

Economic challenges faced by low-income people in Brazil

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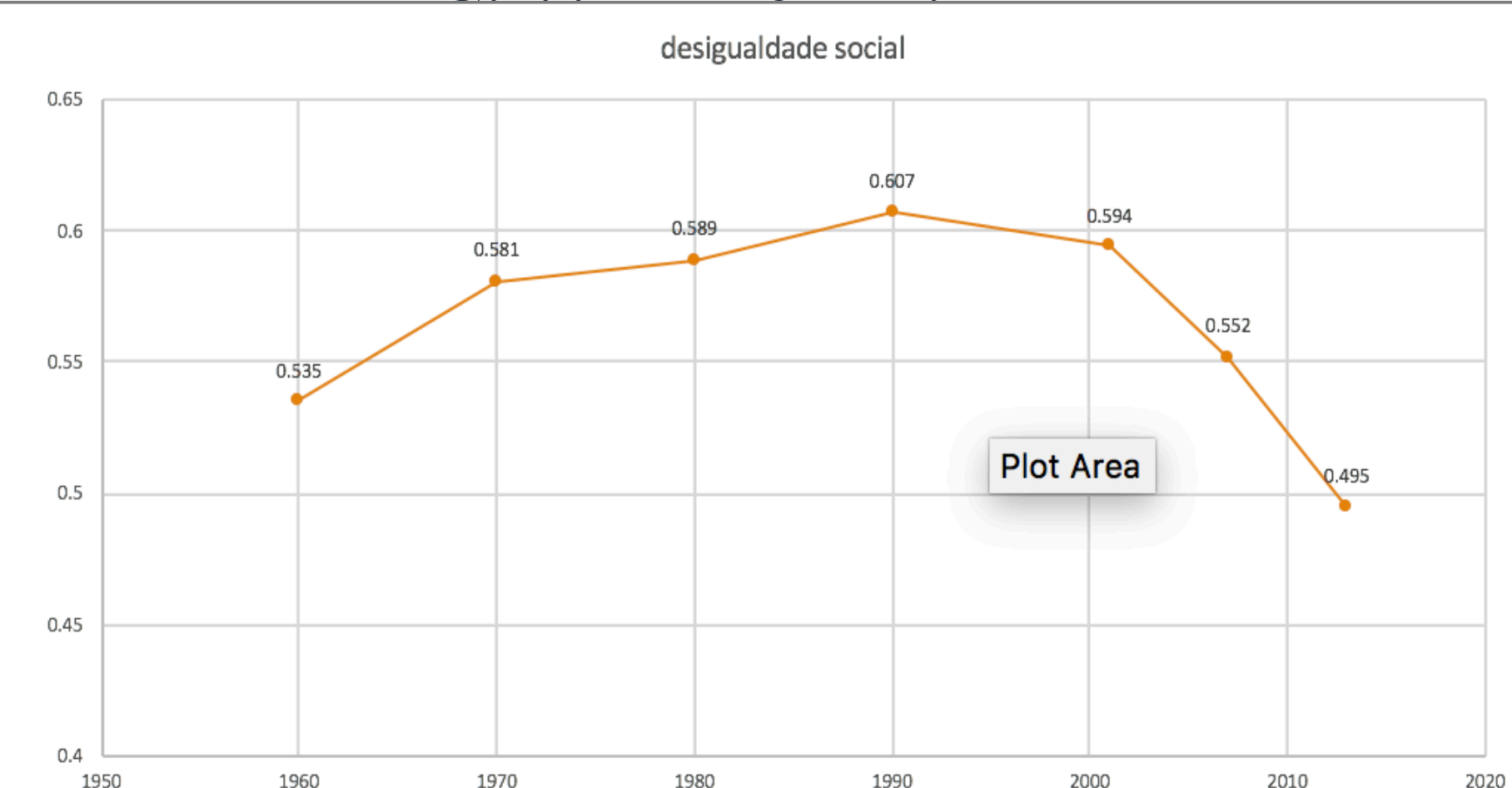
Background of income inequity in Brazil

In the 20th century, along with the advancement of the industrialization, rural labor demand dropped sharply and the urban demand is increasing. As a result, the Brazilian appear large-scale migration from rural to urban. However, a lack of cultural knowledge and technical experience makes it hard for these people to find jobs that have enough salary to afford expenses. The problem of income inequity became worse during Brazil's "*Economic miracle*" of the 1960s and 1970s. The income benefits of economic growth in Brazil were seen to be unequally distributed, with upper income groups gaining disproportionately and the poor being left behind. That's the reason why it's also called the "Perverse miracle". (PSU citation)

| Social-economic Stratum | Average Household Income |
|-------------------------|--------------------------|
| A | 20,272.56 |
| B1 | 8,695.88 |
| B2 | 4,427.36 |
| C1 | 2,409.01 |
| C2 | 1,446.24 |
| D - E | 639.78 |
| TOTAL | 2,876.05 |

Source: Mariana Ribeiro Jansen Ferreira- PUC/SP

The Gini index shows the income distribution of a nation and generally, 0.4 is regarded as the "*Warning line*" for income distribution gap. When exceeding this "warning line", the polarization of the rich and the poor is more likely to cause social class antagonism and social unrest.(wiki GINI index)



Source: Dra. Cristina Helena Pinto de Mello - PUC/SP

Living environment of low-income people

The Portuguese word "Favela" is used to refer to the slums of Brazil and it is also where many low-income people live in Brazil. In fact, at the beginning, Favela is more like a same identity crowds gathered community, but residents of low-income and crude self-built housing determines its slum identity. In Manaus, the capital of Brazil's amazon state, thousands of small shacks are built along the Negro river and most of the residents are difficult to afford their lives.

Ten or eight family members live in shacks and struggle to sleep together. Without any sanitation, the river became a breeding ground for disease.



In order to improve the infrastructure of the existing Favela and the living environment of the residents. The Brazilian government incorporated the transformation of the slums into the overall urban planning. After Brazil's labor party came to power in 2003, the government began to implement a more comprehensive and long-term slum renovation plan. It includes setting the police, the construction of low-cost housing, and by provide residents with a suitable job opportunities, make slum new community.



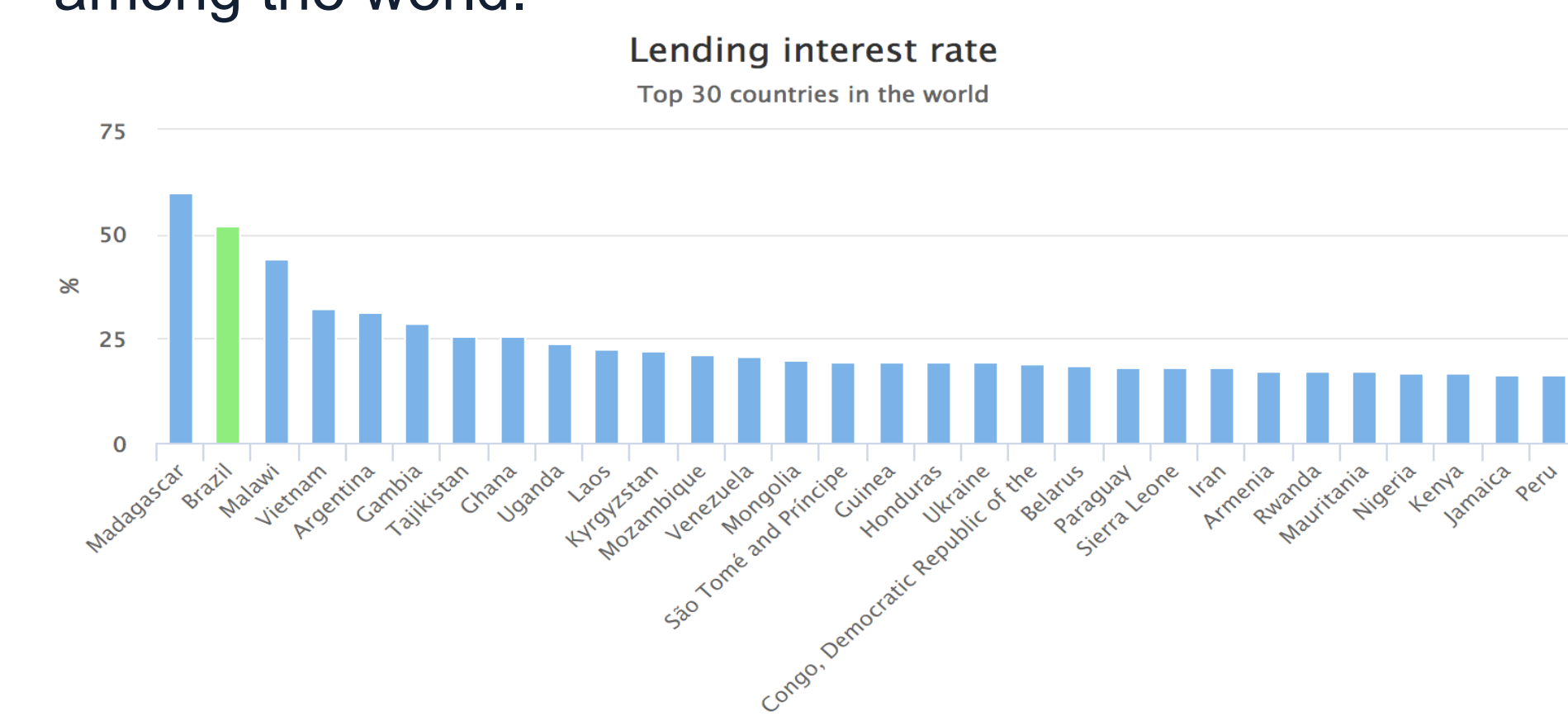
A park that was transformed from a Favela by government at Manaus.

It also offers a fitness track for people to walk on

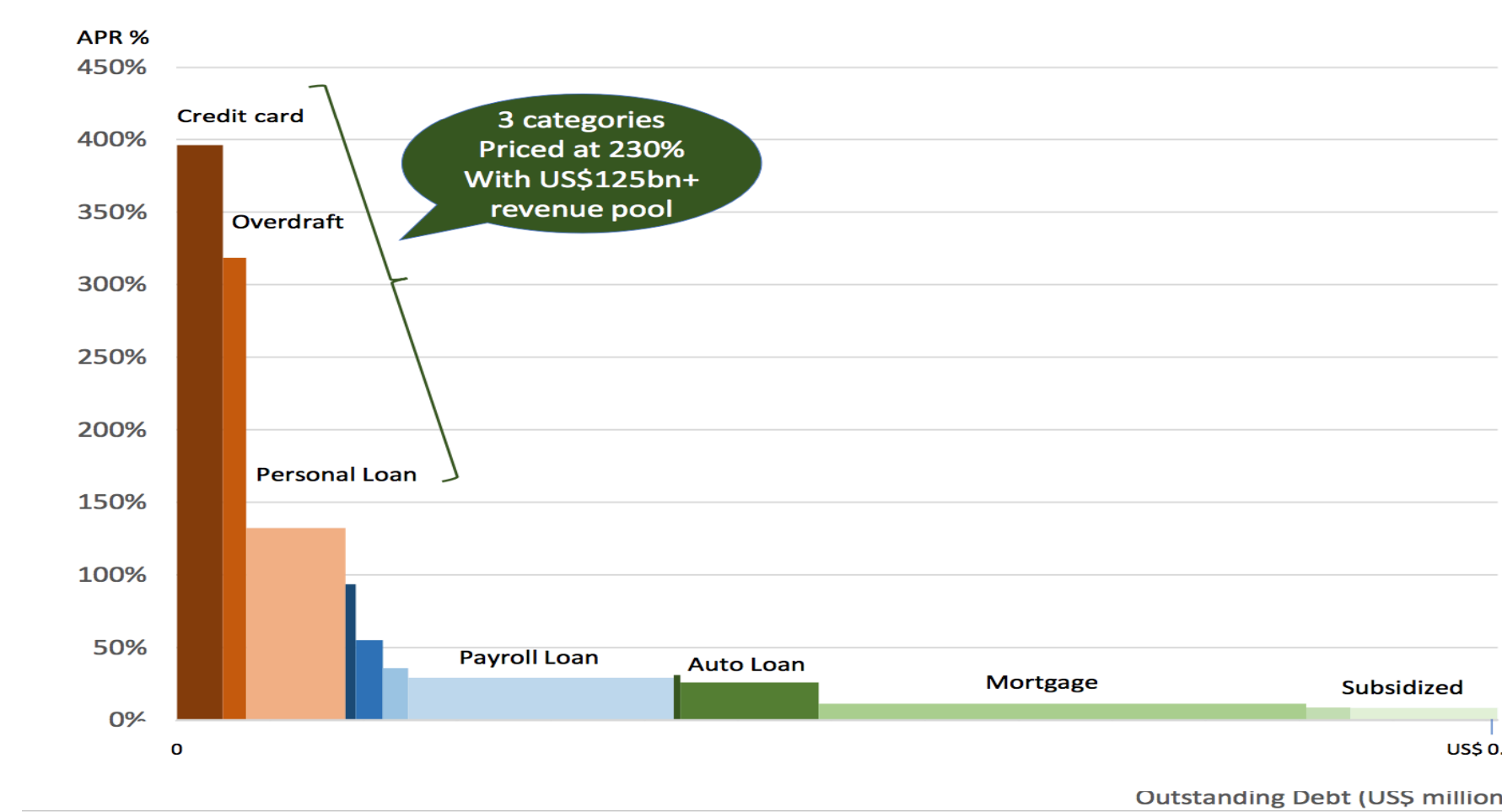
However, the greater the government's achievements in slum reconstruction, the more foreign low-income people flood into the slum, which in turn increases the poverty level of the city and becomes a paradox of urban poverty.

Loan market in Brazil and the dilemma

One economic situation that faced by Brazilian is the high interest rate in loan market. The statistics data showed that Brazil has the second highest lending interest rate among the world.



Source: factfish statistics



Source: Creditas

The graph above provided by *Creditas* - an secured lending company from Brazil shows that Brazilians are paying 230% annual percentage rate on credit card, overdraft and personal loans.

In the credit card and loan market that with such a high interest rate, many private lending firms with low interest rates have sprung up in Brazil. *Creditas* is one of the most successful loan firms among those. Based on the digital platform, *Creditas* said that they provide clients with the lowest interest rate in Brazil: "from 19% APR for Auto Equity Loans and 15% APR for Home Equity Loans" (*Creditas ppt*).



However, since *Creditas* promised offer an interest rate that lower than the market interest rate, it has to face a higher risk of default rate. That 's why *Creditas* defined itself as a secured loan and *not indebted* becomes a very important requirement to the borrowers in the contract. This also means that *Creditas*' loan is not apply to the low-income people in Brazil since many low-income people are only able to pay the monthly interest. As a result, the income level of *Creditas*'s clients are mid-high level income people.



On another hand, Brazil's credit card market is also unfriendly to low-income people. Take Brazil's fifth-largest credit card company *Nubank* as an example, *Nubank* has emerged from the market in four to five years through the high users' experience ratings and low-interest rates. *Nubank* faced the same kind of high risk like *Creditas* and *Nubank* also not has its own funds. As the result, *Nubank* only targets high-income people similar to *Creditas*. Because of Brazil's strict financial policies, these companies are heavily constrained in their funding sources and it forces them to adopt a more conservative lending policy.

In this way, Brazilian low income people face a very hard economic situation. They can not afford such high bank interest rates and the personal loan or credit card companies like *Nubank* or *Creditas* are not willing to take the high default risk to lend money to these low-income people.

Potential solutions and reflection

After several days' visiting, I realized the current living situation of low-income families in Brazil, especially their economic difficulties - they can only pay off the interest part of the debt per month and their debts become a "black hole". What's more, individual loan and credit card companies like *Creditas* or *Nubank* not intends to lend money to these low-income people. I'd like to know whether there is a suitable way to solve their difficulties and the company project cooperated with Brazilian students gave me such a chance. The target clients of our project are those low-income families and the difficulty of this project is how to ensure that low-income people can afford the repayment and reduce the risk of our company to achieve maximum profits. After the final presentations of every group, I think the main idea of this company is to reduce the monthly repayment lower than the average income of low-income families and extend the payment period. This group project is also what I think the most interesting and meaningful part of this trip.

I think this study abroad experience not only applied the academic knowledge from college to real life but also learned how to find problem in the society and find out a suitable solution. On the other hand, learning how to use multiple channels to solve problems is also what I think benefits me a lot, we can communicate with locals to understand their living environment; communicate with companies to avoid the unnecessary mistakes; communicate with Brazilian students to discuss the most comprehensive and suitable economic policy.

During these trip, I visited many startups and I think they are very dynamic and innovative, which inspired me the idea that only distinctive and most suitable products are valuable

Reference

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