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Providing Consumer Credit to Low-Income Populations in Brazil—The Case of *Complexo da Penha*

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Abstract: The financial inclusion (FI) literature claims that expanding access of the poor to consumer credit in the formal financial system is an instrument to alleviate poverty. This view has been increasingly challenged by the financialization literature, which highlights unsustainable indebtedness of low-income borrowers following the introduction of FI policies. While a welcome contribution and antidote to mainstream assessments, much of the financialization literature on Brazil has, to date, focused on a macro-oriented analysis. As a major testing ground for FI, a better understanding of these dynamics in Latin America's largest country deepens our understanding of the socio-economic consequences of inserting poor populations into the financial system. This paper contributes to the financialization literature by drawing on interviews conducted in a Rio de Janeiro slum to understand how debt dynamics operate in everyday life, along with its structural conditioners. It shows that FI policies provide limited consumption smoothing and instead increase the structural vulnerability of low-income households. Wage and welfare support along with greater oversight and control of financial products supplied to low-income borrowers are warranted.

Keywords: financial inclusion; consumer credit; financialization; everyday life

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1. Introduction

Over the past several decades, international organizations have provided analytical and programmatic support for anti-poverty approaches based on financial tools. Amongst other policies, the financial inclusion (FI) discourse claims that expanding access of the poor to consumer credit in the formal financial system gives them the means to smooth consumption over time. This view has been increasingly challenged by the financialization literature, which has highlighted the weaknesses of a model in which financial access is expanded to vulnerable populations.

In Brazil, several studies have drawn attention to the growing indebtedness of low-income segments of the population from the early 2000s. Those studies provide a detailed picture of the characteristics of the credit supplied, along with the macro-economic conditions that gave rise to the expansionary credit cycle.

By drawing on fieldwork conducted in the Rio de Janeiro slum *Complexo da Penha* this study contributes to the financialization literature in Brazil by bringing the existing macro-analysis to the level of "everyday life". Our primary aim is to understand how debt dynamics operate in the day-to-day life of participants, and to identify the structural factors underpinning them. To do so, we investigate why poor consumers access personal loans, how those products are incorporated in their daily lives, and when those new products are used throughout the lifetime. The analysis of everyday life is a powerful tool for understanding the interplay of multiple structural determinants of the lender–borrower relationship and allows for the identification of structural conditioners that are not easily captured by economic indicators.

This paper is structured as follows. The next section contrasts different theoretical approaches that debate the role of consumer credit policies as anti-poverty instruments. Section 3 provides a contextual overview of the emergence of FI policies in Brazil in the beginning of the 2000s, along with its continued importance in the policy arena to this day. Section 4 details the methodology used in our case study, while Section 5 presents its results. Section 6 concludes.

2. Theoretical Approach—Financial Inclusion, Financialization and Consumer Credit

The financial inclusion literature claims that expanding access of the poor to the formal banking system enables them to better manage their financial affairs (ATISG 2010; Demirgüç-Kunt et al. 2017; Zhuang et al. 2009). According to this view, access to mainstream financial products, including consumer credit, is particularly important to this population, which has to live with reduced and irregular income, and needs instruments to smooth consumption through time and manage income shocks. Credit enables consumption smoothing in that agents can forgo consumption in subsequent periods in exchange for greater consumption today. In the absence of consumer credit from formal sources, the few options available for consumption smoothing are informal lenders, such as pawn brokers, payday lenders and loan sharks, who often provide expensive and unreliable arrangements. Though formal financial actors provide credit on terms that maximize profits, being more regulated entities, the interest rates and conditions of that credit are less likely to be predatory.

One key assumption underlies the view that increased access to mainstream consumer credit has a positive impact on the lives of poor populations. This is that the lender–borrower relationship is neutral and mutually beneficial, i.e., profitable for creditors and welfare-enhancing for debtors, who voluntarily choose to acquire credit. Furthermore, this choice is made by rational agents with exogenously given preferences. Agents act rationally in the sense that they maximize their satisfaction or utility given their preferences. When individuals make questionable financial choices, this is attributed to informational asymmetries, which should be mitigated through the promotion of financial education policies. Financial education initiatives would equip ill-informed individuals to make better financial choices, and therefore maximize their satisfaction (Demirgüç-Kunt et al. 2022; Atkinson and Messy 2013).

Although it is admitted that the growth in consumer credit could "at times" be a concern, the problem is attributed to the "ignorance" of consumers. When financial institutions are to blame, it is ultimately because they are "exploiting the tendency for consumers to make mistakes":

> "Consumer credit can enhance household welfare by allowing for consumption smoothing over time, but there are many reasons why growth in consumer credit may, at times, be a concern. For example, research has shown that consumers are frequently ignorant about many of the features of the products they use; they do not always make good decisions; and credit providers often exploit the tendency for consumers to make mistakes" (The World Bank 2014, p. 75)

More recently, literature has emerged that is very critical of the FI paradigm, from two main perspectives. First, it has been argued that FI policies help the poor cope with poverty instead of escaping it. It is perceived as a superficial approach, as it shifts the focus away from how to increase resources for the people at the bottom of the pyramid, to how to help them manage their meagre resources—throwing jackets rather than preventing the boat from sinking (Mader 2018).

A second line of research goes beyond the critique that FI policies are potentially inefficient as an anti-poverty strategy to argue that they carry a high risk of accentuating states of deprivation. This is mainly because those policies have led to unsustainable indebtedness and growing default levels, which has been especially true in developing countries (Gonzalez 2015; Karacimen 2015). These studies see FI as a consequence of a wider process of financialization, and two strands are of special relevance to us: the "financialization of poverty" and the "financialization of everyday life".

The "financialization of poverty" approach questions the nature of the lender–borrower relationship, which is regarded as a coercive and exploitative relation, marked by fundamental power asymmetries. On the one hand, credit products are often supplied under adverse conditions. Lending to vulnerable populations is inherently risky to financial institutions, which charge accordingly for that risk exposure. Moreover, the supply of financial products to an enlarged base of the population has become a central component of modern accumulation regimes. This translates into protection given by the state to the interests of financiers to the detriment of the interests of borrowers (Santanna 2020). On the other hand, workers who are unable to secure a living wage, or to benefit from much subsidized support, are forced into borrowing to meet subsistence needs (Soederberg 2014). As a result, lending to the poor has become a highly profitable industry in various countries, which is a product of the extraction of resources from poor debtors to the financial sector (Mader 2013).

The "financialization of everyday life" widens the scope of the structural determinants of the lender–borrower relationship by arguing that borrowers are not just coerced into it due to material deprivation, but they are also drawn into it by cultural shifts that naturalize the use of financial instruments to manage life in its multiple instances (Harrington 2010; Langley 2008; Fligstein and Goldstein 2012). Practical examples of this cultural transition include perceiving wealth not just as a cushion of protection, but as an asset base to be expanded, which means that people are constantly looking for investment opportunities; the growing desire to take on risk when making investment decisions, which is evidenced by the growing participation of individuals in the stock markets; and finally, the growing willingness to turn to credit products to finance various consumption needs (Pellandini-Simányi 2020). The latter is more applicable to cohorts of the population with little or no wealth to invest.

The "financialization of everyday life" operates at a different level of analysis and, as such, can offer a complementary perspective on the same phenomenon. While most studies in the area of "financialization of poverty" provide theoretical and macro analysis, the "financialization of everyday life" strand focuses on the micro level of households or individuals, often drawing on surveys or various qualitative methodologies. The understanding of the "everyday" as a space where larger cultural, social, political and economic structures are materialized and reproduced makes this literature inherently multi-disciplinary, as it connects to longer traditions in political economy, cultural studies, anthropology and sociology (Pellandini-Simányi 2020).

In Brazil, the existing financialization literature has identified that the type of FI promoted from the early 2000's has been largely based on the supply of consumer credit to low-income households. These studies trace the characteristics of this supply, along with the macro-economic conditions that gave rise to the expansionary credit cycle (Santanna 2020; Lavinas et al. 2017; Neto et al. 2021; Gentil and Bruno 2021). The high cost of this credit, when combined with structurally low and uncertain incomes emerging from labor markets characterized by high levels of informality, has created unsustainable debt levels and high default rates.

The macro view provides an important but incomplete picture of FI in Brazil, as it does not assess debt dynamics in everyday life. Therefore, this paper investigates the following questions: (i) why poor consumers access personal loans, (ii) how these products are incorporated in their daily lives and (iii) when these products are accessed throughout one's lifetime. The analysis of everyday life is a powerful tool for understanding the interplay of multiple structural determinants of the lender–borrower relationship and allows for the identification of structural conditioners that are not easily captured by economic indicators.

Although disconnected from the financialization or the financial inclusion literature, various insights are provided by the fields of business (Brusky and Fortuna 2002; Castilhos 2007; Rocha and Silva 2008; Barros and Rocha 2007; Nogami and Pacagnan 2011) and sociology (Barbotin 2014; Sarti 2011). These studies investigate consumption and financing practices amongst poor populations in Brazil at the beginning of the 2000s and provide a baseline that informs our qualitative study of residents of *Complexo da Penha*—a slum located in the north of Rio de Janeiro.

3. The Brazilian Context

Brusky and Fortuna (2002) divide the various consumer credit products existent at the beginning of the 2000s into two broad categories: instalment credit, referring to instalment plans provided by a retailer to a consumer for the purchase of a particular item(s) (the so called *crediários*); and cash credit, which is materialized in the form of cash or funds, and is provided by a financial institution.

Santanna (2020) explains that the use of instalment credit has deep historical roots. In the developmentalist era, that roughly corresponds to the 1950s–1980s, instalment credit served the purpose of expanding domestic consumption to support the development of infant industries. By the early 2000s, the practice of accessing instalment credit through retailers was very well established in society, especially amongst the low-income population. To reach that client base, financial institutions actively engaged in innovative models to form partnerships with retailers.

Moreover, these partnerships have allowed for a gradual substitution of the traditional credit lines attached to individual purchases (*crediários*) by credit cards. These credit cards are often for general use (i.e., are not restricted to the retailer that provided the card) and can be used for cash withdrawals at an ATM. The latter function has facilitated access to cash credit, which is now pre-approved (i.e., the credit card holder does not go through a screening process before each single transaction, as in traditional loans) and the consumer is not required to go to a bank to request it.

In parallel, the creation of payroll-deductible loans has been another financial innovation that created one more type of easily accessible cash credit. The so-called *consignado* loans, first regulated in 2003[1], are targeted at formal workers and pensioners, and because of their very low risk of default have significantly lower costs.

Another factor contributing to the increased penetration of cash credit in low-income populations is an increase in bank account ownership. Bank accounts are often a vehicle for accessing overdrafts and personal loans, which can be requested through an ATM or online banking portal. In the early 2000s, several pieces of legislation were enacted to boost access to low-cost bank accounts in the country[2]. According to The World Bank (2021), in 2011 only 38% of the poorest 40% of the adult population owned a bank account. In 2014 that proportion jumped to 57%.

The interviews to be analyzed in the next section took place in 2017. This was the last stage of this first cycle of modern consumer credit expansion, which has been facilitated by various financial inclusion policies that had been introduced at the beginning of the century by the center-left government in power. As can be seen in Figure 1, the credit to GDP ratio between 2015 and 2018 was relatively stable at around 25%, having grown from 14% since the beginning of the time series in 2007. In parallel, the trend in household indebtedness was one of decrease.

Despite the radical change in the political framework in Brazil with the far right coming to power in 2018, there was no rupture in the credit policy paradigm. Since 2018, credit supply to households as a percentage of the GDP has increased, which was accompanied by a trend of increasing household indebtedness (Figure 1).

Schymura (2022), based on Central Bank credit risk data, found that 19% of households' total stock of credit was allocated to low-income clients[3] in mid-2022. Meanwhile, those clients accounted for 37% of default cases. The author also notes that, between January 2020 and July 2022, there was an increase of 68.5% in credit card debt and 131% in non-payroll deductible personal loans in the low-income segment, which are amongst the two most expensive credit lines in the country, as shown by Figure 2.

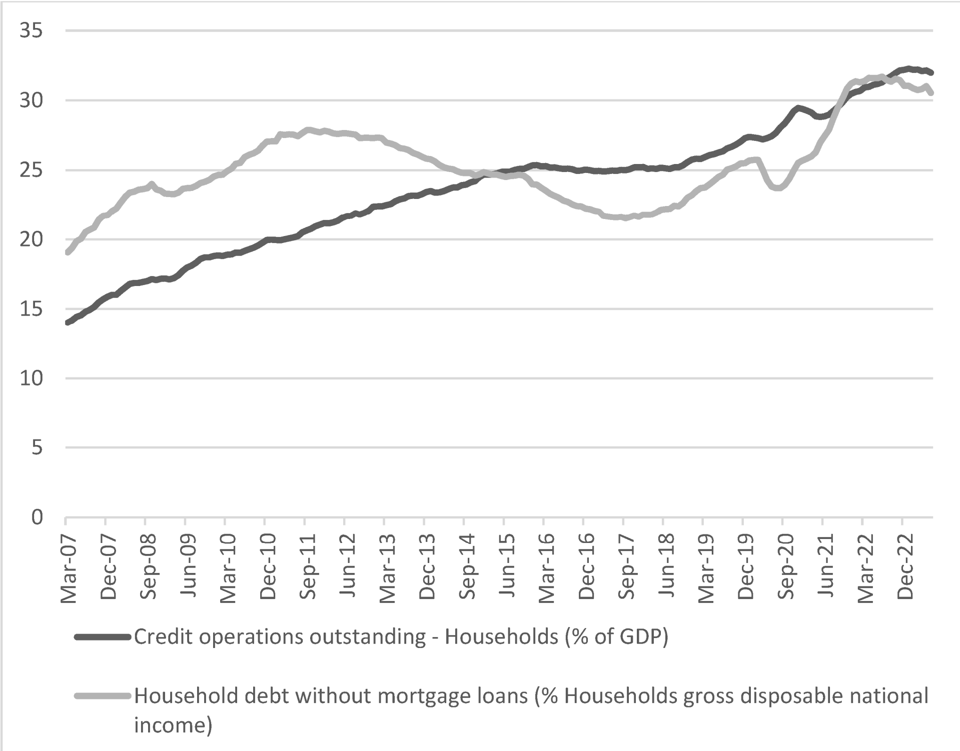

Figure 1. Evolution of credit to households versus household indebtedness. Mar 2007–Jun 2023. Source: Central Bank of Brazil.

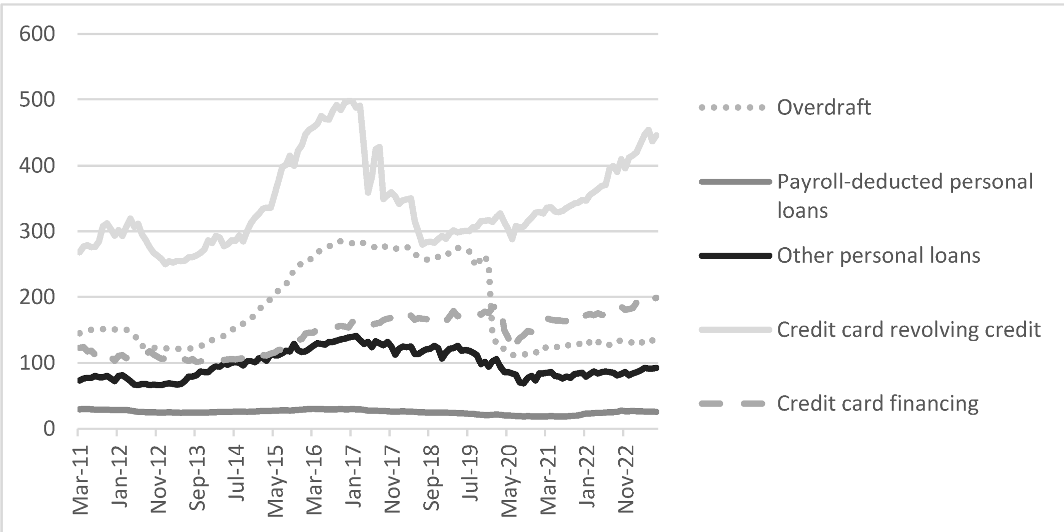

Figure 2. Average interest rate of non-earmarked * new credit operations with households, selected categories (% per year). * Average interest rate from new credit operations established under market conditions. Source: Central Bank of Brazil.

Another important recent trend is the steep increase in the proportion of bank account holders amongst the poor, which in 2021 was estimated at 82%, compared with 85% among richer adults. The World Bank noted that Brazil is one of the few developing countries that does not have a significant income gap when it comes to bank account ownership (Demirgüç-Kunt et al. 2022).

In 2023, with the return to power of the same political forces that implemented the FI policies at the beginning of the century, the relevance of the policy approach has continued. In June 2023, the Brazilian finance minister met with the UN special envoy for financial inclusion, along with representatives of the World Bank and other international cooperation institutions (Ministry of Finance 2023b). In the following month, a national program aimed at reintroducing people with credit restrictions into the economy was launched, entitled *Desenrola Brasil*. In June 2023, over 71 million Brazilian citizens were registered as defaulters, and therefore unable to access the formal credit market. This represents about two-thirds of the economically active workforce (Serasa 2023; Lameiras and Hecksher 2023).

The first stage of *Desenrola Brasil* involved the removal of individuals with small-value defaults from the registry of defaulters, allowing them to re-enter the credit market. The following stages rolled out a mass program of negotiation between defaulters and creditors, where financial institutions were incentivized to engage due to the provision of government guarantees for the amounts renegotiated. Among the main targets of the program are individuals earning up to twice the value of the minimum wage (Ministry of Finance 2023a). The same Bill that regulated *Desenrola Brasil* also gave financial institutions 90 days to reduce interest rates on credit card revolving credit operations, otherwise a cap of 100% would apply. The cap means that the total charges, including fees and interest, cannot exceed the original value of the loan (Paz 2023).

The immunity of consumer credit expansion to political change in Brazil, along with its current relevance in policymaking, makes the understanding of what this credit has represented in the everyday lives of poor consumers more critical than ever.

4. Methodology

In total, 24 residents of *Complexo da Penha* were interviewed, representing the experiences of 21 households. The interviews were structured in a way to capture both individual and household practices. Due to the influence of household dynamics in determining financial choices, this study adopted the household as a unit of analysis. The questionnaire was structured around four general themes: household finances, basic banking, credit and other financial strategies. The 25th interviewee was the president of a local NGO, and his interview was structured differently. It aimed at gathering his perception of the financial behavior of residents and about the functioning of the community in general, instead of questions related to how he managed his personal finances.

Maximum variation and snowballing were the sampling strategies used. With the maximum variation strategy, we sought to gather the experiences of a mixed profile of people (see Table 1). Snowballing is particularly compatible with studies in Brazilian slums because it is a territory characterized by strong bonds of socialization (Abramo 2003). To get to these participants, we first contacted a religious leader of a local church, who played the role of gatekeeper. The gatekeeper provided the first interviewees, who recommended other people, and so on.

Table 1. Participants' profiles (fictitious names).

Participant	Gender	Age	Occupation	Education	Marital Status
Amanda	F	32	Cleaner	Secondary, incomplete	Single
Bia	F	36	Housewife	Secondary, complete	Married
Bernardo	M	37	Security guard	Secondary, complete	Married
Cris	F	20	Telemarketing operator	Secondary, complete	Single
Carolina	F	24	Student	Secondary, complete	Single
Danilo	M	34	Unemployed	Primary, incomplete	Single
Esther	F	67	Retiree	Primary, complete	Married
Fabio	M	50	Freelancer	Primary, complete	Married
Geruza	F	80	Retiree	Primary, incomplete	Widow
Gisele	F	56	Nursing assistant	Secondary, complete	Divorced
Henrique	M	52	Retiree	Undergraduate, complete	Single
Hugo	M	49	Freelancer	Secondary, complete	Single

Table 1. *Cont.*

Participant	Gender	Age	Occupation	Education	Marital Status
Ingrid	F	35	Sales	Secondary, complete	Married
Ian	M	34	Unemployed	Primary, complete	Married
João	M	35	Student	Secondary, complete	Single
Janete	F	61	Unemployed	Primary, incomplete	Single
Leandro	M	55	Freelancer	Primary, complete	Single
Leonardo	M	41	Micro entrepreneur	Secondary, complete	Married
Maria	F	41	Freelancer	Secondary, complete	Divorced
Mariana	F	30	Housewife	Primary, incomplete	Single
Nestor	M	63	Community leader	Undergraduate, complete	Married
Pedro	M	35	Child protection counsellor	Undergraduate, incomplete	Single
Patrícia	F	40	Nursing assistant	Undergraduate, complete	Single
Paula	F	55	Retiree	Secondary, complete	Divorced
Paloma	F	43	Business assistant	Undergraduate, complete	Married

Thirteen semi-structured interviews were carried out between July and August 2017. Five of them were one-to-one, and the others were performed in pairs. This round of interviews was the basis for the generation of initial results. Then, one focus group was performed in March 2018. The aim of the focus group was to ratify (or reject) that initial assessment.

Similar to Highet (2003), the emergence of the paired interview as the predominant method occurred naturally. Whenever participants could choose between a paired or an individual interview, the former was the option preferred. Participants who were interviewed individually did not have that option, due to the specific circumstances of the day.

As the interviews unfolded, a differential of the paired interview stood out—a factor that is frequently pointed out in the literature as an advantage of the method. During that type of interaction, the idea is to create a dynamic environment in which participants interact with each other, which has two effects: the flow of the conversation becomes more natural, given that the number of gaps tends to be reduced (Evens and Houssart 2007); and if participants know each other well, that creates a safer environment, compared to a situation when the interviewee is alone with the researcher (Amos et al. 2004). In this way, they tend to feel more comfortable sharing more personal information—the state of their finances, for instance. Paired interviews also offer practical advantages, such as the rationalization of the amount of data produced, and the ease of transcription compared to focus groups.

As with any method, paired interviews also have weaknesses, such as the leading participant issue, which is a problem shared with focus groups. In these cases, one participant tends to dominate the flow of the conversation, while the other remains relatively quieter and/or tends to always agree with the leading interviewee, not engaging critically. But in the interview, care was taken to counteract this bias. Once the issue was perceived, the interviewer addressed the quieter participant more actively, stimulating his/her engagement in the debate.

The interviews were tape recorded and then transcribed. The written material produced was manually coded. The categories created were evaluated according to their internal homogeneity and external heterogeneity. Both assessments were used to avoid overlap between the categories constructed (Patton 2002).

5. Case Study of *Complexo da Penha*

5.1. Why Participants Access Mainstream Credit Financing: Multipurpose Demand

The entry point of mainstream institutions that supply credit products happens when there is a relatively constant inflow of income in the household, emerging from formal employment of one or more household members. Financial institutions also insert themselves into the lives of low-income households when they experience an increase in demand for informal services, when they are engaged in the informal labor market.

This credit can be broadly used to fulfil three types of credit demand: (i) one that arises from the need to finance subsistence consumption[4] of the household, given a budget that revolves around a subsistence level; (ii) one that finances subsistence consumption of the extended family and (iii) one that extends consumption beyond the level of subsistence.

The first type of credit demand is a direct consequence of income levels that are not sufficient to allow for an accumulation of savings to face minor income shocks. Therefore, households resort to credit to manage relatively minor budget fluctuations, that emanate from a loss of a secondary income source, payment delays or unexpected expenses. Most participants highlighted the importance of having a credit card to deal with small emergencies—and we can notice a special concern with health-related issues.

> "We miss it (having a credit card) in this sense, especially when we go to the supermarket. Even medicine, sometimes medicine is needed in the house and we, damn, at that moment we don't have the money and we see that a card could be useful at that moment". (Bernardo)

> "Credit cards are good, because you don't use cash. When the person, like, has a family it's even better because you have to wait 'till the end of the month to get your payment, and sometimes your family might be needing something. Something like that, then the person goes and uses the card. It makes things easier". (Fabio)

> "I think it's necessary (to have a credit card) because when emergencies happen sometimes we don't have quick access to the money. Like, health issues, sometimes you have an emergency, you need to buy medicine". (Henrique)

But the financial decisions of low-income households are not just determined by their individual needs. Various authors have pointed out that they should be analyzed as units entangled in a wider social circle, connected through "circuits of exchange". This wider social circle relates to one's own understanding of family, which refers to a web of moral commitments between relatives and close friends. In this sense, being part of a family implies being helped in difficult times and helping others in times of prosperity through various forms of support. Supporting others may not be seen as an optional favor, but as an obligation to those who belong to that universe of relationships (Muller 2014; Mattoso and Rocha 2005; Sarti 2011). In this context, accessing credit is viewed as one of many instruments available to support family. It materializes in the practice of "lending one's name"—when someone, unable to access the formal financial system, accesses credit using the name of somebody else.

The practice of lending one's name has been identified by the literature (Mattoso and Rocha 2005), but the interviews in *Complexo da Penha* draw attention to the wide range of consequences that it can have. The practice was well known to all interviewees and 16 participants reported having had negative experiences with it in the household, which ranged from smaller debts that were paid-off subsequently to severe indebtedness and even loss of employment.

> "This month, my mother lent her card to another person to buy some clothes, to go to the doctor and the person didn't pay ... then we always end up having to bear the losses". (Cris)

> "Oh, it was my aunt. She wanted to buy something for her house and asked for the card, it wasn't even mine, it was my mother's, but I'm an authorized

> user—that's how you say it, right? Then we were not able to use the card for a while, the card was blocked because of her. Then we decided never to lend it again, because you see, she was family and she did it to us, you know. But then thank God, after a great deal of effort, she paid, and then the problem was solved". (Amanda)

> "I lent (the credit card) to my friend for her to buy sneakers. And it's happened already that, like, I arrive at a store and I get there with Cris. I managed to make a card and she didn't. Then the goddam woman said 'Oh, you can put her as an extra'. Then I was like 'Oh yeah, a friend, you can!'. I was the owner, then my bill arrives along with hers—it didn't go to her place. Let's say, she got the card but it was in my name. Everything came to me". (Carolina)

> The most serious cases are those of Leandro and Hugo:

> "What I owe is just on the credit card. Not much, just 18 thousand and something[5] (laughs) (. . .) I equipped a house for a relative, man, put everything on my card! Anything you can imagine, I put it all! That card of mine from Casas Bahia didn't have a limit, man. It had a limit, but it was 10 thousand reais, just the one of Casas Bahia (. . .)" (Leandro)

> "My sister asked me to get a VCR for her at the time, and she didn't pay. And it was an insurance company that I worked for and we couldn't have a 'bad' name, couldn't have credit restrictions. And the company, I don't remember which one it was at the time, if it was Ponto Frio . . . it was a company like that. They started calling my work, then they spoke directly to my department manager, right. And then she scolded me, called me into the room and I didn't know, it was a shock. My sister was pregnant and everything . . . then I went to her house to know what was happening and all . . . then she said 'I haven't paid for a couple of months' and I was like 'you could've warned me, I would've paid! They called my work and I don't know what's gonna happen'. I went there, I solved the problem, I paid it, and a month later I got fired. And we believe that it was because of that". (Hugo)

Although the practice of "lending one's name" is highly risky and often damaging to the creditworthiness of borrowers, it cannot be considered irrational, as it strengthens the ties of a household to its extended family—which is often the only source of aid at a later stage in life. In this context, the family is often the only institution that guarantees survival.

Moreover, a commonsense idea that the consumption of low-income populations is restricted to subsistence consumption has been challenged. Multiple types of consumption exist which do not easily fit into a subsistence framework, such as those linked to intra-class differentiation (Castilhos 2007); engaging in social rituals, such as weddings, birthday parties, baby showers and Christmas celebrations (Barbotin 2014); and the activity of consumption as a form of leisure and integration with other classes (Lipovetsky 2007; Mattos 2007). The use of consumer credit to extend consumption beyond the subsistence level was common for interviewees. Aside from health and practical consumer items discussed above, interviewees also reported acquiring credit for home renovations, travel and organizing events such as birthday parties.

In sum, the depiction of the multi-purpose nature of consumer credit demand in this section allows us to identify structural factors that place poor borrowers in a position of heightened vulnerability relative to the lender. First, even though access to mainstream credit takes place at a moment of relative household "prosperity", the fact that credit demand is often aimed at financing various subsistence needs reflect a deficient labor market, marked by unsustainably low wages. Second, the fact that credit demand finances not just subsistence consumption of that particular household, but also that of the extended family, evidences the absence of strong and well-established welfare institutions. In this case, the individual or household cannot be treated as an isolated entity, and rational calculations cannot be separated from social surroundings. Third, the cultural signaling of consumption is powerful enough to make participants willing to recur to credit to facilitate this consumption.

5.2. Access to Mainstream Credit Financing: Various Products, Changing Cultural Frameworks

Conventional or mainstream approaches to financial inclusion see the engagement of households with the formal financial system as a decision on the household's part so as to meet or satisfy its needs. It does not elaborate on whether, or the extent to which, it is the financial institution that comes to and shapes the consumer, as opposed to the consumer coming to the financial institution, which then responds. Predatory practices, in this view, are the domain of the informal sector, and can be mitigated by a household's insertion into the formal system. Such a benign view of financial inclusion, and of the agency of financial institutions, has weak if any support in the case of *Complexo da Penha*.

In their study of the financial practices of low-income populations, Brusky and Fortuna (2002) found that instalment credit provided by retailers (*crediários*) was seen by interviewees as a natural variation of a regular purchase, and often it was not even associated with a financial transaction, in opposition to cash credit. Meanwhile, obtaining a loan with a financial institution was regarded as a bureaucratic transaction, associated with atypical circumstances. A strong feeling that the poor are mistreated by banks and financial institutions in general was also identified.

Brusky and Fortuna's (2002) study was carried out at the very beginning of the 2000s. The process of financial innovation that followed, which was detailed in Section 3, brought cash credit closer to the daily lives of the poor population. As clients had been historically reluctant to occupy traditional bank spaces, the banks occupied the spaces familiar to clients. Through partnerships with retailers, the traditional *crediários* were progressively substituted by credit cards, which have a dual function of providing both instalment and cash credit. As a result, cash credit was as easy to access as the well-known instalment credit. Cash credit was a few clicks away at an ATM, eliminating the need for the client to go through an onerous loan application at a bank branch, and the client did not even need to hold a bank account. Clients with a bank account had even more possibilities, as they could often use their debit cards to access overdrafts, payroll-deductible and other personal loans through an ATM or online banking portal.

In *Complexo da Penha*, interviewees reported resorting to cash credit to finance various types of consumption needs, which suggests that instalment and cash credit are now interchangeable. Ingrid for example resorted to ATM cash credit for subsistence consumption, at a time when she was unemployed, and her husband's payment became delayed.

> "(Interviewer) So nowadays do you have any kind of debt?
>
> — I do (. . .) mine was the ATM that released it. For that card I had it released a thousand and something, but when I checked it was almost 4 thousand that I had to pay. 48 instalments of 75 reais. It was to put things in the house. Because sometimes, where he (Ian) was working, he would be paid on the 5th working day but sometimes it was the 20th day and he had not received anything yet. Then I got desperate and went there and got it". (Ingrid)

This easy access also creates incentives for impulsive decisions unrelated to subsistence consumption:

> "he was like, he said that it was available and there were several values and I could click on them. I just clicked and the money went to my account. In the next month they started to charge (. . .)
>
> —and why did you choose Caixa?
>
> —because it was easy, it was. I should not have done it because I didn't even really need the money. But you know how it is, there you go". (Maria)

> "I've seen my mother talking like that, getting home all happy and 'oh, I got a loan'. I asked her 'how much is the loan?' Then she said 'R$150' (. . .) She got it from C&A (retailer)". (Carolina)

In some cases, the decision to access cash credit is driven by a lack of information about what the product is and what it entails. While a lack of financial education on the side of clients is a contributing factor, there is evidence that banks do not clearly display information on terms and conditions. In the case of Geruza, an elderly retiree, the bank employee who offered her a payroll-deductible loan did not explicitly state that it was a loan, nor the interest applied. Costa et al. (2014) argued that, in the specific case of ATM released cash credit, many banks omit the interest rates and other charges during the operation. They also make it unclear whether the consumer is simulating an operation or formalizing the loan request, which may lead clients to accidentally acquire the product.

> "My first bank account was at Itaú and I have a huge debt with Itaú. I opened it because people suggested. Formerly it was Unibanco, I was 16, then when I went there to open, as I was underage I did not get a checking account, I got a salary account. So when it turned to a checking account the [overdraft] limit showed up, which deceives people, right. I thought it was money that was mine . . . then they started deducting it from my salary, and I was getting no salary". (Carolina)

> "The lady, when I went there to get my payment, she said 'oh darling, you have the right to get a consignado.' But I thought I didn't have to pay for that! (. . .) Because I didn't know this consignado thing. When she said 'consignado' I said 'oh, I think old people have the right to it', I'm already 80 years old, right. Then I thought I had the right . . . I got it and now I have to pay R$212 per month". (Geruza)

In sum, the various types of credit demand mapped in Section 5.1 have been met by various types of credit products, and financial institutions played an active role in breaking a cultural resistance that existed historically towards some of them. We saw that cash credit products were not spontaneously incorporated by a "passive" demand. On the contrary, demand was reshaped by the redevelopment of those products. Using a mix of financial and technological innovation, this product redevelopment expanded cash credit out of traditional banking spaces, bringing it closer to the everyday lives of clients with little or no access to banks, and streamlined access through a facilitated application process. As a consequence, the interviews reveal an increased willingness to avail of cash credit for multiple purposes. Part of this willingness was due to a lack of understanding of what those financial products were at the time of purchase. This cannot be solely blamed on an individual lack of financial education, but also on a lack of clear information provided by financial institutions.

5.3. When Participants Access Mainstream Credit Financing: Transient FI and Ever-Present Informal Lending Practices

As remarked in Section 5.1, the entry point of mainstream credit happens at a moment when there is a relatively constant inflow of income in the household. But FI amongst low-income households in Brazil is inherently transient, and its temporality is demarcated by episodes of default and/or severe economic shocks determined by labor market dynamics and the conditions of credit supply.

Due to the high cost of the credit supplied in Brazil, in addition to income levels that revolve around the level of subsistence, even small mismanagements of the budget can lead to episodes of default. The outstanding balance multiplies in a short period of time, due to the accumulation of fines and interest. If not quickly addressed, the loan holder is listed in a registry of defaulters, losing access to mainstream sources of credit financing. If there are other economically active residents in the household, these can maintain access to the financial system if there is no further episode of default.

Moreover, poor households are subject to periodic unemployment shocks, much more frequently than other income groups. During episodes of unemployment involving one or more household members, such that it brings about a severe income shock, if access to formal sources of credit exists, it has a residual character, such as access to pre-approved credit lines, acquired before the event of unemployment. This residual credit in principle can finance subsistence consumption in the short run, but if the flow of income is not quickly restored, default dries out those credit sources as well, and the financial inclusion of the household comes to an end.

Once excluded from mainstream credit sources, resorting to family support and turning to informal work arrangements are recurrent coping mechanisms:

> "When the person wants to fight in life, has a kid, is unemployed and needs that money to buy diapers, milk for the children, he has to go the extra mile, can't be picky. He's going to sell candy in the bus, he'll do anything, but he'll get his money". (Danilo)

> "I went to my mom for help. I'd get things from her. Or got small freelancing gigs, would do chores for neighbors. I used to carry sand, take out rubbish, things like that". (Fabio)

> "I've been there already. But then I . . . in the age of informality, I worked like, cooking and at the time I was also teaching. I even made more money like that than working in a registered way. But I think what we see a lot in the community itself, every week there is a little stall on the corner, there's not even enough space anymore . . . it's a hair salon, it's a food stall, that's the way it is. Unemployment is the monster of our time, but what I have seen is this, it is informal service. It's the way out. (. . .) I was already like this, I stayed 4 years without work and in those 4 years I made food, snacks, cakes—because my grandmother worked with confectionery—and teaching". (Hugo)

> "(Interviewer)—Now with the two of you unemployed, what are you doing to manage this situation at home?
>
> (Janete)—I iron clothes, once a month, it's 50 reais that the girl pays me. Then those 50 reais I'm going to spend on food. This daughter of mine helps me a lot, she shops for herself and then she does it for me too, you know. So in terms of food, she pays for it. The bad thing is, right now I ran out of gas, and I'm shaken . . . it's bad the way it is. If I have to buy some clothes, a hair dye then I can't do it. And life goes on like this . . ."

Another important coping mechanism is the use of informal financial schemes within poor communities. In *Complexo da Penha*, the operation of moneylenders and other local lending systems (*caixinhas*) stood out.

The violence with which loan sharks handled their business was well known to interviewees. The reports emphasized that the non-payment of a debt is accompanied by threats, which range from breaking in the debtor's home to take valuable assets, to threatening the physical integrity of the client.

The tone of the threats is made more severe by the perception that a large number of loan sharks are involved with drug trafficking or police officers. The interviews performed proved to be a rich source of information in this regard. As Fernando summarized, getting involved with a loan shark is "putting a price on your head". Thus, one usually resorts to loan sharks when other options had been tried without success and no other option is available, as in the cases of Leonardo.

> "And then 'oh, that guy lends money'. I was thinking that he was a good guy, when I realized he was seriously involved (with drug trafficking), my brother! Hadn't I paid, you'd see! I doubt I'd be alive! (. . .) At that time I couldn't go to the bank because I already had debts from the past, then I couldn't . . . if I went to the bank, the bank would've rejected it. I looked for several people and they didn't have it (money to lend), and I had to go to the loan shark. I had no choice. The only option I had at that moment was the loan shark!" (Leonardo)

Leonardo's report shows that, despite their bad reputation, if one is in need and no other option is available, that person could resort to a loan shark. The initial resistance is somehow mitigated by the fact that the moneylender is often a member of a larger social circle—someone known by a friend, or something similar. Usually, a very negative first experience creates a strong aversion towards the service.

Even though the moneylender is the last option, eight respondents reported having had personal involvement with loan sharks, or an involvement of someone else in the household—a surprising result, which suggests that this underworld of loans is much closer to the population in question than we imagined a priori. Among those who denied having had personal experiences, virtually everyone knew the story of an acquaintance to illustrate their point of view. The examples below highlight various issues: the lenders' instability and their criminal involvement; threats received; the consequences of non-payment, which may involve extreme actions on the debtor's side, such as having to change jobs and selling their homes; and astonishing interest rates charged, which can be as high as 30% per month. In the case of Geruza, we again see the importance of informal networks of friends and family as sources of credit in times of crisis.

> "My daughter took some money from loan sharks, she was counting on some money she was about to get in order to pay him. But she didn't receive it and the shark said that he was gonna send a thug to my house. He was going to get everything we had and we have nothing! The only thing we have is a tv in the living room. They wouldn't want the couch because it's old. The chair is second-hand. Girl, I was desperate and I had to get that 2 grand I told you about, from this friend of mine, to pay the shark. And to this day I haven't been able to pay my friend". (Geruza)

> "I was unemployed as well, as it was now, and I got R$50 at the time. (. . .) the person who lent me the money, she drank a lot. She had everything to be happy about, but she drank a lot. The husband replaced her for a younger girl, and she drank to the point she would lay on the couch and only wake up the next day. And I went there to pay her and she was in that state, and a man there took the money and then she went to my door to collect her money. And on that day I went there to pay her, I wasn't even paying the full amount, I went there to pay the interest, because I got R$50 and had to pay R$15, it was 30%. I even thanked God that I didn't take all the money that day. But I had a hard time with her, she kept sending me messages, saying that she was gonna send the boys [drug dealers] to my door to charge me. There was even an argument. I don't get involved with sharks no more!" (Janete)

> "Let's just say that he (Carolina's father) walked with many people calling them friends. Then when he needed it he had to look for this loan shark . . . my sister had to leave her job to pay for what my father owed". (Carolina)

> "It happens in many cases, at least from what we hear from people, you know. They threaten, they want to take everything, they even threaten to kill . . . depending on the moneylender. And many of them, they are mostly policemen too, right. And usually those who make threats like this are the police, to intimidate more the person. Then they come with that violence, to say that they'll kill". (Ian)

> "Oh, I'm remembering, people who got very indebted, but he is an addict too, poor guy. He got so lost that he had to sell his house, his own house. That is sad . . . a backward move". (Bia)

In addition to the use of moneylenders, another source of informal financing strategy reported by interviewees was the so called *caixinhas*. According to Fernando, they work in the following way:

> "There, people put a certain amount of money every month, let's suppose 20 people. Every month people put in R$100, every month. But the money doesn't stay in the caixinha. Caixinha is a figure of speech. This money goes to the bank. And these people have to make that money circulate, lending it to acquaintances or relatives at low interest rates. Low, but higher than the bank, so let's assume 20%.

> Then you lend R$100 and the person pays R$120. And at the end of the year this money is shared, as if it was a 13th salary". (Fernando)

Thus, the *caixinha* is a scheme where a group of people makes monthly contributions of a pre-fixed value. The contributors receive what they invested at the end of one year, plus interest. This interest comes from loans made to third parties throughout the year. In this way, one can participate in a *caixinha* as an investor, or as a debtor. The *caixinha* is appealing as a form of investment for its flexibility—the contributor who, for whatever reason, needs to get his/her money back, or at least part of it, can do so in the form of a loan. In that case, the participant becomes both an investor and a debtor, and the net balance will be calculated at the end of the period.

The *caixinha* is also appealing as a form of investment because of the interest rate it charges to its clients. In addition to Fernando, three more participants referred to interest rates of 20%. A fourth participant stated that the rate charged varied from 20 to 30%. For Janete, the yields of the application were "very handy", as expressed in the following extract:

> "Caixinha is good! The day someone gets to do it . . . its good! Any type of caixinha—the yields are very handy! You get good interest. My mom was always involved in it, she used to work at the Oswaldo Cruz Institute and they have it there. All the staff borrowed money, then by the end of the year the caixinha tripled, I think! Very juicy stuff. You could make a Christmas table, buy clothes, buy whatever you needed. If you hear of one (caixinha), darling, let me know!" (Janete)

> "—(Paula) It's a way of having extra money at the end of the year.

> —(Patricia) It's a form of saving, right—you do it throughout the year, you pay a certain amount that is called 'quota', you pay it during 11, 12 months and then you receive it back with interest, it comes with interest. It's the interest that came from loans and activities that happened throughout the year".

Paula also explains how the investors of a *caixinha* assume an active role in the process of appreciation of the money invested. Besides promoting prize draws, the investors are responsible for bringing in new clients:

> "Some people buy like, for example, they buy an iron, then they make a draw (. . .) then the person who is responsible [for the caixinha] promotes some activities—hers is like this, all members have to find people to lend to. For example, let's say, I'm a member, so I have to find people to lend to, to generate interest" (Paula)

The existence of *caixinhas* was raised by Brusky and Fortuna (2002). But the study pointed to the existence of *caixinhas* inside companies, as in the case of Janete's mother, as an informal practice among employees. In the present research, we found that the practice also exists outside of business environments, and is now present in poor communities:

> "We have one (caixinha) here in the community. And not just here, there are many others like this". (Danilo)

> "(Ian)—there is a lot of that (caixinhas in poor communities).

> (Ingrid)—I don't have access, but many people do".

The *caixinha* is appealing to residents seeking a loan because of its lack of bureaucracy. No documentation is required—therefore, it meets the needs of people with credit restrictions and no proof of income. The requirement is to convince one of the investors that the commitment will be honored. In addition, according to Leonardo and Fernando, the values borrowed are usually low:

> "The caixinha is more (used) because there is no bureaucracy. Because in the bank they'll want a lot of documents, proof of income and everything. In the caixinha usually the value is low as well". (Leonardo)

> "Because it's faster, you don't have to go to the bank, you don't need anything. And it's a little money that you can afford to pay anytime". (Fernando)

Thus, the *caixinhas* are used for small amounts, and is a strategy that is preferred to resorting to formal credit which is not pre-approved—even by people who would meet the requirements to apply for the latter. The popularity of the *caixinha* among those who need a loan is highlighted by Fernando:

> "Sometimes the caixinha also runs out of money, you know. From all the lending! Only when it gets to December, you can't borrow no more. November and December. Because this money that is out there in the street has to return all the way to the caixinha in December, so we share this money". (Fernando)

The high interest rates are the price paid for quick access to the loan. It is no coincidence that two participants linked the *caixinha* to the activity of loan sharks:

> "That's like a loan shark (. . .) My boss took the caixinha out of there, because it was a very serious problem. He said that this couldn't exist within a company, so it's not legal". (Bia)

> "The caixinha is the same as the loan shark. The difference is that if you are an investor of the caixinha you borrow money, pay interest and at the end of the year you receive interest as well". (Leonardo)

We can conjecture that it consists of a "mild" form of moneylending. It is a better alternative than loan sharks in the sense that at least there was no mention of threats and violent actions. However, the interest charged is equivalent to that of loan sharks[6].

In sum, the FI experienced by participants was short-lived. Ultimately, the duration of FI for a household is determined by labor market dynamics and the conditions of the credit supplied. As a result, even after over a decade of integration of low-income consumers to mainstream financial services, resorting to informal financial arrangements was very common in *Complexo da Penha*. This section provided a detailed picture of the various informal financial strategies used in the community.

6. Conclusions

The financial inclusion paradigm puts forward the argument that access to formal credit products allows poor households to smooth their consumption, protecting their consumption patterns against income shocks. Free to make financial choices, those households can then opt for the best and most affordable products provided by mainstream financial institutions, instead of resorting to exploitative informal lenders. Consequently, their well-being would be enhanced, provided that they received adequate financial education.

Alternatively, the financialization approach considers these credit policies as being potentially harmful to poor clients. The neutral and mutually beneficial lender–borrower relationship is replaced by one that is marked by structural power asymmetries. As a result, instead of a consumption-smoothing tool, mainstream credit products posed an additional threat to the already vulnerable finances of the poor through increasing indebtedness.

By providing a detailed account of how debt dynamics operate in everyday life, this study supports the financialization approach. In the case of the households interviewed in *Complexo da Penha*, our results show that (i) access to mainstream credit products serves multiple types of credit demand; (ii) financial institutions redeveloped some of these products to increase their acceptance; (iii) FI is inherently transient, and even after over a decade of FI, participants were still very dependent on informal local financial arrangements. When credit has functioned as a consumption smoothing tool, this has been limited to the brief periods of FI, when it has mostly applied to cases of minor income shocks.

Moreover, our analysis implies several structural vulnerabilities that merit priority over expansion of financial services. (i) The use of credit to finance subsistence consumption is evidence of labor market institutions, which are incapable of generating wages sufficient to maintain life. In these cases, demanding credit can hardly be considered a choice. (ii) The lack of well-established welfare institutions places the extended family as the only institution capable of providing support in adverse times. As such, rational credit calculations that are based on an individual entity (the individual or the household), and that ignores the complexity of social networks that guarantee survival, become fundamentally irrational. (iii) The cultural signaling of consumption is powerful enough to make participants willing to resort to credit to facilitate consumption that is not subsistence-related. (iv) The conventional view of households as bringing their preferences to financial institutions is incomplete, as financial actors and agents are major participants in the cultural dynamics that give rise to poor households seeking out formal credit, often on predatory terms. (v) Adverse credit conditions, when combined with weak employment ties, shorten the duration of FI. As a result, a distinction between "bad" informal lenders and a "good" formal sector is less apparent than what might be first assumed. Indeed, the two sectors are often not substitutes but, rather, the informal sector may be turned to after formal options have been exhausted.

The macro effect of the everyday life debt dynamics portrayed by our case study is the growing household indebtedness and the alarming number of defaulters that currently exist in Brazil. The inability of past credit policies to improve the well-being of the poor has been somewhat acknowledged by the 2023 *Desenrola Brasil* program, given that it combined debt renegotiation with interest rate controls. Although the controls are a positive development, the proposed 100% cap signals that it is socially acceptable that a loan provided to a low-income family can turn into a debt that is double the original amount of the loan. Further control of interest rates of financial products supplied to low-income borrowers are recommended. Most importantly, we should aim at eradicating the reliance on credit mechanisms to guarantee survival and focus instead on income generating and social welfare policy approaches to fight poverty.

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Data Availability Statement: The data presented in this study are available on request from the corresponding author. The data are not publicly available due to ethical restrictions.

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Notes

1. Federal Law number 10.820/2003.
2. The Central Bank Resolution number 3110, dated of 31 July 2003, set the rules for branchless banking in the country; Central Bank Resolution number 3211, dated 30 June 2004, regulated the so-called simplified current accounts; Central Bank Resolution n. 3.518/2007 determined that financial institutions had to offer a package of free services called "essential services" to clients.
3. In that study, defined as clients earning up to twice the amount of the minimum wage.
4. We use the term "subsistence consumption" to refer to a minimum level of consumption required to sustain life, which is usually determined by the poverty line.
5. At the time of the interview, 18 thousand Brazilian reais were equivalent to approximately 5.4 thousand US Dollars.
6. It is worth remembering that charging exploitative interest is considered a crime against the popular economy in Brazi (law n. 1521/51, Article 4).

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