The Recent History of Financial Inclusion in Autazes

Jahan Ara PEERALLY, Marlei POZZEBON and Rene BIROCHI

This case can be also found on the following website: https://caseautazes.wordpress.com/. The online version is identical to this version of the case study but contains additional resources such as several videos and internet links.

1. Introduction

Born and raised in Autazes, Silvino Correia (Figure 1) is a 78 year old retired fisherman. Since retiring in 1992, he meets with his friends in the Autazes’ Central Square every afternoon to play domino, watch passers-by and chat about the good old days.

On the last day of every month - the day of social benefit and salary disbursements - Silvino and his friends meet elsewhere, in the queue at the Banco Postal, to collect their pensions. Afterwards, Silvino goes to the grocery store and buys supplies for the coming month. Sometimes he also shops at the clothing store.

However, this mundane end of the month routine was previously much more complicated for Silvino and his friends.

1 We would like to thank Frederic Lavoie, Melissa Simao-Irala and Fabio Prado Saldanha for their precious work as research assistants in the translation and edition of this case. We would also like to thank Eduardo Diniz and his team of students and collaborators: Ivan Moura and Solly Sayeg. Special thanks also go to theIDRC (International Development Research Center) and the SSHRC (Social Sciences and Humanities Research Council) for their financial support to the research program for which this case was produced.

2 Please see Appendix 1 for further information on Autazes.
2. Pre-2002: Dealing with financial exclusion in Autazes

When Silvino first retired, there were no financial services offered in Autazes. As a consequence, he had to travel on a monthly basis to Itacoatiara, a village located at 411 kilometers from Autazes, to collect his pension. He would take a boat at 9 o’clock in the morning and arrive in Itacoatiara at 4 o’clock in the afternoon, at which time the bank was already closed. As a consequence, he had to spend the night in Itacoatiara and collect his pension the next day.

Since Itacoatiara’s commerce was more developed and diversified than Autazes’, combined with the fact that Silvino and the other retirees pocketed their pensions in the same village, led them to purchase everything they needed on location, before heading home. Thus, unintentionally Silvino and his peers were contributing to Itacoatiara’s local commerce development.
Lack of financial services in Autazes also implied that its citizens would have to travel (Figure 2) to Manaus - the capital of the State of Amazonas - to shop and access the most basic banking services such as money withdrawals, deposits and bill payments. Silvino’s friends often traveled to Manaus to withdraw their money. These friends complained that going to Manaus was a waste in terms of working hours and money since the journey was 12 hours long and would cost a minimum of R$38 (US$19).³

![Figure 2: Travelling by boat to Manaus from Autazes](http://www.youtube.com/watch?v=1vvc-Nv0FNY)

Those who could not afford such a journey – the majority of Autazes’ population – would ask a friend or family member travelling to the capital, or even the boat driver, to undertake banking transactions on their behalf. Some would even pay an intermediary for that purpose, which made them vulnerable to the risk of loss or robbery. Furthermore, the movement of cash between the two cities attracted the interest of robbers. As commented by Percilei Pantoja, Vice-Mayor of Autazes at the time: “*There was a person here who charged between R$10 to R$20 [US$5-10] to pay bills in Manaus. Sometimes the money*

³ Currency conversion July 2012 = US$1 = R$2.04. This exchange rate was applied across the entire case.
disappeared, the guy was robbed". Others would make a deal with business owners in the capital whereby they would provide their names, banking details and addresses, and the owner would be in charge of withdrawing the clients’ money and deliver their purchases directly to their homes.

Lack of financial services in Autazes also implied high costs for the municipal government in the monthly disbursement of public service employees’ salaries. Until 2002, these employees received their monthly salaries through an emissary who flew in from Manaus and brought a suitcase containing the lump sum of R$300,000 (US$150,000) in cash. Security agents were contracted to accompany the emissary from Manaus to Autazes’ municipality city hall where employees received their salaries. For such a monthly operation, the municipal government spent R$3000 (US$1500) just on security.

Despite receiving their salaries in Autazes, the majority of the public service employees would also travel to Manaus to enjoy a greater variety of products at lower prices or simply to deposit their salaries in their bank accounts.

Thus, the fact that these citizens spent most of their money in the capital and in Itacoatiara had a negative impact on Autazes’ economy as it reduced the amount of liquidity in circulation and consequently impeded the development of local businesses.

3. Bankarization of Autazes since 2002

The process of bankarization – defined as access to, and use of banking services – began in Autazes in 2002 and involved, in a first instance, the introduction of banking correspondents and eventually the opening of a bank agency (also referred to as a bank branch).

---

Simply put, correspondent banking involves arrangements between banks and non-banks - typically retail commercial entities such as gas stations, post offices, stores, pharmacies, - where the non-banks agree to act as an outlet for financial services. These retail commercial entities implement ICT-based point of sale devices or basic personal computers which act as terminals used for financial transactions\(^5\). At these terminals, clients can pay bills, open bank accounts, deposit or transfer money, access credit, bank account balance and statement and withdraw government benefits\(^6\). As described by Central Bank of Brazil, the purpose of banking correspondents is: “... for the provision of specific services ... and ... to offer financial products in distant regions” (Banco Central do Brasil, 2009).

By July 2009, Autazes had six businesses acting as banking correspondents and one bank agency.

### 3.1 Banco Postal

Banco Postal (Figure 3) was the first banking correspondent inaugurated in the municipality of Autazes in 2002. The Banco Postal itself was created in 2001 when a private Brazilian bank won a public bid from the Brazilian Post Office to provide financial services in remote locations across Brazil. As part of creating Banco Postal, the private bank made a partnership with the Empresa Brasileira de Correios e Telégrafos (Brazilian Post and Telegraph Corporation) whereby the latter acts as the banking correspondent for the bank in post offices across Brazil.

---


When Banco Postal was the only institution offering banking services in Autazes, Silvino had to wait in line, sometimes for hours on disbursement days, in order to receive his pension or withdraw money. This was due to the fact that Banco Postal had only five counters for a population of over 31,000 people. Even if the Banco Postal would have added extra counters, the waiting lines would still be inevitable. Access to financial services would worsen whenever an incident impeded the transfer of liquidity from Manaus, or when communication via satellite was down, thus, making it impossible for Banco Postal to provide even the most basic banking transactions.

3.2 Banking agency

The challenges related to the high number of banking services users in the municipality and the long waiting lines at Banco Postal, led the same private bank which created the Banco Postal and to open in 2007 a bank agency in Autazes. The private bank also implemented three additional banking correspondents under the Banco Expresso trademark in the municipality.
3.3 Banco Expresso

The three businesses which offer Banco Expresso banking services in Autazes are: Supermarket Leida, Supermarket Eloisa, and WR Confecções. Citizens can deposit or withdraw money and pay bills - the most common transactions - at these businesses.

The owner of Supermercado Eloisa (Figure 4), where up to 300 banking transactions on disbursement days are undertaken, felt that the fee received per transaction was a significant incentive to act as a banking correspondent. In fact, the number of transactions on disbursement days is so high that the supermarket has to allocate an employee just to manage these transactions. The owner also noticed an increase in supermarket goods sold due to the greater flow of people entering the premises for banking transactions.

*Figure 4: Supermercado Eloisa*

The manager of Supermercado Leida (Figure 5), on the other hand, did not give much importance to the fixed fee received per transaction, probably due to the fact that the business made fewer transactions than Supermercado Eloisa. However, the manager stated that sales increased by 50% due to the greater inflow of clients. Nevertheless, he believed that the main benefit of acting as a banking correspondent was to offer clients the opportunity to make financial transactions, and thus, avoiding and relieving the long queues at the bank agency.
The owner of WR Confecções did not give much importance to the fixed fee per transaction as well nor did he notice an increase in sales. Once again, this may be due to the lower number of transactions made.

3.4 Technological difficulties

These banking correspondents faced two common problems related to the technological platform which consists of two devices connecting the terminals (point of sale devices; Figure 7) to the bank via Internet and telephone networks. First, the banking correspondents experienced regular difficulties in connecting to the network due to the instability of telephone and Internet systems in the region. Second, high demand on
disbursement days overloads the network, which freezes the whole system for an indeterminate length of time. These technological problems were the main reasons why some users avoided making banking transactions at these banking correspondent outlets.

**Figure 7: Point of sale devices**

---

### 3.5 Lotérica

The Lotérica Auta Sorte (Figure 8) acts as a banking correspondent for two public banks, namely Caixa Econômica Federal and, since 2008, Banco do Brasil. Users and employees of the Lotérica stress two major problems with its provision of banking services. First, Lotérica keeps a low amount of cash, which significantly limits the withdrawals made by users on a day to day basis. Many users have to return the next day in order to complete a withdrawal. Second, on days when government social benefits are disbursed, the Lotérica’s infrastructure cannot accommodate the high inflow of users. Users of the establishment described cases of elderly women who travelled, for a whole day, from distant areas to come to Lotérica. Once they arrive, they are confronted with a long waiting line which forces them to wait and prolongs their journey.
4. Access to credit and other financial services

4.1 Credit
Credit, in the form of consigned loans, is offered by the bank agency. Clients usually apply for consigned loans when they renovate their homes, for example, when upgrading from a wooden to a brick structure. The bank agency also finances close to half of the motorcycles purchased in the municipality.

The agency manager states that consigned loans have, in general, a low payment default risk. He explains that clients are willing to pay back their loans and when they cannot, they send letters, call or send messages through friends to inform the bank in advance of their inability to make a payment for a specific month.

4.2 Microcredit
Microcredit in Autazes is provided by two public organizations, namely the Agency for the Promotion of the State of Amazonas (AFEAM) and the National Program for Strengthening Family Agriculture (PRONAF) which is supported by the federal government through the Ministry of Agrarian Development.
AFEAM is a non-bank financial institution with the mission to promote socio-economic development in the State of Amazonas through the provision of credit and technical support which facilitates income generation, employment creation and improves the Amazonian’s living conditions. Among the several funds and programs offered by AFEAM is the Fund for the Support of Micro and Small Enterprises and the Social Development of the State of Amazonas (FMPES). This fund finances machines, equipment, working capital and targets micro and small enterprises from the industrial, commercial and service sectors provided that these enterprises have been in operation for at least three years. In fact, the majority of the municipality’s 70 public market vendors already has a loan from AFEAM or intend to apply for one.

The organization charges a low annual interest rate ranging from 7% to 10% and grants a 25% bonus to beneficiaries who do not default on loan repayment. Nevertheless, the repayment default rate is very high at 37%. According to AFEAM’s manager in Autazes, the default problem is either due to the fact that beneficiaries do not feel pressured to pay back public funds, as they would for funds obtained from a private bank. Or beneficiaries do not efficiently manage the microcredit obtained. Due to the latter reason, AFEAM decided to impose a 24-hour training session on its microcredit beneficiaries. The training covers entrepreneurship, marketing, publicity, competitors as well as supplier and client relationships.

Created in 1995, PRONAF is a government program aimed at providing financial support to rural farmer and their families for both farming and non-farming activities. Thus, microcredit from PRONAF allows farmers to expand into new farming and non farming income-generating activities as well as acquire machinery, equipment, seeds and inputs.

Their annual interest rate, which varies from 0.5% to 4.5%, is the lowest in the country for rural financing. Like AFEAM, PRONAF also provides a 25% bonus for on-time

---

7 Ministério do Desenvolvimento Agrário, Portal da Secretaria da Agricultura Familiar (Ministry of Agrarian Development, Secretary of Family Farm website portal)
repayment of the loan. The program’s default rate, at approximately 2.5%, is also impressively low considering its high number of beneficiaries across Brazil.

4.3 The blurred line between consigned credit and microcredit

In Autazes, a perturbing phenomenon involving both consigned credit and microcredit has developed. Microentrepreneurs with informal productive activities and without collateral, cannot apply for consigned credit issued by the bank agency or for microcredit issued by AFEAM and PRONAF. In effect, the informal microentrepreneurs are locked out of Autazes’ credit loop.

In order to overcome this locked-out situation, these microentrepreneurs resort to family and friends - such as public service employees and retirees - who have collateral and who enjoy a regular formal income. These family and friends would apply for consigned credit from the bank agency which they would, in turn, transfer to the microentrepreneurs.

This appears to be a significant means for microentrepreneurs to finance their businesses in Autazes. Therefore, formal credit conceded through consigned credit actually serves to finance microentrepreneurs’ informal productive activities.

This phenomenon has two dire consequences. Firstly, it creates a bias related to the real demand for microcredit and consigned credit in Autazes. Thus, real demand for microcredit in Autazes appears lower, while real demand for consigned credit appears higher than what they are. Furthermore, this situation affects official statistics whereby it is not possible to precisely and statistically indicate the amount of resources allocated and needed for consigned credit and productive microcredit purposes in the municipality.
Secondly, the consigned credit can unfortunately result in the borrower’s over-indebtedness, despite Brazil’s Law 10.953 which stipulates that only 30% of a person’s income can be considered for the repayment of a loan⁸. Over-indebtedness is due to the fact that there are no unified control systems for the provision of credit in Autazes. In the absence of such systems, citizens can ask for, and be granted a loan at several institutions at the same time. In these cases, the repayments for the several loans add up to more than 30% of the borrower’s income. In Autazes, a number of people have compromised as much as 90% of their income in the repayment of several simultaneous loans issued to help microentrepreneurs.

4.2 Additional services offered by the bank agency

In Autazes, there is a low demand from the population for other types of financial services offered by the bank agency.

Firstly, there is a low demand for savings accounts. This is mainly due to the fact that few in Autazes, whether in urban or rural areas, have extra income for savings. Those who do, prefer to keep their money at home as they do not trust the bank.

Secondly, there is also a low demand for insurance policies which is due to the fact that the people of Autazes do not feel that they need insurance or they do not understand the benefits of having such policies. Nevertheless, the bank agency offers two insurance policies which are a life insurance offered for R$9.90 (US$5.65) per month and a funerary insurance for R$25 (US$14.25) per month.

Thirdly, despite the bank agency’s efforts at organizing a large campaign to introduce debit and credit cards in the municipality, the demand remains low. This is attributed to the population’s resistance to, or lack of understanding of banking services.

5. Bankarization as perceived by the citizens of Autazes

Following the bankarization of Autazes, the afternoons in downtown became progressively more crowded and busy. Silvino observed that more people were circulating in the Central Square. New stores opened, old ones were renovated and even the fish market increased its sales. The variety of products and services offered locally also increased and this led to more people purchasing products within the municipality instead of going to Manaus or Itacoatiara. Business owners were encouraged to invest in Autazes, as more wealth was circulating within the municipality. André Cano, the Banco Postal superintendent at the time stated that: “Banco Postal is bringing progress to thousands of municipalities until then undeserved by the traditional financial system”9.

Figure 9: Shopkeeper describing local circulation of money in Autazes

http://www.youtube.com/watch?v=lVZVzG5XwwY

In addition to withdrawing and depositing money or paying bills, the citizens of Autazes could now apply for loans in their own municipality. Originally, these applications were submitted at the Banco Postal in Autazes where they were periodically picked up by a

---

bank employee from Manaus, for evaluation in Manaus. Nowadays, with the presence of the bank agency all the applications are handled and evaluated on location in Autazes. Furthermore, the public service employees have access to a bank account at the Banco Postal, in which their monthly salaries is deposited and from which they could be withdrawn. This also implied that the local municipality no longer had to incur high security expenses for the transfer of the public service employees’ salaries from Manaus to Autazes. The municipality also benefitted from higher revenues through the imposition of service taxes. In sum, the municipality was enjoying a surge of economic development.

**Figure 10: Local resident describing economic growth in Autazes**

http://www.youtube.com/watch?v=5S4fPMLfNZk

Despite the progress seen in the municipality, as Silvino talks to family and friends, he realises that the majority of them has a negative image of the bank agency and the private bank which led the bankarization movement in Autazes. Since the private bank which implemented the banking correspondents and the bank agency in Autazes is financially strong, the citizens perceive it as being it less trustworthy and more of a financial predator. Others believe that public banks – such as Caixa Econômica Federal and Banco
do Brasil – are more trustworthy because they make fewer profits than the private one. These perceptions lead to a resistance towards the bank agency whereby some users feel that they are being swindled. Resistance is exemplified by the statement of one citizen, who says: “I use that bank like first-aid, only because I do not have any alternative”.

The sense of being swindled, on the other hand, can be exemplified by several of the following anecdotes from the local citizens of Autazes. Some of the people of Autazes suggest that the bank agency - and private banks in general - commit “robbery” by purposely offering debit and credit cards, to retired individuals especially, with the sole aim of charging them for the cards’ usage. While one shop owner claimed that issuing credit cards in the municipality has become a lucrative business for the bank agency. Another anecdote is from one of the bank agency’s clients who said: “In the space of two days the bank took R$57 (US$32.50) of my money for special cheques and banking card fees even if I do not use any of these”. Another client added: “At the bank, my money disappears within two days”.

This sense of being swindled is perpetuated by the fact that the bank agency is not committed to ensure that clients, including retired individuals, are not susceptible to over-indebtedness when applying for, and receiving loans.

These negative perceptions, though not fully justifiable, manifest themselves due to the fact that the people of Autazes do not fully understand the reasons for the bank agency to charge fees on some of its services. Those perceptions added to the waiting lines and the bureaucratic requirements and formalities at the bank agency are viewed as the latter’s disrespect for the population of Autazes.

6. Progress is not universal in Autazes

The implementation of the bank agency and the banking correspondents and the resulting consolidation of a financial system in Autazes since 2002 have led to significant development impacts on specific economic sectors. More concretely, data from the
Brazilian Institute of Geography and Statistics indicate that Autazes’ GDP between 2002 and 2006 in the service sector grew by 90%, while the industrial sector grew by 87% and the farming sector by 25%. This economic impact is also very apparent to many of Autazes’ citizens who concur that this progress is due to the recent offers of financial services in the municipality.

However, such progress has not been universal across Autazes, whereby 40 communities in the municipality still do not have access to banking services. In order to pay bills, withdraw money or receive government benefits, the remaining population has to travel to the municipality’s urban centre. Thus, the previously observed phenomenon of Autazes’ wealth circulation in Manaus and Itacoatiara can still be observed in the municipality’s rural communities. However, instead of Manaus and Itacoatiara, today the rural communities’ liquidity circulates in the municipality of Autazes instead.

The current situation in Novo Céu, the biggest rural community of Autazes, uncannily resembles the situation in Autazes prior to 2002. The population of Novo Céu travels to Autazes in order to conduct basic financial transactions. As a result, the people of Novo Céu purchase goods on location in Autazes due to the greater offer and lower prices. Thus, Novo Céu community’s liquidity is being largely spent in Autazes.

A round-trip to Autazes by boat costs R$20 (US$10) and takes about an hour and a half. Another option is to pay an intermediary around R$10-20 ($US5-10) to conduct those basic financial transactions in Autazes. Business owners in Novo Céu perceive the lack of banking services, and the consequential need for citizens of the community to go to Autazes, as a significant obstacle to the development of local businesses. There was, in the past, a banking correspondent located in a small market of Novo Céu. However, the banking correspondent was closed down when the market was sold. Some business owners argue that the closure of the banking correspondent immediately and negatively impacted their sales. Additionally, the Novo Céu population believes that the lack of banking services in the community leads to extra costs for the businesses and citizens in general, as was also the case in Autazes prior to 2002.
7. Conclusion

In Autazes, different organizations with equally differing objectives have increased the population’s access to financial services. On the one hand, there is the private bank – through its bank agency and correspondents – which has expanded and diversified its client base and services in order to be more profitable. On the other hand, there are the public organizations - AFEAM and PRONAF - which provide the low-income population access to microcredit in order to foster economic development in the municipality.

Despite its focus on profits, the private bank agency and correspondents have indirectly contributed to the development of Autazes’ local economy as well. However, the bank agency does not consider microcredit as a viable financial service and continues to concentrate on consigned credit, which it considers as being more viable.

By offering microcredit at subsidized interest rates through programs such as AFEAM and PRONAF, the State Government hopes to foster continued development in the municipality. However, these programs suffer from their own limitations including the fact that distribution of financial resources between the State’s municipalities is subject to political lobbying.

7.1 Life continues for Silvino and friends…

One fine disbursement day, Silvino encounters a retired friend from Novo Cêu at the Banco Postal. After disbursing their pensions, Silvino invites his friend to join him and his other retired friends at the Autazes’ Central Square for a few games of domino. At the Central Square, as the first domino game begins, the retiree from Novo Cêu loudly wishes, to no one in particular, that his home town opens a bank agency soon, as he is tired of the recurring monthly long trips to Autazes. Upon mention of this wish, the retired Autazes’ fisherman – all of whom are over-indebted at the bank agency – exchange an ambivalent look.
Appendix 1

A background of Autazes

Autazes, officially discovered in the 18th century, was historically inhabited by Mura Indians famous for their great resistance to the Portuguese colonization. The name Autazes was given to the region many years ago and comes from the two rivers irrigating its territory: Autaz-Açu and Autaz-Mirim.

The municipality of Autazes, which covers approximately 7600 km² (roughly 0.5%) of the State of Amazonas¹⁰, was created in 1955 and is situated in the region of Rio Negro-Solimões at the heart of the Amazon forest. Located at some 96 kilometers from Manaus, the State Capital, Autazes is not easily accessible. Weather permitting, it can be reached in two and a half hours using a combination of boat-car-boat; otherwise, it takes a twelve-hour boat journey.

Today, Autazes has 32,135 inhabitants¹¹ of which some 14,000 live in the urban area. The municipality includes 40 communities, of which Rosarinho, Sampaio, Urucurituba, Miguel, Novo Céu, Mastro, Rochedo, Baracuba, Cara Grande, Rio Preto, Gomo, Butuca and Ramal do Ferro Quente. Novo Céu and Sampaio are the most populated communities in the rural area, accounting for 6000 and 600 inhabitants respectively.

As of 2009, Autazes’ GDP – most of which is derived from farming activities - reached R$136 million (roughly US$ 68 million), accounting for 0.33% of the State’s GDP and positioning the municipality at the 17th rank of the State’s 62 municipalities. The Human Development Index (HDI) in the city is 0.661 (2000 data). The municipality is positioned in 19th place among all cities in the state of Amazonas, according to the HDI.¹²

---