, as mentioned, a percentage of demand deposits from financial institutions. According to the law, the PNMPO was established "...with the objective of encouraging employment and income generation among traditional microentrepreneurs."<sup>23</sup> The law considers productive microcredit to be: credit granted in order to meet the financial needs of individuals and corporations that are entrepreneurs of small production activities, using a method based on direct relationship with the entrepreneurs at the place where the economic activity is carried out.<sup>24</sup>

Since the 1990s, Brazil has seen growing numbers of actors providing services defined as microfinance, such as SCMs (now SCMEPPs), public funds,<sup>25</sup> development agencies, banks, and OSCIPs.<sup>26</sup>

After this initial phase of interaction and regulatory adjustments, the BCB began holding events to educate the industry and the public about its efforts to build the microfinance sector and leverage partnerships. From 2002 to 2008, the BCB hosted two seminars on microcredit, seven seminars on microfinance, and two international seminars.

The BCB has established several institutional partnerships, including government agencies such as the Ministry of Agrarian Development (MDA). This partnership was forged in 2004 to promote the credit cooperative movement among family farmers and those settled through agrarian reform<sup>27</sup>. This effort has sought to democratize financial services in Brazil, especially in rural areas where poverty is most concentrated. In 2009, a partnership was established with the Ministry of Labor and Employment to study ways of monitoring the development of social currency in Brazil.<sup>28</sup> In 2010, the BCB signed an agreement with the Ministry of Justice (through the intermediation of its Secretariat of Economic Law and the Department of Consumer Protection and Defense – DPDC) aimed at improving the development of products and the supply of services to customers and consumers of financial institutions, consortiums, and other institutions authorized to operate by BCB.<sup>29</sup> It also established an agreement with the Ministry of the Environment (MMA) aimed at strengthening the monitoring agenda on the promotion of social and environmental responsibility by the Brazilian financial institutions.

Other partnerships have also broadened and strengthened the financial inclusion network in Brazil. In 2004, the BCB signed an accord with the Brazilian Micro and Small Business Support Service (SEBRAE) aimed at developing microfinance, especially in the credit cooperative movement.<sup>30</sup> In 2010, the BCB established an agreement with the Brazilian Cooperative Organization (OCB) to develop, strengthen, and promote efficient and effective economic and social development in Brazil's credit cooperative movement.<sup>31</sup>

The BCB also participates actively in national committees aimed at technical cooperation, the impacts of which can be seen in Federal Public Administration policies and programmes related to financial inclusion. For example, the Committee for Regulation and Inspection of Financial, Capital, Insurance, Pension, and Capitalization Markets (COREMEC) promotes the coordination and improved performance

22 Law n. 11,110, 25 April 2005.

23 Law n. 11,110, 25 April 2005.

24 Law n. 11,110, 25 April 2005. Translated.

25 Official or public funds, such as those established by the Constitution, which generate resources to be transferred through SFN institutions (such as development agencies and SCMEPPs), as well as non-financial institutions, provided that the nature of the applications matches the scope of the fund.

26 Currently, the largest microfinance portfolio is managed by Banco do Nordeste do Brasil S.A. (BNB), a public bank with a development portfolio that has partnered with the Northeast Citizenship Institute (INC), an OSCIP. The CrediAmigo Program had approximately 529,000 customers and a gross portfolio of US\$ 0.3 billion in December 2009 – Microfinance Information eXchange (MIX), 2010.

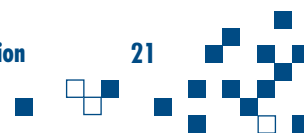
27 BCB; MDA, 2004.

28 BCB; MTE/SENAES, 2010.

29 BCB; MJ, 2010, p. 1-2.

30 BCB; SEBRAE, 2004.

31 BCB; OCB, 2010.



of Federal Public Administration entities that regulate and supervise activities related to public holdings of personal savings.

The BCB also engages at the international level and became a member of the Alliance for Financial Inclusion (AFI) in September 2010. AFI brings together policymakers from 60 countries to share best practices in financial inclusion and provides technical assistance to G20 countries to support financial inclusion initiatives.

## 2.3 Financial Inclusion Project

In addition to improving regulation, the BCB has launched the Financial Inclusion Project (FIP). Launched in 2009, the FIP brings diverse groups together to rethink the model of financial inclusion in Brazil and work towards providing access to financial services that are tailored to the needs of the population. The FIP operates at both the national and international level. The following are accounts of strategic actions taken by the project.

### 2.3.1 Financial Inclusion Project in 2009

The FIP operates on the assumption that financial inclusion also promotes social inclusion, an essential component of sustainable development, and that it is consistent with the value of social responsibility, which the BCB committed to in its strategic planning, and also with the federal government's guidelines.

The first phase of the project aimed to evaluate the microfinance sector in Brazil, both its strengths and weaknesses, and promote the coordination of stakeholders to build a network of skills.

#### **“Prospects and Challenges for Financial Inclusion in Brazil: perspectives of different actors”**

To meet the FIP's objective of diagnosing the strengths and weaknesses of financial inclusion in Brazil, the BCB edited the book "Prospects and Challenges for Financial Inclusion in Brazil: perspectives of different actors". Its chapters were elaborated by strategic stakeholders and seek to reveal the state-of-the-art on the theme in Brazil. This book was prepared before the First Brazilian Central Bank Forum for Financial Inclusion, so it could serve as a parameter for evaluating the changes that would happen from then on. A digital copy of this book is available through the link [www.bcb.gov.br/?microfin](http://www.bcb.gov.br/?microfin), only in Portuguese.

Furthermore, the project incorporated the theme of social currencies – a tool that is being propagated throughout the country by the solidarity finance network.

## Social Currencies Project

In Brazil, there are several forms of locally circulating social currencies issued by community banks. These entities are incentivated by the federal government, through the National Secretariat of Solidarity Economy (SENAES), established in the structure of the MTE in 2003.

Since community banks are nonprofit community organizations with contractual relationships with banks (either as correspondents or microcredit agents), the BCB, as executor of monetary policy and the exclusive issuer of currency, has a direct interest in studying and monitoring these experiments in social currencies. Doing so will produce a better understanding of the reach and distribution of social currencies throughout Brazil and, if appropriate, allow the BCB to implement measures to prevent distortion and losses for those using these tools.

Studying the experiences of those using social or complementary currencies also allows the BCB to: (i) anticipate issues surrounding the functioning of social currencies, (ii) compare systems of social currencies in Brazil with those of other countries in order to understand the actions of monetary authorities, (iii) contribute to the development of economic relations guided by cooperation and solidarity, and (iv) contribute to the strengthening of public policies of inclusion formulated by the federal government.

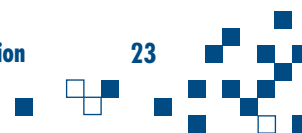
In this context, the Social Currencies Project was developed to identify and monitor the creation and dissemination of social currencies in Brazil on an ongoing basis.<sup>32</sup>

The launchment of the Financial Inclusion Project was an opportunity to work with the Social Currencies together with other related issues and promote financial inclusion in a more consistent way.

The Social Currencies Project was incorporated into the Financial Inclusion Project. During the First Brazilian Central Bank Forum for Financial Inclusion, in 2009, there was a special session to discuss the subject, including the limits and possibilities of these currencies, and the best way to monitor the use of social currencies in Brazil.

As in other countries, social currencies and community banks are growing in popularity. In Brazil, the rapid proliferation of social currencies issued by community banks is the result of expanded public policies on solidarity finance (encouraged by SENAES) at federal, state, and municipal levels. SENAES estimates that at least 180 community banks will be in operation in the next few years, providing alternative access points to financial services and promoting local development, particularly in poor communities.

<sup>32</sup> Approved by the BCB's Collegiate Board of Directors in BCB Vote n. 109 of 19 April 2007.





The role of the Financial Inclusion Project, therefore, is to help to organize and educate those working in the field to find solutions and tackle the problems and challenges of financial inclusion. Among the actions and activities of the FIP, it is worth noting the outcomes of the 2009 Brazilian Central Bank Forum for Financial Inclusion,<sup>33</sup> which offer an initial picture of the strengths and weaknesses of Brazil's microfinance sector (see Table 2.2).

**Table 2.2 – Diagnosis of Brazilian microfinance sector**

**Outcomes of the First Brazilian Central Bank Forum For Financial Inclusion**

**Coordination between the stakeholders** – The regulators, traders, instigators, and other agents involved with financial inclusion are not coordinated. There needs to be a coordinated policy in order to contribute for the organization of the sector.

**Regulatory framework** – There is lack of specific regulation for the microfinance sector. The current regulatory framework hinders or even prevents the Microfinance Institutions from developing. However, there is no consensus on how to regulate the sector, and some fear that strict rules could cause shrinkage in microfinance provision.

**Funding restrictions** – It was clear that the lack of transparency and governance in IMFs was among the main causes of the limitation of resources available to the microfinance sector. Information asymmetry discourage the provision of funding. The regulatory framework was also mentioned among the causes of limitation on access to resources.

**Governance and transparency standards** – It was suggested to define governance and transparency standards (as exemplified by the São Paulo Stock Exchange) and to create an entity to be in charge of certifying IMFs.

**Financial Education** – On the one hand, the microfinance services must be tailored to the low-income population's needs. On the other hand, this target-public should be prepared in order to contract these services in a responsible manner, avoiding undesirable consequences, such as over-indebtedness, that causes growth in default.

**Market needs vs. Sector growth** – The potential clients and suppliers of microfinance services are not delimited, nor there is proper knowledge about them. It is necessary to develop quantitative and qualitative researches and analysis on the characteristics of this sector's potential clients, including their needs and geographic distribution. These studies would help the sector's growth and diversification to be appropriate to the population's needs.

**BCB's role** – Most indicated the BCB as the proper institution to foster the dialogue between involved institutions and to promote the regulatory framework reviewing. Some also suggested that the BCB should be in charge of the implementation of a credit bureau, as well as of certifying microfinance institutions.

### 2.3.2 Financial Inclusion Project in 2010

In February 2010, while reviewing its strategic planning, the BCB identified “the promotion of financial inclusion” as a strategic objective to be met by 2014. A few months later, an administrative section was established in the BCB Financial System Regulation Department (DENOR) to specifically address financial inclusion and questions relating to social and environmental responsibility (RSA) in the financial system. The results of the 2009 Brazilian Central Bank Forum for Financial Inclusion also indicated the need to organize, consolidate, and evaluate BCB's existing data and information on financial inclusion.

In 2010, the BCB worked to organize information to elaborate this report, beginning to construct Brazil's financial inclusion map. The map will be drawn as more research is conducted through institutional

33 The First Brazilian Central Bank Forum for Financial Inclusion, sponsored by the BCB and the Brazilian Micro and Small Business Support Service (SEBRAE), in partnership with the MTE, the International Finance Corporation (IFC), and OCB, was held in November 2009 in Salvador, Bahia. The first Forum sought to emphasize the role of stakeholders in order to promote dialogue and partnership in an organized fashion. Additionally, it created a meeting space to discuss problems and create solutions. It was divided into two modules: 1) Coordination of the microfinance industry, 2) Social currencies, community banks, and other initiatives. The preparatory phase of Forum I was divided into three main and interconnected parts (a. Holding pre-forums, b. preparation of the facilitators, and c. elaboration of the book), which helped to deepen the knowledge of the industry, develop expertise, and promote coordination of the network. For more information, see the Proceedings of the Forum, available at [www.bcb.gov.br/?PROFININC1](http://www.bcb.gov.br/?PROFININC1).

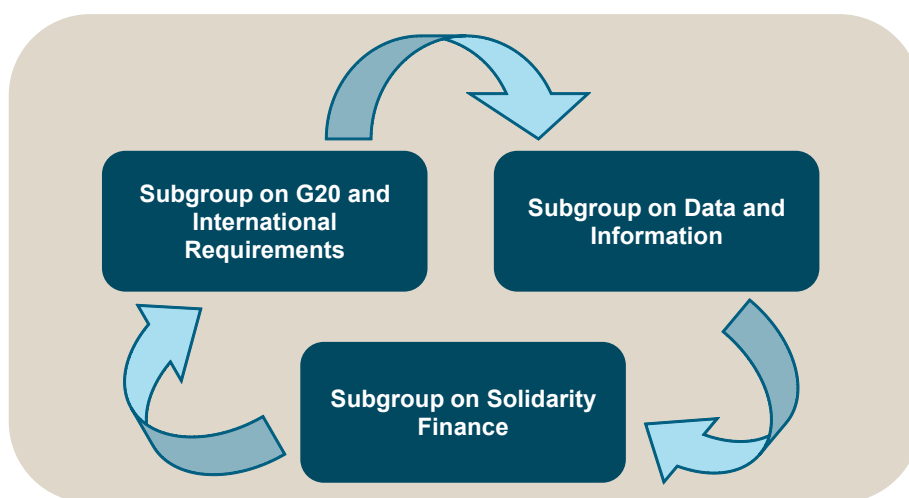
partnerships, and will play a significant role in structuring financial inclusion policy with targets and indicators in 2011. The RIF, which consolidates, organizes, and draws attention to the information already collected by the BCB, is the starting point.

A team of representatives from various departments of the BCB, the Subgroup for Data and Information, was assembled to prepare and publish the report. In addition to this subgroup, two others were established under the Financial Inclusion Project:

**Solidarity Finance** – this Subgroup works to give continuity to studies on social currencies. In 2010, it broadened its scope to include issues relating to community banks and solidarity funds.

**G20 and International Requirements** – this Subgroup leads and contributes to the G20 Access Through Innovation Subgroup (ATISG), takes part in the discussions of AFI’s group on data, and participates in other international events.

**Image 2.1 – Financial Inclusion Project in 2010**



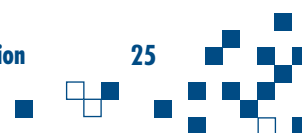
### **FIEG – G20 Financial Inclusion Experts Group**

Financial inclusion has gained international attention as a tool for economic and social development. At the G20 summit meeting in Pittsburgh, USA, in September 2009, leaders pledged to increase global levels of financial inclusion. This commitment was secured thanks to successful examples of financing small and medium enterprises, as well as studies that identified examples of innovative approaches to providing financial services to the very poorest in the world.

To achieve the goal of increasing global levels of financial inclusion, the Financial Inclusion Experts Group (FIEG) was formed to promote financial inclusion and, in this fashion, contribute to social progress and economic development. It is composed of two subgroups:

**Access Through Innovation Subgroup (ATISG)** – under the leadership of Brazil and Australia, this Subgroup deals with the relationship between financial inclusion and innovative practices in technology and the provision of financial services.

**Small and Medium Enterprise Finance (SME)** – this Subgroup is under the leadership of Germany and South Africa.



The members of FIEG hold meetings and consultations with partners in the international community to develop principles for financial inclusion policies and a concrete and pragmatic action plan that would be backed by the G20. A clear need emerged to strengthen the role of developing countries in global financial inclusion, given that 90% of people who are financially excluded live in developing and lower income countries. In line with the G20's objective to promote international cooperation and balanced and sustainable economic growth, the G20 countries, including Brazil, adopted or strengthened their commitment to financial inclusion, and introduced or supported like practices in non-member countries.

FIEG's early work had two objectives:

- The first was to identify policy principles that would help to promote innovative financial inclusion. This would be achieved by identifying and describing success stories of expanded financial access, as well as exemplary programmes for regulation and policy creation.
- The second objective was to create a process for supporting best practices in lending to small and medium-size businesses using resources invested by governments and private partners.<sup>34</sup>

The G20 Principles for Innovative Financial Inclusion were endorsed by leaders at the G20 Summit in Toronto, Canada, in June 2010. The Principles reflect the conditions that lead to innovative and safe practices of financial inclusion. Rather than constituting a rigid list of requirements, the Principles provide broad guidance to support policymakers in their decisions. They are also flexible enough to adapt to different national contexts.

In Brazil, discussion of the G20 Principles centered on actions already implemented at the national level, as well as prospects for future cooperation and improvements at national and international levels. Many measures related to the G20 principles have already been adopted in Brazil, or they are currently underway. Tables 2.3 and 2.4 include the G20 Principles for Innovative Financial Inclusion and examples of actions that Brazil, and the BCB in particular, have taken to conform to the Principles.

The second part of FIEG's work was to draw up a concrete and pragmatic plan of action,<sup>35</sup> which was submitted for endorsement at the Seoul Summit in November 2010.

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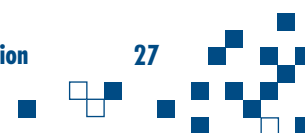
<sup>34</sup> See <http://www.changemakers.com/SME-Finance>.

<sup>35</sup> Details of the plan can be viewed at <http://www.seoulsummit.kr>.

**Table 2.3 – G20's Principles for Innovative Financial Inclusion – Part 1**

Principle	Brazil's adequacy to the principle *
<p><b>1. Leadership:</b> cultivate a broad-based government commitment to financial inclusion to help alleviate poverty.</p>	<p>The federal government assumes the role of catalyzing the main actions related to the financial inclusion process in the country. To do so, various government institutions work together, each one enriching the debate and actions with its perspective. In line with its strategic objective of promoting the efficiency of the National Financial System (SFN) and the population's financial inclusion, the BCB has worked together with other government institutions and also with the private sector and the civil society to promote meetings and discussions on the subject. Doing so, the BCB aims to strengthen existing policies and foster new actions targeted at the promotion of financial inclusion of the population. Since 2002, various seminars have been held, involving different governmental and non-governmental agents. Cooperation agreements have been signed, involving both public and private institutions. Government officers have begun dialogues and joint works with international organizations. In the BCB, a new segment was created in the Financial System Regulation Department (DENOR) specifically to study and promote actions targeted at financial inclusion and socio-environmental responsibility. Today, this segment leads the execution of the Financial Inclusion Project.</p>
<p><b>2. Diversity:</b> implement policy approaches that promote competition and provide market-based incentives for delivery of sustainable financial access and usage of a broad range of affordable services (savings, credit, payments and transfers, insurance) as well as a diversity of service providers.</p>	<p>In 1999, the process of implementing and improving the correspondents' model was initiated. This new channel provides the SFN's clients with access to basic financial services, such as opening accounts, contracting credit cards, purchasing bonds, doing payments, contracting loans, and receiving government transfers. Norms regarding microcredit were also issued, the simplified accounts were created, and the Microentrepreneur and Small Business Credit Company (SCMEPP) was regulated, as a new segment.</p>
<p><b>3. Innovation:</b> promote technological and institutional innovation as a means to expand financial system access and usage, including by addressing infrastructure weaknesses.</p>	<p>The Brazilian correspondents' model was created by norms issued by the National Monetary Council (CMN) and the BCB, in the scope of their legal competences. For the development of the model to be possible, institutional and technological innovations were very important. In this model, financial institutions hire retailing shops, lottery outlets, post offices, to use them as their agents, known as correspondents. The correspondents carry out diverse financial transactions on the behalf of the hiring financial institution.</p>
<p><b>4. Protection:</b> encourage a comprehensive approach to consumer protection that recognizes the roles of government, providers and consumers.</p>	<p>Through its call center and its ombudsman, the BCB maintains a direct channel of communication with the citizens, in order to receive complaints and to resolve doubts concerning the provision of financial services under the SFN. The BCB also promotes nationwide public campaigns to disseminate knowledge on issues of public interest. As mentioned above, the BCB also signed an accord with the Department of Consumer Protection and Defense (DPDC) in 2010, aimed at fostering the improvement of financial services and of their delivery.</p>
<p><b>5. Empowerment:</b> develop financial literacy and financial capability.</p>	<p>In 2007, the Committee for Regulation and Inspection of Financial, Capital, Insurance, Pension, and Capitalization Markets (Coremec) decided to create a working group with representatives of the BCB, the Securities and Exchange Commission (CVM), the Secretariat of Complementary Social Security (SPC), the Superintendence of Private Insurance (Susep), and the National Superintendence of Pension Funds (Previc), with the mission of elaborating a draft for a National Strategy for Financial Education (ENEF). This ENEF should include an inventory of the national actions and projects for Financial Education, as well as researches on the level of financial knowledge of the Brazilian population. Furthermore, in 2003, the BCB instituted the BCB's program for Financial Education.</p>

\* This table does not intend to list all actions in the country that may relate to the principles, but to highlight some examples, mostly from BCB's experience.

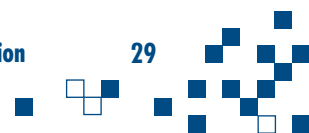


**Table 2.4 – G20's Principles for Innovative Financial Inclusion – Part 2**

Principle	Brazil's adequacy to the principle *
<p><b>6. Cooperation:</b> create an institutional environment with clear lines of accountability and co-ordination within government; and also encourage partnerships and direct consultation across government, business and other stakeholders.</p>	<p>The BCB's Financial Inclusion Project (FIP) aims to leverage partnerships between different agents, both from private and public sector. These partnerships should conduct concrete actions targeted at enabling the appropriate financial inclusion in Brazil. Among the main activities of FIP, the First Brazilian Central Bank Forum for Financial Inclusion may be highlighted. The Forum constituted an environment for debate between various stakeholders, with the goal of discussing problems and identifying possible solutions. Furthermore, cooperation agreements have been signed, involving both public and private institutions, government officers have begun dialogues and joint works with international organizations. Concerning the credit unions, since the late 90s, the BCB and the Ministry of Finance (MF) has maintained intense dialogue with this sector, with the objective of improving its regulatory framework.</p>
<p><b>7. Knowledge:</b> utilize improved data to make evidence based policy, measure progress, and consider an incremental “test and learn” approach acceptable to both regulator and service provider.</p>	<p>The Brazilian government, and especially the BCB, has sought to coordinate with the international community on the matter of financial inclusion, taking part in international debates and working groups, such as those in the sphere of the Alliance for Financial Inclusion (AFI), the Consultative Group to Assist the Poor (CGAP), World Bank, among other international organizations. The objective is to develop efficient data collection technology that enables comparison with databases used by other countries, international organizations, and non-governmental entities. It is also worthy to mention the BCB's efforts to diagnose the current scenario of financial inclusion in Brazil, with the goal of improving conditions for its promotion in the country. Among the main products of this diagnosis, this first Report on Financial Inclusion (RIF) deserves especial attention. The RIF presents data and indicators on the level of access and use of financial services.</p>
<p><b>8. Proportionality:</b> build a policy and regulatory framework that is proportionate with the risks and benefits involved in such innovative products and services and is based on an understanding of the gaps and barriers in existing regulation.</p>	<p>The BCB's experience in supervising financial institutions enables it to evaluate the costs and benefits that originate from monitoring and from the expectation of new regulation. The traditional model of banking institution coexists with other strategic segments, such as those of credit unions, correspondents, mortgage companies, SCMEPPs, among others, enabling an accurate assessment on the strategic role played by each one of those sectors in economy, as well as the risks related to each business model. Aware of the risks associated with each intervention, while adapting regulation for reducing market failures, it is taken in account the importance of offering balanced incentives and imposing balanced controls.</p>
<p><b>9. Framework:</b> consider the following in the regulatory framework, reflecting international standards, national circumstances and support for a competitive landscape:</p> <ul style="list-style-type: none"> <li>a) an appropriate, flexible, risk-based Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime;</li> <li>b) conditions for the use of agents as a customer interface;</li> <li>c) a clear regulatory regime for electronically stored value; and</li> <li>d) market-based incentives to achieve the long-term goal of broad interoperability and interconnection.</li> </ul>	<p>(a) Under the terms of regulation and considering the criterion of proportionality, every institution must give especial attention to operations that could present indication of being an instrument of Money Laundry or having some connection to this crime. In the case of identifying such indications, institutions must report pertinent information to the Council for Financial Activities Control (Coaf). (b) Regarding the use of agents, it has been regulated in the sphere of correspondents' model. (c) In Brazil, the system of electronic transfers has benefited from the implementation of Brazilian Payments System (SPB) and from actions that contributed to interoperability and interconnection regarding the delivery of services in banking facilities or through payment cards.</p>

\* This table does not intend to list all actions in the country that may relate to the principles, but to highlight some examples, mostly from BCB's experience.

With a variety of activities in progress, the BCB is seeking to collaborate with national and international partners to build a more inclusive financial system, both at home and around the world. The Second Brazilian Central Bank Forum for Financial Inclusion, held 17-19 November 2010, was a positive step in this direction, as participants engaged in dialogue about leveraging partnerships and tackled the main issues highlighted at the first Forum.





**Table 3.1 – Brazil in June/2010**

Fact sheet	
Total population <sup>1</sup>	193,151,170
Adult population <sup>2</sup>	145,381,412
Total area <sup>3</sup> (sq. Km.)	8,514,877
Population density <sup>4</sup> (inhabitants per sq. Km.)	22.68
GDP <sup>5</sup> (R\$ million)	3,344,906
(US\$ million)	1,925,556
GDP <i>per capita</i> <sup>6</sup> (R\$)	17,318
(US\$)	9,969
Official language	Portuguese
Capital	Brasília
Currency	Real (R\$)

1/ On July, 1st 2010. Source: IBGE

2/ Age equal or over 15 years old. On July, 1st 2010. Source: Because state and regional data were not available until 2010, data on the adult population are based on IBGE's estimates of total population by Federative Unit (UF) and on IBGE's 2008 data on adult population by UF, as explained in Chapter 1.

3/ Source: IBGE

4/ Source: IBGE. On July, 1st 2010.

5/ In June/2010. Source: BCB/Depec

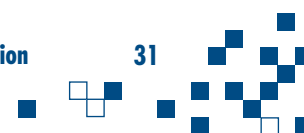
6/ In June/2010. Sources: BCB/Depec and IBGE

## 3.1 Macroeconomic overview

The implementation of Plano Real, in July 1994, ended a long period of high inflation in Brazil, which had persisted since the early 1980s. The plan was a set of measures aimed at stabilizing the Brazilian economy and, at the time, allowed price indices to register a downward trend (1994-1998).

The consolidation of macroeconomic stability, however, was reached later, after the implementation of a system of inflation targeting, a flexible regime of exchange rates, and the Fiscal Responsibility Law (LRF), which set parameters for limiting public spending. Brazilian economic policy is currently supported by these three pillars. Flexibility in exchange rates was introduced in January 1999, followed by the adoption of the inflation targeting regime in June 1999, and, finally, the enactment of the LRF in May 2000.

To evaluate inflation targets, the National Monetary Council (CMN) uses the Extended National Consumer Price Index (IPCA), which is calculated by the Brazilian Institute of Geography and Statistics (IBGE). Every year, the CMN sets the inflation target to be attained, as well as the range within which the target would be considered met. In turn, the BCB implements monetary policy that would adjust the basic



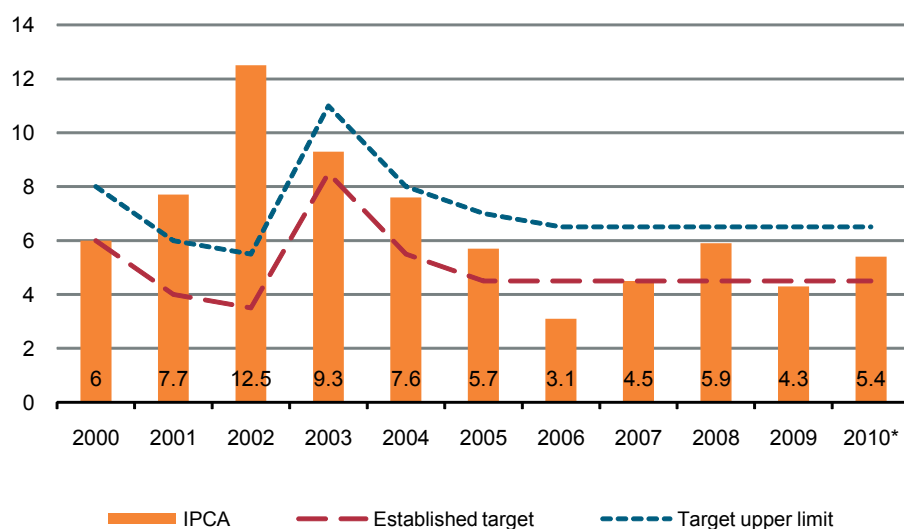


interest rate (interest rate in the Special System for Settlement and Custody, or SELIC<sup>1</sup>) to meet the inflation target set by the CMN. Should the target not be achieved, the chairman of the BCB, in an open letter to the Minister of Finance, must clarify the reasons for noncompliance as well as the measures to be adopted and the time required to reach the target.

Since the adoption of the inflation targeting, inflation measured by the IPCA has remained in the single digits, except in 2002 when the index reached 12.5% per annum (p.a.). Average inflation for the past 10 years (2000-2009) was 6.7%, with an average of 8.6% in the first five years and 4.7% thereafter, indicating a positive move towards price stability.

In 2009, the rise in prices measured by the IPCA variation stood at 4.3%, rising to 4.9% in the twelve months ending June 2010. Using these numbers, the BCB's Inflation Report, published in June 2010, projected inflation of 5.4%, one percentage point higher than the target's center (4.5% p.a.). Market expectations in the Focus Bulletin,<sup>2</sup> however, currently point to a fall in inflation, indicating a return to the target rate in 2011.

**Figure 3.1 – Inflation based on IPCA<sup>1</sup> variation (% per annum)**

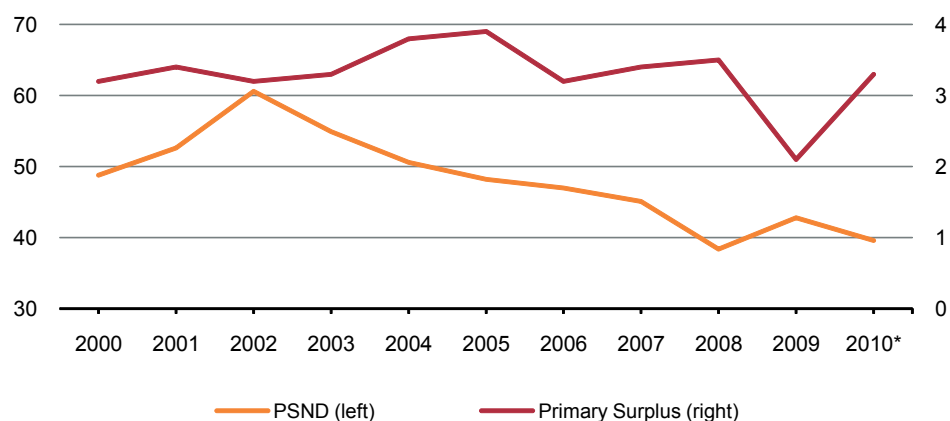


\* Forecast from the BCB.  
1/ Consumer Price Index  
Source: BCB/Depec

In terms of fiscal policy, the advent of the LRF was a milestone in setting standards for responsibility in fiscal management. The LRF made it mandatory to set targets for primary surplus, as percentages of Gross Domestic Product (GDP), consistent with the objectives of economic policy. This initiative encourages the alignment of fiscal policy with other economic policies to ensure long-term macroeconomic stability and sustainable growth. Consecutive primary surpluses over the past few years attests to a commitment to fiscal austerity and has contributed decisively to the reduction in the ratio of Public Sector Net Debt (PSND) to GDP.

1 The Special Settlement and Custody System (SELIC) overnight rate, expressed in annual terms, is the average rate weighted by the volume of one-day operations guaranteed by federal government securities, carried out at SELIC through committed operations. It is the basic rate used as reference by the monetary policy.  
2 A weekly report published by the BCB with estimates of indicators of Brazil's economic and financial situation.

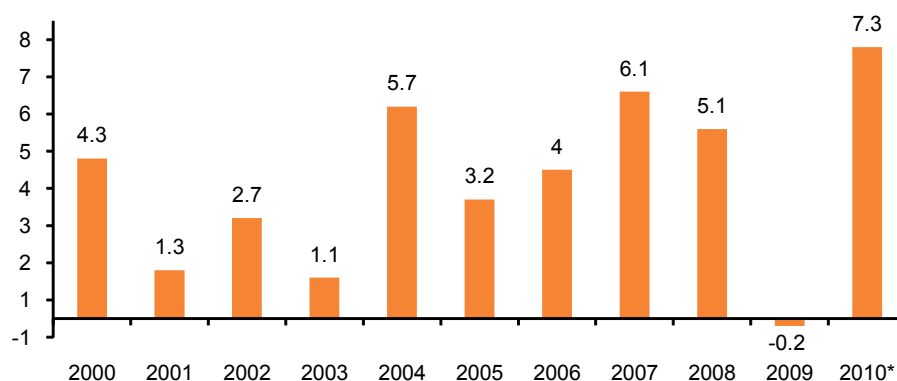
**Figure 3.2 – PSND and Primary Surplus (% of GDP)**



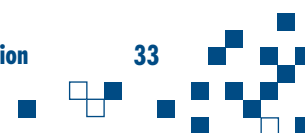
\* Forecast from the BCB.  
Source: BCB/Depec

The worsening global financial crisis in the second half of 2008 had negative impacts on the Brazilian economy, resulting in a contraction of the GDP by 0.2% in 2009. However, the recovery of economic activity produced significant growth in the first half of 2010, and the BCB projected an expansion of 7.3% for 2010, the highest rate of GDP growth since 1986. It should also be stressed that Brazil’s strong economic performance has been underpinned by robust domestic demand, due in part to the recent development of the credit market and expectations of economic agents, coupled with positive showings in key indicators of production, income, and employment.

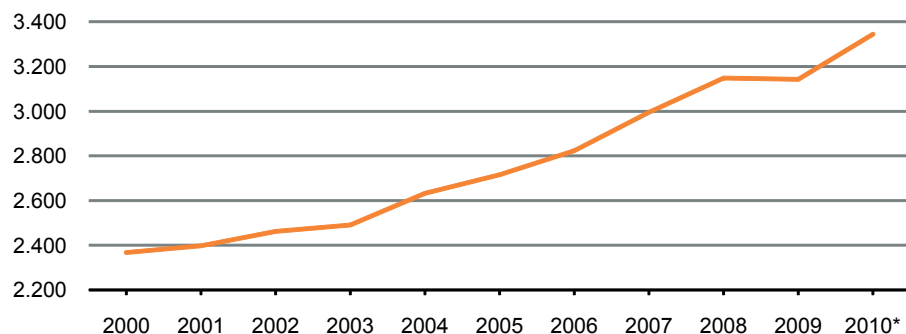
**Figure 3.3 – GDP growth<sup>1</sup> (% per annum)**



\* Forecast from the BCB.  
Source: IBGE  
Elaboration: BCB  
1/ Rate of real variation per year



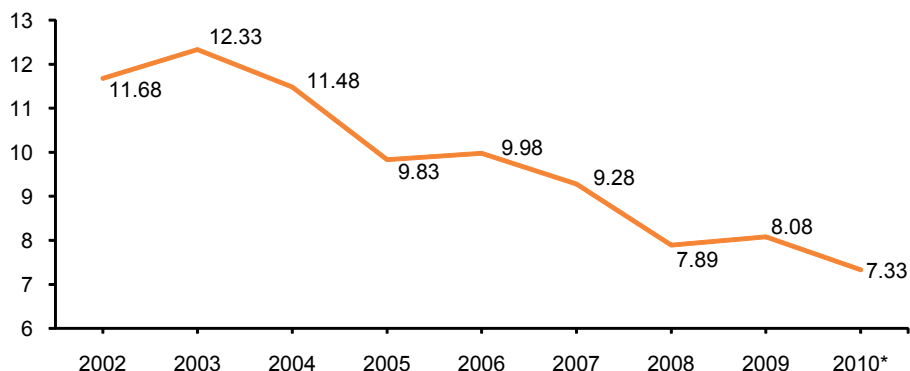
**Figure 3.4 – GDP in 2009 prices (R\$ billions)**



\* Until June.  
Source: IBGE  
Elaboration: BCB

The downward trend in unemployment was interrupted in 2009 when it reached 8.1%, with particularly high unemployment in the industrial sector. However, the rate fell to 7.3% in July 2010, one percentage point lower than in the same period in the previous year. From January to April 2010, the average real income increased 1.1%, the total payroll, 4.5%, and the average number of employed persons, 3.4%. Therefore, the resumption of the declining trend in unemployment, the increase in the employment generation, with substitution of informal employment in registered legal jobs, and the rise of family income continue to contribute decisively to sustained domestic demand and a boost in economic growth.

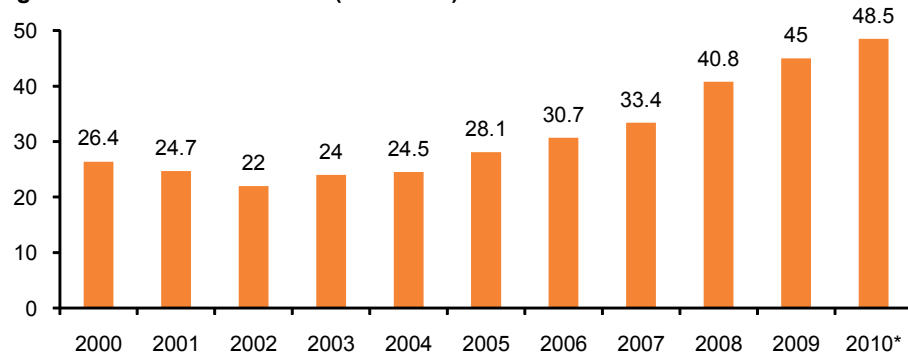
**Figure 3.5 – Average rate of unemployment (%)**



\* Until June.  
Source: IBGE  
Elaboration: BCB

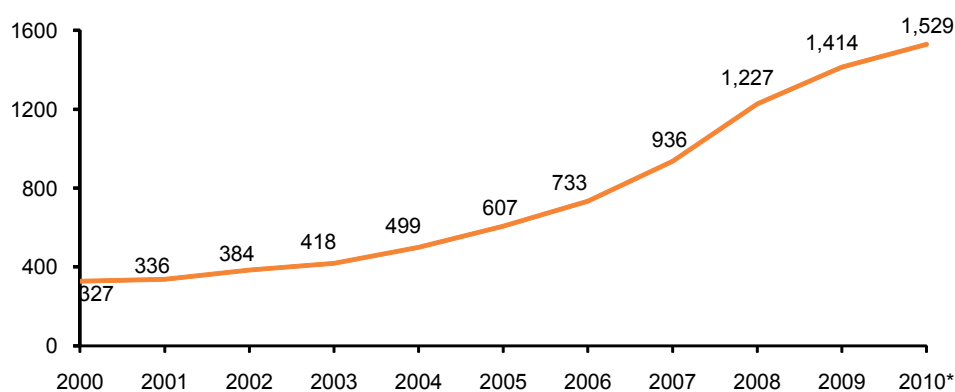
The global financial crisis prompted the BCB and the federal government to adopt fiscal and monetary measures in 2009 that have helped credit transactions to expand once more. The total volume of credit as a proportion of GDP has been showing steady growth, rising from 25.9% in June 2002 to 45.7% in June 2010. After increasing 19.7% in twelve months, the total credit amounted to R\$1.5 billion.

**Figure 3.6 – Amount of credit (% of GDP)**



\* Forecast from the BCB.  
Source: BCB/Depec

**Figure 3.7 – Amount of credit (R\$ billions)**



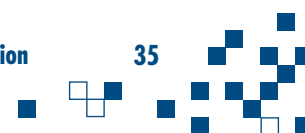
\* Until June.  
Source: BCB/Depec

Loans granted to individuals totalled R\$692.6 billion in June 2010 (expanding 19.1% since June 2009), representing 45.3% of total credit in the financial system. Credit to corporations, in turn, totalled R\$836.4 billion, an increase of 30.3% in twelve months, equivalent to 54.7% of the total loan portfolio. Although growing at significant rates in recent years, bank credit in Brazil is still at low levels compared to other countries, suggesting significant potential for expansion.

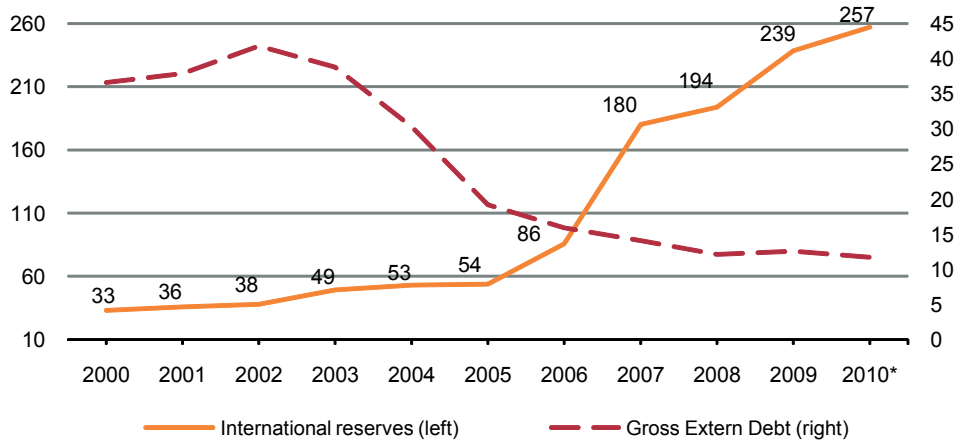
**Table 3.2 – Credit amount (R\$ billions)**

	Free resources	Targeted resources	Total	%
Individuals	505.7	186.8	692.6	45.3
Corporations	511.6	324.8	836.4	54.7
Total	1,017.00	512	1,529.00	100

Source: BCB/Depec



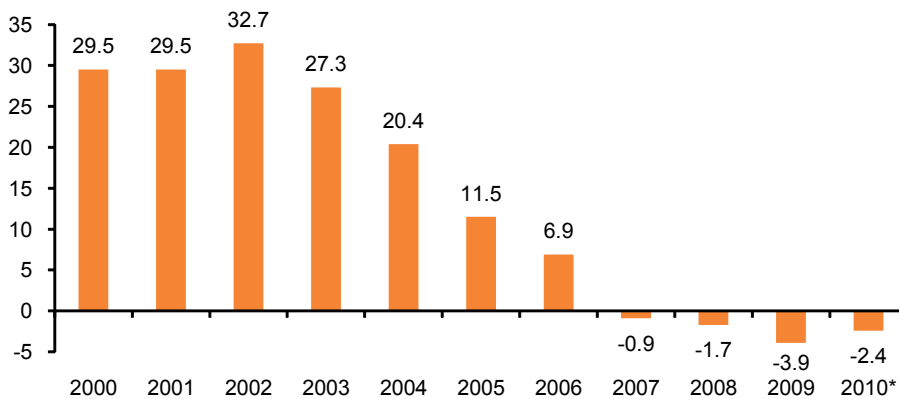
**Figure 3.8 – International reserves (US\$ billions) and Gross Extern Debt (% of GDP)**



\* Forecast from the BCB.

The process of macroeconomic stabilization was accompanied by continued expansion of international reserves. This factor was essential in containing the external vulnerability of the Brazilian economy and in increasing the country’s capacity to absorb external shocks. From 2005 to 2009, the volume of reserves increased 343%, rising from US\$ 53.8 billion to US\$ 238.5 billion. In 2010, overcoming the effects of the recent financial crisis, international reserves are expanding once again, reaching US\$ 253.1 billion in June, up 6.1 percent. In parallel, gross external debt as a percentage of GDP has experienced a continual downward trend, dropping from 41.8% at the end of 2002 to 12.6% in 2009. It should be noted that, since 2007, Brazil has been an international lender, an indicator of reduced vulnerability to external shocks.

**Figure 3.9 – Net Extern Debt (% of GDP)**



\* Forecast from the BCB.

Source: BCB/Depec

## 3.2 Structure of the National Financial System

The current structure of Brazil's financial system stems from a 1964 banking reform<sup>3</sup> that created the National Monetary Council and the BCB, restructured the capital market,<sup>4</sup> and, later, made institutional changes, such as creating the Securities and Exchange Commission (CVM),<sup>5</sup> and other supervisory bodies and agencies, as well as institutions designed specifically to act in the market.

### 3.2.1 Regulatory bodies

The institutional framework may be represented as following:



#### National Monetary Council (CMN)

CMN establishes guidelines for monetary, credit, and foreign exchange policies in Brazil. Its roles are to adjust the money supply to the real needs of the economy; regulate the internal and external purchase power of the domestic currency and the equilibrium of the balance of payments; guide the deployment of funds of financial institutions; promote the improvement of institutions and financial tools; ensure the liquidity and solvency of financial institutions; coordinate monetary, credit, budgetary, and internal and external public debt policies; and set inflation targets.<sup>6</sup>

#### National Council of Private Insurance (CNSP)

Conversely, the National Council of Private Insurance (CNSP)<sup>7</sup> is charged with establishing guidelines and standards for private insurance policy; regulating the establishment, organization, operation, and inspection of those who carry out activities subordinated to it; stipulating rates and other technical conditions on pricing, investments, and other property relationships to be observed by insurance companies; determining the general characteristics of insurance contracts; setting general standards of accounting and statistics to be observed by insurance companies; delimiting the capital of insurance companies and reinsurers; establishing general guidelines for reinsurance operations; disciplinating coinsurance operations; and disciplinating the insurance brokerage and the insurance broker profession; among other duties.<sup>8</sup>

#### National Council for Complementary Social Security (CNPC)

The National Council for Complementary Social Security (CNPC) regulates the pension scheme operated by closed complementary social security entities (pension funds). Complementary social security is important to the financial system because the closed pension funds constitute technical reserves, funds, and provisions for guaranteeing the fulfilment of all its obligations and deploy these resources in the financial market, in line with guidelines issued by the CMN.

3 Law n. 4,595, of 31 December 1964.

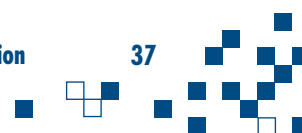
4 Law n. 4,728 of 14 July 1965.

5 Law n. 6,385 of 7 December 1976.

6 To research other attributes, visit [www.bcb.gov.br](http://www.bcb.gov.br).

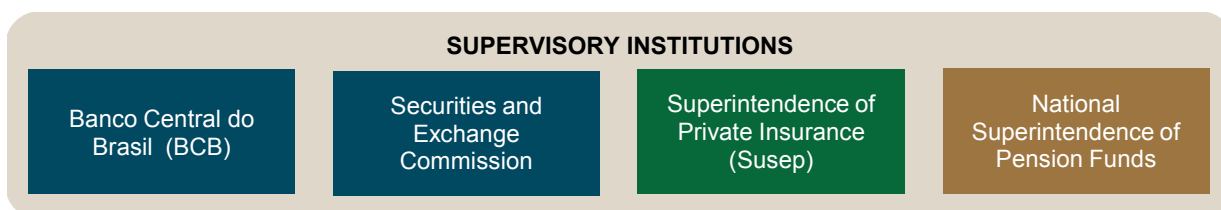
7 Created by Decree-Law n. 73, 21 November 1966.

8 For additional information, visit [www.susep.gov.br](http://www.susep.gov.br).



## 3.2.2 Supervisory institutions

The system's supervisory institutions are:



### Banco Central do Brasil (BCB)

The BCB, the Brazilian central bank, is the main executor of the CMN guidelines, responsible for ensuring the purchasing power of domestic currency. With headquarters in Brasília and branches in Porto Alegre, Curitiba, São Paulo, Rio de Janeiro, Belo Horizonte, Salvador, Recife, Fortaleza, and Belém, the main responsibilities of the BCB include: issuing paper money and coins; performing the services of currency; receiving compulsory and voluntary reserves from financial and banking institutions; conducting rediscounts and loans to financial institutions; regulating the execution of clearing services for cheques and other papers; buying and selling federal bonds; exercising credit control; regulating and supervising financial institutions; authorizing financial institutions to operate; establishing the conditions for exercising executive duties within financial institutions; monitoring the interference of other companies in financial and capital markets; and controlling the flow of foreign capital.

### Securities and Exchange Commission (CVM)

The CVM, a self-governing body linked to the Ministry of Finance, is responsible for regulating, developing, controlling, and supervising the national securities market.<sup>9</sup>

### Superintendence of Private Insurance (SUSEP)

The Superintendence of Private Insurance (SUSEP), another self-governing body linked to the Ministry of Finance, is responsible for controlling and supervising the insurance market, open private pensions, and capitalization. Among its tasks is supervising the establishment, organization, and operation of insurance companies, capitalization companies, private open pension funds, and reinsurers, effectively acting as executor of the policy established by CNSP.<sup>10</sup>

### National Superintendence of Pension Funds (PREVIC)

PREVIC, a self-governing body under the Ministry of Social Development and Combating Hunger (MDS), is responsible for overseeing the activities of closed pension funds and observing compliance with the guidelines established by the CMN and the CNPC.<sup>11</sup>

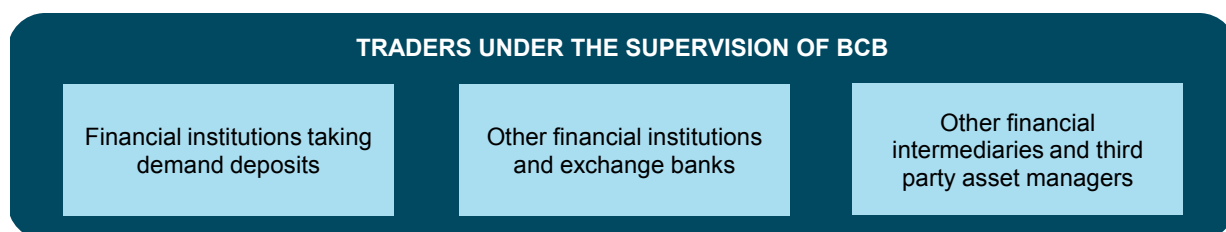
<sup>9</sup> For other functions, consult [www.cvm.gov.br](http://www.cvm.gov.br).

<sup>10</sup> For an examination of the other assignments, visit [www.susep.gov.br/english/](http://www.susep.gov.br/english/).

<sup>11</sup> For more information on the role of PREVIC, visit [www.previdenciasocial.gov.br](http://www.previdenciasocial.gov.br) (only in Portuguese).

### 3.2.3 Traders

The traders in the national financial system are:



#### 3.2.3.1 Traders under the supervision of the BCB

##### Financial institutions taking demand deposits

Financial institutions taking demand deposits include commercial banks, universal banks with commercial portfolios, savings banks, and credit unions. These are the financial institutions with the capacity to create financial capital currency. Among these institutions, credit unions are particularly important because they operate differently from traditional banks, constituting an alternative for the population.

The history of cooperative credit in Brazil dates to 1902, when the sector began to experience intense regulatory changes. In 1971, the Law of Cooperatives, the regulatory framework for the sector, established the National Policy on Cooperatives and fostered the growth and consolidation of this sector.<sup>12</sup>

In 2002, the creation of cooperatives was authorized for small and microentrepreneurs involved in industrial, commercial, or service businesses, both in urban and rural areas.<sup>13</sup> This initiative was important in bringing productive microcredit into the cooperative movement, creating access to financial services for a segment of the population that was not served by traditional financial institutions.

Resolution n. 3,106, of 25 June 2003, was very significant for the sector's development. It authorized the creation of free-entry cooperatives and established other important improvements to the regulatory framework. Particularly, it expanded requirements that strengthened the role of central cooperatives, strengthening the Brazilian three-tiered cooperative system (1<sup>st</sup> level: singular cooperatives, 2<sup>nd</sup> level: central cooperatives; 3<sup>rd</sup> level: confederation of cooperatives) and the power of central cooperatives to supervise their affiliates.

In 2009, new legislation paved the way for cooperatives to appoint a Board of Directors.<sup>14</sup> The legislation encouraged the segregation of duties between the Board of Directors and the Executive Board, established new rules for calculating the distribution of surplus, and introduced the practice of co-management, which allows the central cooperative or confederation to temporarily assist singular credit unions.

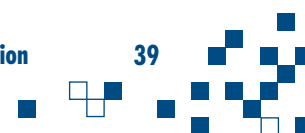
##### Other financial institutions and exchange banks

Other financial institutions under the supervision of BCB are those that raise funds through bond issuing, mediating between savers and investors without generating money. This group includes development agencies; savings and loan associations; foreign exchange banks; development banks; investment banks;

<sup>12</sup> Law n. 5,764 of 16 December 1971.

<sup>13</sup> Resolution n. 3,058 of 20 December 2002.

<sup>14</sup> Complementary Law n. 130 of 17 April 2009.





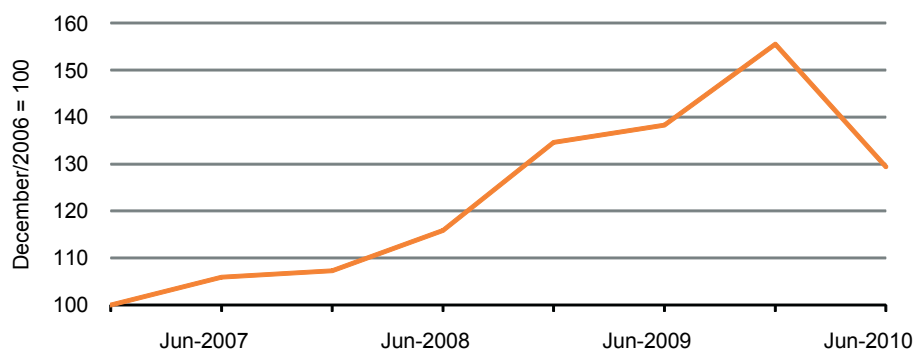
Brazilian Development Bank (BNDES); mortgage companies; central credit unions; credit societies; consumer finance companies; real estate credit companies; and microentrepreneur credit companies.

Regarding the microentrepreneur credit companies, it is worthy to mention that the first initiatives to establish Microfinance Institutions (MFIs) in Brazil date to 1999.<sup>15</sup> Two years later, the general operational structure of the microfinance sector was established and microentrepreneur credit companies (SCMs) were introduced. The exclusive objective of SCMs was to provide credit to individuals and microenterprises that engaged in small business in the professional, commercial, or industrial arena.<sup>16</sup> Initially, credit was to be targeted exclusively at microentrepreneurs, with a limit of R\$10,000 per customer, to be used exclusively in investment, not in consumption. Moreover, the direct or indirect participation of the public sector in SCMs capital was prohibited.

In 2007, the BCB introduced reforms to the SCM model that added small businesses to the list of entities that could receive credit and changed the name to Microentrepreneur and Small Business Credit Company (SCMEPP).<sup>17</sup> SCMEPPs have the potential to democratize credit, which increases positive economic impacts to the society. The new model accepts solidarity guarantees, which allows credit to be granted to customers who do not hold guarantees typically required by financial institutions. As a basic prudential rule, SCMEPPs' exposure to a single customer may not exceed 5% of their net worth.

Figure 3.10 shows that, in the past few years, the aggregate SCMEPPs' credit portfolio has presented significant growth, which demonstrates that this new segment is evolving in its mission to provide credit. It is worthy to enlighten that, throughout these years, as a consequence of the entities' development, some SCMEPPs have transformed into other types of financial institutions, in order to have greater operational possibilities. The transformed institutions are removed from the statistics about the SCMEPP's segment. Therefore, although they reflect the segment's development, these transformations have negative impacts on the segment's statistics. For example, in the first semester of 2010, a SCMEPP that accounted for approximately 20% of the total segment's portfolio was transformed into other type of institution, which helps to explain the fall in the segment's credit portfolio in the last period shown in Figure 3.10.

**Figure 3.10 – SCMEPPs' credit portfolio – Change index**



Source: BCB/SFN/Informações Cadastrais e Contábeis/Balancetes

Development agencies (AF) are companies licensed to operate by the BCB, with controlling interest held by the units of the Federation to which they belong. These companies have emerged as successors to Brazil's institutional development model, established in 1952 with the creation of the National Bank for Economic Development (BNDE), today the Brazilian Development Bank (BNDES). In 1994, when the Real Plan was implemented to stabilize the economy, the financial system had to adapt quickly to a

15 CMN Resolution n. 2,627 of 3 August 1999.

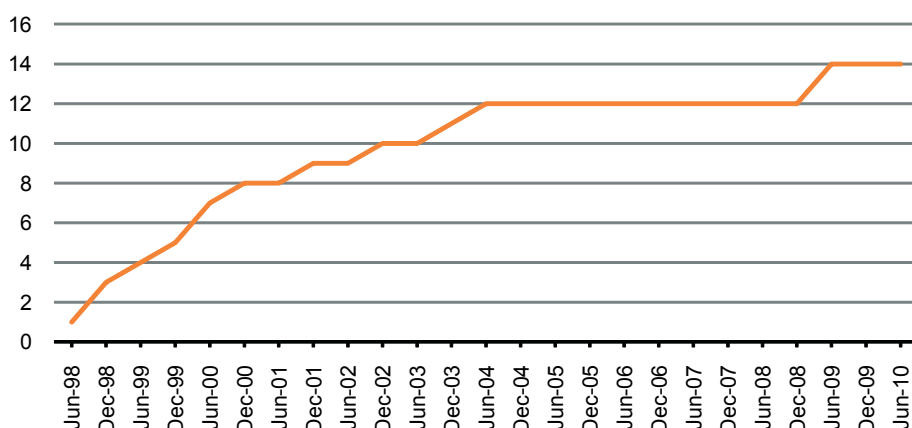
16 Law n. 10,194 of 14 February 2001 and Provisional Measure (MP) n. 2,172-32 of 23 August 2001.

17 CMN Resolution n. 3,567 of 29 May 2008. See also Law n. 11,524 of 24 September 2007.

low-inflation environment. Through the Program of Incentives to the Reduction of the State Public Sector in Banking Activities (PROES), the federal government restructured and reduced the size of the states' banking systems,<sup>18</sup> and created the development agency model.<sup>19</sup>

The social objective of each AF is to finance fixed capital and working capital associated with projects of the state to which it belongs, increasing or maintaining the state's capacity of producing goods and providing services, in line with local socioeconomic development programmes. These organizations are allowed to grant credit for the purchase of productive assets and for working capital to individuals or corporations engaging in small businesses, in the professional, commercial, or industrial arenas.

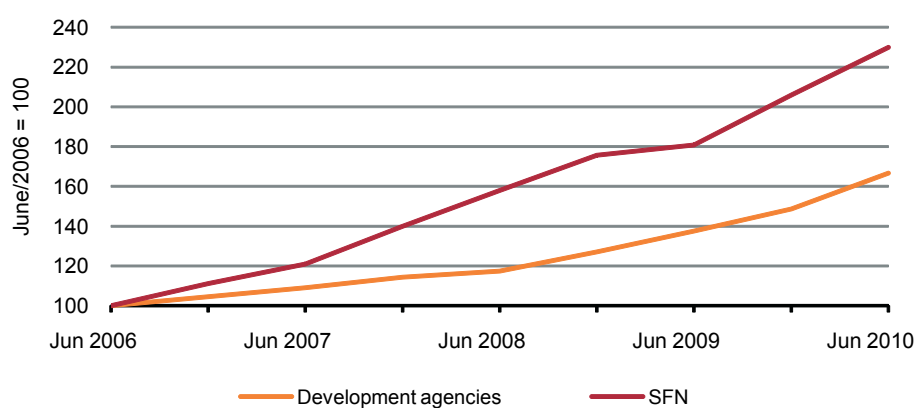
**Figure 3.11 – Quantity of development agencies**



Source: BCB/Unicad

The credit transactions of development agencies have grown over time, but at a slower pace than SFN transactions as a whole.

**Figure 3.12 – Credit amount change index – Development agencies and SFN**



Source: BCB/SFN/Informações Cadastrais e Contábeis/Balancetes

18 Provisional Measure (MP) n. 1,514, of 5 September 1996.

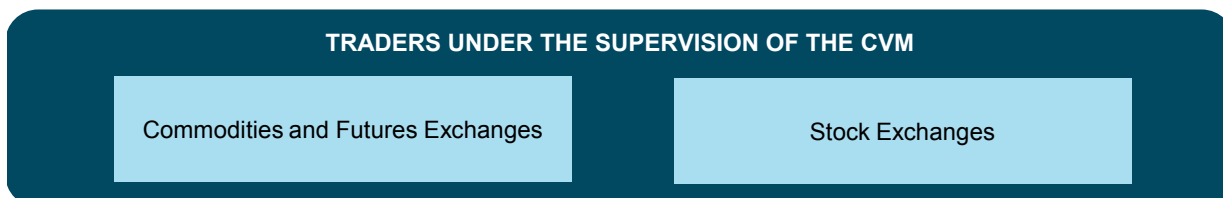
19 Among other differences from the states' banks, the development agencies are not allowed to take public deposits.



## Other financial intermediaries and third party asset managers

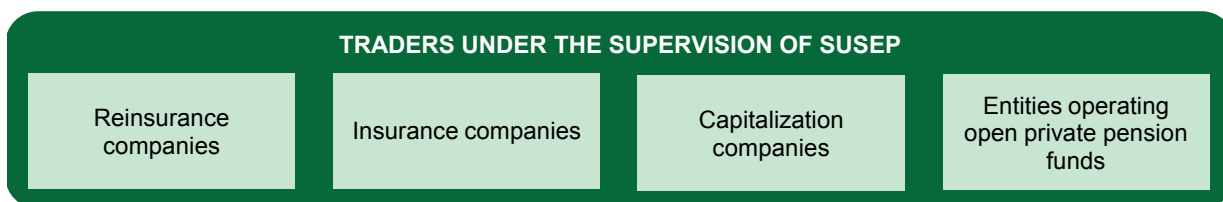
These intermediaries include consortium managers, leasing companies, exchange brokers, security brokerage companies, and security distribution companies.<sup>20</sup>

### 3.2.3.2 Traders under the supervision of the CVM



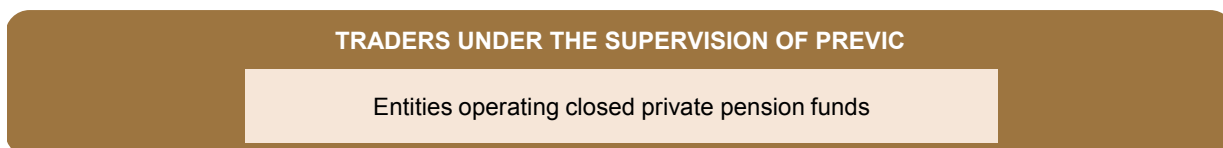
Stock exchanges in Brazil are organized under the rules of share companies and operate under the supervision of the CVM, which inspects members and their transactions. Stock exchanges have great autonomy to regulate the stockbrokers that operate within them. The main stock exchange in Brazil is BM&FBOVESPA, a company created in 2008 through the integration between the São Paulo Stock Exchange and the Brazilian Mercantile & Futures Exchange. BM&FBOVESPA manages both stock market and over-the-counter markets.

### 3.2.3.3 Traders under the supervision of SUSEP



Reinsurers, insurance companies, capitalization companies, open private pension funds, and enabled brokers manage the interests of policyholders, observing the parameters on risk limits and on formation of reserves defined by SUSEP. They are important SFN clients due to the need to invest their technical reserves.

### 3.2.3.4 Traders under the supervision of PREVIC



Closed complementary social security companies (pension funds) are organized in the form of nonprofit foundations or civil societies. They are available exclusively to employees of a company or group of companies; to the civil servants of the Union, states, Federal District and municipalities, called “sponsors”; or to the associates and members of professional, class, or sector corporations, called “founders”. They

<sup>20</sup> For more information, see [www.bcb.gov.br/Pre/composicao/oif.asp](http://www.bcb.gov.br/Pre/composicao/oif.asp) (only in Portuguese).

must follow the guidelines established by the CMN<sup>21</sup> regarding the application of resources from benefit plans. They are also governed by Supplementary Law n. 109 of 29 May 2001.<sup>22</sup>

### 3.2.4 Development of the National Financial System

Brazil's financial system was originally designed to operate through specialized institutions, with banks focusing primarily on short-term transactions, such as working capital and discounts, while other sort of institutions dealt with financing, investments, savings, and mortgages. This system has evolved through a search for economies of scale and greater rationalization, which created large financial conglomerates that often have banks as leading institutions. These conglomerates are now offering all types of credit and financial services.

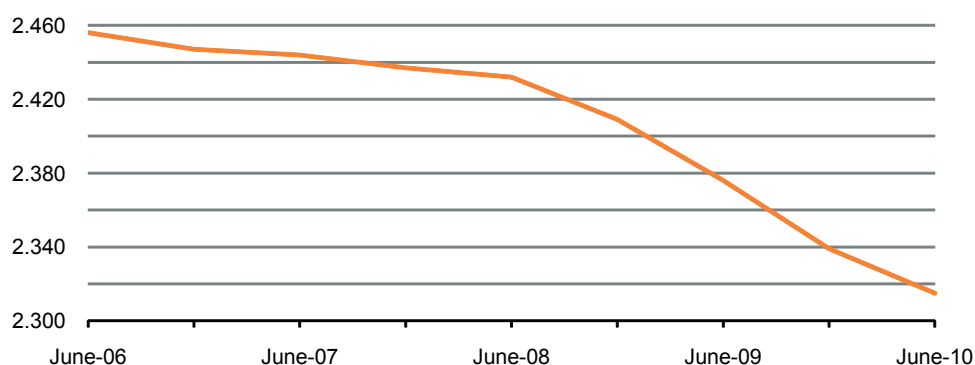
A key feature of the Brazilian economy before 1994 was a high rate of inflation. At that time, the financial market adapted the services it offered to reap the benefits of inflation. To maximize these gains, banks invested heavily in data processing technology and in expanding their satellite network, especially in areas with higher rates of savings deposits, where they could raise more funds.

With this advanced data processing technology and this expanded satellite network, the financial market was able to supply large numbers of customers with financial services in a fast and efficient way. These advantages encouraged public bodies and companies acting in their behalf to use financial institutions' channels to receive taxes, tariffs and fees and to pay benefits and other expenses. The substitution of the government collection structure at federal, state, and municipal levels reduced substantially the financial and social costs of collection and situated the financial system as an intermediary between taxpayers and the public sector.

Since 1988, for reasons of economy of scale, the CMN allowed commercial banks, investment banks, development banks, mortgage companies, and consumer finance companies to organize themselves into a single financial institution with full legal status, known as a universal bank.

Subsequently, global economic integration, domestic stability, adherence to international guidelines, and the privatization and restructuring of financial institutions led to increased concentration in the Brazilian financial system (illustrated in Figure 3.13).

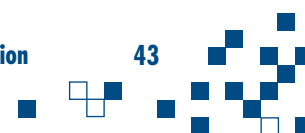
**Figure 3.13 – Quantity of institutions authorized to operate by the BCB**



Source: Unicad

<sup>21</sup> Resolution n. 3,121 of 25 September 2003.

<sup>22</sup> For more information, visit [www.bcb.gov.br/Pre/composicao/efpp.asp](http://www.bcb.gov.br/Pre/composicao/efpp.asp) (only in Portuguese).



This growth in concentration is also shown in Table 3.3, which presents the share of the largest banks' assets in the total banking assets.

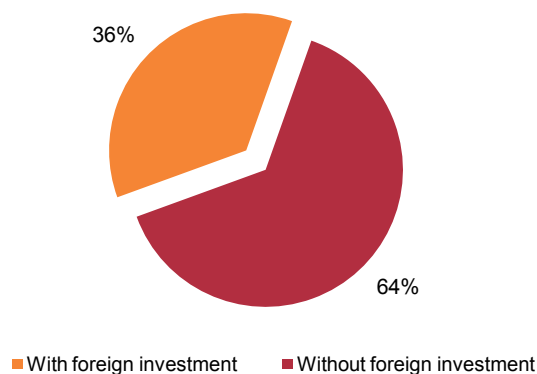
**Table 3.3 – Share of the assets of the 5, 10, and 20 largest banks, including Caixa Econômica Federal, in the total banking system assets (%)**

	Assets of the largest banks and Caixa Econômica Federal/Total banking system assets (%)														
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*
The 5 largest	50.81	51.05	51.39	51.21	50.60	48.62	51.86	55.43	53.79	52.88	53.63	56.87	58.97	67.09	67.42
The 10 largest	62.68	62.59	63.68	63.08	64.60	62.74	64.75	68.39	68.52	69.27	73.28	77.58	80.13	79.87	80.95
The 20 largest	74.35	76.94	76.47	77.14	78.75	77.88	80.16	82.16	83.65	84.25	86.62	89.30	90.64	89.41	90.17

\* Until June/2010.

Site: BCB website/Sistema Financeiro Nacional/Informações Cadastrais e Contábeis/Informações contábeis analíticas e consolidadas por segmento

**Figure 3.14 – Foreign investment in universal banks, on 30 June 2010**



Source: Report RCF J011 – Foreign Participation in the Capital of Institutions the Banking Sector; BCB/Unicad

On the other hand, globalization also brought foreign actors to the Brazilian market. Of the 139 universal banks authorized to operate by the BCB on 30 June 2010, 64% had some form of foreign investment.

Because of these changes, SFN institutions quickly altered their strategies, increasing the supply of services and changing the delivery structure. More emphasis was placed on identifying customers by income level, the products they used, and their position as a borrower or investor, among other things.

Financial institutions began charging fees for services and providing additional service channels, such as the Internet, correspondents, and phone services. These distribution channels are a key focus of the next chapter, which discusses access to financial services and the capacity of the financial system to reach the underserved and to address their particular needs.

# Access to Financial Services

# 4

The financial system transfers funds between lenders and borrowers. To efficiently play this role, it needs to do it in a low-costs and sustainable way and to reach all the agents in economy, according to their needs.

A precondition for financial inclusion is a financial system with a long reach. Only by having access to financial services throughout the country, either at a physical location or through other channels, can the population be properly financially included.

## 4.1 Financial institutions regulated by Banco Central do Brasil (BCB)

The reach of the financial system is measured by the distribution of financial institutions in the country.<sup>1</sup> Table 4.1 identifies the location of these institutions' headquarters, although it should be noted that this does not necessarily reflect its reach, which is better measured by branches, service outposts, and correspondents. The geographical distribution of institutions' headquarters, in a rough way, reflects the distribution of wealth in the country, with the largest presence in the Southeast and the South.

**Table 4.1 – Regional distribution of the National Financial System (SFN)'s institutions' headquarters (30 June 2010)**

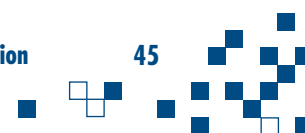
Segment	Brazil	North	Northeast	Midwest	Southeast	South
Universal, commercial and investment banks <sup>1/</sup>	174	2	11	4	140	17
Development banks	4	0	0	0	3	1
Caixa Econômica Federal (savings bank)	1	0	0	1	0	0
Exchange banks	1	0	0	0	1	0
Credit unions	1,388	82	145	121	639	401
Consortium managing companies	302	2	20	27	155	98
Securities brokerage and distribution companies	271	1	16	2	228	24
Finance companies	61	0	3	1	36	21
Leasing companies	32	0	0	1	28	3
Housing financing system <sup>2/</sup>	21	0	6	2	10	3
Development agencies	15	4	4	2	2	3
Microentrepreneur and Small Business Credit Companies	45	3	3	1	28	10
<b>Total</b>	<b>2,315</b>	<b>94</b>	<b>208</b>	<b>162</b>	<b>1270</b>	<b>581</b>

1/ Includes two cooperative banks: Bancoob (commercial bank) and Basicred (universal bank).

2/ Includes the mortgage companies, savings and loans associations, and real estate credit companies

Source: BCB/Unicad – June/2010

1 It should be noted that there are organizations operating in the market that are not subject to BCB regulations, such as Civil Society Organizations of Public Interest (OSCIPs).



Public and private banks are the major players in financial services, representing 84% of total assets in the financial system in June 2010. Their operations reach disadvantaged regions through their diverse distribution channels.<sup>2</sup>

Credit unions also play an important role in the provision of financial services. Although most cooperative systems rely on an extensive network of service channels, these institutions are defined by their regional role, collecting and investing funds locally. This is in contrast to traditional banks, whose investment decisions are predominantly national in scope. Cooperatives pass part of their benefits to the local community, charging lower fees and returning the financial surplus to its members, for example. Almost 50% of credit unions are located in the Southeast, approximately 30% in the South, 10% in the Northeast, 9% in the Midwest, and 6% in the North.

Microentrepreneur and Small Business Credit Companies (SCMEPPs), which are designed to support the efforts of financial inclusion, particularly through microcredit, are also concentrated in the Southeast and the South. The operation of SCMEPPs in Brazil is still incipient.

## 4.2 Distribution channels

The data in this chapter captures the geographical distribution of the following financial services providers: bank branches, Bank Service Outposts (PAB), Electronic Service Outposts (PAE), Advanced Service Outposts (PAA), domestic correspondents (Corresp), credit unions (co-ops) and Cooperative Service Outposts (PAC).

Because of regulatory and business issues, the breadth of services offered by different channels varies. Bank branches and cooperative headquarters offer the most comprehensive range of services. PABs, PAAs, and PACs offer a narrower range of services than branches and cooperatives, but have some degree of autonomy in making decisions, such as opening accounts and conducting credit transactions. As the following box indicates, PAEs offer services exclusively through Automated Teller Machines (ATMs). PABs, PAAs, and PAEs primarily serve banks, whereas PACs only serve credit cooperatives.<sup>3</sup>

Domestic correspondents are companies that provide services to financial institutions under contract according to regulations currently in force. Any institution authorized to operate by the BCB can hire a company to act as its correspondent. The range of services offered by correspondents is more limited than other channels since they lack autonomous decision-making to open accounts and grant credit, for example. However, correspondents have enormous reach and are currently the main form of access to the financial system in Brazil. Correspondents are present in almost all municipalities in the country – only 34 do not have one, a residual number if compared to the total of 5,564 municipalities in Brazil.

<sup>2</sup> As of June 2010.

<sup>3</sup> There are 10 PAEs used by cooperatives: nine in Minas Gerais and one in Paraíba. The database indicates that 86 cooperatives used 1,191 CORRESPs.

## Service Outposts

Service outposts do not require authorization from the BCB to be installed and to operate, just prior notice and observation of the operational limits defined by regulations. The functions of various service outposts are as follows:

**PAB (Bank Service Outpost)** – The satellite of a universal bank with a commercial portfolio, a commercial bank, or a savings bank. A PAB may only be installed inside a government agency or private company, and provides all of the services the institution is authorized to provide.

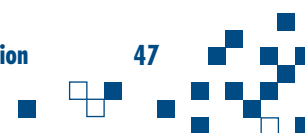
**PAA (Advanced Service Outpost)** – A satellite of a universal bank with a commercial portfolio, a commercial bank, or a savings bank. A PAA may only be installed in an area that is not attended by a branch or other PAA of the same institution. A PAA provides any, but not necessarily all, of the services the institution is authorized to provide.

**PAE (Electronic Service Outpost)** – An automated satellite of a universal bank with a commercial portfolio, a commercial bank, or a savings bank. A PAE provides the following services: withdrawals, deposits, payments, balances and account statements, fund transfers, and the supply of chequebooks. The installation of a PAE is permitted even in a municipality where the institution does not have headquarters or satellites. PAEs offer services exclusively through ATMs. A PAE may be constituted by a single ATM or by a group of ATMs.

**PAC (Cooperative Service Outpost)** – A satellite of a credit cooperative within the cooperative's area of operation that offers all of the services the institution is authorized to provide.

**PAM (Microcredit Service Outpost)** – A satellite of a Microentrepreneur and Small Business Credit Company (SCMEPP) that can be installed in any location. The satellite can be fixed or mobile, permanent or temporary, and can be installed on premises either given or paid for by third parties.

As Table 4.2 indicates, correspondents are the dominant financial service channel in Brazil, with more than 150,000 units (approximately 70% of all distribution channels), followed by PAEs and bank branches. All of these channels have a strong presence in the Southeast, with about 45% of correspondents and outposts of banking institutions located in this region. The exception is PAAs, most of which is in the Northeast (42%). Table 4.2 also includes the number of ATM and POS (Point of Sale) devices that are used to access financial services in Brazil.





**Table 4.2 – Number of channels and electronic equipments by Federative Unit (30 June 2010)**

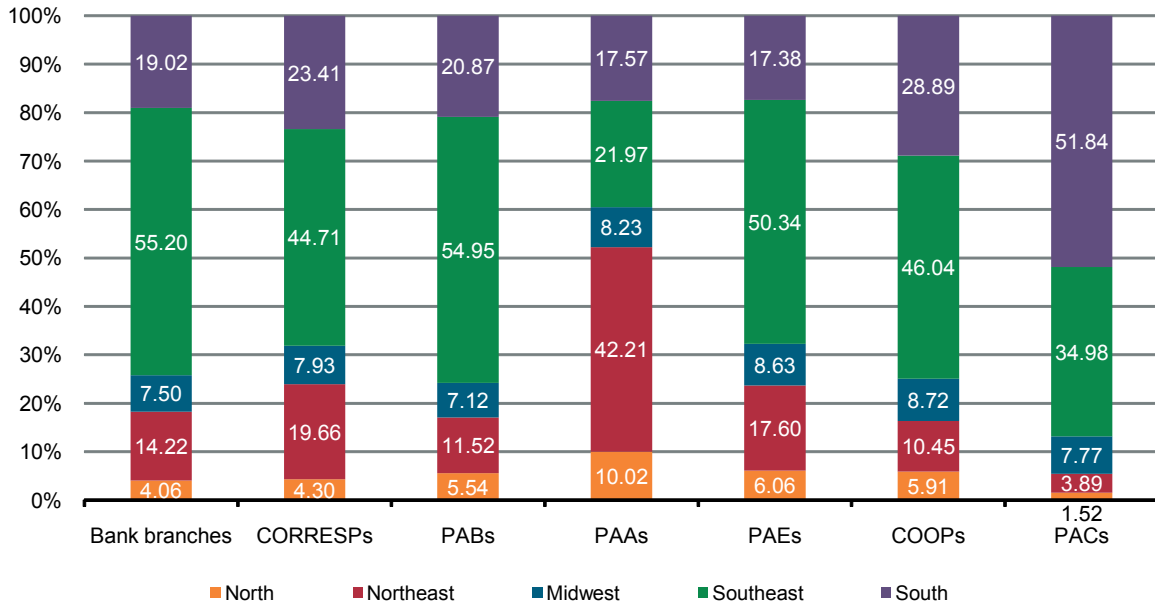
Region/UF	Bank branches	Corresp.	Other channels					Electronic equipments	
			PAB	PAA	PAE	Co-ops	PAC	ATM <sup>1</sup>	POS
<b>North</b>	<b>805</b>	<b>6,529</b>	<b>370</b>	<b>191</b>	<b>2,118</b>	<b>82</b>	<b>46</b>	<b>7,809</b>	<b>136,542</b>
Acre	41	320	11	3	116	5	-	425	6,673
Amazonas	169	1,314	153	27	573	9	2	1,824	33,534
Amapá	38	326	24	10	132	-	-	407	7,082
Pará	334	2,166	119	64	658	33	3	3,067	54,154
Rondônia	102	937	17	14	246	29	32	889	16,708
Roraima	24	208	13	8	90	1	-	279	5,948
Tocantins	97	1,258	33	65	303	5	9	918	12,443
<b>Northeast</b>	<b>2,820</b>	<b>29,870</b>	<b>770</b>	<b>805</b>	<b>6,154</b>	<b>145</b>	<b>118</b>	<b>25,572</b>	<b>653,513</b>
Alagoas	138	1,600	43	54	321	11	8	1,347	40,505
Bahia	838	8,184	259	144	1,891	55	47	7,631	206,215
Ceará	400	4,809	97	74	712	16	13	3,519	91,145
Maranhão	252	2,463	64	117	695	5	2	2,147	41,298
Paraíba	536	4,674	164	56	948	22	22	4,573	136,483
Pernambuco	124	1,990	25	116	343	3	4	1,285	21,193
Piauí	193	2,352	46	128	497	19	15	1,959	48,344
Rio Grande do Norte	169	2,550	34	95	498	10	7	1,819	46,206
Sergipe	170	1,248	38	21	249	4	-	1,292	22,124
<b>Midwest</b>	<b>1,488</b>	<b>12,049</b>	<b>476</b>	<b>157</b>	<b>3,017</b>	<b>121</b>	<b>236</b>	<b>12,989</b>	<b>274,179</b>
Distrito Federal	346	2,153	219	-	874	22	15	3,838	86,368
Goiás	601	4,624	146	96	1,021	48	59	4,671	103,327
Mato Grosso do Sul	256	2,255	58	18	528	14	42	2,091	38,190
Mato Grosso	285	3,017	53	43	594	37	120	2,389	46,294
<b>Southeast</b>	<b>10,946</b>	<b>67,936</b>	<b>3,673</b>	<b>419</b>	<b>17,607</b>	<b>639</b>	<b>1,062</b>	<b>90,822</b>	<b>1,888,604</b>
Espírito Santo	406	2,953	77	-	704	37	90	2,949	58,626
Minas Gerais	1,943	16,040	556	313	3,589	221	595	16,645	306,578
Rio de Janeiro	1,964	10,014	579	1	2,816	84	53	18,122	372,004
São Paulo	6,633	38,929	2,461	105	10,498	297	324	53,106	1,151,396
<b>South</b>	<b>3,771</b>	<b>35,574</b>	<b>1,395</b>	<b>335</b>	<b>6,079</b>	<b>401</b>	<b>1,574</b>	<b>28,287</b>	<b>565,226</b>
Paraná	1,337	13,545	510	116	2,118	135	463	10,400	224,184
Rio Grande do Sul	1,557	13,619	537	182	2,412	140	630	12,075	208,146
Santa Catarina	877	8,410	348	37	1,549	126	481	5,812	132,896
<b>Brazil</b>	<b>19,830</b>	<b>151,958</b>	<b>6,684</b>	<b>1,907</b>	<b>34,975</b>	<b>1,388</b>	<b>3,036</b>	<b>165,479</b>	<b>3,518,064</b>

1/ ATMs are electromechanical self-service equipments located in bank branches and financial institutions' outposts. PAEs are outposts that offer services exclusively through ATMs.

Data refers to the 5,565 Brazilian municipalities and to 6 municipal districts informed by financial institutions as the address of branches or outposts.

Source: BCB/Unicad – June/2010.

**Figure 4.1 – Distribution of access channels by region (30 June 2010)**



Source: BCB/Unicad – June/2010

Tables 4.3 to 4.6 present demographic and geographical indicators for each distribution channel by region and Federative Unit (UF). The demographic indicator refers to the proportion of service outposts per 10,000 adults, and the geographical indicator refers to the number of outposts per 1,000 km<sup>2</sup>. When examining the data, it is worth bearing in mind that the vast size of Brazil’s territory and the population imbalance between regions (a natural consequence of diverse environmental conditions, socioeconomic patterns, and other factors that influence where people live) have an impact on the distribution of financial services.

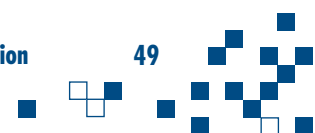
**Table 4.3 – Number of channels/10,000 adults**

Region	Bank branches	Correspondents	Other channels*	Total
North	0.75	6.05	2.60	9.40
Northeast	0.72	7.60	2.03	10.35
Midwest	1.41	11.45	3.81	16.67
Southeast	1.73	10.75	3.70	16.18
South	1.75	16.50	4.54	22.78
<b>Brazil</b>	<b>1.36</b>	<b>10.45</b>	<b>3.30</b>	<b>15.12</b>

\* Credit unions, PACs, PABs, PAAs, PAEs (does not include ATM or POS)

Sources: BCB/Unicad – June/2010; IBGE (adults = 15 years old or older) – 1st. July 2010.

The indicator “number of bank branches per 10,000 adults” reveals that the North region (with 0.75) is 45% below the national average (1.36). The Northeast region, which has higher population density, is similarly low: 47% below the national average. Conversely, the South has the highest rate: 28% higher than the national average, followed by the Southeast (27%) and the Midwest (4%). (For more detail, see Table 4.4, which breaks down the information in Table 4.3 by state.)



**Table 4.4 – Number of channels by Federative Unit (UF)/10,000 adults**

Region/UF	Bank branches	Correspondents	Other channels*	10,000 adults	Total
<b>North</b>	<b>0.75</b>	<b>6.05</b>	<b>2.60</b>	<b>1,078</b>	<b>9.40</b>
Acre	0.87	6.78	2.86	47	10.52
Amazonas	0.72	5.61	3.26	234	9.60
Amapá	0.86	7.38	3.76	44	12.00
Pará	0.64	4.17	1.69	519	6.51
Rondônia	0.92	8.47	3.06	111	12.45
Roraima	0.82	7.13	3.84	29	11.79
Tocantins	1.03	13.35	4.40	94	18.79
<b>Northeast</b>	<b>0.72</b>	<b>7.60</b>	<b>2.03</b>	<b>3,930</b>	<b>10.35</b>
Alagoas	0.62	7.18	1.96	223	9.75
Bahia	0.77	7.54	2.21	1,086	10.51
Ceará	0.63	7.61	1.44	632	9.68
Maranhão	0.57	5.59	2.00	440	8.17
Paraíba	0.83	7.27	1.89	643	9.99
Pernambuco	0.53	8.48	2.09	235	11.10
Piauí	0.68	8.26	2.48	285	11.41
Rio Grande do Norte	0.72	10.81	2.73	236	14.25
Sergipe	1.13	8.30	2.08	150	11.51
<b>Midwest</b>	<b>1.41</b>	<b>11.45</b>	<b>3.81</b>	<b>1,053</b>	<b>16.67</b>
Distrito Federal	1.76	10.97	5.76	196	18.50
Goias	1.34	10.32	3.06	448	14.71
Mato Grosso do Sul	1.44	12.65	3.70	178	17.79
Mato Grosso	1.24	13.12	3.68	230	18.04
<b>Southeast</b>	<b>1.73</b>	<b>10.75</b>	<b>3.70</b>	<b>6,320</b>	<b>16.18</b>
Espírito Santo	1.53	11.10	3.41	266	16.04
Minas Gerais	1.25	10.34	3.40	1,551	14.99
Rio de Janeiro	1.55	7.91	2.79	1,267	12.25
São Paulo	2.05	12.03	4.23	3,236	18.31
<b>South</b>	<b>1.75</b>	<b>16.50</b>	<b>4.54</b>	<b>2,156</b>	<b>22.78</b>
Paraná	1.63	16.55	4.08	818	22.27
Rio Grande do Sul	1.82	15.92	4.56	855	22.30
Santa Catarina	1.82	17.43	5.26	483	24.51
<b>Brazil</b>	<b>1.36</b>	<b>10.45</b>	<b>3.30</b>	<b>14,538</b>	<b>15.12</b>

\* Credit unions, PACs, PABs, PAAs, PAEs (does not include ATM or POS)

Sources: BCB/Unicad – June/2010; IBGE – 1st. July 2010.

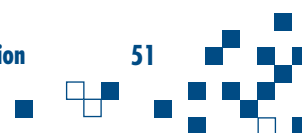
**Table 4.5 – Number of channels by region/1.000 km<sup>2</sup>**

Region	Bank branches	Correspondents	Other channels*	Total
North	0.21	1.69	0.73	2.63
Northeast	1.81	19.22	5.14	26.17
Midwest	0.93	7.50	2.49	10.92
Southeast	11.84	73.48	25.31	110.63
South	6.54	61.72	16.97	85.23
<b>Brazil</b>	<b>2.33</b>	<b>17.85</b>	<b>5.64</b>	<b>25.81</b>

\* Credit unions, PACs, PABs, PAAs, PAEs (does not include ATM or POS)

Sources: BCB/Unicad – June/2010; IBGE – 1st. July 2010.

In terms of geographical distribution (Table 4.5), the country has an average of 2.33 branches per 1,000 km<sup>2</sup>, although this varies significantly between the five regions. The Southeast region has approximately five times more branches per 1,000 km<sup>2</sup> than the national average, while the North and Midwest barely have one agency per 1,000 km<sup>2</sup>. Again, the size and low population density of these regions contribute to these low levels, especially in the North.



**Table 4.6 – Number of channels by Federative Unit (UF)/1,000 km<sup>2</sup>**

Region/UF	Bank branches	Correspondents	Other channels*	1,000 km <sup>2</sup>	Total
<b>North</b>	<b>0.21</b>	<b>1.69</b>	<b>0.73</b>	<b>3,853</b>	<b>2.63</b>
Acre	0.27	2.10	0.88	153	3.25
Amazonas	0.11	0.84	0.49	1,571	1.43
Amapá	0.27	2.28	1.16	143	3.71
Pará	0.27	1.74	0.70	1,248	2.71
Rondônia	0.43	3.94	1.42	238	5.80
Roraima	0.11	0.93	0.50	224	1.53
Tocantins	0.35	4.53	1.49	278	6.38
<b>Northeast</b>	<b>1.81</b>	<b>19.22</b>	<b>5.14</b>	<b>1,554</b>	<b>26.17</b>
Alagoas	4.97	57.62	15.74	28	78.33
Bahia	1.48	14.49	4.24	565	20.22
Ceará	2.69	32.31	6.13	149	41.13
Maranhão	0.76	7.42	2.66	332	10.84
Paraíba	5.45	47.54	12.33	98	65.32
Pernambuco	0.49	7.91	1.95	252	10.36
Piauí	3.42	41.67	12.49	56	57.58
Rio Grande do Norte	3.20	48.30	12.20	53	63.70
Sergipe	7.76	56.96	14.24	22	78.96
<b>Midwest</b>	<b>0.93</b>	<b>7.50</b>	<b>2.49</b>	<b>1,606</b>	<b>10.92</b>
Distrito Federal	59.64	371.08	194.76	6	625.48
Goiás	1.77	13.60	4.03	340	19.39
Mato Grosso do Sul	0.72	6.31	1.85	357	8.88
Mato Grosso	0.32	3.34	0.94	903	4.59
<b>Southeast</b>	<b>11.84</b>	<b>73.48</b>	<b>25.31</b>	<b>925</b>	<b>110.63</b>
Espírito Santo	8.81	64.09	19.71	46	92.60
Minas Gerais	3.31	27.35	8.99	587	39.65
Rio de Janeiro	44.95	229.17	80.85	44	354.97
São Paulo	26.72	156.84	55.13	248	238.70
<b>South</b>	<b>6.54</b>	<b>61.72</b>	<b>16.97</b>	<b>576</b>	<b>85.23</b>
Paraná	6.71	67.96	16.77	199	91.43
Rio Grande do Sul	5.53	48.34	13.85	282	67.71
Santa Catarina	9.20	88.20	26.65	95	124.05
<b>Brazil</b>	<b>2.33</b>	<b>17.85</b>	<b>5.64</b>	<b>8,515</b>	<b>25.81</b>

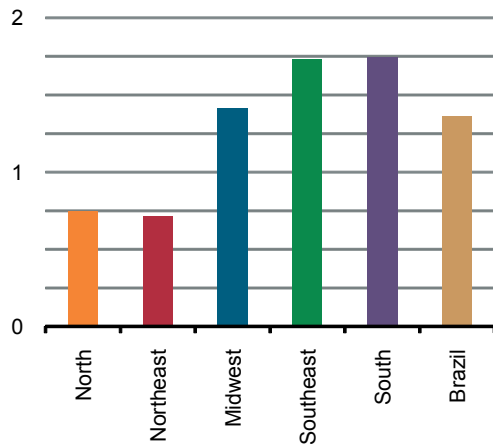
\* Credit unions, PACs, PABs, PAAs, PAEs (does not include ATM or POS)

Sources: BCB/Unicad – June/2010; IBGE – 1st. July 2010.

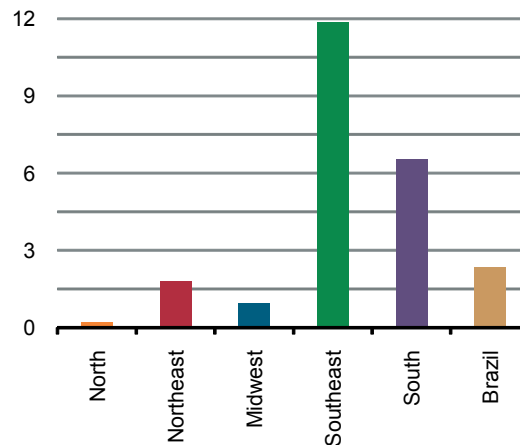
## 4.2.1 Bank branches

Although Brazil is above average among developing countries in terms of number of branches per 10,000 adults, it falls short when compared to developed countries, even when only the Southeast or South regions are considered.

**Figure 4.2 – Bank branches per 10,000 adults**

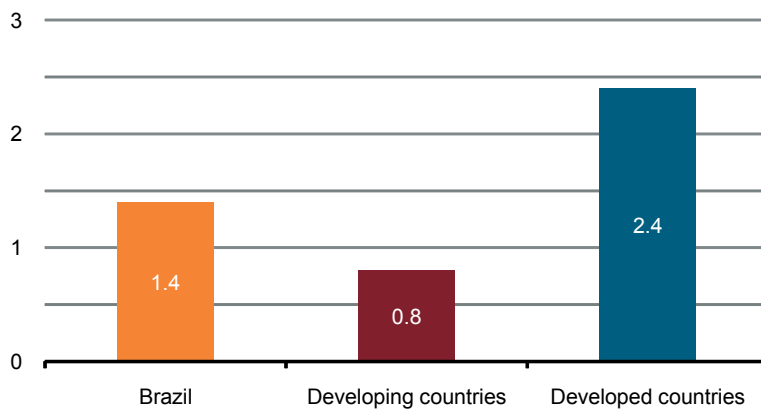


**Figure 4.3 – Bank branches per 1,000 km<sup>2</sup>**

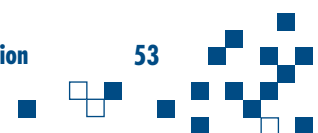


Sources: BCB/Unicad – June/2010; IBGE – 1st/July/2010

**Figure 4.4 – Number of bank branches per 10.000 adults**



Sources: BCB/Unicad – June/2010; Finance Access 2009/CGAP



## 4.2.2 Correspondents

Brazil's correspondent model has become a well-established alternative approach to expanding access to financial services and an important tool for democratizing the provision and use of these services.

Correspondents first appeared in the 1970s, when banks were allowed to hire companies to conduct the recovery of securities and the execution (active or passive) of payment orders on the behalf of the contracting financial institution, which held the responsibility for these operations.<sup>4</sup>

Economic growth and increasingly complex transactions have changed the role of financial services providers. Therefore, in 1979, some types of institutions were authorized to contract companies to provide other services, such as referring applications for financing, credit analysis, conducting debt collection, and managing credit transactions.<sup>5</sup>

In 1999, monetary stability had allowed correspondents to expand their services to include: (i) receiving and referring applications for opening demand, fixed term, and savings deposit accounts; and (ii) receipts and payments for demand, fixed term, and savings deposit accounts, as well as investments and redemptions of investment funds.<sup>6</sup> However, these new services could only be delivered by correspondents in sites considered unattended, i.e. in areas without bank branches.

By 2000, regulations had changed to allow correspondents to set up anywhere in Brazil, dramatically improving access to financial services.<sup>7</sup> In essence, the regulation recognized that financial institutions make decisions about financial services provision based on customer profiles, the nature of the service, and the complexity of an operation. Changing the regulations to give financial institutions more flexibility ensured that the physical service network would expand, and it also improved market competitiveness. The current regulation allows all financial institutions, and other institutions authorized to operate by the BCB, to contract companies to carry out correspondent functions regardless of whether the companies are members of the SFN.<sup>8</sup> Correspondent services include referring "account applications", receipts and payments for deposit accounts, receiving and referring applications for loans and financing, conducting debt collection services, and receiving and referring credit card applications.<sup>9</sup>

It should be emphasized that services offered by correspondents are the sole responsibility of financial institutions. Furthermore, the hiring financial institutions are required to inform the general public that the hired company is just a correspondent acting in their behalf, i.e. the hiring financial institutions must inform that they hold the responsibility for the transactions carried out by their correspondents.

In terms of the distribution of financial services, correspondent's model has been very successful: since 2002, every municipality in Brazil has had banking services and only 34 lack correspondents (they are served by other channels, however). Figures 4.5 to 4.7 indicate that the number of correspondent service points has grown steadily over time, and although they are concentrated in the Southeast region, every region has better access to financial services.<sup>10</sup>

4 Circular n. 220 of 15 October 1973.

5 Resolution n. 562 of 30 August 1979 and Resolution n. 2,166 of 30 June 1995.

6 Resolution n. 2,640 of 25 August 1999.

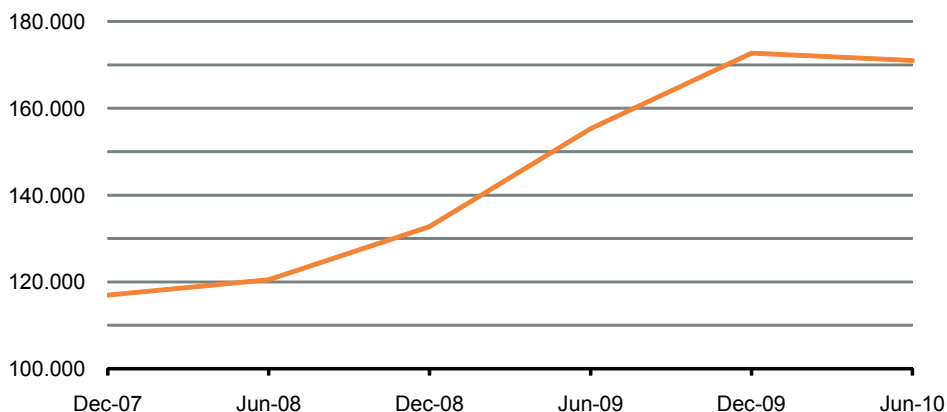
7 Resolution n. 2,707 of 30 March 2000.

8 Resolution n. 3,110 of 31 July 2003, as amended by Resolution n. 3,156 of 17 December 2003 and n. 3,654 of 17 December 2008.

9 Items I to X of Article 1 of Resolution n. 3,110, 2003.

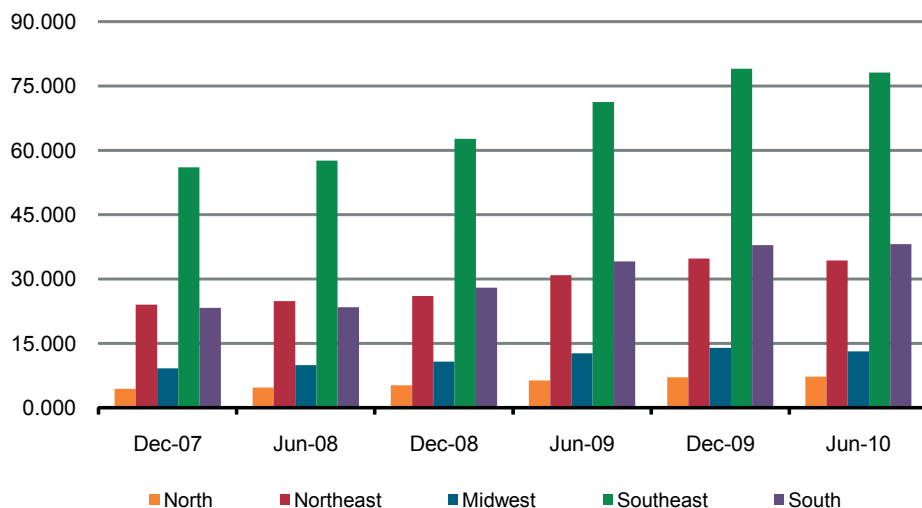
10 In Figures 4.5 to 4.7,  $n$  agreements contracted by financial institutions with a single correspondent are differentiated as  $n$  service points.

**Figure 4.5 – Number of correspondents' points in the country**



Source: BCB/Unicad

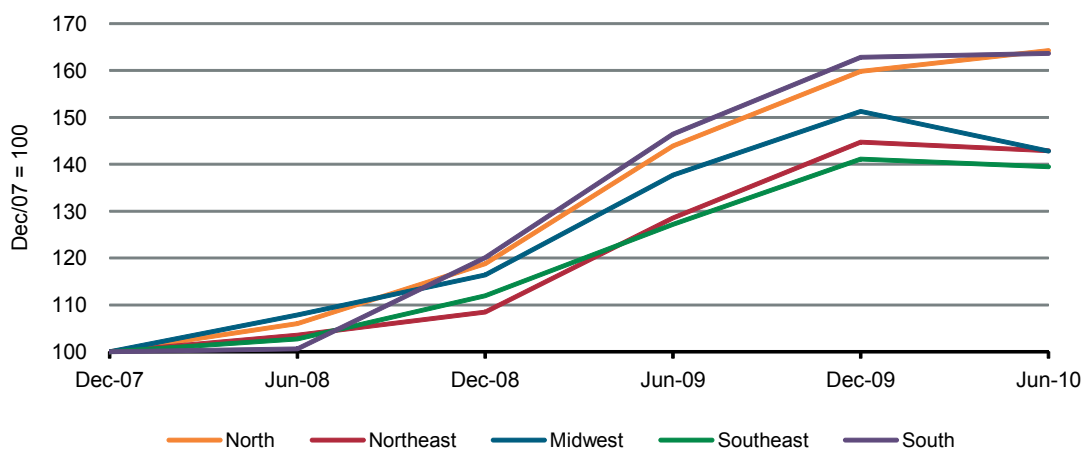
**Figure 4.6 – Number of correspondents' points by region**



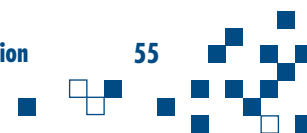
Source: BCB/Unicad

The biggest growth in the number of correspondent service points was in the North Region, followed by the South and the Northeast.

**Figure 4.7 – Change index of the number of correspondents' points by region**



Source: BCB/Unicad

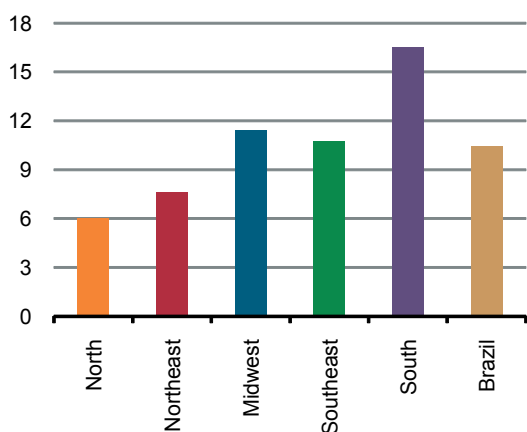




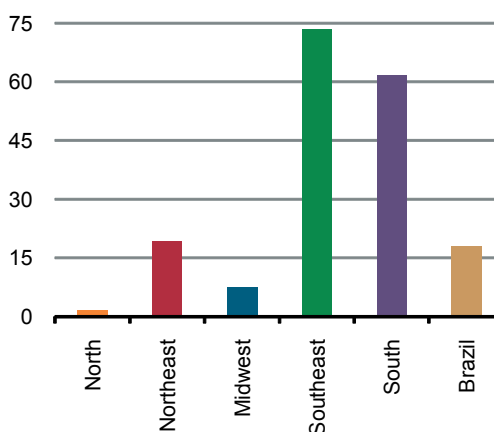
The strong presence of correspondents (there are 10.45 correspondents per 10,000 adults in Brazil) contributes significantly to a good indicator of “distribution channels (total) per 10,000 adults”: 15.12 (see Table 4.4). Regionally, the South, Southeast, and Midwest are far above the national average, with 16.50, 10.75, and 11.45 correspondents per 10,000 adults, respectively.

In terms of geographical distribution, Brazil has an average of 25.81 channels per 1,000 km<sup>2</sup>, 17.85 of which are correspondents. Correspondents are located predominantly in the South and Southeast, with 61.72 and 73.48 correspondents per 1,000 km<sup>2</sup>, respectively. In the North, this rate drops to 1.69, indicating low representation and low provision of infrastructure and service channels (only 4.6% of all Brazilian financial channels are located in this region). It is worthy to underline that, as mentioned above, the size and low population density of this region contribute to these low levels.

**Figure 4.8 – Correspondents per 10,000 adults**



**Figure 4.9 – Correspondents per 1,000 km<sup>2</sup>**

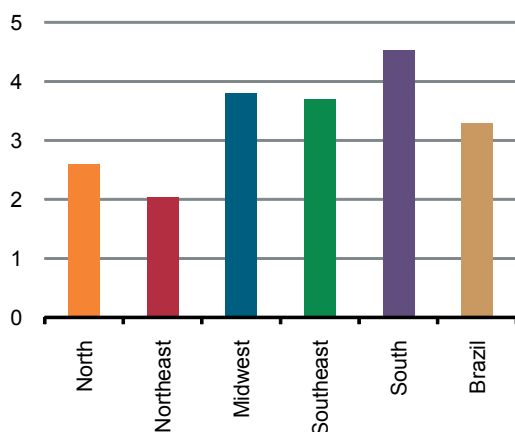


Sources: BCB/Unicad – June/2010; IBGE – 1st/July/2010

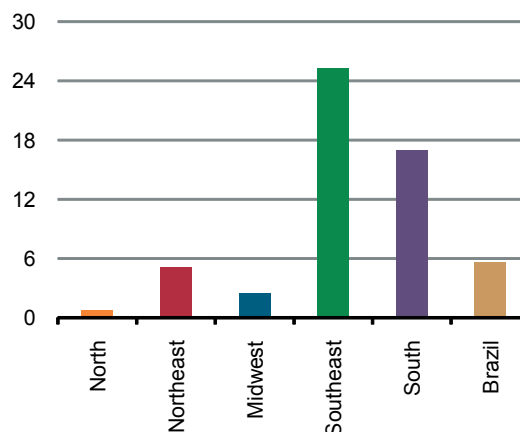
### 4.2.3 Other distribution channels

The PABs, PAAs, cooperatives, and PACs, together, are as many as 0.65 the number of bank branches in Brazil.<sup>11</sup> This indicates the importance of these channels in strengthening the capacity of financial institutions to expand their satellite network and reach more people, especially when these channels are located in unattended areas. When the number of PABs, PAAs, PAEs, cooperatives, and PACs are analysed by region, it is evident that geography has the biggest impact on access indicators. The North and Midwest regions together account for only 1.25 of these channels per 1,000 km<sup>2</sup>, while the Southeast has 25.31, and, when all the regions are considered together, the whole Brazil has 5.64. From a demographic perspective, the distribution of these channels per 10,000 adults is more equal (see Figure 4.10).

**Figure 4.10 – Other channels per 10,000 adults**



**Figure 4.11 – Other channels per 1,000 km<sup>2</sup>**



Sources: BCB/Unicad – June/2010; IBGE – 1st/July/2010

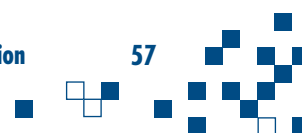
### 4.2.4 Self-service machines (ATM – Automated Teller Machine)

Self-service machines (ATMs) are terminals accessed with an individually assigned card and password that allow users to perform transactions, such as withdrawals, payments, transfers, and queries. These terminals are installed in bank branches, shopping malls, airports, and other locations. The distribution of terminals is determined by business decisions such as cost, profitability, and business opportunities.

There are 21 ATM networks in Brazil. Twenty are owned by financial institutions and one by TecBan (Banco24Horas), a company that provides automation services to financial institutions without a network and, in other cases, integrates existing networks. Interoperability between networks is low because few banks allow transactions through open access terminals. In 2009, only 5.1% of transactions were made by users who were not clients of the institution owning the terminal.

The number of ATMs in Brazil has grown steadily, although there are marked differences between regions. There are 165,479 ATMs installed in Brazil, with an average of 11.4 ATMs per 10,000 adults and 19.4 per 1,000 km<sup>2</sup>. Table 4.7 indicates the number of ATMs and POS terminals by UF and region, as well as by demographic and geographical indicators.

<sup>11</sup> PAEs were not considered because of the impersonal nature of electronic services.



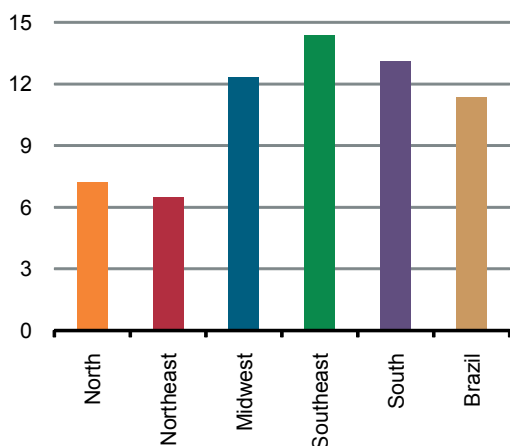
**Table 4.7 – Number of ATMs and POS by Federative Unit (UF) – Absolute, per 10,000 adults, and per 1,000 km<sup>2</sup>**

Region/UF	ATMs	POS	ATM/10,000 adults	POS/10,000 adults	ATM/1,000 km <sup>2</sup>	POS/1,000 km <sup>2</sup>
<b>North</b>	<b>7,809</b>	<b>136,542</b>	<b>7.24</b>	<b>126.61</b>	<b>2.03</b>	<b>35.43</b>
Acre	425	6,673	9.01	141.47	2.79	43.73
Amazonas	1,824	33,534	7.79	143.22	1.16	21.35
Amapá	407	7,082	9.22	160.37	2.85	49.59
Pará	3,067	54,154	5.91	104.35	2.46	43.40
Rondônia	889	16,708	8.04	151.08	3.74	70.33
Roraima	279	5,948	9.56	203.86	1.24	26.52
Tocantins	918	12,443	9.74	132.07	3.31	44.82
<b>Northeast</b>	<b>25,572</b>	<b>653,513</b>	<b>6.51</b>	<b>166.28</b>	<b>16.45</b>	<b>420.47</b>
Alagoas	1,347	40,505	6.04	181.65	48.51	1,458.71
Bahia	7,631	206,215	7.03	189.91	13.51	365.18
Ceará	3,519	91,145	5.57	144.18	23.65	612.43
Maranhão	2,147	41,298	4.87	93.75	6.47	124.40
Paraíba	4,573	136,483	7.11	212.32	46.52	1,388.27
Pernambuco	1,285	21,193	5.48	90.30	5.11	84.26
Piauí	1,959	48,344	6.88	169.77	34.71	856.56
Rio Grande do Norte	1,819	46,206	7.71	195.82	34.45	875.17
Sergipe	1,292	22,124	8.59	147.16	58.97	1,009.75
<b>Midwest</b>	<b>12,989</b>	<b>274,179</b>	<b>12.34</b>	<b>260.45</b>	<b>8.09</b>	<b>170.68</b>
Distrito Federal	3,838	86,368	19.56	440.23	661.50	14,886.06
Goiás	4,671	103,327	10.42	230.53	13.73	303.83
Mato Grosso do Sul	2,091	38,190	11.73	214.22	5.86	106.94
Mato Grosso	2,389	46,294	10.39	201.25	2.64	51.25
<b>Southeast</b>	<b>90,822</b>	<b>1,888,604</b>	<b>14.37</b>	<b>298.81</b>	<b>98.24</b>	<b>2,042.81</b>
Espírito Santo	2,949	58,626	11.09	220.40	64.00	1,272.33
Minas Gerais	16,645	306,578	10.73	197.61	28.38	522.70
Rio de Janeiro	18,122	372,004	14.31	293.70	414.73	8,513.45
São Paulo	53,106	1,151,396	16.41	355.76	213.96	4,638.81
<b>South</b>	<b>28,287</b>	<b>565,226</b>	<b>13.12</b>	<b>262.11</b>	<b>49.07</b>	<b>980.60</b>
Paraná	10,400	224,184	12.71	273.92	52.18	1,124.77
Rio Grande do Sul	12,075	208,146	14.12	243.33	42.86	738.77
Santa Catarina	5,812	132,896	12.04	275.36	60.96	1,393.83
<b>Brazil</b>	<b>165,479</b>	<b>3,518,064</b>	<b>11.38</b>	<b>241.99</b>	<b>19.43</b>	<b>413.17</b>

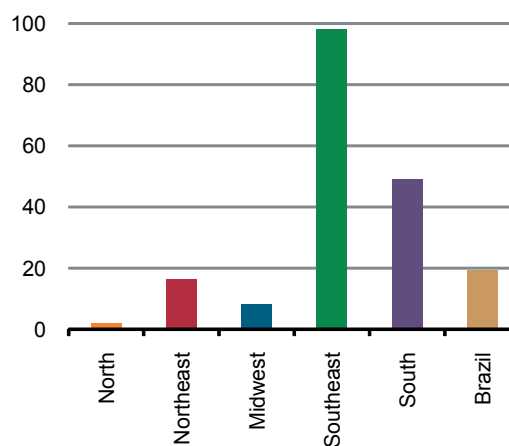
Sources: BCB/Unicad – June/2010; IBGE – 1st. July 2010.

The South and Southeast regions stand out with the highest number of ATMs, both in total numbers and by geographical and demographic indicators, with 14.1 ATMs per 10,000 adults and 79.4 per 1,000 km<sup>2</sup> (well above the national average). The Midwest region has a rate close to the South and Southeast, with 12.3 ATMs per 10,000 adults. The Northeast region, although having the lowest number of ATMs per 10,000 adults, 6.5, approaches the national average in terms of geographical indicators (19.4 ATMs per 1,000 km<sup>2</sup>). Finally, the North region is below the national average for both indicators, with two ATMs per 1,000 km<sup>2</sup> and 7.2 per 10,000 adults. Once again, the region's large area and low population density account for this low distribution level.

**Figure 4.12 – ATMs per 10,000 adults**



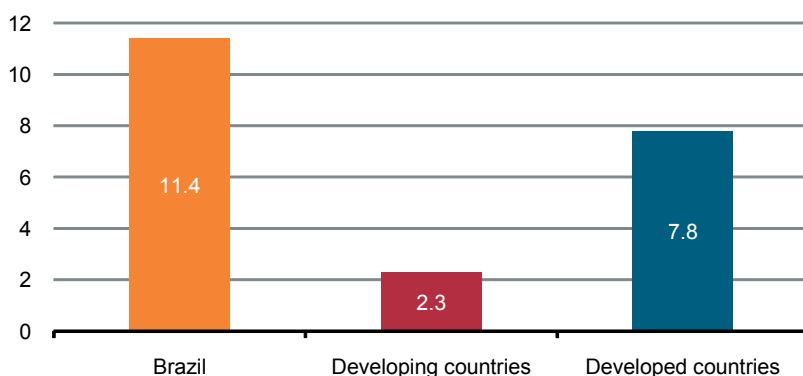
**Figure 4.13 – ATMs per 1,000 km<sup>2</sup>**



Sources: BCB/Unicad – June/2010; IBGE – 1st/July/2010

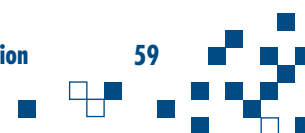
Access to ATM services could be improved by increasing the interoperability of networks. This would not only encourage better distribution throughout the country, but also produce efficiency gains for the financial system.<sup>12</sup> Despite regional gaps, however, ATM presence in Brazil is still favourable when compared to international indicators.

**Figure 4.14 – ATMs per 10,000 adults**



Sources: BCB/Unicad – June/2010; Finance Access 2009/CGAP

<sup>12</sup> Interoperable terminals can be used by clients of the bank that owns the terminal, as well as clients of other banks that have agreements with the owner institution.



## 4.2.5 POS (Point of Sale)

The POS is an electronic equipment used by businesses to authorize and register transactions made with payment cards. POS terminals may also offer services such as recharging pre-paid mobile phones, consulting credit record registries,<sup>13</sup> and they enable some transactions through domestic correspondents.

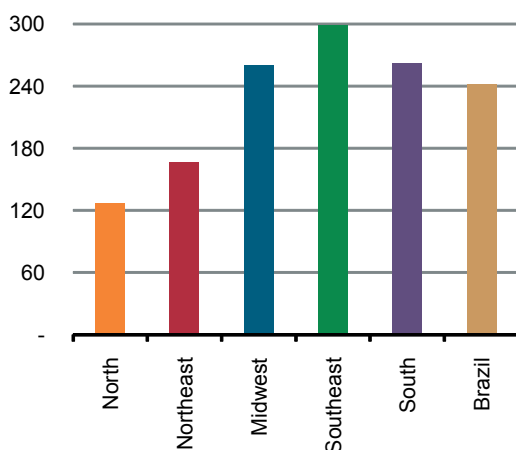
Like ATM networks, the payment card industry has created POS networks with low interoperability.<sup>14</sup> In Brazil, the POS networks belong to the accreditors. Formerly, for the two main brands (Visa and MasterCard), there was a sole accreditor.<sup>15</sup> As with ATM networks, this has created a higher concentration of POS terminals in the richest regions at the expense of the other regions. On the other hand, all regions have experienced rapid growth in POS networks, which reflects the growth in the number of payment cards in Brazil.

On 1 July 2010, the main accreditors in Brazil, Redecard and Cielo (formerly Visanet), along with other new entrants, began offering MasterCard and Visa to commercial establishments. This has promoted some degree of interoperability in the POS network and could improve the distribution of POS terminals in Brazil.

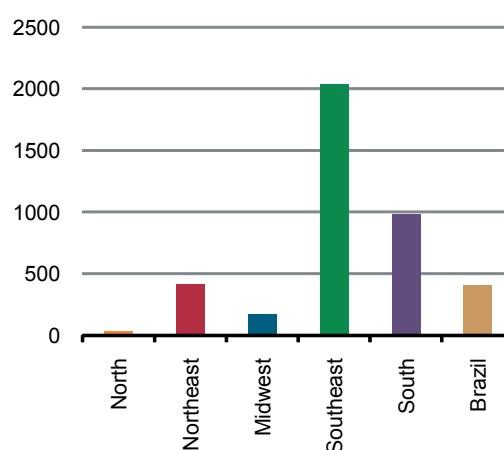
Based on data from June 2010, the number of terminals in Brazil has reached 3,518,064 units. As Table 4.7 indicates, the Southeast region has the highest number of POS terminals, about 54% of the terminals in the country, and the highest number per 10,000 adults (about 300). With about 260 terminals per 10,000 adults in the South and the Midwest considered together, these regions exceed the national average of 242. Again, the North has the lowest number – less than 4% of all terminals are located in this region and there are only 127 per 10,000 adults. This is less than half the number of POS terminals per 10,000 adults in the South and Southeast.

Geographical indicators present a more disparate picture. The North has only 35 POS terminals per 1,000 km<sup>2</sup> while the Southeast exceeds 2,000. Compared to the national average of 413 POS per 1,000 km<sup>2</sup>, the Midwest fares poorly with only 171.

**Figure 4.15 – POS per 10,000 adults**



**Figure 4.16 – POS per 1,000 Km<sup>2</sup>**



Sources: BCB/Unicad – June/2010; IBGE – 1st/July/2010

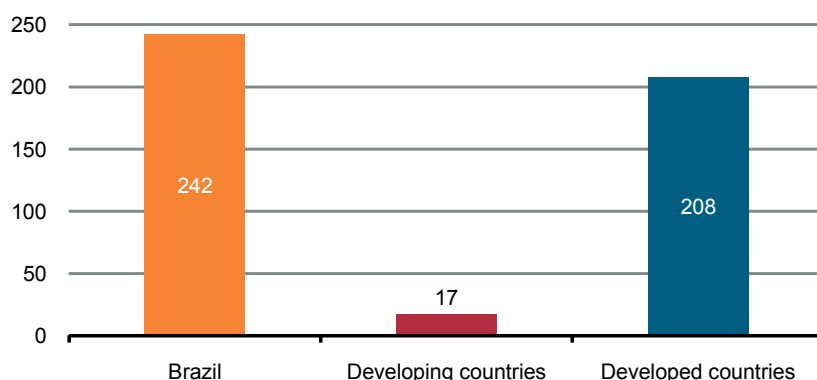
<sup>13</sup> For example, Credit Protection Service Centre (SPC) and SERASA.

<sup>14</sup> Interoperability in this context means that (i) any POS terminal can read cards of any brand and (ii) an open access network is in place that allows any issuer to interact with any accreditor and any accreditor to interact with any issuer.

<sup>15</sup> The accreditor is responsible for the accreditation of businesses to accept payment cards. In Brazil, accreditors also rent the POS terminals and provide the necessary network services for communicating with participants in the payment scheme, namely, the brand and card issuer.

These regional differences create discrepancies in POS distribution, but when the numbers are compared with international data, the following is observed:

**Figure 4.17 – POS per 10,000 adults**



Sources: BCB/Unicad – June/2010; Finance Access 2009/CGAP

## 4.2.6 Remote access

“Remote access” refers to services accessed by personal devices, such as residential or mobile telephones and personal computers. The “remote access” channels include call centers, the Internet, and mobile banking.<sup>16</sup>

The services offered by remote access are tailored to the market in which the financial institution operates, and they are constantly changing. Currently, the majority of banks provide credit transfers, direct debit authorizations, bill payments, and balance and statements inquiries, among other services.

The main features of remote access services are customer convenience, lower cost for the service supplier, and greater safety concerns since remote access is more vulnerable to fraud.

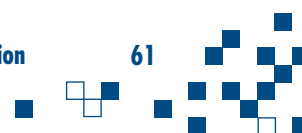
Since the hardware that is used to access remote services belongs to the user, access is generally measured by the number of users. In 2009, according to data provided by banks to the BCB, the number of people using remote services reached about 49 million, including individuals and corporations.

## 4.3 Capillarity: access channels in Brazil’s municipalities

Complete information about the availability of access channels in Brazil’s municipalities can be accessed through the BCB website.<sup>17</sup> This data provides a detailed and comprehensive picture of access to financial services in the country. Some assessments were prepared based on this data (detailed below), but users can construct their own using the worksheet.

<sup>16</sup> Mobile banking is a distribution channel that allows bank customers to access banking services through their cell phone (similar to Internet usage). It should not be confused with mobile payments, for which the customer uses a mobile device to initiate, authorize, or confirm a payment directly with a counterparty.

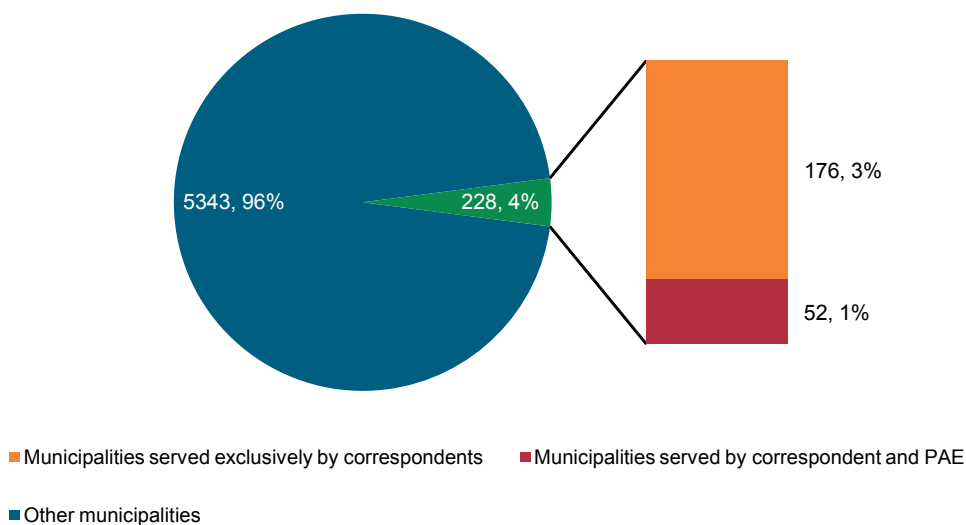
<sup>17</sup> See <http://www.bcb.gov.br/?microfin>.



There is no municipality in Brazil today that does not have access to financial services. The improvement of financial inclusion, specifically, access to the financial system, is closely tied to the growing number of correspondents in the country.

Hiring contractors (whether SFN members or not) to deliver services that complement the activities of the contracting financial institution reduces the institution’s costs and, therefore, helps to increase national competition and expand service points to the population. This low cost access channel allows financial institutions to reach municipalities that, without correspondents, would be completely deprived of access to financial services. Figure 4.18 includes the municipalities served exclusively by correspondents.

**Figure 4.18 – Number of municipalities served exclusively by correspondents or by correspondent and PAE**



Source: BCB/Unicad

Of the 206 municipalities with only one type of access channel, 176 have correspondents and 30 have bank satellites (Table 4.8). However, if access channel is limited to those that offer personal service (excluding PAEs), the number of municipalities served only by correspondents is 228 (4%).

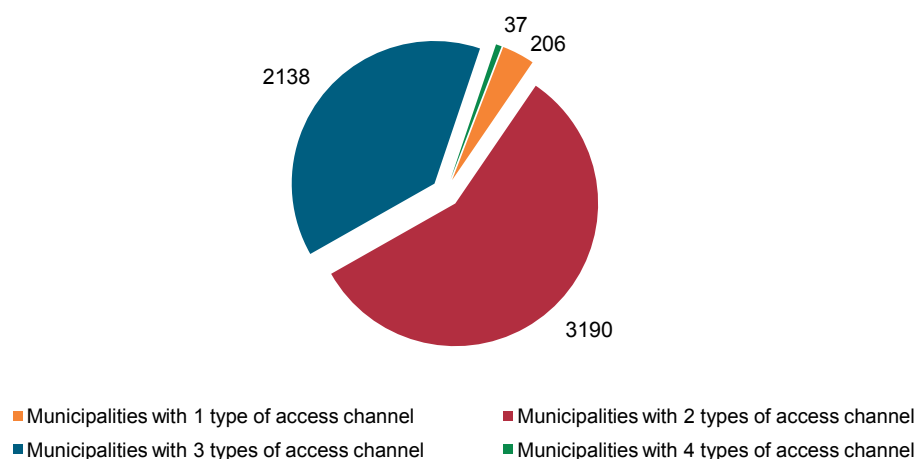
There is room for both quantitative and qualitative improvements to services. Correspondents are subject to regulatory limits and business arrangements. Correspondents are primarily used to conduct payment and receipt transactions and register low performance in productive credit, for example.

Expanding financial inclusion cannot happen without the expansion of the network of bank branches, cooperatives, and outposts to municipalities that are still poorly served. Even the correspondents, present in all but 34 municipalities, should expand their activities not only because they provide services in areas where there are no other banking services, but because it would also provide higher quality and more competitive banking services in municipalities that are already served.

Figure 4.19 illustrates the reach of access channels in Brazil with the number of channel types by municipality. For the purpose of this analysis, the channels were divided into four types:

- bank satellites: bank branches, PAAs, PABs, and PAEs;
- correspondents;
- cooperative points (cooperatives and PACs); and
- others (SCM and Microcredit Service Outposts – PAM).

**Figure 4.19 – Number of municipalities by diversification of access channels**



Source: BCB/Unicad

About 60% of municipalities are served by only one or two types of access channels, indicating that there is considerable room to improve the service network and increase competition in those services.

Tables 4.8, 4.9, and 4.10 show the segmentation of municipalities served by one, two, and three types of access channels. Of the municipalities served by two types of access channels, the vast majority have bank satellites and correspondents. Through these tables, it can be inferred that the correspondent is the predominant access channel.

**Table 4.8 – Municipalities served by 1 type of access channel**

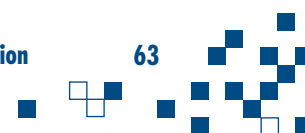
Type of access channel	Number of municipalities
Bank branch or outpost	30
Correspondent	176
<b>Total</b>	<b>206</b>

**Table 4.9 – Municipalities served by 2 types of access channel**

Type of access channel	Number of municipalities
Bank branch or outpost and cooperative point	4
Correspondent and cooperative point	13
Correspondent and bank branch or outpost	3,173
<b>Total</b>	<b>3,190</b>

**Table 4.10 – Municipalities served by 3 types of access channel**

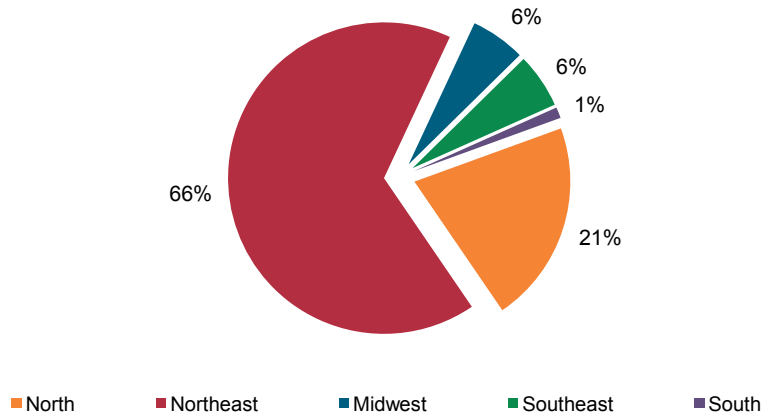
Type of access channel	Number of municipalities
Correspondent, bank branch or outpost, and others	1
Correspondent, bank branch or outpost, and cooperative point	2,137
<b>Total</b>	<b>2,138</b>





When regional access is analysed more closely, the important role of correspondents becomes even more pronounced. Municipalities served only by correspondents are concentrated in the Northeast and the North – the most economically disadvantaged regions of Brazil (see Figure 4.20).

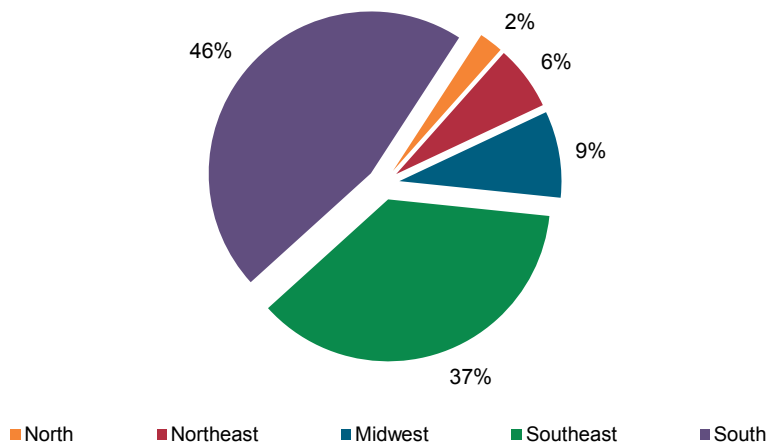
**Figure 4.20 – Regional distribution of municipalities served exclusively by correspondents**



Source: BCB/Unicad

Conversely, municipalities served by three or four different access channels are concentrated in the South and Southeast, illustrating the regional inequities of financial inclusion in Brazil (Figure 4.21). Less than 1% of municipalities in the South are served by only one type of access channel.

**Figure 4.21 – Regional distribution of municipalities with 3 or 4 types of access channels**



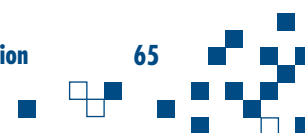
Source: BCB/Unicad

Most municipalities in the North and Northeast are served by two types of access channels. In the Midwest and Southeast, there is more equitable distribution among municipalities served by two types of access channels and those served by three or four. Table 4.11 indicates the percentage of municipalities with a specific diversification of channels in total UF's municipalities.

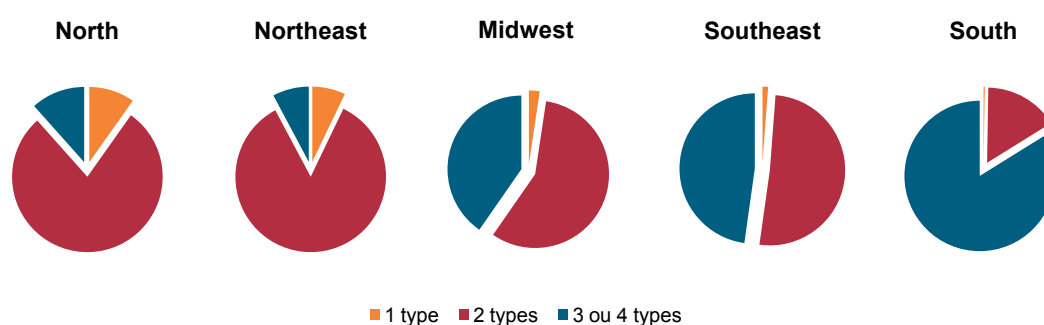
**Table 4.11 – Percentage of municipalities with a specific diversification of channels in total UF's municipalities**

Region/UF	1 type of access channel	2 types of access channel	3 or 4 types of access channel
<b>North</b>	<b>9.80%</b>	<b>78.62%</b>	<b>11.58%</b>
Acre	18.18%	77.27%	4.55%
Amazonas	0.00%	96.77%	3.23%
Amapá	0.00%	100.00%	0.00%
Pará	3.50%	92.31%	4.20%
Rondônia	5.77%	36.54%	57.69%
Roraima	13.33%	80.00%	6.67%
Tocantins	21.58%	69.78%	8.63%
<b>Northeast</b>	<b>7.12%</b>	<b>85.09%</b>	<b>7.79%</b>
Alagoas	2.94%	91.18%	5.88%
Bahia	0.96%	82.01%	17.03%
Ceará	0.54%	91.30%	8.15%
Maranhão	5.07%	93.09%	1.84%
Paraíba	0.00%	88.11%	11.89%
Pernambuco	22.32%	75.89%	1.79%
Piauí	12.56%	83.86%	3.59%
Rio Grande do Norte	15.79%	80.12%	4.09%
Sergipe	5.33%	90.67%	4.00%
<b>Midwest</b>	<b>2.36%</b>	<b>57.30%</b>	<b>40.34%</b>
Distrito Federal	0.00%	0.00%	100.00%
Goiás	2.03%	76.02%	21.95%
Mato Grosso do Sul	1.28%	53.85%	44.87%
Mato Grosso	3.55%	26.95%	69.50%
<b>Southeast</b>	<b>1.20%</b>	<b>51.02%</b>	<b>47.78%</b>
Espírito Santo	0.00%	19.23%	80.77%
Minas Gerais	1.41%	42.56%	56.04%
Rio de Janeiro	1.09%	63.04%	35.87%
São Paulo	1.09%	64.34%	34.57%
<b>South</b>	<b>0.25%</b>	<b>15.88%</b>	<b>83.87%</b>
Paraná	0.25%	23.75%	76.00%
Rio Grande do Sul	0.40%	11.67%	87.93%
Santa Catarina	0.00%	12.29%	87.71%
<b>Brazil</b>	<b>3.70%</b>	<b>57.26%</b>	<b>39.04%</b>

Source: BCB/Unicad



**Figure 4.22 – Share of municipalities with a particular diversification of access channels in the region's municipalities**



Source: BCB/Unicad

### 4.3.1 New technologies

Access to financial services via mobile phones is already a reality in many countries aiming to overcome obstacles in financial services infrastructure, especially in Africa and Asia.

In Brazil, access to mobile phones is growing rapidly. According to data from the National Telecommunications Agency (ANATEL), teledensity (number of phones per 100 inhabitants) is over 100% in the Midwest, Southeast, and South, with 116%, 108%, and 101.09%, respectively.<sup>18</sup> The North and Northeast regions have less teledensity, both with 79%, but they also have high rates of growth.

Considering the degree to which mobile phones are used in Brazil, especially among people who lack access to banking services, it is possible they will become an important tool for financial inclusion. This could occur as much through traditional financial institutions adopting this new technology as through mobile payment services by new agents, which could also help to increase competition.

The Internet offers another low-cost alternative as well as greater flexibility in promoting financial inclusion. Internet access has reached 66 million people in Brazil as of December 2009.<sup>19</sup>

The trend towards the growth in use of different payment alternatives will continue, with new technologies, regulatory frameworks, and social and economic changes spawning new forms of payment and business transactions.

<sup>18</sup> ANATEL, June 2010.

<sup>19</sup> This includes homes, workplaces, and public places, such as Internet cafes, libraries, and call centers (Ibope Nielsen Online, February 2010).

This chapter presents data and indicators on financial services usage in Brazil. These indicators were constructed using data from the last five years and focus on three main areas that impact financial inclusion. This chapter examines each of these three areas.

The first is credit transactions. Some indicators, such as volume of credit by Gross Domestic Product (GDP), number of transactions per 1,000 adults, and average credit *per capita*, help to illustrate how financial inclusion has evolved in Brazil. Two types of credit stand out in particular: microcredit and rural credit.

The second is deposits in the banking system, specifically, demand, fixed-term, and savings deposits. Data on deposits were used to develop indicators such as volume of deposits by GDP, volume of deposits per 1,000 adults, and the relationship between demand deposits and average savings by *per capita* income.

The third is payment tools, including the various forms of payment and resource transfers that financial institutions facilitate, namely, cash-free tools. The data reveal how people have used these different payment tools over time.

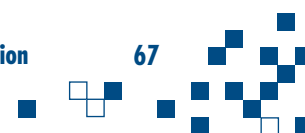
Drawing on these data and indicators, the chapter concludes with an examination of how financial inclusion has developed in each of Brazil's five regions.

## 5.1 Credit

Brazil's macroeconomic environment, shaped by a process of economic liberalization and financial stability, substantially changed the business model of financial institutions. Greater efficiency in financial intermediation and increased competition between institutions emerged in line with the prudential principles of international guidelines, such as the Basel Accords.<sup>1</sup>

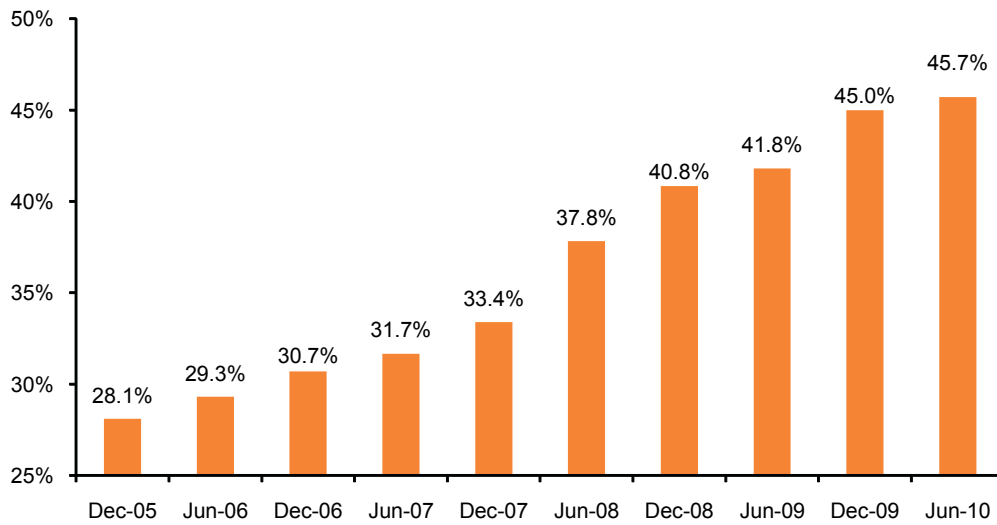
Faced with a sharp reduction in inflation and the end of inflationary gains, financial institutions, and banks in particular, began seeking new sources of revenue. In a context of economic stability and income growth, banks have increased their customer base and revenue with new services and credit transactions.

<sup>1</sup> Drafted by the Basel Committee on Banking Supervision, part of the Bank for International Settlements (BIS).



Credit has grown strongly in relation to GDP as banking institutions have adopted more aggressive investment strategies, reduced investments in bonds and securities, and increased credit transactions (see Figure 5.1).

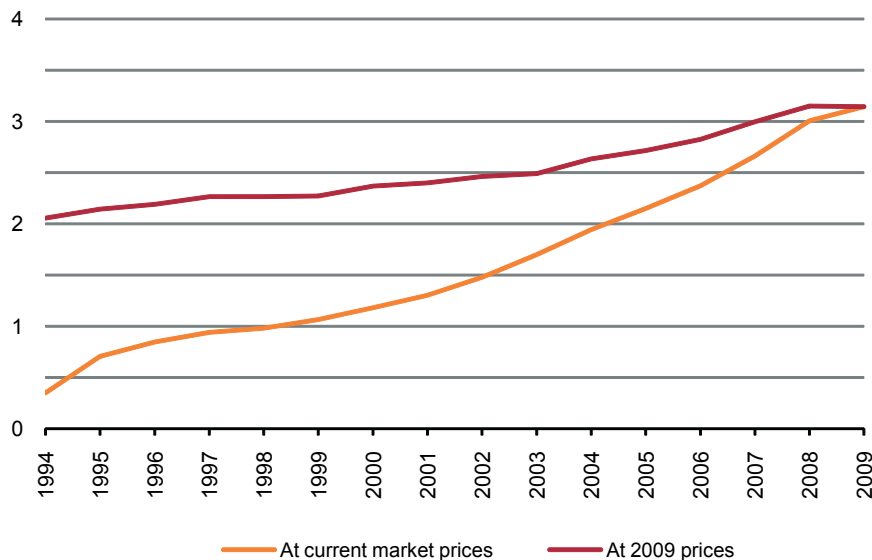
**Figure 5.1 – Credit/GDP**



Source: BCB/Depec

From 1994 to 2009, Brazilian GDP reported real growth of 52.9%, holding at 15.7% from December 2005 to December 2009 (Figure 5.2).

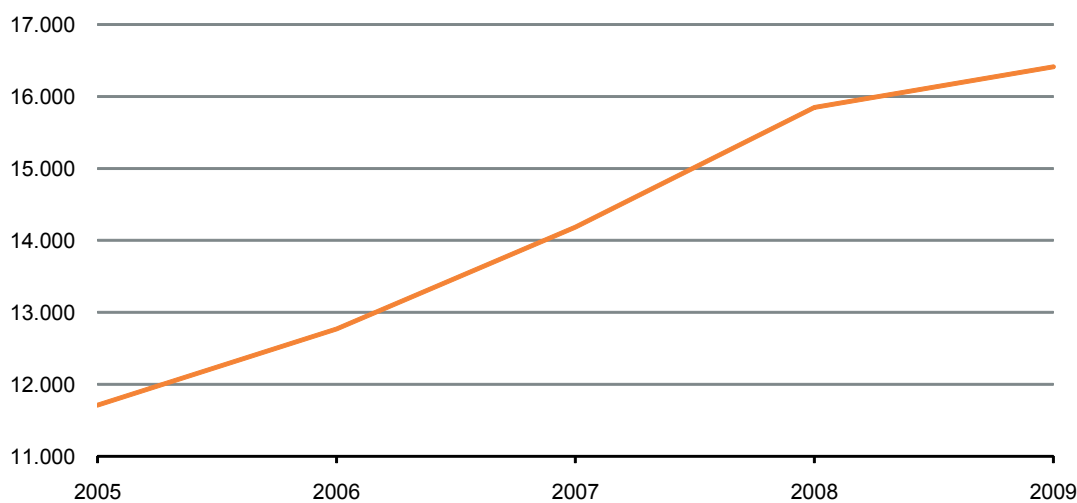
**Figure 5.2 – GDP (R\$ trillion)**



Source: IBGE/DPE/COPIS

This also impacted *per capita* income, which experienced strong growth during this period (Figure 5.3).

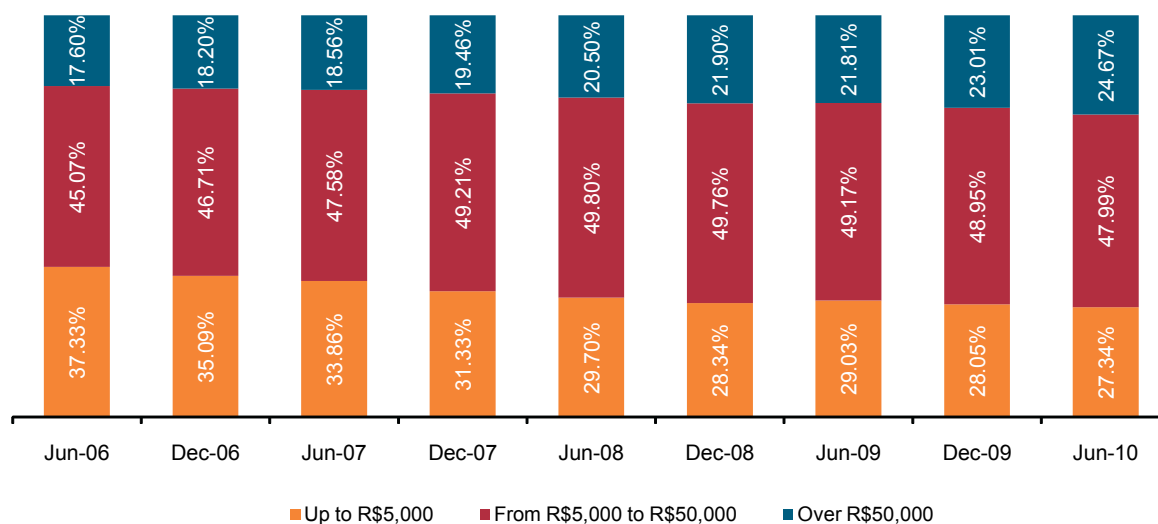
**Figure 5.3 – Per capita income\***



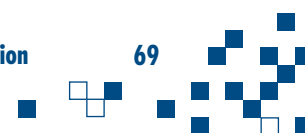
Sources: BCB/Depec and IBGE/DPE/COPIIS  
\* At current market prices

Data on banking transactions indicate that credit to individuals shifted to higher concession rates in the intermediate range (R\$5,000–\$50,000) and higher range (over R\$50,000) (see Figure 5.4). This upward movement was strongly influenced by growth in vehicle and housing financing, as well as by the growth in GDP and *per capita* income.

**Figure 5.4 – Distribution of the credit for individuals by value range**

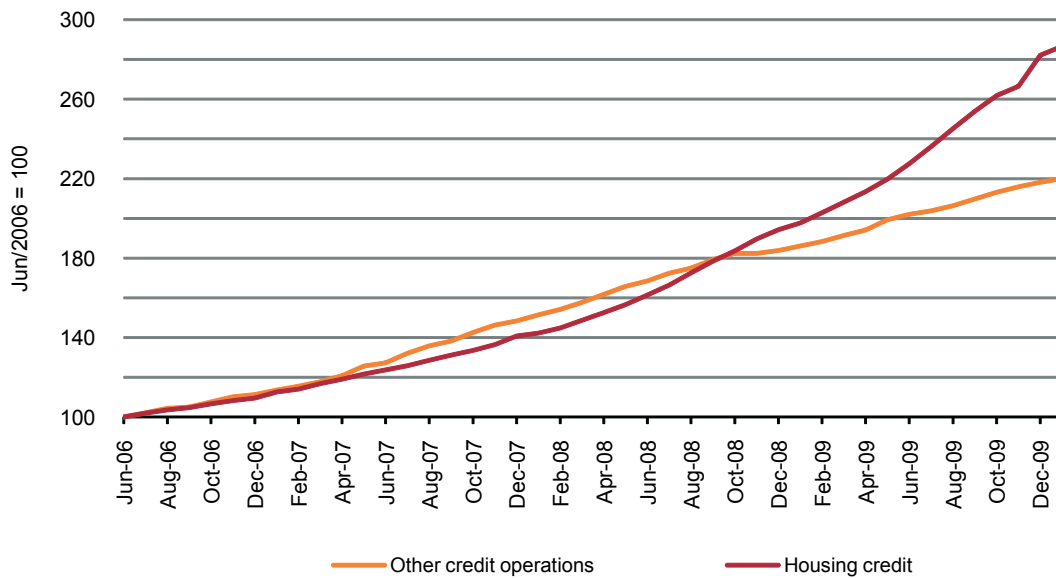


Source: BCB/SCR



The growth in housing credit exceeded the growth in all other types of credit for individuals considered together (Figure 5.5), which explains, in part, the increased share of credit in higher range values.

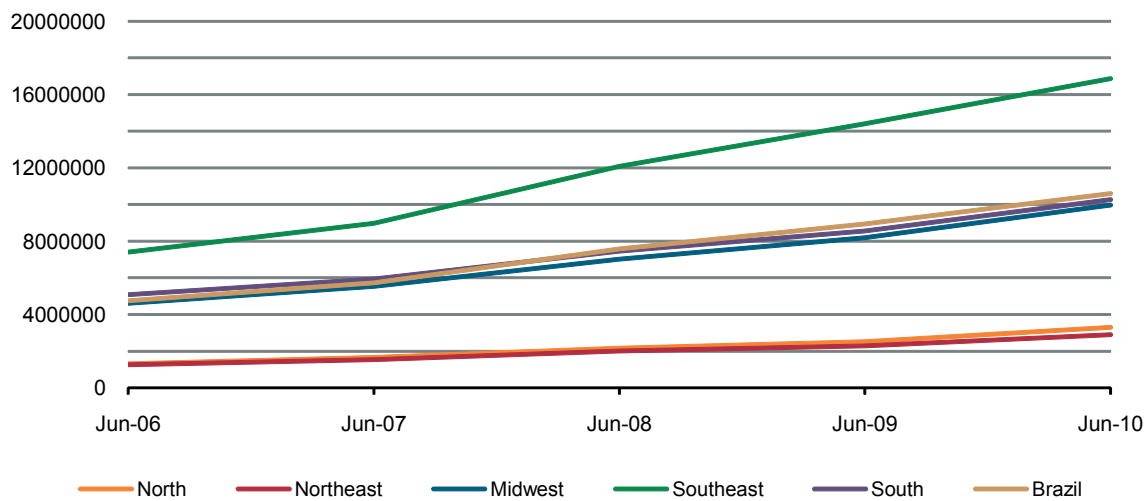
**Figure 5.5 – Amount of credit for individuals – Change index**



Source: BCB/Depec

Similarly, the credit rate per 1,000 adults in Brazil experienced growth of 122.9%, from R\$4.8 million to R\$10.6 million (Figure 5.6). The North region stands out with 150.3% growth.

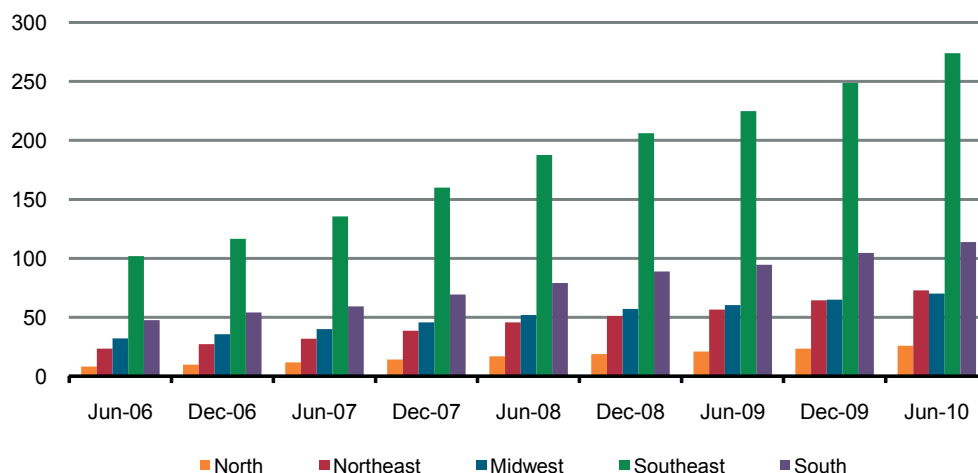
**Figure 5.6 – Amount of credit per 1,000 adults (R\$)**



Sources: BCB/SCR and IBGE/DPE/COPIS

The growth in the credit amount in Brazil is reflected in each of the Brazilian regions.

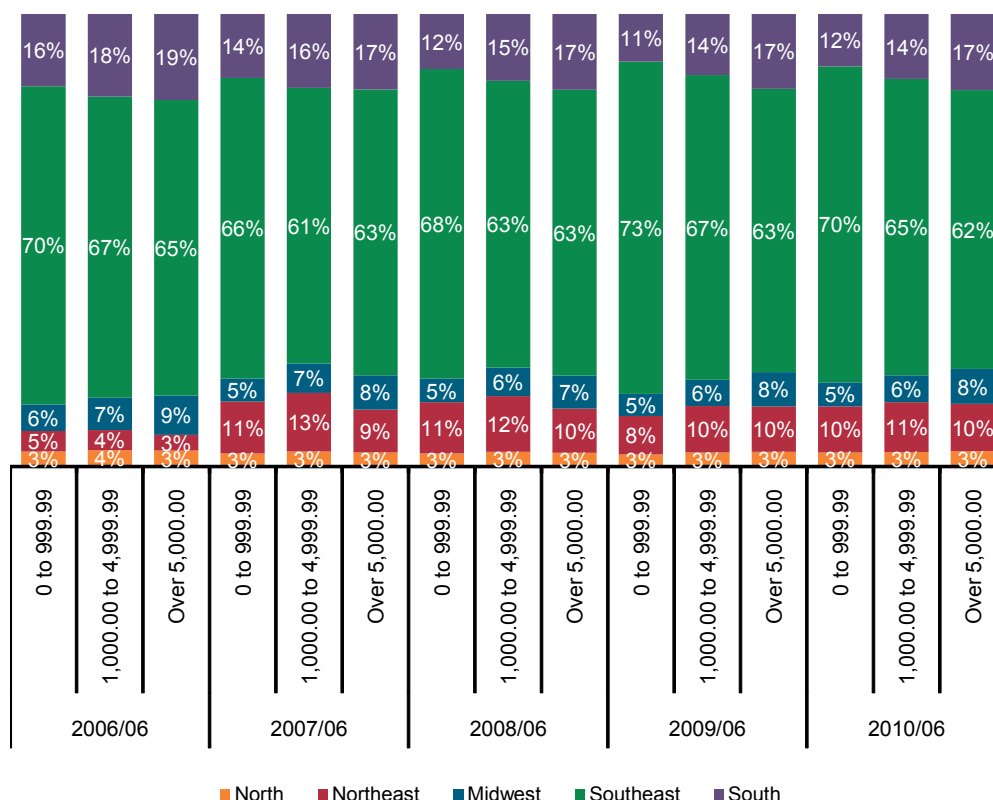
**Figure 5.7 – Amount of credit for individuals by region (R\$ billion)**



Source: BCB/SGS

Furthermore, a segmentation analysis of credit transactions by value and region indicates that, between June 2006 and June 2010, the distribution of credit across regions has improved. Growth was especially pronounced in the Northeast region, which increased its share from 5% to 10% in transactions up to R\$999.99, from 4% to 11% between R\$1,000 and R\$4,999, and from 3% to 10% in transactions over R\$5,000 (Figure 5.8).

**Figure 5.8 – Percentage, by regions, of the total quantity of operations**



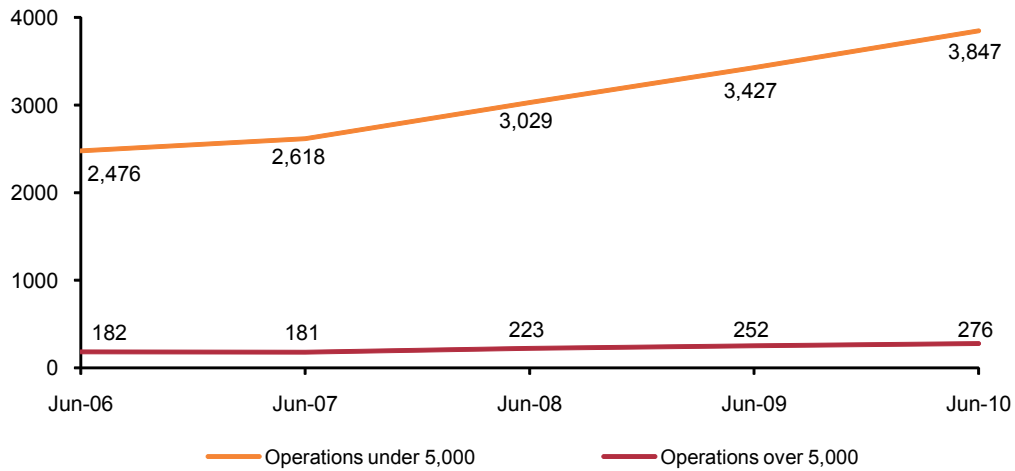
Source: BCB/SCR





The number of transactions in the credit portfolio per 1,000 adults (Figure 5.9) indicates greater use of this service, particularly for credit values less than R\$5,000, which grew by 55% in this period. The data show that, in June 2010, there were nearly four transactions (3.847) with values below R\$5,000 for each adult.

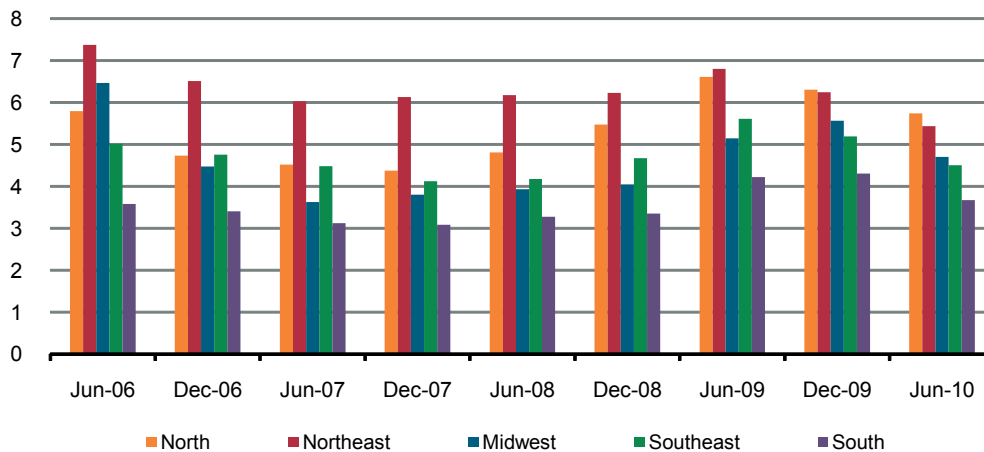
**Figure 5.9 – Number of transactions in the credit portfolio per 1,000 adults\***



\* Past 6 months average  
Sources: BCB/SRC and IBGE/DPE/COPIIS

Following the global financial crisis in the second half of 2008, default by region grew (in the first half of 2009), but quickly began a downward trend (see Figure 5.10).<sup>2</sup> It is worth noting that, until June 2009, the Northeast region had the highest rate of default, and was surpassed by the North after December 2009. This indicates that the Northeast region has not only increased its share in the national credit volume, but also improved the quality of its credit transactions.

**Figure 5.10 – Default by region – Individuals (percentage)**

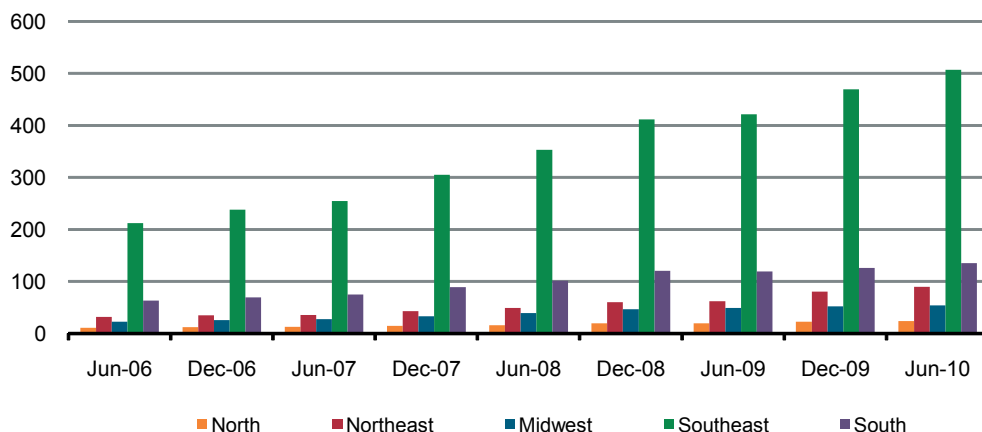


Source: BCB/SGS

<sup>2</sup> Credit that has been in arrears for more than 90 days.

Corporate credit also experienced growth, but did not follow the same pace of development as individual credit. The Southeast held the bulk of corporate credit, with a 62% average share. The North and Midwest maintained their share of 3% and 7% respectively, while the Northeast increased its share from 9.3% to 11%, and the South decreased its share from 18.6% to 16.9%.

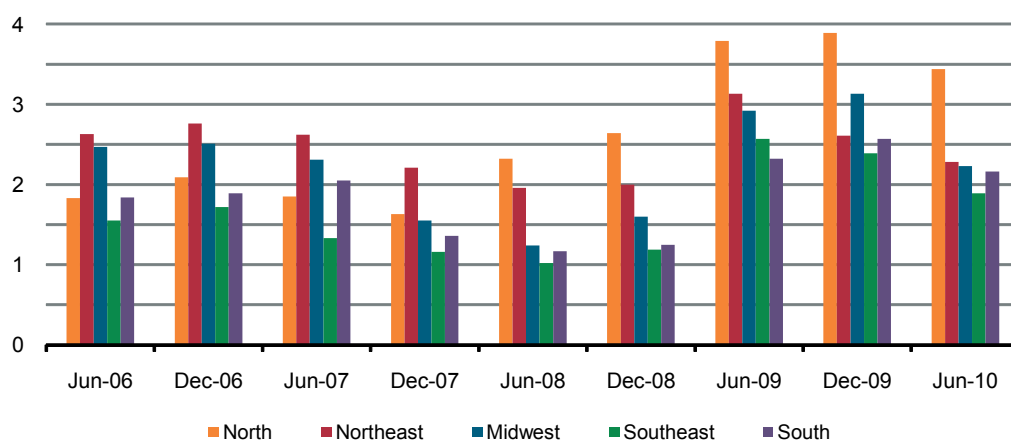
**Figure 5.11 – Amount of credit for corporations by region (R\$ billion)**



Source: BCB/SGS

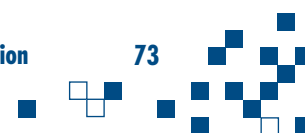
Levels of corporate default, shown in Figure 5.12, still seem to reflect the effects of the 2008 global financial crisis.

**Figure 5.12 – Default by region – Corporations (percentage)**



Source: BCB/SGS

The credit indicators (presented in this subchapter), considered together, show that, overall, there was increased use of credit, better distribution between regions, and particularly pronounced growth in individual and corporate credit in the Northeast.



## 5.1.1 Microcredit

Access to credit has been shown to be an effective tool for both economic development and financial inclusion. In general terms, the type of credit issued to people excluded from the formal financial system is recognized globally as *microcredit*. Although there is no consensus on the definition of microcredit, there are initiatives to establish common parameters. The guiding principles of the Association of Supervisors of Banks of the Americas (ASBA) understands microcredit as small sums of credit given to people with small-scale businesses that will be repaid primarily with proceeds from the sale of goods and services from that business.<sup>3</sup> According to this definition, microcredit is granted using credit methodologies that employ close contact with borrowers to assess their willingness and ability to pay.

In Brazil, the definition of microcredit has been associated with one used in Law n. 10,735 of 11 September 2003. Given the scarcity of resources available for credit to low-income populations and microentrepreneurs, the law stipulates that a portion of demand deposits held by universal banks with commercial portfolios, commercial banks, and Caixa Econômica Federal (CAIXA) must be used for credit transactions with this group. As an incentive to comply with this requirement, any amount not used for this activity must be deposited in the Central Bank of Brazil (BCB) without remuneration.

In 2005, microcredit was expanded under the Ministry of Labor and Employment's (MTE) National Program of Oriented Productive Microcredit (PNMPO),<sup>4</sup> funded by the Worker Support Fund (FAT) and the mandatory allocation of funds from demand deposits. The program defines oriented productive microcredit as credit issued to meet the financial needs of individuals and corporations that engage in small productive ventures, using a method based on direct relationships between lenders and entrepreneurs at the place where the productive activities are carried out. The PNMPO can be operated by individual and central credit cooperatives, development agencies, microentrepreneur and small business credit companies (SCMEPPs),<sup>5</sup> civil society organizations of public interest (OSCIPs),<sup>6</sup> all those defined as institutions for oriented productive microcredit (IMPOs), as well as development banks and cooperative banks that act as intermediaries for IMPO resources.

**Table 5.1 – Microcredit operations – Conditions**

Target-public	Maximum amount (R\$)	Maximum interest rate	Minimum time to maturity	Fee for opening the credit operation
Individuals holding a a simplified account or a deposit account which balance is below R\$3,000	2,000	2% per month	120 days	2%
Individuals, for enabling small entrepreneurship, or microenterprises	5,000	2% per month	120 days	4%
Low-income individuals (income under the poverty line)	2,000	2% per month	120 days	2%
Individuals and corporations engaging in small business and whose gross annual income does not exceed R\$120,000 (PNMPO)	15,000	4% per month	120 days (1)	3%

1/ PNMPO shorter term operation must have its fee for opening the credit operation reduced in the same proportion.

Source: CNM Resolution n. 3,422, of 2006

3 ASBA, Guiding Principles for Effective Regulation and Supervision of Microfinance Transactions, 2010. Available at: <http://idbdocs.iadb.org/http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=35735061>.

4 Law n. 11,110 of 25 April 2005.

5 Law n. 10,194 of 14 February 2001, Law n. 11,524 of 24 September 2007, and Resolution n. 3,567 of 29 May 2008.

6 Law n. 9,790 of 23 March 1999.

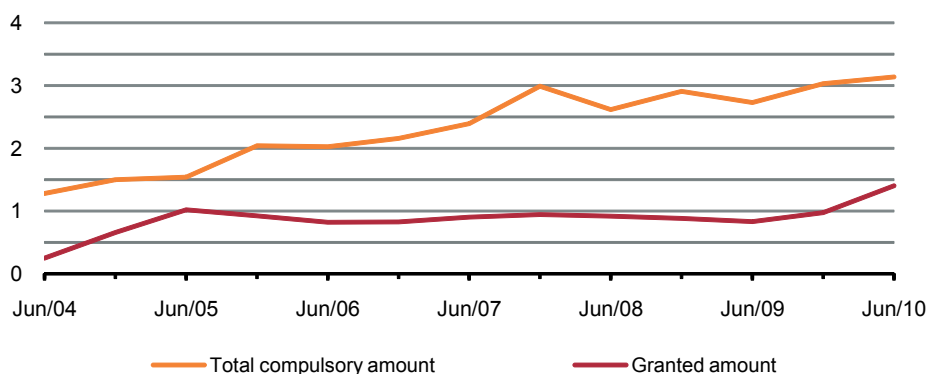
The National Monetary Council (CMN) has set at 2% the portion of demand deposits that universal banks with commercial portfolios, commercial banks, and CAIXA must use for microcredit and has established a set of conditions for these transactions.<sup>7</sup>

Financial institutions can perform microcredit transactions:

- **directly** – in the case of oriented productive microcredit transactions, institutions must be able to use a credit methodology based on a direct relationship with the entrepreneur.
- **by transferring resources** to other financial institutions through interbank deposits linked to microfinance operations (DIM). The institutions that receive these funds are responsible for investing them in microcredit operations.
- **by acquiring credit transactions** (that meet the conditions) of other financial institutions, OSCIPs, NGOs, organizations, funds, or programmes that focus on microcredit.

Despite these rules, in June 2010, the BCB collected R\$1.1 billion without compensation, and R\$3.1 billion was available for investment in this same month. In other words, there was an investment of R\$2.2 billion. Despite growth in both volume and effective investment of resources, it appears that, historically, BCB has collected a significant proportion of resources (see Figure 5.13).

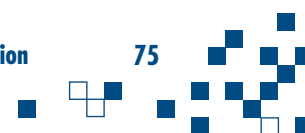
**Figure 5.13 – Demand deposits compulsorily directed to microcredit\*: Total compulsory amount and Granted amount (R\$ billion)**



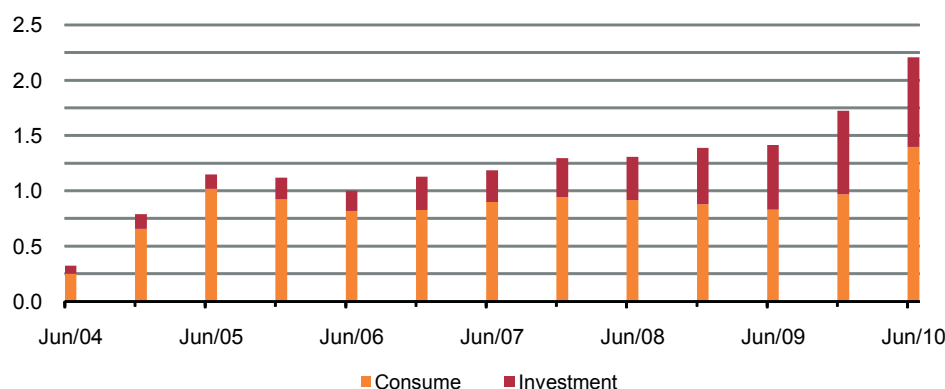
\* In the terms of Law No. 10735 of 11 September 2003 (regulated by Resolution No. 3422 of 1 December 2006, as amended by CMN Resolution No. 3706 of 27 March 2009), banks are required to allocate 2% of demand deposits to microcredit transactions. Unused fu

In June 2010, about R\$1.4 billion was invested in credit transactions for consumption and about R\$810 million in investments. That month, a credit amount of R\$323 million was granted through 1 million contracts, averaging R\$323 per contract.

7 Resolution n. 3,422 of 30 November 2006, as amended by Resolution n. 3,706 of 27 March 2009.



**Figure 5.14 – Granted amount (R\$ billion)**



Source: Information that the financial institutions send to the BCB, in the terms of Circular No. 3.240, of 9 June 2004.

The PNMPO is regulated by the Deliberative Council of the Worker Support Fund (CODEFAT) and supported by resources from FAT.<sup>8</sup> CODEFAT establishes the following conditions for transactions with microentrepreneurs with a gross income of up to R\$120,000.

**Table 5.2 – PNMPO operations using FAT<sup>1</sup> resources – Conditions**

Conditions	Maximum
Financing amount	R\$10,000 – for individuals and corporations; R\$3,000 – for collective ventures and for those characterized as solidarity economy
Time to maturity	24 months
Financial charges	1,32% per month
Fee for opening the loan operation	3% of the amount financed

1/ Worker Support Fund

According to MTE data, since the origin of PNMPO, there have been over 6.2 million transactions, with more than R\$7.9 billion issued in credit (in nominal terms).

**Table 5.3 – Operations under the National Program of Oriented Productive Microcredit (PNMPO)**

	Quantity of operations	Change index <sup>1</sup>	Granted amount (R\$) <sup>2</sup>	Change index <sup>3</sup>
2005	632,106	100%	602,340,000	100%
2006	828,847	131%	831,815,601	138%
2007	963,459	152%	1,100,375,830	183%
2008	1,274,296	202%	1,807,071,718	300%
2009	1,605,515	254%	2,283,955,244	379%
2010*	919,787		1,301,820,321	
<b>Total</b>	<b>6,224,010</b>		<b>7,927,378,714</b>	

1/ Quantity of oriented productive microcredit operations.

2/ Nominal values.

3/ Amount of credit granted as oriented productive microcredit. 2005 = 100,00.

\* Data refers to the second quarter of 2010.

Source: MTE

<sup>8</sup> Resolution n. 511 of 18 October 2006.

In the second quarter of 2010, about 92% of resources were allocated to working capital transactions and 7% to investments, with more than 88% invested in the Northeast region.

## 5.1.2 Rural credit

In Brazil, rural credit has emerged as an effective tool for financial inclusion, particularly through the National Program for Strengthening Family Agriculture (PRONAF).<sup>9</sup>

PRONAF is a typical financial inclusion programme: resources are deposited into personal bank accounts held at formal financial institutions, mainly federal public banks. Once an account is opened, credit beneficiaries have access to additional financial products. It is important to note that those participating in PRONAF tend to have been excluded from the formal financial system in the past.

### Credit beneficiaries

PRONAF offers several credit lines. For the purposes of this report, we will focus on PRONAF A and PRONAF B. Credit lines for PRONAF A and PRONAF B mainly benefit farming families who have been settled through land reform programmes and those who are not covered by credit lines from other programmes. Some of the families have been resettled as a result of the construction of hydroelectric dams. Certain conditions must be met in order to receive credit, such as landholdings and gross annual family income, among others.

Both lines of credit target poor farming families, usually without assets, who are farming an insufficient amount of land, working under tenure, or renting or borrowing land. Regardless of their situation, their incomes are low (in the case of PRONAF Group B, less than R\$6,000 per year). Brazil has 4.3 million farming families,<sup>10</sup> of which about 2.2 million have an annual gross family income of less than R\$6,000.<sup>11</sup> These credit lines were therefore created to increase the number of families receiving financial support for small investments in productive activities that improve their income, without taking a welfare approach.

### Funding sources

There are two sources of funds for these credit lines:

- **Federal Government Budget (OGU)**, with proceeds coming directly from the Treasury; and
- **Constitutional Fund**, created by the Federal Constitution of 1988 to tackle regional inequalities and promote economic and social development. Funded by federal taxes, some of the resources from the Constitutional Fund are filtered to family farmers through PRONAF.

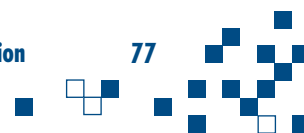
### Financial agents

PRONAF funds are distributed primarily by Brazil's federal public banks: the Banco do Brasil (BB), the Bank of Northeast, and Banco da Amazonia. There are also some state financial agents and credit unions that distribute resources from the Brazilian Development Bank (BNDES).

<sup>9</sup> Created by the federal government through Decree Law n. 1,946 of 28 June 1996.

<sup>10</sup> IBGE, 2006.

<sup>11</sup> For the purposes of the Agricultural and Livestock Census 2006, we adopted the concept of "farming family" according to Law n. 11,326 of 24 July 2006.



The OGU and Constitutional Funds share the risk of credit transactions and pay financial agents so that they can afford the operational costs of distributing these resources. This mechanism facilitates financing for family farmers who have very low income levels and do not have assets or land titles to use as a guarantee. Under the rules and prudential procedures of SFN regulations, this type of financing would be classified as high risk, and family farmers would typically be denied credit.

The Ministry of Agrarian Development (MDA), via the Department of Family Farming, manages PRONAF in partnership with financial agents, nongovernmental organizations, and technical assistance and rural development companies.

### Comparison between total rural credit concession and concession under Pronaf

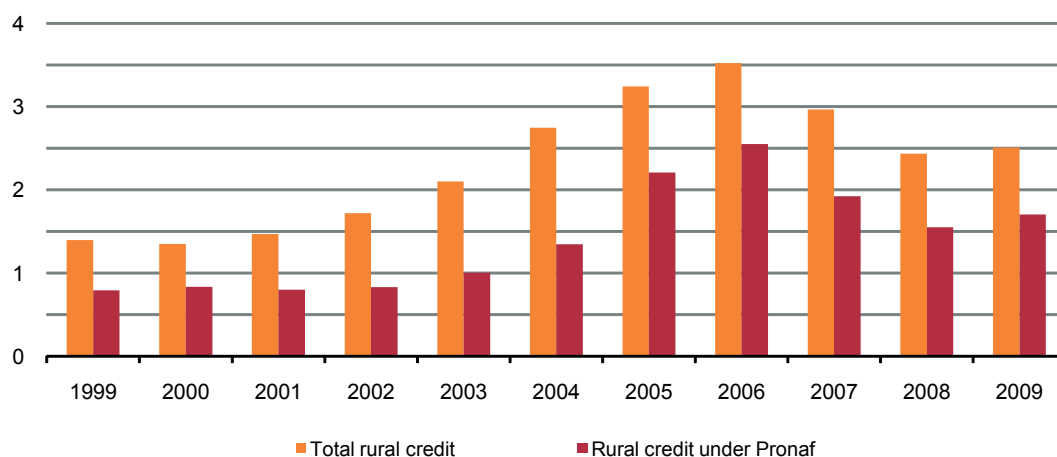
**Table 5.4 – Amount of rural credit granted per agricultural year\* – Total and Under Pronaf**

	Total rural credit		Rural credit under Pronaf	
	Number of contracts	Volume (R\$)	Number of contracts	Volume (R\$)
1999	1,395,621	11,786,166,115	791,677	1,776,951,420
2000	1,349,234	13,779,503,344	834,049	1,864,888,673
2001	1,468,912	17,942,118,196	800,653	2,210,744,245
2002	1,718,761	22,443,322,771	829,433	2,414,869,519
2003	2,100,340	31,102,681,808	1,003,837	3,158,400,037
2004	2,745,587	40,446,483,895	1,345,713	4,388,790,542
2005	3,243,315	41,975,598,412	2,208,198	5,785,745,811
2006	3,522,555	43,765,567,022	2,551,497	7,166,030,577
2007	2,964,985	51,164,725,455	1,923,317	7,122,941,867
2008	2,435,282	66,172,097,610	1,550,749	8,664,729,051
2009	2,505,854	75,186,147,216	1,704,947	11,218,847,098

\* An agricultural year goes from the first of July of one year to the 30th of June of the following year.  
Source: BCB/Recor

The volume of credit issued to the rural sector has increased significantly in recent years (see Table 5.4). In the crop years 1999 to 2009, for example, the number of contracts rose from 1.4 million to 2.5 million, an increase of 80%. In the same period, contracts signed under PRONAF increased from 0.8 million to 1.7 million, an increase of 115%.

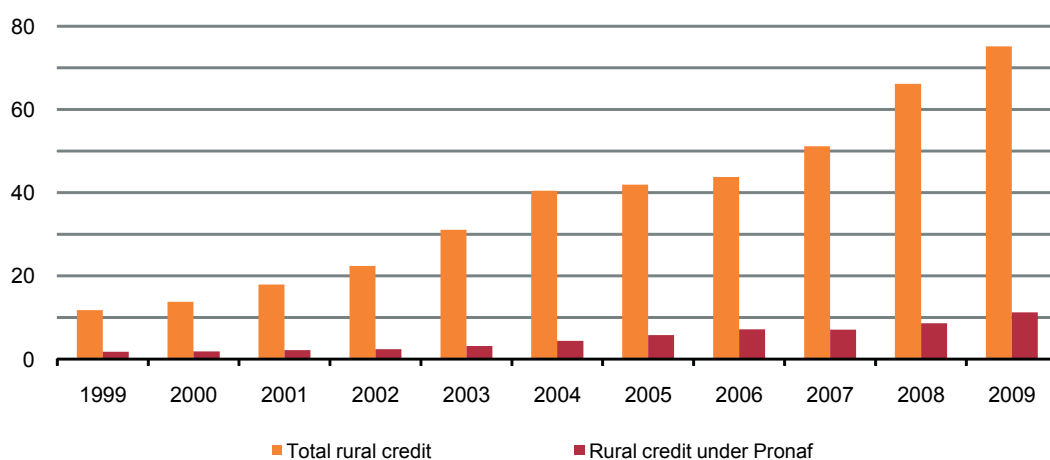
**Figure 5.15 – Number of rural credit contracts released by agricultural year (million of units)**



Source: BCB/Recor

The total value of rural credit also grew during this period, from R\$11,786 billion to R\$75,186 billion (growth of 538%). Credit issued under PRONAF grew from R\$1,777 billion to R\$11,219 billion (growth of 531%).

**Figure 5.16 – Rural credit – Amount of resources granted by agricultural year (R\$ billions)**



Source: BCB/Recor

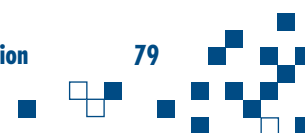
Despite this growth, credit issued to small farmers represents a small share of the total volume of rural credit in the country. In 1999, when 57% of contracts were held by PRONAF, this only accounted for 15% of the credit issued in that crop year. This percentage remained virtually unchanged in 2009, when 68% of contracts were held by PRONAF.

### PRONAF financing by region

The distribution of PRONAF credit varies among Brazil's five regions. According to Table 5.5, there is a large concentration of resources in the South, which absorbed about 50% of resources in the 2009 crop year, and the Southeast, which accounted for about 23%. Conversely, the North and Northwest were, together, awarded about 19% of resources in that crop year, and the average value of contracts was also lower. Contracts' average values were significantly higher in the Midwest, possibly because it has large areas in cultivation (mainly grain).

From 2006 to 2009, there was a significant increase in the concentration of credit in the country. With the exception of the Northeast, where credit fell by 26%, all other regions experienced significant growth in volume of resources. Growth was particularly pronounced in the South, with a 95% increase in resources invested in this region. In the country as a whole, resources available through PRONAF increased 57% despite a reduction of about 33% in signed contracts.

In Brazil, financial inclusion in the rural sector occurs primarily through PRONAF. However, the distribution of resources among the country's various regions indicates that the most impoverished areas, which have higher numbers of farmers in need, receive a smaller share of the programme's resources.





**Table 5.5 – Amount of credit granted under Pronaf by region**

State	2006 agricultural year		2007 agricultural year		2008 agricultural year		2009 agricultural year	
	number of con-tracts	volume (R\$ 1,000)	number of con-tracts	volume (R\$ 1,000)	number of con-tracts	volume (R\$ 1,000)	number of con-tracts	volume (R\$ 1,000)
Acre	4,734	13,553	4,105	14,664	4,009	17,137	5,630	43,610
Amazonas	6,342	16,754	9,293	30,651	5,976	15,736	11,332	69,170
Amapá	801	3,948	371	1,531	241	1,289	1,869	18,248
Pará	53,750	359,739	50,635	250,826	41,364	222,778	45,885	301,437
Rondônia	19,274	101,033	16,744	90,082	11,129	72,844	20,772	230,117
Roraima	2,581	17,807	3,788	9,526	3,737	10,163	1,990	8,216
Tocantins	10,943	49,893	16,095	78,061	8,766	64,056	14,672	127,333
<b>North – total</b>	<b>98,425</b>	<b>562,726</b>	<b>101,031</b>	<b>475,342</b>	<b>75,222</b>	<b>404,003</b>	<b>102,150</b>	<b>798,131</b>
<b>Region's average</b>		5.72		4.70		5.37		7.81
Alagoas	72,323	86,790	38,751	66,203	30,605	62,823	35,928	96,081
Bahia	295,518	405,666	187,162	317,550	122,993	262,130	138,392	311,684
Ceará	231,902	259,179	161,735	218,463	124,655	213,663	118,524	232,833
Maranhão	215,208	314,136	113,841	219,694	70,950	157,028	82,078	198,996
Paraíba	112,727	142,626	60,999	76,205	36,760	54,805	44,678	79,275
Pernambuco	195,463	251,190	138,632	247,861	89,396	201,008	80,131	208,839
Piauí	186,170	160,413	102,547	119,070	63,871	90,457	68,455	114,149
Rio Grande do Norte	131,175	144,947	91,188	103,095	47,287	69,929	41,306	70,184
Sergipe	95,629	99,258	64,331	75,109	40,260	63,530	33,960	71,531
<b>Northeast – total</b>	<b>1,536,115</b>	<b>1,864,206</b>	<b>959,186</b>	<b>1,443,250</b>	<b>626,777</b>	<b>1,175,373</b>	<b>643,452</b>	<b>1,383,573</b>
<b>Region's average</b>		1.21		1.50		1.88		2.15
Distrito Federal	233	1,410	225	1,804	176	1,655	282	4,070
Goiás	32,548	232,823	30,959	229,831	29,848	271,005	30,594	395,620
Mato Grosso do Sul	5,460	34,036	5,755	45,372	5,078	54,609	6,995	82,492
Mato Grosso	17,056	159,956	19,781	159,453	13,984	152,363	16,059	281,484
<b>Midwest – total</b>	<b>55,297</b>	<b>428,225</b>	<b>56,720</b>	<b>436,460</b>	<b>49,086</b>	<b>479,632</b>	<b>53,930</b>	<b>763,666</b>
<b>Region's average</b>		7.74		7.69		9.77		14.16
Espírito Santo	35,755	188,445	39,437	287,018	37,935	340,702	39,654	470,678
Minas Gerais	222,795	861,502	179,117	889,436	176,688	1,072,803	188,433	1,501,439
Rio de Janeiro	8,365	51,939	8,810	60,948	8,942	69,011	9,683	87,062
São Paulo	30,734	288,801	30,639	294,883	32,322	411,991	35,122	529,124
<b>Southeast – total</b>	<b>297,649</b>	<b>1,390,686</b>	<b>258,003</b>	<b>1,532,284</b>	<b>255,887</b>	<b>1,894,508</b>	<b>272,892</b>	<b>2,588,304</b>
<b>Region's average</b>		4.67		5.94		7.40		9.48
Paraná	143,457	777,693	139,300	855,000	138,772	1,282,855	130,000	1,460,407
Rio Grande do Sul	303,880	1,391,545	294,999	1,589,430	291,644	2,358,615	365,967	2,746,520
Santa Catarina	116,674	750,950	114,078	791,176	113,361	1,069,743	136,556	1,478,245
<b>South – total</b>	<b>564,011</b>	<b>2,920,187</b>	<b>548,377</b>	<b>3,235,606</b>	<b>543,777</b>	<b>4,711,213</b>	<b>632,523</b>	<b>5,685,173</b>
<b>Region's average</b>		5.18		5.90		8.66		8.99
<b>Brazil</b>	<b>2,551,497</b>	<b>7,166,031</b>	<b>1,923,317</b>	<b>7,122,942</b>	<b>1,550,749</b>	<b>8,664,729</b>	<b>1,704,947</b>	<b>11,218,847</b>

Source: BCB/Recor

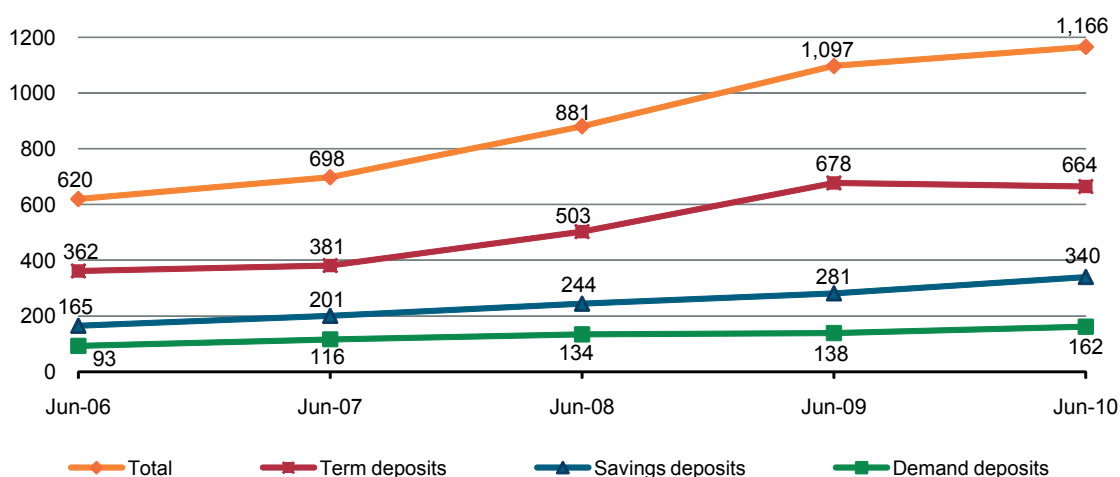
## 5.2 Deposits

The amount of deposits received by financial institutions, and their respective indicators, reveals the potential amount of resources that the national economy can direct to deficit agents. Financial inclusion will improve and expand when the intermediation process becomes more efficient, and analysing bank deposits is essential to accomplishing this.

The indicators presented here were developed from data on demand, fixed-term, and savings deposits (although there are other market alternatives for raising funds for investment in loans and financing).

The available data does not cover all funding alternatives, but they provide a general overview of one form of financial inclusion in Brazil and how it has evolved over the past five years.<sup>12</sup> The amount of deposits from the public, detailed by type of transaction (Figure 5.17), shows increases in the value of total deposits over the entire period analysed, with a marked increase between June 2008 and June 2009. In these twelve months, the volume of fixed-term deposits increased by 35%. However, there was a slight drop in the value of these deposits in the subsequent twelve months.

**Figure 5.17 – Amount of public deposits by type (R\$ billions)**



Source: Estban

<sup>12</sup> Information on the value of deposits was taken from ESTBAN (Accounting Plan for Institutions of the National Financial System – COSIF); those relating to demographic data are from the Brazilian Institute of Geography and Statistics (IBGE); those relating to GDP are from the BCB/Department of Economics of the BCB (DEPEC); those relating to the number of demand deposits come from the transaction PESP 300 (Circular Letter n. 49, 1 September 1971); and those related to the number of clients with savings accounts were obtained from the BCB website: <http://www.bcb.gov.br/fis/SFH/port/est2010/06/quadro193.pdf>.

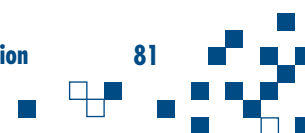
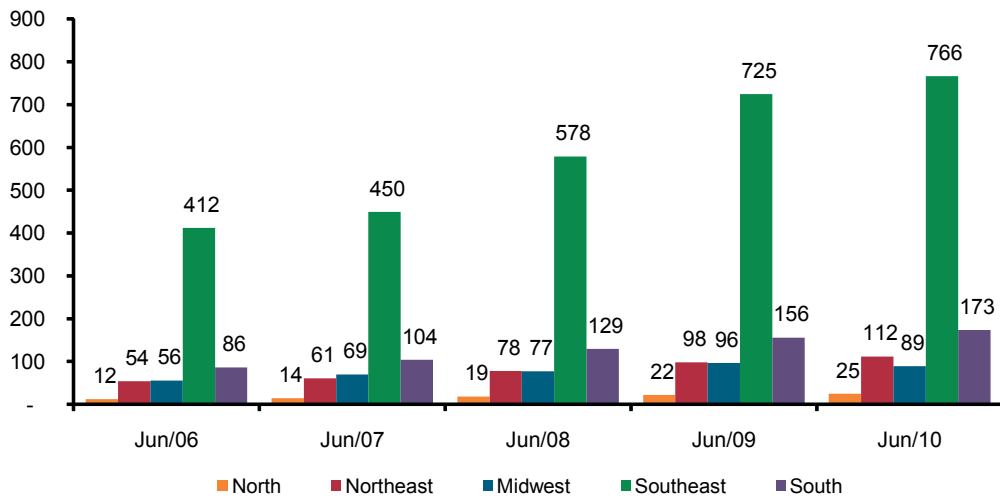


Figure 5.18 details the growth of deposits in all regions. Each region's average share of total deposits remained almost constant during the period analysed: 2% in the North, 9% in the Northeast, 9% in the Midwest, 14% in the South, and 66% in the Southeast. Note that, as of June 2008, the percentage for the Northeast exceeded the Midwest. The Southeast accumulated the largest share of deposits, almost twice the amount of other regions.

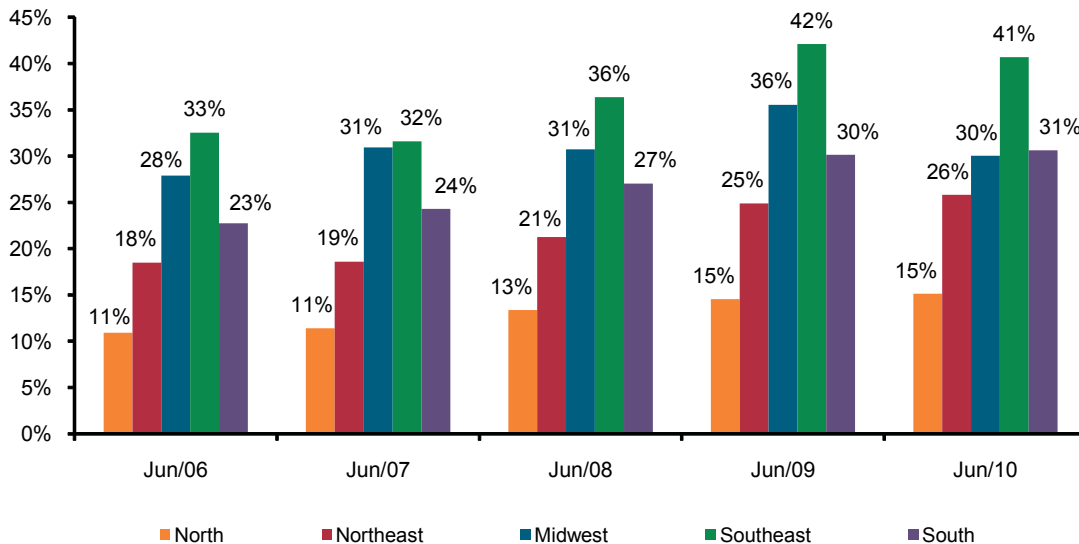
**Figure 5.18 – Total amount of public deposits by region (R\$ billions)**



Source: Estban

Figure 5.19 illustrates the relationship between total deposits and the GDP of each region. In general, there was an increase in the ratio deposits/GDP during the period analysed. Until 2009, the regions could be ranked from lowest to highest GDP in this way: North, Northeast, South, Midwest, and Southeast. However, in 2010, the Midwest and the South swapped positions.

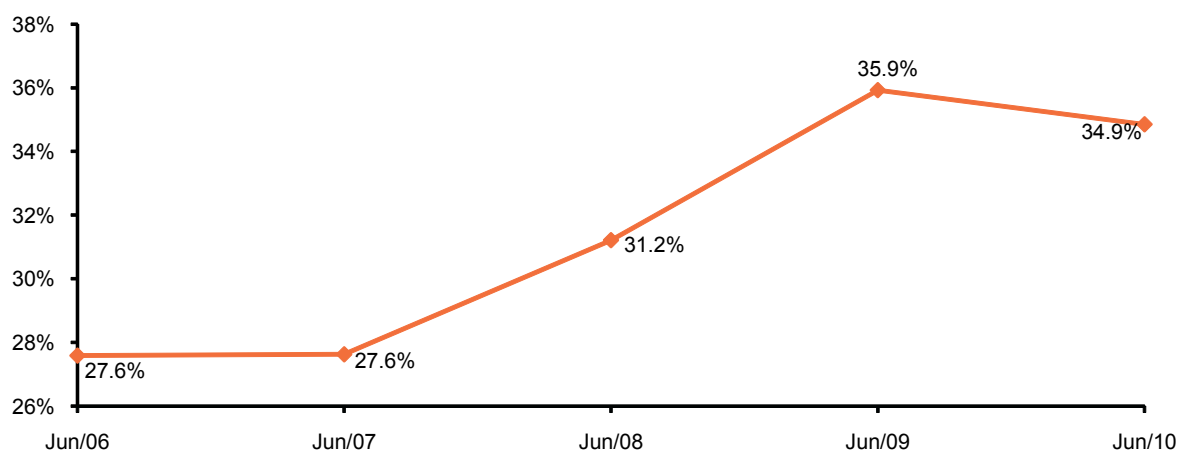
**Figure 5.19 – Total amount of public deposits/GDP by region<sup>1</sup>**



<sup>1/</sup> Since there was no data available for the regions' GDPs in the considered periods, the GDP of each region was calculated by multiplying each period's national GDP by the historical weight of that region in the national GDP. This weight was calculated from IBGE's data for regions' GDPs from 2002 to 2007. Sources: BCB/Estban, BCB, and IBGE, in partnership with State Statistical Agencies, Government of States, and the Superintendence of the Manaus Free-Trade Zone – SUFRAMA.

Figure 5.20 shows the change in the ratio “total public deposits/national GDP”. The percentage of public deposits in relation to GDP increased 7.3 percentage points between June 2006 and June 2010. The only period in which there was no increase in this ratio was June 2009 to June 2010.

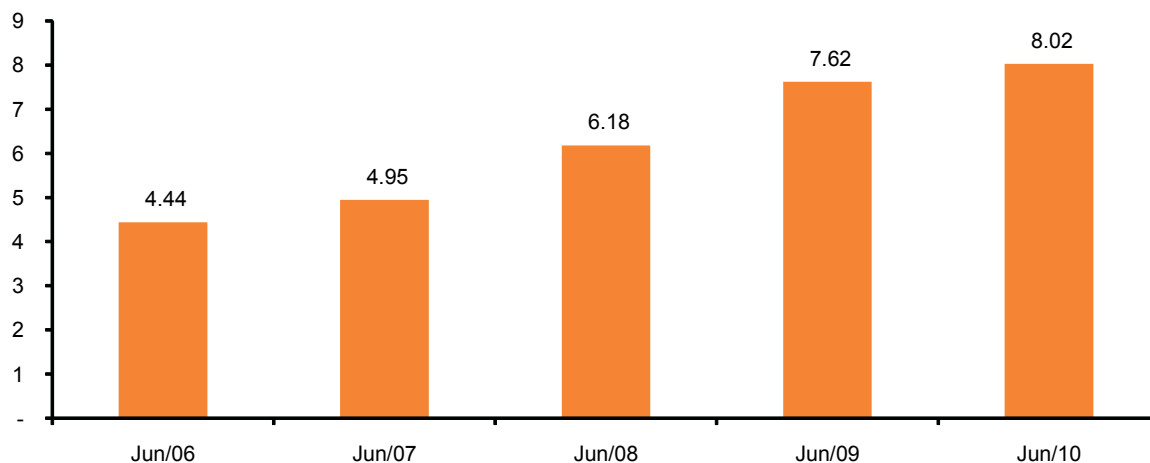
**Figure 5.20 – Total amount of public deposits/GDP**



Sources: Estban e BCB/Depec

Figure 5.21 includes the total number of public deposits per 1,000 adults,<sup>13</sup> indicating that this indicator grew continuously during the period analysed and that the total value of deposits was growing faster than the adult population. The strongest growth, 25%, occurred between June 2007 and June 2008.

**Figure 5.21 – Total public deposits per 1,000 adults (R\$ million)**



Sources: Estban e IBGE

<sup>13</sup> For the purposes of this report, an adult is considered to be an individual older than 15 years.

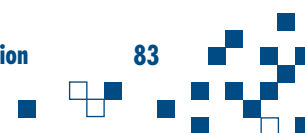
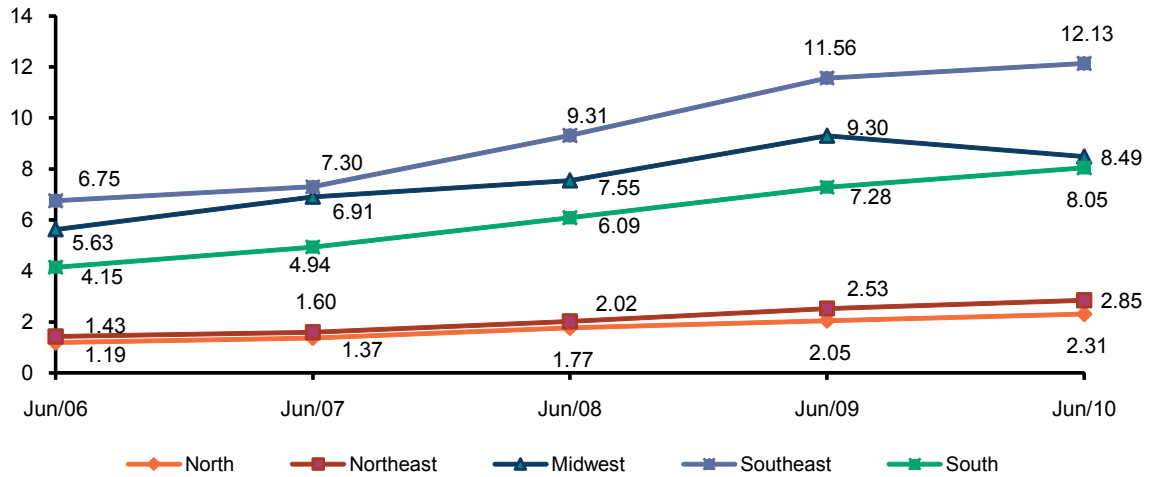


Figure 5.22 includes the total amount of public deposits per 1,000 adults in each of Brazil's five regions. Overall, the index shows a trajectory of growth during this period. The only decline occurred in the Midwest between June 2009 and June 2010. The classification of regions according to this index remained constant, with the Southeast showing the highest rate of growth, followed by the Midwest, South, Northeast, and North.

**Figure 5.22 – Total public deposits per 1,000 adults by region (R\$ million)**

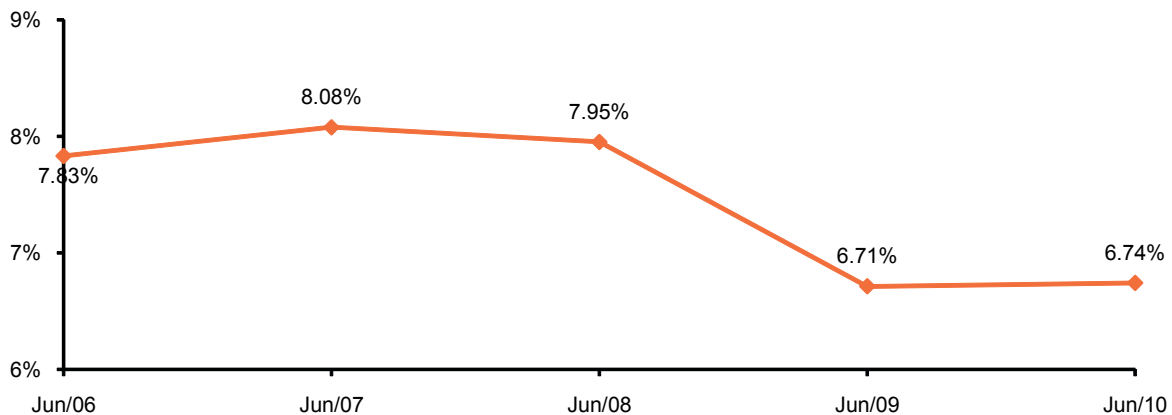


Sources: Estban e IBGE

For the country as a whole, the indicator has changed 80.7%, from R\$4.4 million to R\$8.0 million. In the Northeast, there was nearly a 100% (99.4%) increase. In the same period, inflation measured by the Extended National Consumer Price Index (IPCA) was 20.8%.

Figure 5.23 shows the relationship between the average volume of demand deposits and the national *per capita* income. In the first three years analysed, there was little change in the value of this index, which remained almost constant. However, in June 2009, a relatively sharp fall occurred. In this interval, there was no reduction in the number of demand deposits accounts in the country. On the contrary, the number of demand deposit accounts per 1,000 adults registered an increase (793 to 897), evidence that financial inclusion is improving even in adverse economic times, such as during the global financial crisis (Figure 5.24)

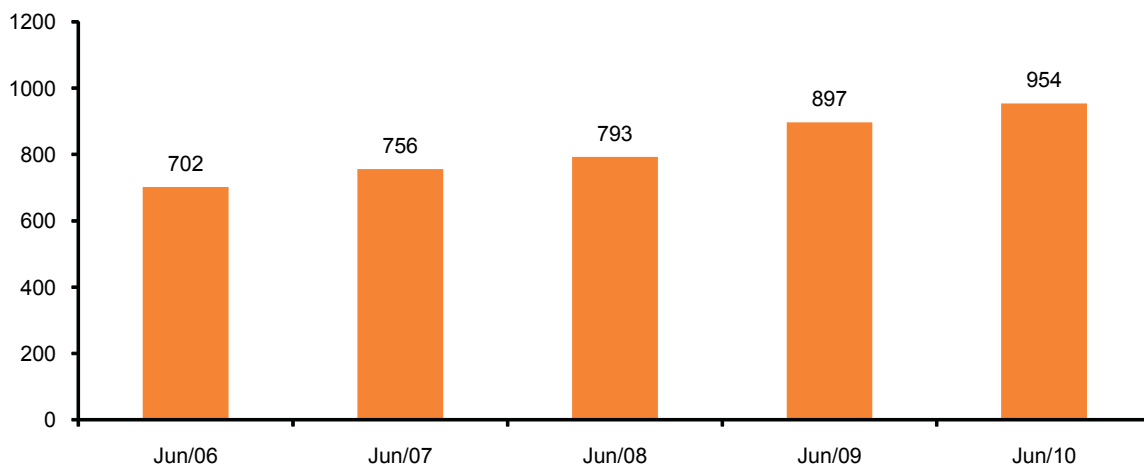
**Figure 5.23 – Average demand deposit<sup>1</sup>/per capita income<sup>2</sup>**



1/ Volume of demand deposits divided by the number of demand deposit accounts at the observed time (stock).  
 2/ GDP over the past 12 months per capita – current market prices.  
 Sources: Estban and BCB/Depec.

Indeed, continuous growth can be observed in the index since June 2006 (see Figure 5.24), indicating that the number of demand deposits accounts have grown at faster rates than the adult population. In June 2010, there was almost one demand deposit account per adult in the country.

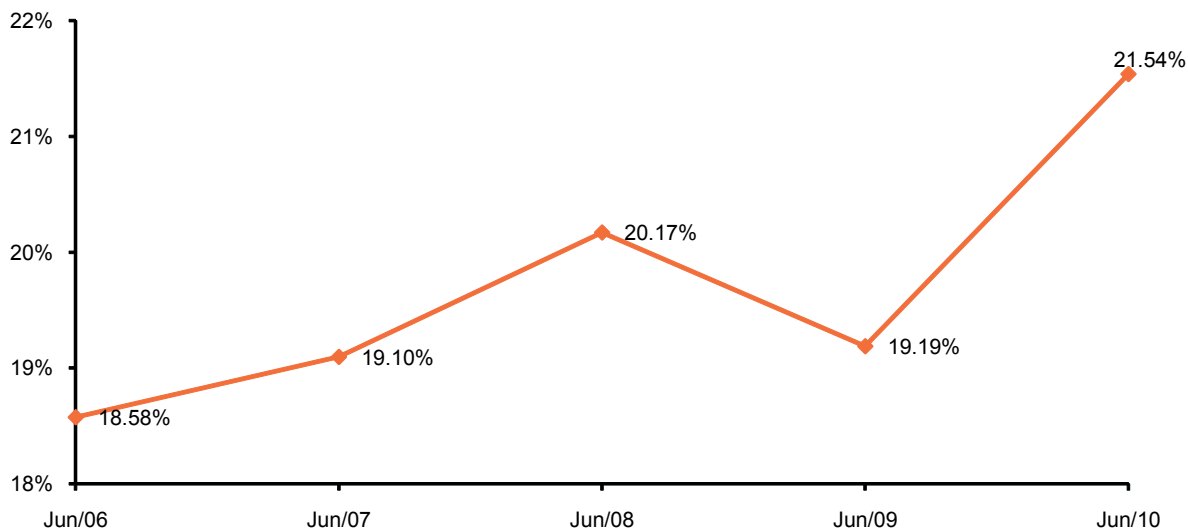
**Figure 5.24 – Number of demand deposit accounts per 1,000 adults**



Source: IBGE e BCB

Figure 5.25 shows the relationship between the average balance in savings accounts per customer and the *per capita* national income. Note that the index shows relatively constant growth during the period analysed. In June 2009, there was a break in the upward trajectory of the index, but recovery occurred in the period immediately thereafter, with a 12% increase in value.

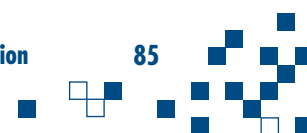
**Figure 5.25 – Average savings deposit by client<sup>1</sup>/per capita income<sup>2</sup>**



1/ Volume of savings deposits divided by the number of clients with savings account at the observed time (stock)

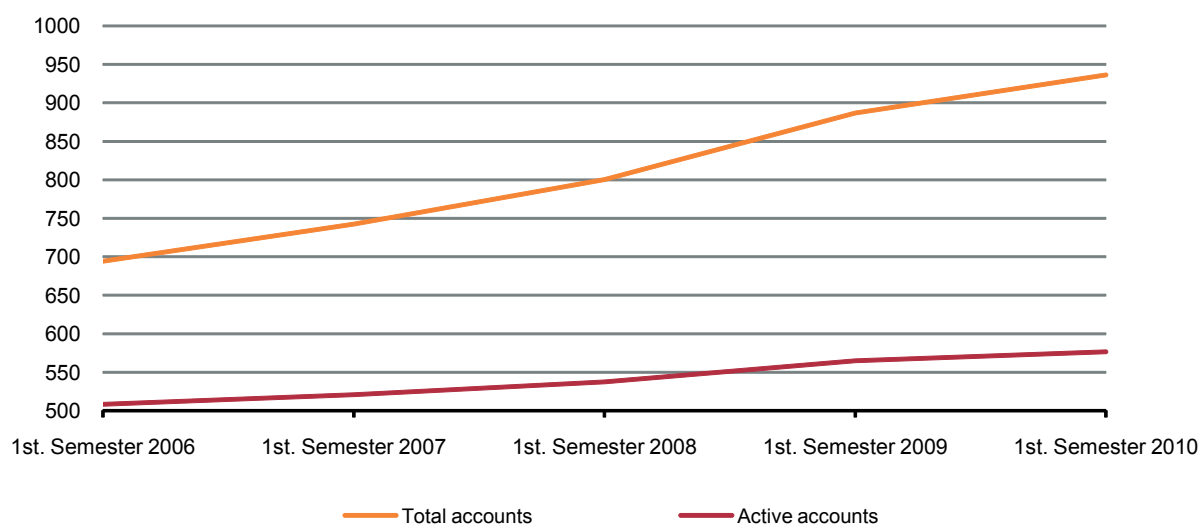
2/ GDP over the past 12 months per capita – current market prices

\* Since there was no data available for the number of clients with savings acc



In Figure 5.26, an upward trend is visible in the number of accounts handled by the banking system – an indication of the growing number of people using banking services. In the last five six-month periods, the indicator rose by 34.8%.

**Figure 5.26 – Semester average of the number of demand deposit accounts per 1.000 adults**



Sources: BACEN/DESIG and IBGE/DPE/COPIS

It is worth emphasizing the number of deposit accounts that have been launched that better suit the needs of low-income populations, such as special demand or savings deposit accounts, usually known as “simplified accounts” (see Table 5.6 and Figure 5.27).

**Table 5.6 – Number of simplified accounts**

Month	Simplified demand deposit accounts		Simplified savings accounts	
	Number of accounts	Number of active accounts <sup>1</sup>	Number of accounts	Number of active accounts <sup>1</sup>
Jun-04	2,648,137	2,555,358	54,087	25,652
Dec-04	4,021,095	3,883,787	138,479	92,558
Jun-05	5,252,031	4,004,818	212,079	151,679
Dec-05	6,292,622	4,467,874	295,672	208,232
Jun-06	6,717,396	4,463,906	329,554	231,310
Dec-06	6,792,625	4,590,036	339,680	228,102
Jun-07	7,083,123	4,071,221	333,204	214,904
Dec-07	7,622,448	4,488,229	315,211	196,234
Jun-08	8,658,337	5,074,321	310,332	26,018
Dec-08	9,872,306	5,771,637	298,783	18,327
Jun-09	10,205,821	5,580,030	214,883	17,244
Dec-09	10,037,109	5,713,541	196,289	16,708
Jun-10	9,664,591	5,329,344	6,823	6,050

1/ "active account" stands for an account that has been used at least one time over the past 6 months.

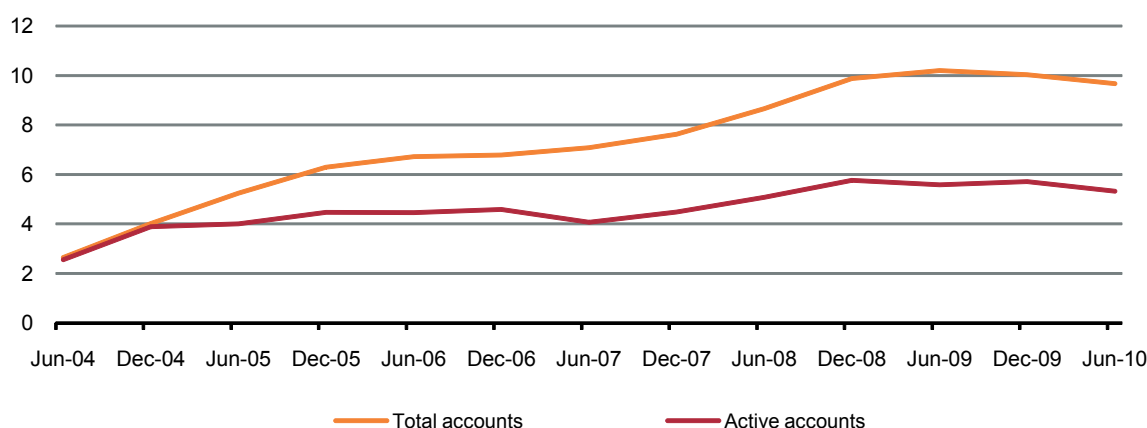
Source: BCB. Statistics on microcredit.

Simplified accounts were introduced with Resolution n. 3,211 of 30 June 2004, which establishes simpler procedures for opening an account. However, the management of these accounts is more complex.

Accounts need to be handled according to strategically set limits, based on the profile and income of the depositor, many of whom are potential beneficiaries of income transfer programmes and microcredit resources.

Although there are now nearly 10 million simplified accounts, just over 5 million remain active. Between December 2008 and June 2010, there was an 8% reduction in the number of active simplified current accounts and a 67% reduction in active savings accounts. However, it is expected that these numbers will return to an earlier pace of growth due to an increase in maximum handling limits, altered to reflect current monetary conditions, the growth of the Brazilian economy, and improvements in income levels.<sup>14</sup> The Ministry of Social Development and Combating Hunger (MDS) encourages the beneficiaries of the "Bolsa Família" Program (PBF) to receive their benefits as a deposit in a simplified account. Promoting the use of this financial service, together with extended handling limits for simplified accounts, will help to expand and improve financial inclusion in the country.

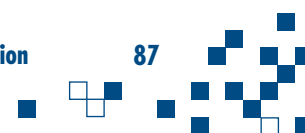
**Figure 5.27 – Number of simplified demand deposit accounts (million of units)**



Source: BCB. Statistics on microcredit

The data presented thus far on total deposits, as well as the indicators for population, income *per capita*, and GDP, all demonstrate growth in the indices that promote financial inclusion. The decreasing values of deposits by *per capita* income, particularly between June 2008 and June 2009, do not interrupt, in general, the growth in the number of deposit accounts in the country. Rather, this change seems to stem from the reallocation of resources in the system due to circumstantial factors, such as the 2008 global financial crisis.

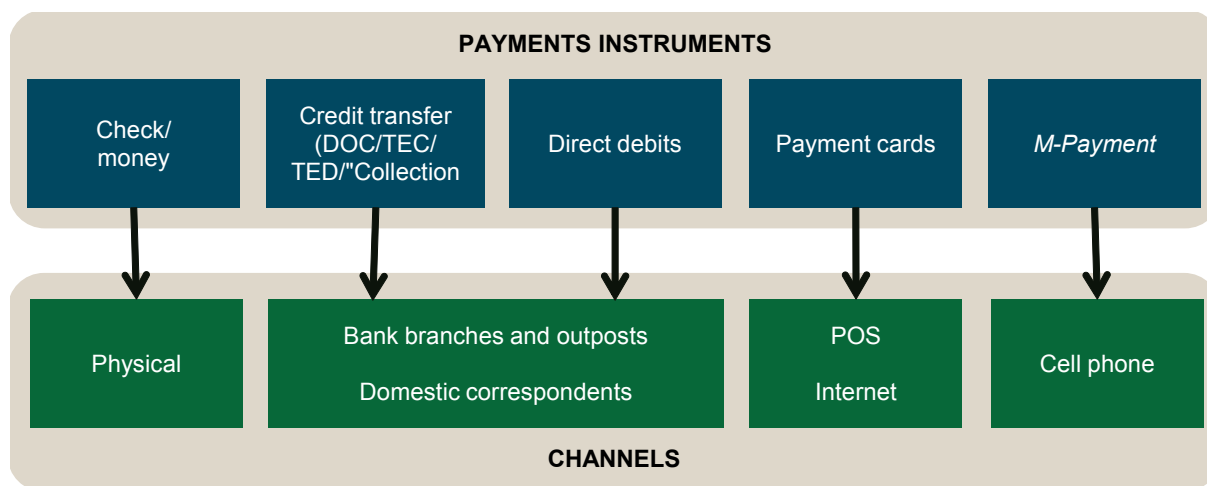
<sup>14</sup> Resolution n. 3,881 of 22 June 2010 changed the maximum balance limit from R\$1,000 to R\$2,000, and ordered that accounts can only be blocked when the balance or sum of deposits in one month exceeds R\$5,000.





## 5.3 Payment tools and distribution channels

A *payment tool* is defined by the Bank for International Settlements (BIS) as “any tool which enables the bearer user to transfer funds.” Besides cash, there is a range of other tools that can be used for payments, including cheques, payment cards (credit and debit), collection orders, and Electronic Funds Transfer (TED). Each of these tools is suited to specific types of payments. For example, cheque, cash, and payment cards can be used at points of sale, while TED and Credit Transfer Document (DOC) are more appropriate for resource transfers at bank branches and other financial institution service locations. The type of payment tool that one chooses depends on the distribution channel that accommodates it.

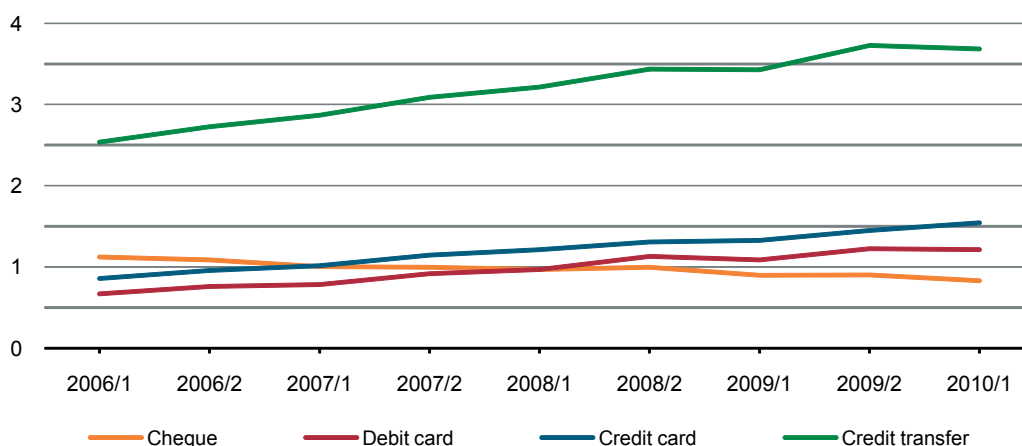


\* DOC: Credit Transfer Document, TEC: Special Credit Transfer, TED: Electronic Funds Transfer, Collection orders: bar-coded standardized document that allows bills to be paid in any bank.

Payment tools like cash and collection orders can be used by anyone. Those who do not have an account, loan, or insurance policy from an authorized financial institution can pay their bills at bank branches or correspondents. Using one type of payment service ultimately makes it easier to use other financial services because financial institutions open or expand services once they have gathered more information about the profile of the people who are using them. In other words, it fosters a favourable environment for facilitating financial inclusion.

Figures 5.28 and 5.29 illustrate some of the main types of payment tools that are being used in Brazil. From 2006 to 2009, the number of active debit and credit cards grew significantly,<sup>15</sup> and cards surpassed cheques as a preferred method of payment. Cheque use fell by 29% while the use of debit cards grew by 102% and credit by 85%.

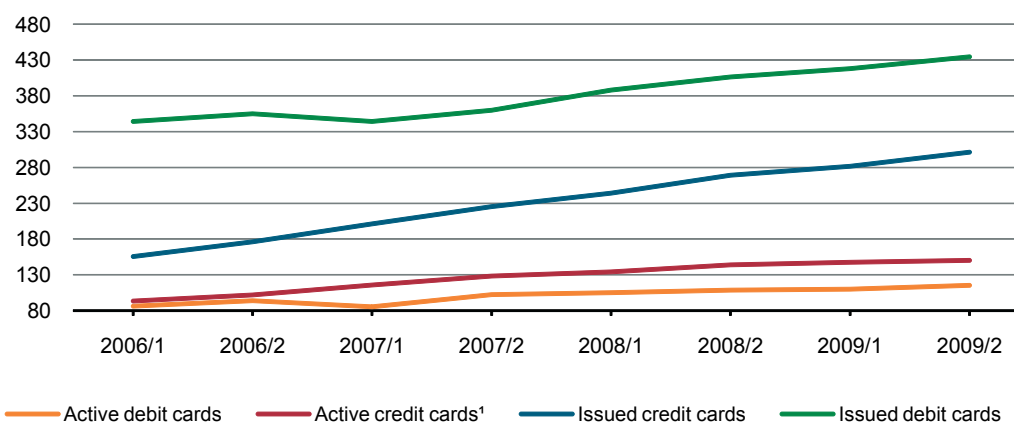
**Figure 5.28 – Number of transactions using non-cash instruments (billions – in the semester)**



Source: BCB/Deban

This change can be explained by the growing network of businesses that accept payment cards, and an uptake in credit card use by those who cannot meet the more stringent requirements of other payment tools. Cheques, for example, can only be used by those who hold a demand deposit account. However, the cheque is still widely used for making higher value payments – the average value of cheques increased 73% between 2004 and 2009 (R\$510 to R\$884) against an inflation rate of 25.8% .<sup>16</sup>

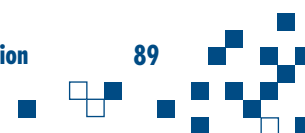
**Figure 5.29 – Number of cards\* (million of units)**



\* At the end of the semester  
<sup>1</sup> See footnote number 15  
 Source: BCB/Deban

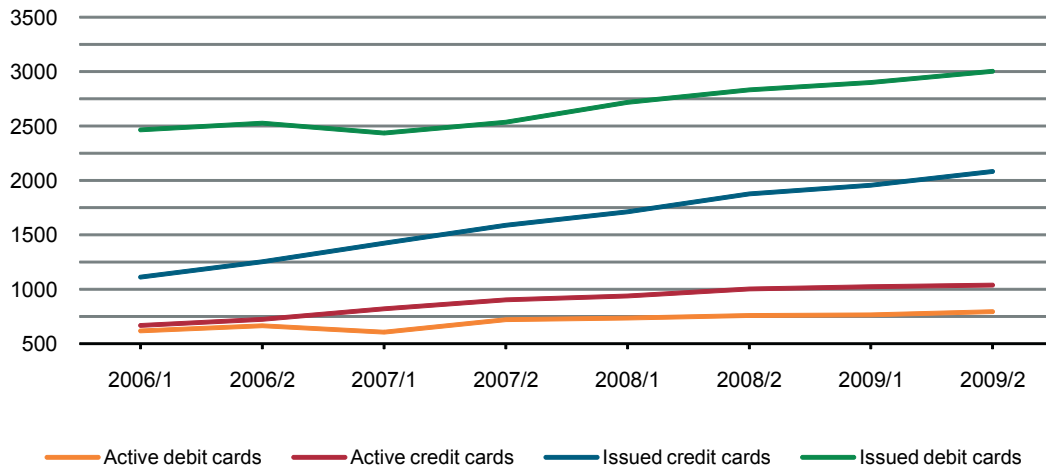
15 Active cards are those that have been used to perform at least one transaction in the 12-month period prior to the last day of a financial quarter are considered active.

16 IPCA.



The growth of credit card and debit card transactions was proportionally greater than the increase in the number of active cards per 1,000 adults (Figure 5.30). This indicator increased by 55% for credit cards and 25% for debit cards, indicating that the growth was due to intensified use. The chart also shows growth in the credit card indicator, which can be issued to users who are not bank customers. This increase was higher than the debit card, which is tied to an account.

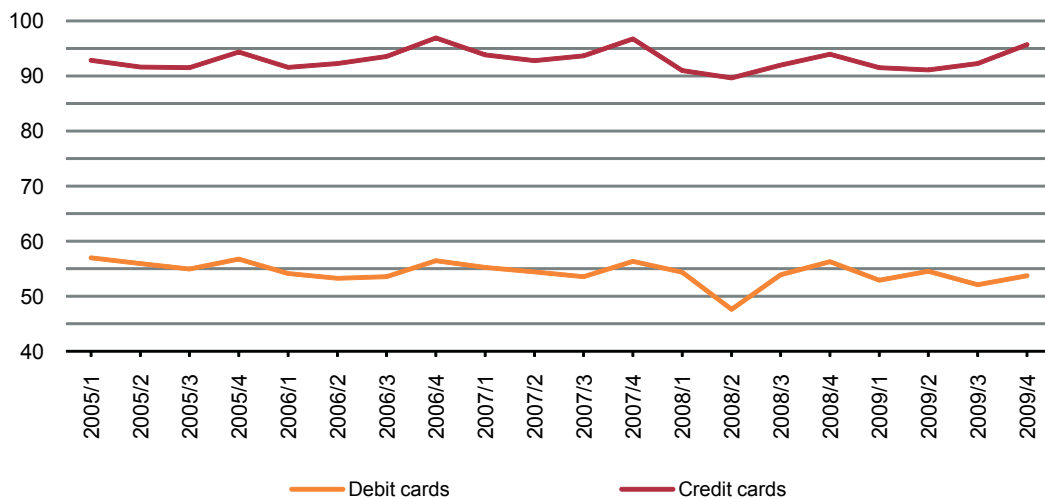
**Figure 5.30 – Number of cards per 1,000 adults\***



\* At the end of the semester  
Source: BCB/Deban

Although there was growth in the number of cards and in the volume of transactions, there was virtually no change in the average value of transactions during the period analysed.

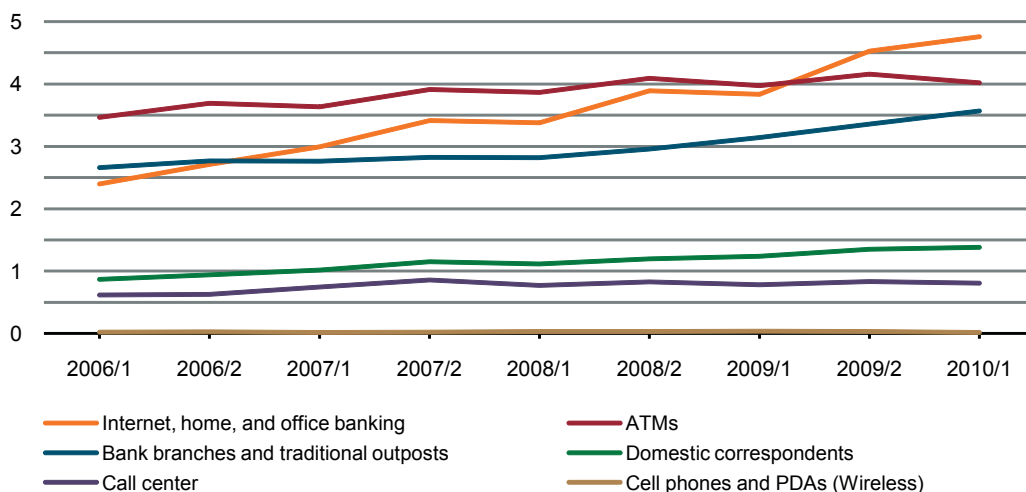
**Figure 5.31 – Average ticket by transaction\* (R\$) – By quarter of a year**



\* At 2009/4 prices  
Source: BCB/Deban

Among all types of transactions (withdrawals and deposits, balances queries and statements, credit transfers, payments, and others), the most-used distribution channels are the Internet, self-service machines (ATMs), and traditional bank branches and outposts. The Internet surpassed ATM networks in the second half of 2009, with the number of transactions almost doubling between the first half of 2006 and the first half of 2010.

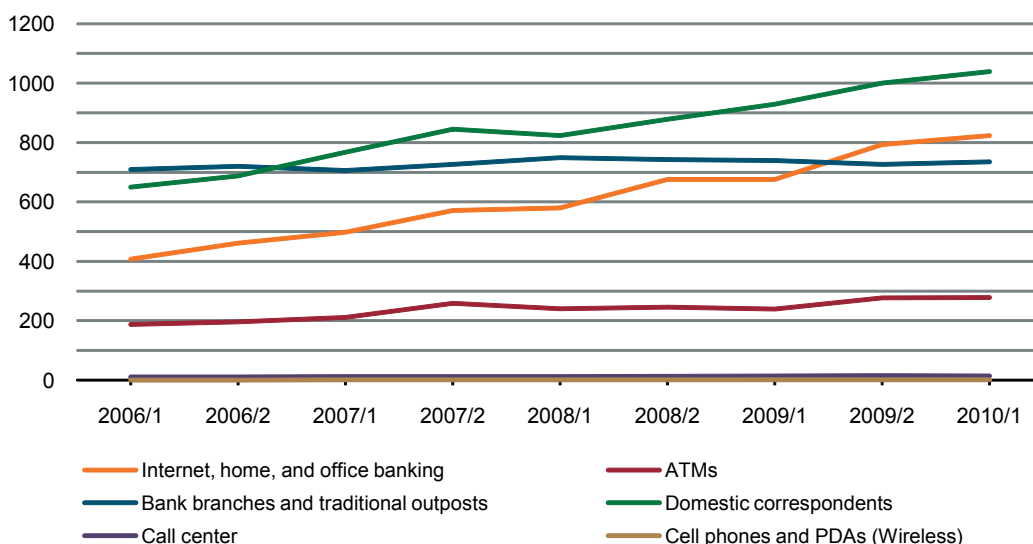
**Figure 5.32 – Number of transactions by channel – General use (billions of units)**



Source: BCB/Deban

When only credit transfers and payments of collection orders and public utility services are analyzed, the most-used channels are correspondents, followed by the Internet and traditional branches and outposts (Figure 5.33). As already mentioned, even non-bank customers require payment services, which explains the increased use of correspondents and bank branches.

**Figure 5.33 – Number of transactions by channel – Use for payments (million of units)**



Source: BCB/Deban



Correspondents play a particularly important role because they allow financial institutions to expand their services without overloading their branches. As for the Internet and traditional branches and outposts, different trends can be seen: while Internet use grew 17% between 2008 and 2009, the use of branches declined by 2%.

**Table 5.7 – Number of transactions by channel (million of units)**

Channel	2006	2007	2008	2009	2006-2009 (%)
Internet, Home, and Office Banking	5,107	6,410	7,234	8,365	64
ATM	7,158	7,546	7,921	8,133	14
Bank branches and traditional outposts	5,427	5,587	5,603	6,501	20
Domestic correspondents	1,806	2,166	2,297	2,589	43
Call centers	1,246	1,606	1,528	1,613	29
Cell phones and PDAs (Wireless)	48	37	29	100	108

Source: BCB/Deban

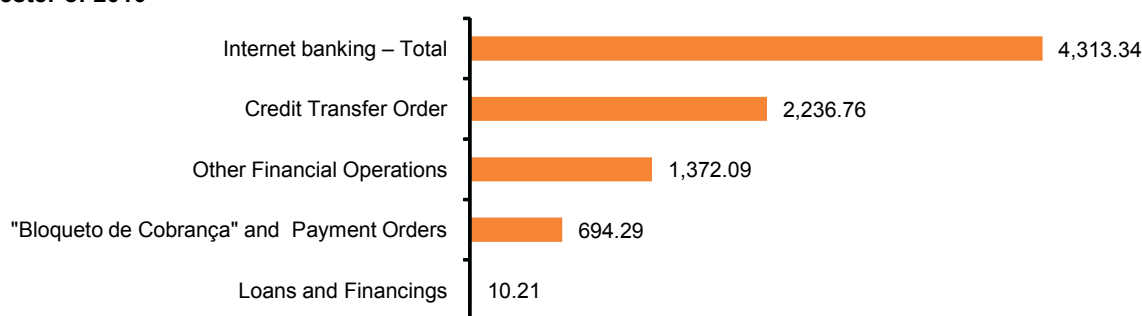
**Table 5.8 – Bill and taxes payment and credit transfers – Number of transactions by channel (million of units)**

Channel	2006	2007	2008	2009	2006-2009 (%)
Domestic correspondents	1,338	1,612	1,702	1,929	44
Internet, Home, and Office Banking	869	1,070	1,256	1,469	69
Bank branches and traditional outposts	1,428	1,432	1,492	1,466	3
ATM	383	470	487	517	35
Call centers	22	23	25	29	29
Cell phones and PDAs (Wireless)	0	2	3	7	2,204

Source: BCB/Deban

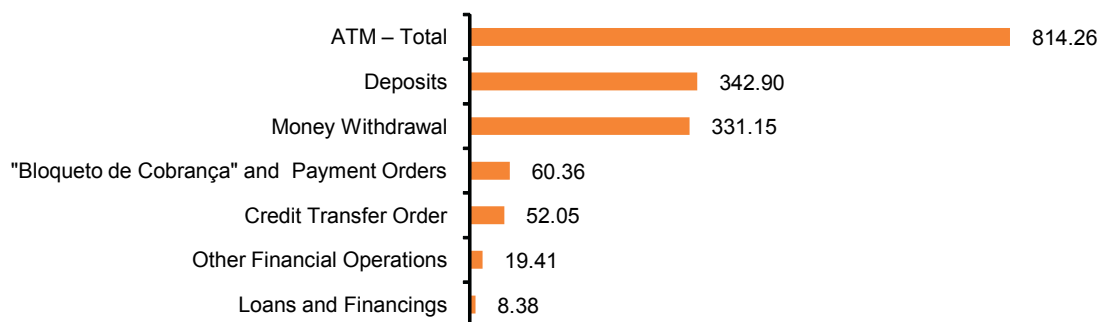
For online and ATM transactions, the volume of resources handled by the Internet is about 430% higher than the amount handled by ATM, while the number of transactions is only 58% higher (see Figures 5.34 and 5.35).

**Figure 5.34 – Volume of funds transferred through Internet Banking (R\$ billion) – In the first semester of 2010**



Source: BCB/Deban

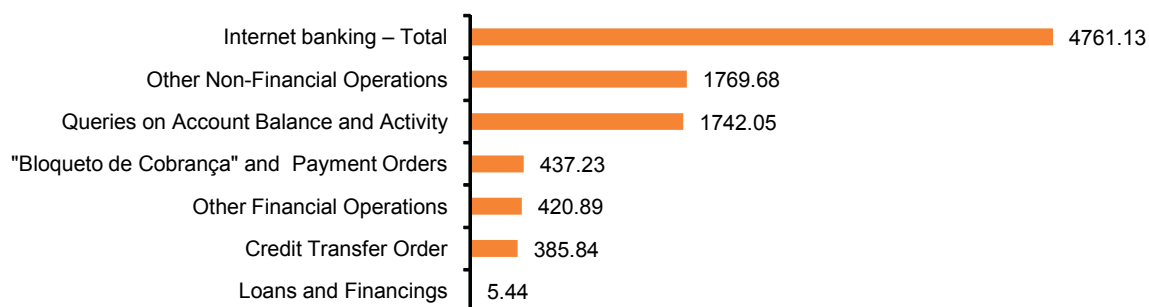
**Figure 5.35 – Volume of funds handled through ATMs (R\$ billion) – In the first semester of 2010**



Source: BCB/Deban

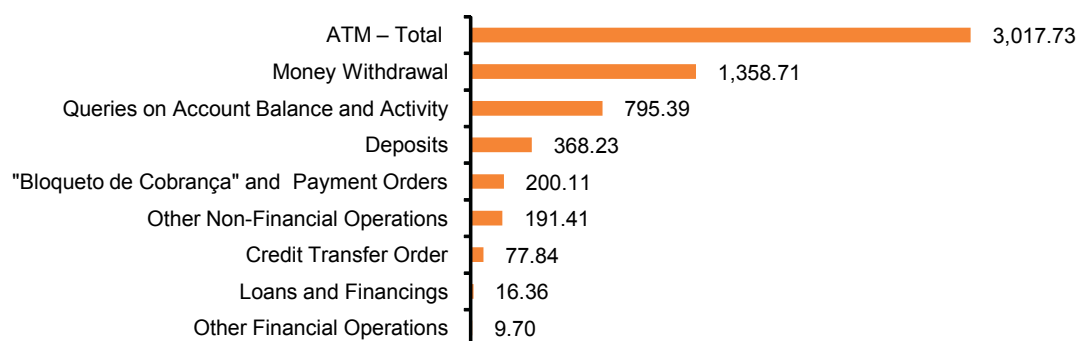
In terms of volume of resources, ATM withdrawals and online banking credit transfers were used most frequently. Non-financial transactions and statement and balance queries were the most frequently used transactions on the Internet, and, for ATMs, it was withdrawals.

**Figure 5.36 – Number of operations made through Internet Banking (million of units) – In the first semester of 2010**



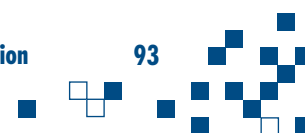
Source: BCB/Deban

**Figure 5.37 – Number of operations made through ATMs (million of units) – In the first semester of 2010**



Source: BCB/Deban

Despite an overall increase in the use of payment tools, the biggest growth was in the use of credit cards, which can be used by people without bank accounts. The number of cards per 1,000 adults, a potential indicator of financial inclusion, showed that the number of debit cards linked to deposit accounts increased by 25% in the period analysed, while the number of credit cards increased by 55%. In the first half of 2009, there were 796 active debit cards and 1,038 active credit cards for every 1,000 adults.



## 5.4 Conclusions on the use of financial services

The data and indicators for use of financial services indicate that, from June 2006 to June 2010, financial inclusion improved in Brazil. Some indicators are worth emphasizing. For example, the number of transactions less than R\$5,000 in active loan portfolios increased from 2,476 to 3,847 transactions per 1,000 adults. In other words, from June 2006 to June 2010, that number rose to nearly four transactions per adult, equivalent to a 55% increase over four years. This value range (up to R\$5,000) probably covers the transactions of low-income borrowers.

With respect to portfolio transactions over R\$5,000, there was growth of 147% in volume of resources, as well as an increase in the number of individual clients from 11.2 million to 23.1 million, which translates to growth of 107%. For corporations, there was 77% growth in the same period.

The growth in this portfolio has not caused an increase in defaults. Rather, the data indicates the default rate has declined: among individuals, defaults fell from 4.4% to 3.0%, and, from 1.65% to 1.38% for corporations.

In addition to growth in the number of transactions per adult, there was an increase in the average value of transactions (Figure 5.6), which rose 122.8% from R\$4,800 to R\$10,600. Growth was even higher in the North: 150.2%.

The data also indicate improvement in the distribution of credit between regions, with an increased share for regions with low-income residents, both in volume of resources and in number of credit transactions, with the Northeast standing out.

Several changes in Brazil's macroeconomic environment and policy can explain the behavior of these indicators: overall growth in national economic activity, with GDP growing by 15.9% between 2005 and 2009; declining interest rates; and the adoption of credit policies that favoured financial inclusion (for example, rural and real estate credit, especially through home ownership financing programmes for low-income groups). These macroeconomic changes also influenced the strategies of financial institutions which, to reduce their assets in bonds and securities, returned to their traditional function of financial intermediation.

These macroeconomic changes also favoured the supply of credit in two ways. First, by increasing *per capita* income through growth in economic activity and income transfer social programmes that increased the number of potential credit borrowers and prompted financial institutions to increase the supply of credit. Second, by increasing liquidity in the system with demand, saving, and fixed-term deposits.

Figure 5.20 shows that, from June 2006 to June 2010, the relationship between total public deposits and GDP strengthened, growing from 27.6% to 34.9%. The relationship between the average value of savings deposit accounts per customer and *per capita* income also strengthened, rising from 18.6% to 21.5%, indicating that the population increased the proportion of their income they deposited in savings accounts. This indirectly facilitated the supply of credit in the system.

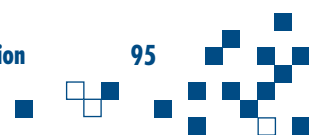
Investments worth highlighting are: (i) the PNMPO, which, since its creation in 2005, has awarded R\$7.9 billion, totalling 6.2 million transactions; and (ii) PRONAF, which, in the 2009 crop year, granted R\$11.2 billion and 1.7 million contracts to small-scale farmers with minimal chances of accessing traditional forms of credit.

Changes to the structure of the SFN expanded the types of institutions that could deliver financial services, which also contributed to financial inclusion. In terms of credit, two changes are worth mentioning: (i) the creation of SCMEPPs to intermediate credit for small enterprises; and (ii) new credit union regulations

that permitted funds to be raised in the interbank market and that expanded the member base with free entry cooperatives.

With respect to payment tools and the transfer of resources, the creation of correspondents expanded the number of service points for financial transfers and payments for public services (water, electricity, telephone), as well as collection orders, especially for people without bank accounts.

Although correspondents are primarily used to make payments (see Figures 5.32 and 5.33), simply using financial services creates an environment for financial inclusion to flourish. When the financial institutions that contract the services better understand the profile of their users, other products and services will follow, even for the financially excluded.







# The Challenge of Financial Inclusion in Brazil

# 6

This report has presented data that suggest a positive picture of financial inclusion in Brazil. The country's stable economy is conducive to financial inclusion initiatives, the inflation index is under control, unemployment is falling, credit is growing, and high international reserves are in place. The economy is supported by a robust financial system both in terms of economic strength and the development of financial initiatives with a social focus, such as credit unions.

The National Financial System has a long reach – banks, cooperatives, and service outposts of financial institutions and correspondents have all helped to expand points of service and bring services to people previously excluded from the financial system. Currently, correspondents are the most popular channel for bill and taxes payment and credit transfers.

The use of financial services expanded considerably in recent years, due in part to remote access (Internet) electronic terminals. The number of Points of Sale (POS) in Brazil has also grown significantly, though there are still low levels of interoperability.

The volume of credit did not only grow in aggregate form – there was improvement in number of loans *per capita* in all regions of Brazil. The financial system has significantly increased compliance with requirements for investing resources in microcredit operations (2% of demand deposits). Productive microcredit increased, as did financing for family farmers through PRONAF, although it was concentrated in the richest regions. Even credit lines that were not geared towards borrowers barred from traditional credit, such as rural, real estate, and payroll-consigned credit, also showed significant growth: 705% between December 2004 and August 2010.

Deposits have also shown advances: fixed-term, demand, and savings deposits have grown substantially, as has the ratio of deposits to Gross Domestic Product (GDP), which increased in all regions. There has also been an increase in the amount and intensity of usage of electronic balance transfers and payment cards, especially credit cards.

Data contained in the General Registry of the National Financial System (CCS) contribute to the overall picture of financial inclusion in Brazil. The CCS is a computerized system that identifies financial institutions in which individuals and corporations have accounts for demand deposits, savings deposits, fixed-term deposits, and other assets, rights, and values (either directly or via legal representatives and attorneys). However, the Registry does not contain data on values, money transfers, or balances of accounts or investments.<sup>1</sup>

On 30 September 2010, there were 114 million Individual Tax ID (CPF) numbers and 6.5 million National Register of Legal Entities (CNPJ) numbers registered in the CCS system with active dealings

<sup>1</sup> The register aims to comply with Article 3 of Law n. 10,701 of July 9, 2003, which includes a provision in the Law on Money Laundering (Law n. 9,613 of March 3, 1998, Article 10-A) determining that the Central Bank of Brazil (BCB) “will maintain a centralized record forming the general register of account holders and customers of financial institutions, as well as their attorneys”. Additional information available at: <http://www.bcb.gov.br/?SFNCCS>.



with financial institutions. Given that the numbers are updated daily by financial institutions, they could be used as an indicator for banking use, although there is a need for more accurate data. The CCS was not actually designed for that purpose, but rather to help with financial investigations. In any case, the numbers reveal a stronger relationship between financial institutions and customers, which could corroborate earlier findings on the improvement of financial inclusion in the country. Between 25 July 2005 and 30 September 2010, the number CPF numbers with active dealings with financial institutions increased by 36% (Table 6.1).

**Table 6.1 – Number of CPFs<sup>1</sup> and CNPJs<sup>2</sup> in the General Registry of the National Financial System Costumers (CCS)**

	CPFs <sup>1</sup>		CNPJs <sup>2</sup>	
	With active relationships	With just inactive relationships	With active relationships	With just inactive relationships
September 30, 2010	114,122,899	6,004,491	6,560,750	1,845,828
June 30, 2010	113,090,068	5,813,844	6,366,598	1,817,420
May 31, 2010	112,704,552	5,728,549	6,313,826	1,808,606
December 31, 2009	110,135,390	5,618,398	6,051,694	1,761,419
June 30, 2009	107,527,151	5,372,638	5,743,782	1,669,963
December 31, 2008	104,866,956	5,281,568	5,582,203	1,570,524
June 30, 2008	101,861,757	5,092,008	5,286,102	1,299,859
December 31, 2007	97,380,371	4,653,752	5,064,665	1,212,404
June 30, 2007	94,339,500	4,550,598	4,862,522	1,147,245
December 29, 2006	90,982,047	4,786,182	4,634,686	1,066,364
June 30, 2006	88,758,577	4,594,863	4,448,004	1,002,056
December 30, 2005	86,381,792	4,332,813	4,280,980	948,296
July 25, 2005	84,035,662	4,186,570	4,138,469	887,755

1/ CPF: Individual Taxpayer Registry. The number of CPFs in the CCS reflects the number of individuals holding some formal financial relationship in the SFN.

2/ CNPJ: National Registry of Legal Entities. The number of CNPJs in the CCS reflects the number of corporations holding some formal financial relationship in the SFN.

Source: BCB. <<http://www.bcb.gov.br/?SFNCCSESTAT>>.

While the numbers indicate greater financial inclusion in the country, some data show a need for improvement. For example, there are difficulties in the wide-scale dissemination of microcredit in Brazil. Credit that is granted under PNMPO, though increasing, is low compared to the number of entrepreneurs who meet the criteria. In 2009, the amount of productive microcredit granted was approximately five times less than credit granted to low-income farming families under PRONAF (notwithstanding that the urban population is much larger than the rural population). Among the resources that some financial institutions are mandatorily required to invest in microcredit transactions (2% of demand deposits), the credit granted for consumption is 75% higher than the credit for investment (productive credit, which is the microcredit in the strict sense).<sup>2</sup>

Given this, some challenges may arise in promoting financial inclusion that meets the needs of Brazil's people. These challenges are evident in at least five areas: (i) improvement of data on financial inclusion; (ii) wide-scale dissemination of credit services (especially microfinance) and savings; (iii) tailoring supervision mechanisms; (iv) strengthening the institutional structure of financial education and of protection of the users' rights.

<sup>2</sup> International best practices do not, in general, consider microcredit a transaction that is designed to encourage consumption.

Actions targeted at appropriate financial inclusion must be carried out in conjunction with:

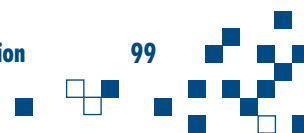
- An **appraisal** of the access and use of financial services that identifies strengths and weaknesses.
- An **adjustment** in the supply of financial services to meet the needs of a diverse public, especially those with lower incomes for whom financial services are inadequate or virtually non-existent.
- **Improvements** to the supervisory structure of various authorities, in view of the growing challenges imposed by reforms to the prudential regulation of financial systems (accelerated by the recent global financial crisis) and access by new customers. This would enable more efficient tracking and monitoring of risks, and encourage best practices to be shared among financial and other regulated institutions.
- The **adoption** of mechanisms to ensure greater efficiency and competition in the financial system and to consider actions related to the joint goals of financial education and customer protection, such as preventive measures and additional control of the supervision process.
- A **revision**, if necessary, of the current regulatory framework, with a view to disseminating best practices from financial institutions and microfinance companies in order to meet the needs of the population.

Notwithstanding the increase in the use of financial products and services in all regions, a large segment of the population still remains financially excluded. Constructing a more accurate picture of financial exclusion in Brazil would require collecting data on households, which could highlight lacks of access to basic financial services among employees, small businesses owners (self-employed or family labour), and mixed family units.

Information on the microcredit market is also lacking. For example, the BCB has no data on microfinance projects managed by institutions that are not members of the SFN.

Without doubt, improving data on financial inclusion is the first and most immediate challenge to be overcome. Without quality data, it is impossible to construct indicators to guide an agenda for financial inclusion that the country needs. In other words, without parameters, strategic plans cannot be drafted because goals have not been established.

This report, despite its efforts to reveal and improve the quality of financial inclusion data, is limited by the nature of the supporting data. However, consolidating and presenting this information makes a significant contribution to the study of financial inclusion in Brazil, especially identifying flaws and gaps in the data to be addressed and resolved in future reports.





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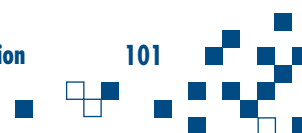
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# Annexes

**Table A1 – Population (2002 a 2006)**

Year*	2002	2003	2004	2005	2006
<b>North</b>	<b>13,651,637</b>	<b>13,950,488</b>	<b>14,237,133</b>	<b>14,511,939</b>	<b>14,775,278</b>
Rondônia	1,430,110	1,445,940	1,461,123	1,475,679	1,489,627
Acre	604,469	620,098	635,088	649,458	663,230
Amazonas	2,984,002	3,058,039	3,129,052	3,197,132	3,262,372
Roraima	352,945	365,100	376,759	387,938	398,649
Pará	6,552,173	6,697,532	6,836,953	6,970,616	7,098,701
Amapá	520,814	539,533	557,489	574,701	591,197
Tocantins	1,207,123	1,224,246	1,240,669	1,256,414	1,271,502
<b>Northeast</b>	<b>49,628,019</b>	<b>50,318,221</b>	<b>50,980,233</b>	<b>51,614,904</b>	<b>52,223,089</b>
Maranhão	5,893,895	5,984,275	6,070,964	6,154,073	6,233,714
Piauí	2,949,818	2,988,068	3,024,756	3,059,929	3,093,634
Ceará	7,765,237	7,891,488	8,012,582	8,128,675	8,239,923
Rio Grande do Norte	2,898,318	2,943,862	2,987,547	3,029,427	3,069,560
Paraíba	3,562,318	3,603,705	3,643,402	3,681,459	3,717,928
Pernambuco	8,196,720	8,294,654	8,388,587	8,478,642	8,564,938
Alagoas	2,937,334	2,979,493	3,019,930	3,058,697	3,095,846
Sergipe	1,863,470	1,893,159	1,921,635	1,948,934	1,975,095
Bahia	13,560,909	13,739,517	13,910,830	14,075,068	14,232,451
<b>Southeast</b>	<b>74,910,217</b>	<b>75,783,365</b>	<b>76,620,853</b>	<b>77,423,755</b>	<b>78,193,145</b>
Minas Gerais	18,549,786	18,791,550	19,023,438	19,245,751	19,458,785
Espírito Santo	3,211,729	3,253,832	3,294,216	3,332,932	3,370,031
Rio de Janeiro	14,831,069	14,983,516	15,129,737	15,269,919	15,404,251
São Paulo	38,317,632	38,754,467	39,173,462	39,575,153	39,960,078
<b>South</b>	<b>25,942,551</b>	<b>26,230,714</b>	<b>26,507,106</b>	<b>26,772,085</b>	<b>27,026,004</b>
Paraná	9,907,331	10,031,886	10,151,352	10,265,886	10,375,640
Santa Catarina	5,590,819	5,680,184	5,765,898	5,848,073	5,926,818
Rio Grande do Sul	10,444,401	10,518,645	10,589,855	10,658,126	10,723,547
<b>Midwest</b>	<b>12,301,261</b>	<b>12,564,828</b>	<b>12,817,629</b>	<b>13,059,991</b>	<b>13,292,237</b>
Mato Grosso do Sul	2,172,278	2,207,920	2,242,106	2,274,880	2,306,287
Mato Grosso	2,659,670	2,722,154	2,782,086	2,839,544	2,894,603
Goiás	5,274,134	5,380,519	5,482,558	5,580,384	5,674,126
Distrito Federal	2,195,179	2,254,235	2,310,879	2,365,183	2,417,221
<b>BRAZIL</b>	<b>176,433,685</b>	<b>178,847,616</b>	<b>181,162,954</b>	<b>183,382,674</b>	<b>185,509,753</b>

\* On July, 1<sup>st</sup>.

Source: IBGE



**Table A2 – Population (2007 a 2010)**

<b>Year*</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>North</b>	<b>15,027,515</b>	<b>15,269,019</b>	<b>15,500,159</b>	<b>15,721,305</b>
Rondônia	1,502,987	1,515,779	1,528,021	1,539,734
Acre	676,421	689,050	701,137	712,702
Amazonas	3,324,861	3,384,691	3,441,954	3,496,741
Roraima	408,909	418,733	428,134	437,129
Pará	7,221,387	7,338,852	7,451,276	7,558,839
Amapá	606,996	622,124	636,602	650,455
Tocantins	1,285,954	1,299,791	1,313,034	1,325,704
<b>Northeast</b>	<b>52,805,633</b>	<b>53,363,392</b>	<b>53,897,216</b>	<b>54,407,956</b>
Maranhão	6,309,997	6,383,035	6,452,938	6,519,818
Piauí	3,125,918	3,156,828	3,186,412	3,214,717
Ceará	8,346,481	8,448,505	8,546,151	8,639,575
Rio Grande do Norte	3,108,000	3,144,805	3,180,031	3,213,733
Paraíba	3,752,860	3,786,305	3,818,315	3,848,941
Pernambuco	8,647,596	8,726,737	8,802,482	8,874,952
Alagoas	3,131,429	3,165,498	3,198,105	3,229,302
Sergipe	2,000,152	2,024,144	2,047,106	2,069,075
Bahia	14,383,200	14,527,535	14,665,676	14,797,843
<b>Southeast</b>	<b>78,930,106</b>	<b>79,635,709</b>	<b>80,311,032</b>	<b>80,957,147</b>
Minas Gerais	19,662,839	19,858,210	20,045,198	20,224,098
Espírito Santo	3,405,567	3,439,591	3,472,156	3,503,312
Rio de Janeiro	15,532,921	15,656,115	15,774,023	15,886,830
São Paulo	40,328,779	40,681,793	41,019,655	41,342,907
<b>South</b>	<b>27,269,219</b>	<b>27,502,086</b>	<b>27,724,958</b>	<b>27,938,195</b>
Paraná	10,480,766	10,581,420	10,677,754	10,769,923
Santa Catarina	6,002,243	6,074,461	6,143,577	6,209,707
Rio Grande do Sul	10,786,209	10,846,206	10,903,627	10,958,566
<b>Midwest</b>	<b>13,514,693</b>	<b>13,727,683</b>	<b>13,931,533</b>	<b>14,126,567</b>
Mato Grosso do Sul	2,336,370	2,365,172	2,392,739	2,419,113
Mato Grosso	2,947,341	2,997,835	3,046,162	3,092,399
Goiás	5,763,917	5,849,887	5,932,168	6,010,891
Distrito Federal	2,467,065	2,514,789	2,560,464	2,604,164
<b>BRAZIL</b>	<b>187,547,166</b>	<b>189,497,889</b>	<b>191,364,898</b>	<b>193,151,170</b>

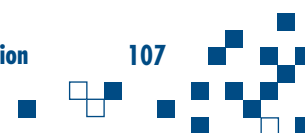
\* On July, 1<sup>st</sup>.

Source: IBGE

**Table A3 – Adult population – Over 15 years old (2002 a 2006)**

Year*	2002	2003	2004	2005	2006
<b>North</b>	<b>9,370,925</b>	<b>9,575,004</b>	<b>9,770,748</b>	<b>9,958,407</b>	<b>10,138,236</b>
Rondônia	1,027,156	1,038,526	1,049,431	1,059,885	1,069,903
Acre	400,068	410,412	420,333	429,844	438,958
Amazonas	1,998,114	2,047,690	2,095,241	2,140,828	2,184,513
Roraima	235,576	243,689	251,471	258,932	266,082
Pará	4,498,560	4,598,359	4,694,083	4,785,853	4,873,793
Amapá	353,588	366,296	378,487	390,173	401,372
Tocantins	857,864	870,032	881,704	892,893	903,616
<b>Northeast</b>	<b>35,851,419</b>	<b>36,349,527</b>	<b>36,827,291</b>	<b>37,285,324</b>	<b>37,724,241</b>
Maranhão	3,982,063	4,043,126	4,101,695	4,157,846	4,211,653
Piauí	2,153,628	2,181,554	2,208,340	2,234,019	2,258,627
Ceará	5,681,858	5,774,237	5,862,842	5,947,788	6,029,188
Rio Grande do Norte	2,128,007	2,161,446	2,193,521	2,224,270	2,253,737
Paraíba	2,635,590	2,666,210	2,695,580	2,723,736	2,750,718
Pernambuco	5,936,881	6,007,815	6,075,850	6,141,077	6,203,581
Alagoas	2,028,269	2,057,381	2,085,303	2,112,072	2,137,724
Sergipe	1,353,999	1,375,571	1,396,262	1,416,097	1,435,106
Bahia	9,951,124	10,082,188	10,207,899	10,328,418	10,443,908
<b>Southeast</b>	<b>58,488,866</b>	<b>59,169,803</b>	<b>59,822,929</b>	<b>60,449,083</b>	<b>61,049,103</b>
Minas Gerais	14,230,139	14,415,603	14,593,493	14,764,036	14,927,461
Espírito Santo	2,438,604	2,470,572	2,501,234	2,530,631	2,558,800
Rio de Janeiro	11,824,197	11,945,736	12,062,312	12,174,073	12,281,170
São Paulo	29,995,927	30,337,891	30,665,890	30,980,343	31,281,671
<b>South</b>	<b>20,026,673</b>	<b>20,248,733</b>	<b>20,461,722</b>	<b>20,665,916</b>	<b>20,861,587</b>
Paraná	7,528,824	7,623,476	7,714,262	7,801,299	7,884,704
Santa Catarina	4,345,253	4,414,708	4,481,327	4,545,194	4,606,395
Rio Grande do Sul	8,152,595	8,210,548	8,266,133	8,319,423	8,370,488
<b>Midwest</b>	<b>9,165,684</b>	<b>9,362,246</b>	<b>9,550,779</b>	<b>9,731,527</b>	<b>9,904,731</b>
Mato Grosso do Sul	1,600,819	1,627,084	1,652,277	1,676,429	1,699,574
Mato Grosso	1,978,406	2,024,885	2,069,465	2,112,206	2,153,162
Goiás	3,932,689	4,012,016	4,088,102	4,161,046	4,230,945
Distrito Federal	1,653,771	1,698,262	1,740,935	1,781,846	1,821,050
<b>BRAZIL</b>	<b>132,903,568</b>	<b>134,705,314</b>	<b>136,433,470</b>	<b>138,090,257</b>	<b>139,677,898</b>

Source: because state and regional data were not available until 2010, data on the adult population (in this report, age equal or over 15 years old) are based on IBGE's estimates of total population by Federative Unit (UF) and on IBGE's 2008 data on adult population by UF.



**Table A4 – Adult population – Over 15 years old (2007 a 2010)**

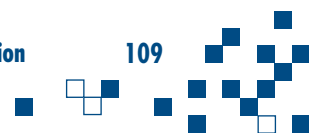
<b>Year*</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>North</b>	<b>10,310,483</b>	<b>10,475,401</b>	<b>10,633,242</b>	<b>10,784,258</b>
Rondônia	1,079,499	1,088,686	1,097,479	1,105,892
Acre	447,689	456,047	464,048	471,702
Amazonas	2,226,356	2,266,419	2,304,762	2,341,448
Roraima	272,930	279,487	285,762	291,766
Pará	4,958,026	5,038,674	5,115,862	5,189,712
Amapá	412,098	422,368	432,198	441,603
Tocantins	913,886	923,719	933,131	942,135
<b>Northeast</b>	<b>38,144,654</b>	<b>38,547,180</b>	<b>38,932,433</b>	<b>39,301,026</b>
Maranhão	4,263,192	4,312,538	4,359,766	4,404,952
Piauí	2,282,197	2,304,764	2,326,363	2,347,028
Ceará	6,107,157	6,181,809	6,253,257	6,321,615
Rio Grande do Norte	2,281,960	2,308,983	2,334,847	2,359,591
Paraíba	2,776,562	2,801,307	2,824,990	2,847,648
Pernambuco	6,263,450	6,320,772	6,375,634	6,428,124
Alagoas	2,162,295	2,185,820	2,208,335	2,229,877
Sergipe	1,453,312	1,470,745	1,487,429	1,503,392
Bahia	10,554,529	10,660,443	10,761,812	10,858,798
<b>Southeast</b>	<b>61,623,832</b>	<b>62,174,106</b>	<b>62,700,766</b>	<b>63,204,647</b>
Minas Gerais	15,083,998	15,233,873	15,377,318	15,514,557
Espírito Santo	2,585,782	2,611,615	2,636,341	2,659,997
Rio de Janeiro	12,383,753	12,481,971	12,575,974	12,665,911
São Paulo	31,570,299	31,846,646	32,111,133	32,364,182
<b>South</b>	<b>21,049,010</b>	<b>21,228,459</b>	<b>21,400,205</b>	<b>21,564,527</b>
Paraná	7,964,592	8,041,081	8,114,287	8,184,329
Santa Catarina	4,665,017	4,721,146	4,774,864	4,826,260
Rio Grande do Sul	8,419,401	8,466,232	8,511,054	8,553,937
<b>Midwest</b>	<b>10,070,633</b>	<b>10,229,476</b>	<b>10,381,502</b>	<b>10,526,954</b>
Mato Grosso do Sul	1,721,743	1,742,968	1,763,283	1,782,719
Mato Grosso	2,192,391	2,229,951	2,265,899	2,300,293
Goiás	4,297,899	4,362,003	4,423,356	4,482,056
Distrito Federal	1,858,600	1,894,554	1,928,964	1,961,886
<b>BRAZIL</b>	<b>141,198,612</b>	<b>142,654,622</b>	<b>144,048,148</b>	<b>145,381,412</b>

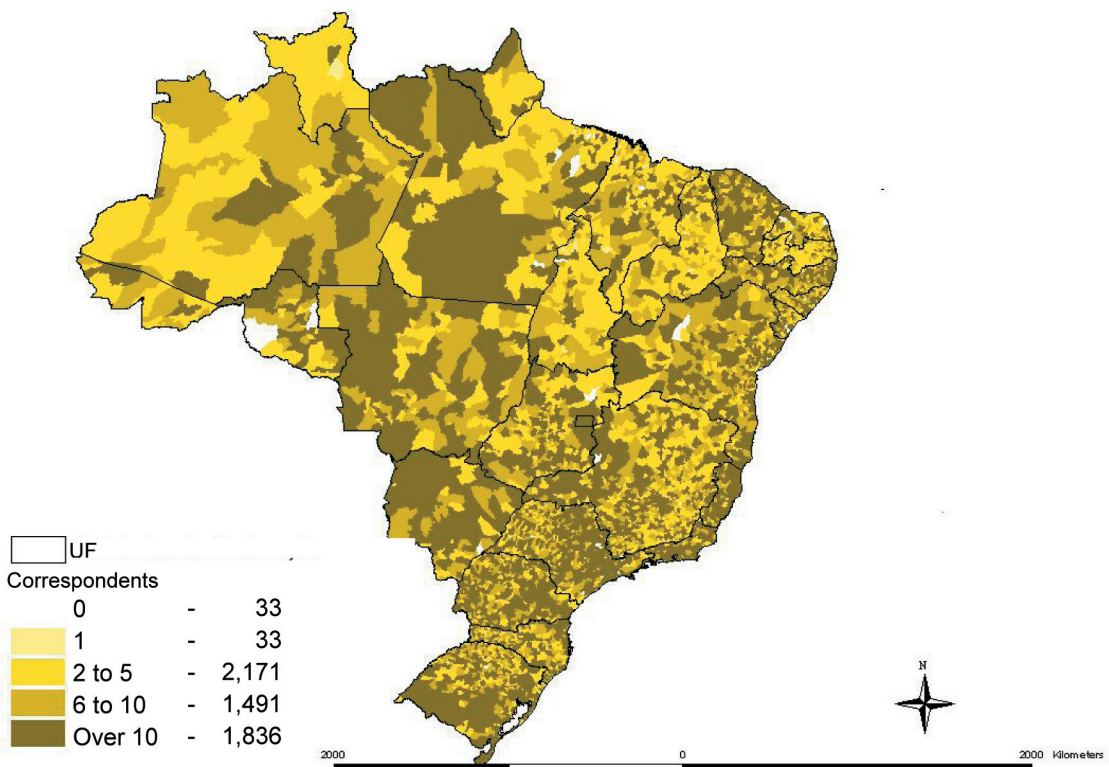
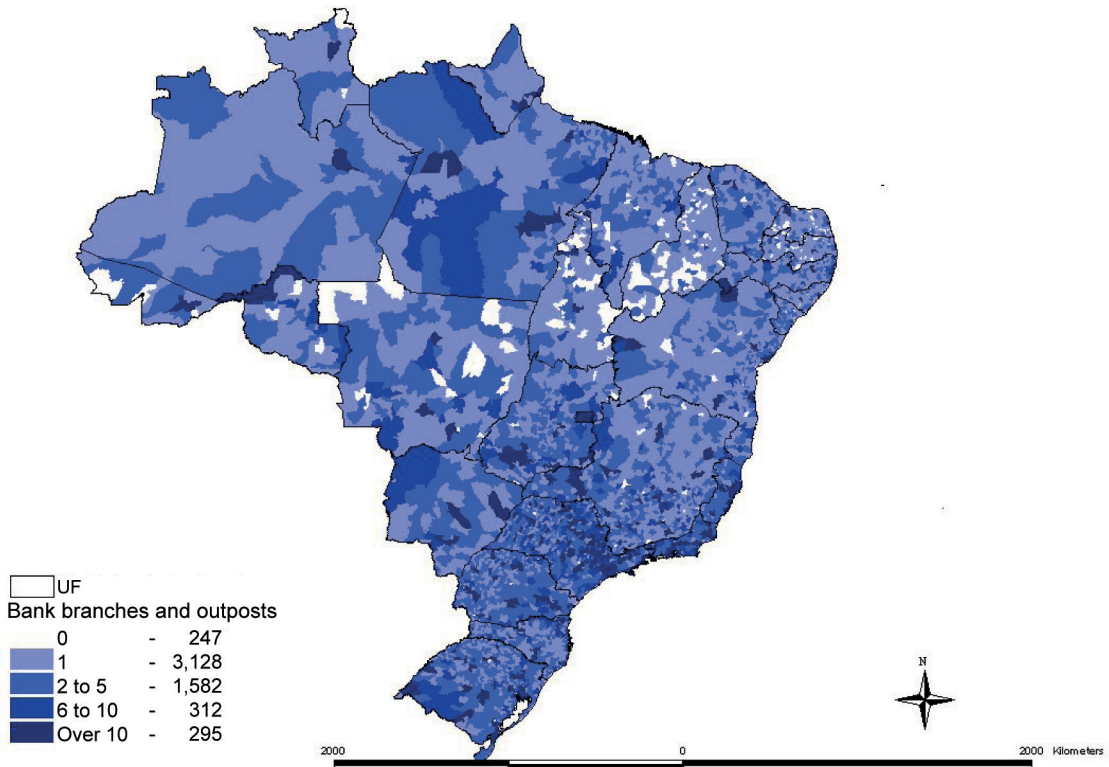
Source: because state and regional data were not available until 2010, data on the adult population (in this report, age equal or over 15 years old) are based on IBGE's estimates of total population by Federative Unit (UF) and on IBGE's 2008 data on adult population by UF.

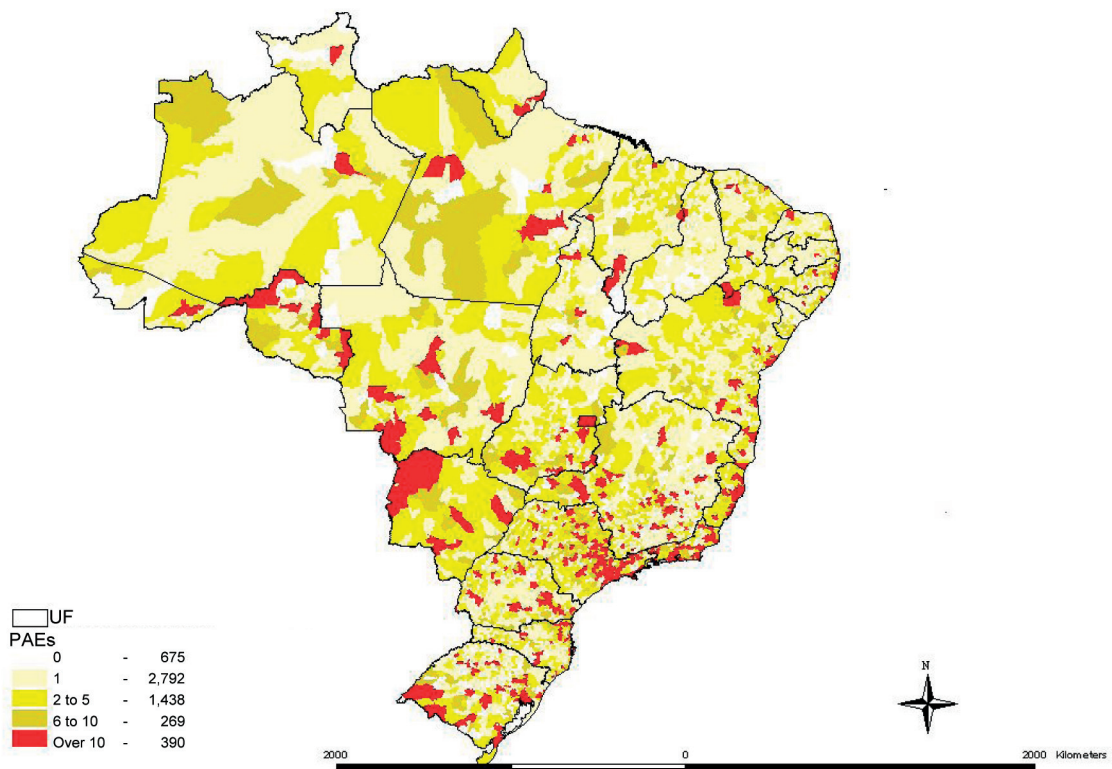
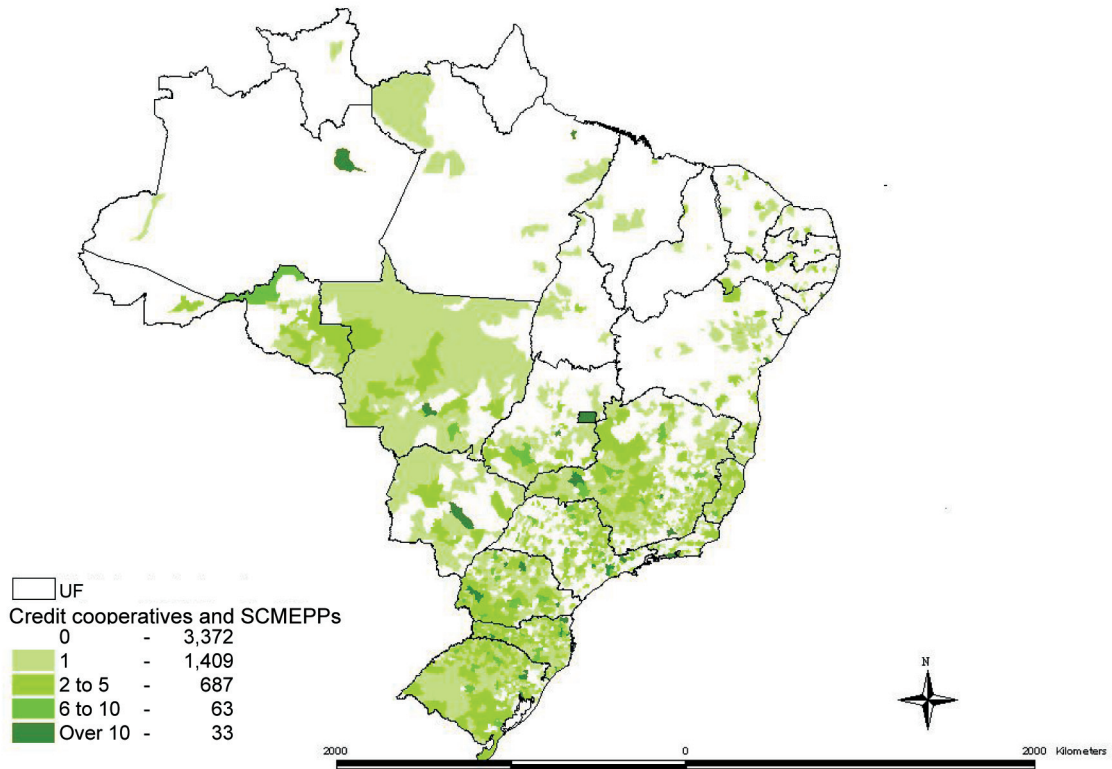
**Tabela A5 – Area**

<b>Region/State</b>	<b>Area (Km<sup>2</sup>)</b>
<b>North</b>	<b>3,853,327</b>
Rondônia	237,576
Acre	152,581
Amazonas	1,570,746
Roraima	224,299
Pará	1,247,690
Amapá	142,815
Tocantins	277,621
<b>Northeast</b>	<b>1,554,257</b>
Maranhão	331,983
Piauí	251,529
Ceará	148,826
Rio Grande do Norte	52,797
Paraíba	56,440
Pernambuco	98,312
Alagoas	27,768
Sergipe	21,910
Bahia	564,693
<b>Southeast</b>	<b>924,511</b>
Minas Gerais	586,528
Espírito Santo	46,078
Rio de Janeiro	43,696
São Paulo	248,209
<b>South</b>	<b>576,410</b>
Paraná	199,315
Santa Catarina	95,346
Rio Grande do Sul	281,749
<b>Midwest</b>	<b>1,606,372</b>
Mato Grosso do Sul	357,125
Mato Grosso	903,358
Goiás	340,087
Distrito Federal	5,802
<b>Brazil</b>	<b>8,514,877</b>

Source: IBGE











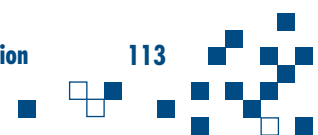
# Appendices

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**Financial Inclusion Project Participants**

**Financial Inclusion Project Team**

**Acronyms**





# Financial Inclusion Project Participants

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## Financial Inclusion Project Coordination

### Deputy Governor for Financial Regulation (DINOR)

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Sergio Odilon dos Anjos

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Ricardo Lião

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Deoclécio Pereira de Souza

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Daso Maranhão Coimbra

### International Affairs Department (DERIN)

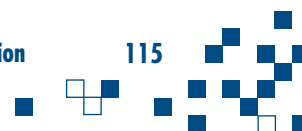
Wagner Thomaz de Aquino Guerra Junior

### Currency Management Department of the Central Bank of Brazil (MECIR)

João Sidney de Figueiredo Filho

### Office of the General Counsel of the Central Bank (PGBC)

Isaac Sidney Menezes Ferreira



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Altamir Lopes

**Research Department (DEPEP)**

Adriana Soares Sales

**Executive Secretary (SECRE)**

José Linaldo Gomes de Aguiar

**Department of Infrastructure (DEMAP)**

Antonio Carlos Mendes Oliveira

**Human Resources Department (DEPES)**

José Clóvis Batista Dattoli

# Financial Inclusion Project Team

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## Financial Inclusion Project Team

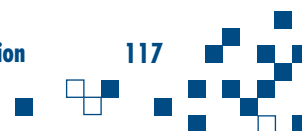
**General project coordination:** Elvira Cruvinel Ferreira Ventura

**RIF technical coordination:** Rodrigo Pereira Porto

**Solidarity finance technical coordination:** Marusia Vasconcelos Freire

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Carlos Tadeu Pimenta  
Cláudio Ruiz  
Denise Silva Fernandes  
Edson Luiz Maciel de Oliveira  
Eduardo Ferrari de Araújo  
Eduardo Luiz Arguelles de Souza Filho  
Emílio Carlo Teixeira de Franca  
Epitácio da Silva Ribeiro  
Fabiano Costa Coelho  
Fernanda Martins Bandeira  
Flavio Tulio Vilela  
Francisco Carlos Guerreiro Botelho  
Francisco Fernando Viana Ferreira  
Glena Luiza Cova Baptista Braga  
Guilherme Billio Jenkel  
Janaina Fabiana Balsanupho Soares  
Jorge Guilherme Pardini Leal Silva (intern)  
José Renato Nunes Barros  
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Luiz Carlos de Brito  
Mardilson Fernandes Queiroz  
Maria de Fátima Cavalcante Tosini  
Mário Fernando Maia Queiroz  
Paula Ester Farias de Leitão  
Paula Fortes Aguilera Campos (intern)  
Paula Lucia Machado Buzolin  
Ramon Silva Vilarins  
Ricardo Monteiro de Castro Melo  
Ricardo Teixeira Leite Mourão  
Sara Moreira de Souza  
Sidney Soares Chaves  
Valdo Cesar Duarte Rodrigues  
Vera Lucia Franco Veiga





# Acronyms

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ABCRED	Brazilian Association of Managers and Operators of Microcredit
ABDE	Brazilian Association of Development Finance Institutions
AF	Development Agency
AFI	Alliance for Financial Inclusion
ANATEL	National Telecommunications Agency
ATISG	G20 Access Through Innovation Sub-Group
ATM	Automated Teller Machine (self-service machine)
ASBA	Association of Supervisors of Banks of the Americas
BB	Banco do Brasil S.A.
BCB	Banco Central do Brasil (the Central Bank of Brazil)
BIS	Bank for International Settlements
Bovespa	São Paulo Stock Exchange
BM&F Bovespa	Brazilian Securities, Commodities and Futures Exchange
BNB	Bank of Northeast of Brazil
BNDE	National Bank for Economic Development
BNDES	Brazilian Development Bank
CAIXA	Caixa Econômica Federal (Federal Savings Bank)
CCS	General Registry of National Financial System
CGAP	Consultative Group to Assist the Poor
CMN	National Monetary Council
CNPJ	National Register of Legal Entities
CNPC	National Council for Complementary Social Security
CNSP	National Council of Private Insurance
CO	Midwest Region
COAF	Council for Financial Activities Control
CODEFAT	Worker Support Fund Deliberative Council
Co-op	Credit Union
COREMEC	Committee on the Regulation and Inspection of Financial, Capital, Insurance, Pension Funds and Capitalization Markets
CORRESP	Domestic correspondents
COSIF	Accounting Plan for Institutions of the National Financial System
CPF	Individual Taxpayer Registry
CVM	Securities and Exchange Commission of Brazil
DEBAN	BCB Department of Banking Operations and Payments System
DENOR	BCB Financial System Regulation Department
DEPEC	Department of Economics of the BCB
DEPEP	Economic Research Department of the BCB
DIM	Interbank Deposits tied to Microfinance Operations
DOC	Credit Transfer Document
DPDC	Department of Consumer Protection and Defense of the Ministry of Justice
ENEF	National Strategy for Financial Education





ESTBAN	Banking Statistics (statistical subsystem of COSIF System)
FAT	Worker Support Fund
FEBRAHAN	Brazilian Banking Federation
FGV	Fundação Getulio Vargas
FIEG	G20 Financial Inclusion Experts Group
FIP	Financial Inclusion Project
GDP	Gross Domestic Product
IBGE	Brazilian Institute of Geography and Statistics
IDB	Inter-American Development Bank
IETS	Institute of Labor and Society Studies
IFC	International Finance Corporation
IMF	International Monetary Fund
IMPO	Institution for Oriented Productive Microcredit
INC	Northeast Citizenship Office
IPCA	Extended National Consumer Price Index
LRF	Fiscal Responsibility Law
MDA	Brazilian Ministry of Agrarian Development
MDS	Brazilian Ministry of Social Development and Combating Hunger
MF	Brazilian Ministry of Finance
MFI	Microfinance Institution
MINC	Brazilian Ministry of Culture
MIX	Microfinance Information eXchange
MMA	Brazilian Ministry of the Environment
MP	Provisional Measure
MTE	Brazilian Ministry of Labor and Employment
N	North Region
NE	Northeast Region
NGO	Non-governmental Organization
OCB	Brazilian Cooperative Organization
OGU	Federal Government Budget
OSCIP	Civil Society Organization of Public Interest
p.a.	per annum
PAA	Advanced Service Outpost
PAB	Bank Service Outpost
PAC	Cooperative Service Outpost
PAE	Electronic Service Outpost
PAM	Microcredit Service Outpost
PBF	“Bolsa Família” Program
PGBC	General Counsel’s Office of the Central Bank
PL	Net worth
PLA	Adjusted net worth
p.m.	per month
PNMPO	National Program of Oriented Productive Microcredit
POS	Point of Sale (electronic equipment used by businesses to apply for permits and record transactions made with payment cards)
PREVIC	National Superintendence of Pension Funds
PROES	Program of Incentives to the Reduction of the State Public Sector in Banking Activities
PRONAF	National Program for Strengthening Family Agriculture
PSND	Public Sector Net Debt
RECOR	BCB’s General Register of Rural Operations
RIF	BCB’s Report on Financial Inclusion
RSA	Socio-environmental responsibility

SCM	Microentrepreneur Credit Company
SCMEPP	Microentrepreneur and Small Business Credit Company
SCR	BCB Credit Information System
SE	Southeast Region
SEBRAE	Brazilian Micro and Small Business Support Service
SELIC	Special System for Settlement and Custody
SELIC rate	The SELIC overnight rate, expressed in annual terms, is the average rate weighted by the volume of one-day operations guaranteed by federal government securities, carried out at SELIC through committed operations. It is the basic rate used as reference by the monetary policy
SENAES	Brazilian National Office for Solidarity Economy
SERASA	Serasa Experian
SFN	National Financial System
SISBACEN	BCB's Information System
SME	Small and Medium Enterprise
SMS	Short Message Service
SPC	Secretariat of Complementary Social Security
SPC	Credit Protection Service Centre
S	Southern Region
Susep	Superintendence of Private Insurance
TED	Electronic Funds Transfer
UF	Federative Unit
UNICAD	Information system on entities related to the Central Bank (BCB)

