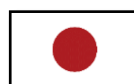


The economic opportunity for financial inclusion of **Forcibly Displaced People (FDP)** by the financial sector in Brazil

Supported by



Acknowledgements

This report was led by Jeffrey Bower and supported by Amanda Thais Rodrigues Franco, Alexandre Haddad Mussa Aebi and Ricardo Garcia Tafur of the International Finance Corporation (IFC). The study was prepared by Frankfurt School of Finance and Management (consulting team) contracted by IFC.

We express our gratitude to UNHCR Brazil and its partner organizations in Brazil who supported the dissemination of the online survey as well as the organization of focus groups discussions and individual interviews with Forcibly Displaced People (FDP).

We also would like to thank the representatives of the financial institutions who participated sharing their valid experiences, ideas, and interest in serving FDP for this study.

Special mention must be made to the many individuals who participated in the development of this study. This includes the FDP who responded to the research activities, whose identities we keep confidential.

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Abbreviations and Acronyms

AML	Anti-Money Laundering
ADRA	Agência Humanitária da Igreja Adventista do Sétimo Dia (English: Humanitarian Agency of the Seventh-day Adventist Church)
AVSI	Organização brasileira, para contribuir na melhoria das condições de vida de pessoas que vivem em situações de vulnerabilidade ou emergência humanitária [<i>The Association of Volunteers in International Service</i>]
BPCS	Banco do Povo Crédito Solidário
B2B	Business to Business
Caritas Brasil	Entidade da Conferência Nacional dos Bispos do Brasil (CNBB, English: National Conference of Bishops of Brazil)
CDB	Certificado de Depósito Bancário (English: Certificate of Deposits)
CDI	Certificado de Depósito interbancário (English: Certificate of Interbank Deposit)
CLT	Consolidação das Leis de Trabalho (English: Consolidation of Labor Laws)
CMN	Conselho Monetário Nacional (English: Brazilian Monetary Council)
CNPJ	Cadastro Nacional da Pessoa Jurídica (Business registration in Brazil)
CONARE	Comitê Nacional para os Refugiados (English: National Committee for Refugees)
CPF	Cadastro de Pessoa Física (English: Tax Identification Number)
CSR	Corporate Social Responsibility
CTPS	Carteira de Trabalho e Previdência Social (English: Working Permit)
DPRNM	Documento Provisório de Registro Nacional Migratório (English: Document of National Migration Registry)
ESG	Environmental, Social, and Governance
ID	Identification Document
IFC	International Finance Corporation
IOM	International Organization for Migration
FDP	Forcibly Displaced People
FSP	Financial Services Provider
GDP	Gross Domestic Product
Gig economy	Labor market characterized by the prevalence of short-term contracts or freelance work as opposed to permanent jobs
IBGE	Instituto Brasileiro de Geografia e Estatística (English: Brazilian Institute of Geography and Statistics)
IFC	International Finance Corporation
FGD	Focus Group Discussion
IMDH	Instituto Migrações e Direitos Humanos (English: Institute for Migration and Human Rights)
K	Thousand
KPI	Key Performance Indicator
MEI	Microempreendedor Individual (English: Individual Microentrepreneur)

MFI	Microfinance Institution
MIS	Management Information System
MSE	Micro and small enterprise
MSME	Micro, small and medium-sized enterprise
MTO	Money transfer operator
OBMigra	Observatório das Migrações Internacionais (English: Brazilian International Migration Observatory)
OSCIP	Organizações da Sociedade Civil de Interesse Público (English: Civil Society Organizations in the Public Interest)
P2B	Person-to-Business
P2P	Person-to-Person
PNMP	Programa Nacional de Microcrédito Produtivo Orientado (English: National Microfinance Program)
POS	Point-of-sale
RDS	Respondent Driven Sampling
RNE	Registro Nacional de Estrangeiros (English: National Registry of Foreigners – previous ID for refugees, migrants, and immigrants)
RNM	Registro Nacional Migratório (English: National Migration Registry - ID for refugees, migrants, and immigrants)
SCMEPP	Sociedade de Crédito ao Microempreendedor e à Empresa de Pequeno Porte (English: Society of Credit to Microentrepreneurs and Small Businesses)
SEBRAE	Serviço Brasileiro de Apoio às Micro e Pequenas Empresas (English: Brazilian Micro and Small Business Support Service)
SJMR	Serviço Jesuíta a Migrantes e Refugiados (English: Jesuit Service for Migrants and Refugees)
TED	Transferencia Electrónica Disponible (English: Electronic Transfer method)
Toti	Plataforma de ensino e inclusão de pessoas refugiadas e migrantes no mercado de tecnologia (English: Platform for teaching and including refugees and migrants in the technology market)
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund

Executive Summary

This study was commissioned by the International Finance Corporation (IFC) to identify opportunities that foster the financial inclusion of the community of Forcibly Displaced People (FDP) in Brazil. The study provides concrete business opportunities for the provision of sustainable financial services to refugees and migrants in the country. It also provides recommendations for the financial sector and other stakeholders who aim to serve the FDP community locally. For the purpose of the study, the term FDP includes both refugees and migrants, from different nationalities, living in Brazil for more than six months¹.

The following analysis and insights are based on a comprehensive market assessment on the current demand and supply of financial and non-financial services for FDP in Brazil. An online survey resulted from 1,070 respondents captured data on the socioeconomic profiles of the FDP population in Brazil, as well as their needs for financial and non-financial services. On the demand side, 20 individual in-depth interviews and 8 focus groups with refugees and migrants mainly from Venezuela, Bolivia, and Haiti were conducted. On the supply side, desk research was conducted, and interviews were held with representatives from 16 Brazilian Financial Service Providers (FSPs), including: large private banks, mid-sized private financial institutions, fintech and digital banks, Microfinance Institutions (MFIs), public financial institutions, and state development agencies. Additional interviews were conducted with international and local organizations that support the FDP population in Brazil.

This study provides the necessary inputs to elaborate or improve institutional strategies that recognize the economic opportunity related to the financial inclusion of the FDP community in Brazil. Realistic business cases illustrate the additional market potential and strategic opportunities for FSPs.

Rationale of the study: How to increase interest and awareness among financial institutions of the value in providing and improving the provision of financial services for FDP populations?

As of mid-2023, data indicates that more than 110 million people around the world have been forced to leave their homes due to armed conflicts, persecution, or serious human rights violations. In Latin America, Venezuela has witnessed the largest exodus of people in recent years. By June 2023, more than 7.3 million had left Venezuela in search of international protection and better living conditions. Brazil is the third most preferred destination country for Venezuelans in the region. Of the total 1.5 million refugees and migrants registered in Brazil as of December 2022, Venezuelans are a large majority (79%), followed by Haitians (6.4%), Bolivians (3.5%), and people from non-Latin American nations like Senegal, Angola, and Syria (4.3%). According to the survey, the majority (41%) of FDP are settled in São Paulo, 36% of FDP reside in Brazil's northern states (Roraima, and Amazonas) and 8% of FDP have relocated to the southern states, all in search of better economic opportunities.

Brazil's regulations for FDP are one of the most advanced in the Latin American context, allowing FDP to access basic public services and working permits relatively rapidly. In addition, FDP from Venezuela and Haiti benefit

¹ Refugees are defined as individuals who are outside their country of origin or habitual residence and are unable to return because of serious and indiscriminate threats to life, physical integrity, or freedom resulting from generalized violence or events seriously disturbing public order (Cartagena Declaration). The Brazilian Refugee Law (Law 9.474/97) defines refugees as those (i) who face well-founded fears of persecution for reasons of race, religion, nationality, social group, or political opinion, (ii) having no nationality and being out of the country where he or she had previously retained permanent residence and cannot or does not wish to return to such country based on circumstances mentioned previously and (iii) face serious and widespread violation of human rights seeking refuge outside his or her home country. A migrant is a person who has made a conscious decision to leave his or her usual residence, usually across an international border, for a variety of reasons such as socio-political or economic instability, natural disasters, or other reasons, and may wish to return to his or her home country in the future. In other words, migrants refer to people on the move that voluntary came to Brazil.

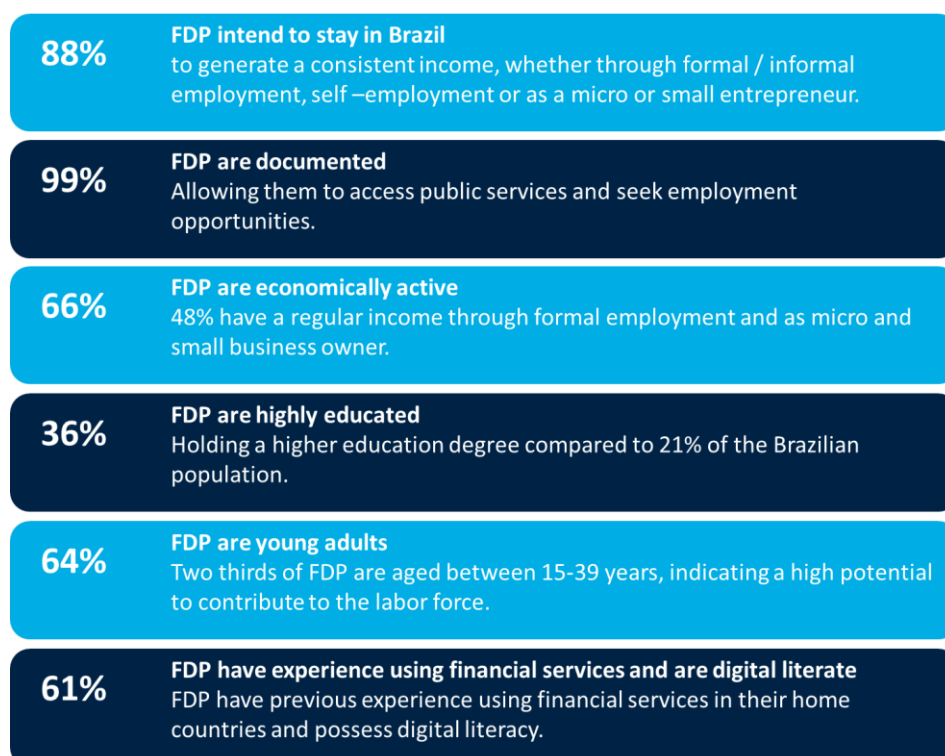
from specific means of regularizing their documentation status to facilitate their stay in Brazil. In response to the large arrival of refugees and migrants from Venezuela in 2018, the Brazilian government implemented the Welcome Operation (“*Operação Acolhida*”) in efforts to promote the social and economic integration of FDP. The operation includes an internal voluntary relocation program, so called “Interiorization Program”, based on the voluntary relocation of FDP from Roraima (border state with Venezuela) to other Brazilian cities and states.

While there are no regulatory aspects that prevent FDP from accessing basic services, there are strong prejudices regarding FDP, particularly with respect to asylum seekers as well as practical barriers such as Portuguese proficiency, professional certification and lack of social networks preventing access to job and income opportunities among others. Such reality limits their likelihood of entering the formal labor market and being part of the financial system.

With the exception of a few FSPs that partnered with the United Nations High Commissioner for Refugees (UNHCR) on specific initiatives, most financial institutions are yet to acknowledge FDP as a relevant and distinct segment and market opportunity. A lack of knowledge about the FDP community, along with biases and stereotypes, lead to the perception that the entire FDP community has a higher and/or unknown risk profile due to low income and unstable life circumstances, which prevents FSPs from serving them.

Contrary to misconceptions that inhibit FDP economic and financial integration in Brazil, FDP have potential to become promising customers for FSPs.

Figure 1: FDP’s potential to become promising customers for FSPs



Source: Own elaboration, survey data

Although a large number of FDP have used financial services in their home countries, they partly self-exclude themselves from the Brazilian financial system due to perceived restrictions associated with their documentation status and issues related to their financial situation. Furthermore, most of the FDP's knowledge about current offerings from FSPs is restricted because they found it difficult to find information about financial products and services. As a result, information is mostly shared by local support organizations and by word of mouth from other FDP.

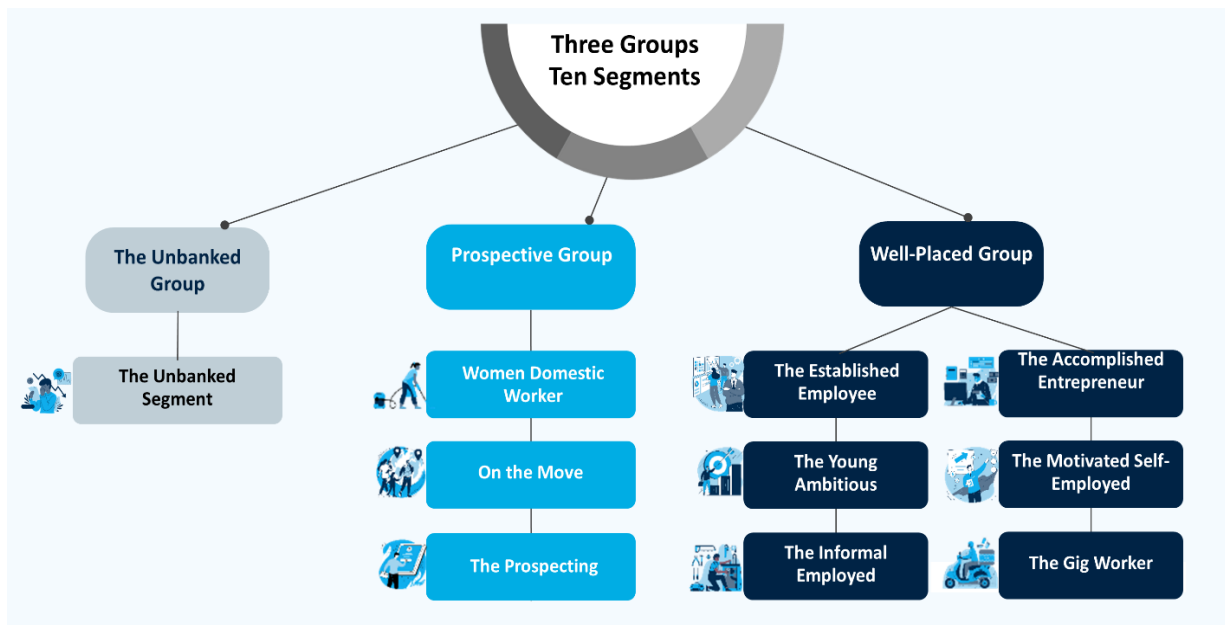
Market segmentation of FDP

FDP have a wide range of financial needs, including transactional, savings, and credit demands to manage both their personal and businesses activities, as well as the need to transfer funds to their families in their home country. However, these financial needs are diverse and evolve based on demographics, time since arrival in host country, income source, and aspirations. To understand the demands and usage of financial products and services, as well as to size the market potential of specific business opportunities for Brazilian FSPs, specific FDP profiles were identified to segment the FDP market based upon factors that would make the segments attractive to FSPs.

An analysis of the collected market assessment data identified 10 unique FDP distinctive segments. To identify priority segments for Brazilian FSPs, the FDP segments were mapped using stability and financial independence indexes. The stability index reflects FDP's integration and permanency in Brazil, while the independence index measures their level of financial autonomy. This includes the quantification of the segments based on the total population of adult immigrants (including forcibly displaced people and other immigrants) of 1.3 million FDP living in Brazil as of December 2022.

The 3 main clusters that emerged include: (1) the *Well-Placed Group*, (2) the *Prospective Group*, and (3) the *Unbanked Group*.

Figure 2: Overview of main FDP Groups and unique FDP segments



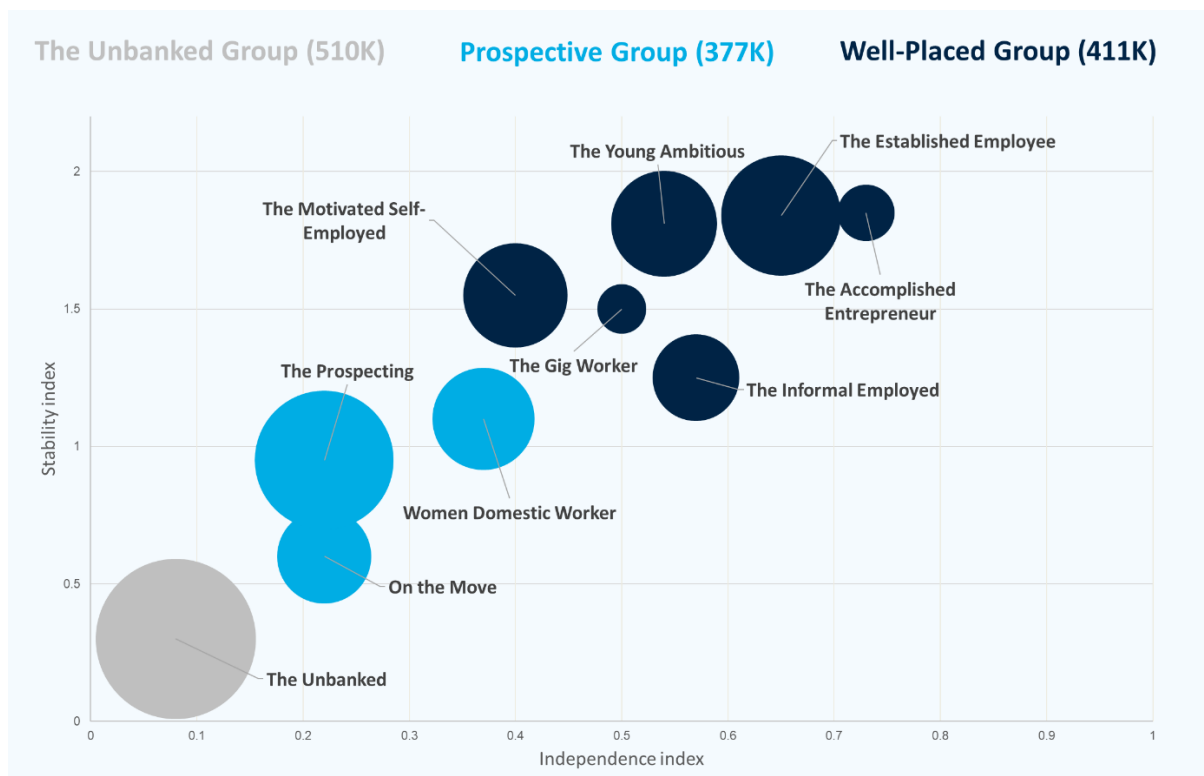
Source: Own elaboration, survey data

- **The *Well-Placed Group* is considered the priority segment for Brazilian FSPs** due to their high level of stability and independence. As a result, this group is an ideal customer segment for various types of FSPs across a wide variety of products and services. The *Well-Placed Group* represents an estimated potential market of 411,000 FDP and is composed of 6 unique segments: (1) the *Established Employees*, (2) the *Young Ambitious* (3) the *Accomplished Entrepreneurs*, (4) the *Motivated Self-Employed*, (5) the *Informal Employed*, and (6) the *Gig Workers*.
- **The *Prospective Group* is considered as the second priority for FSPs** due to their lower financial independence and stability. They represent a potential market for FSPs with a strong social responsibility and inclusion strategy, as well as for FSPs that offer a specialized product or service, such as remittances.

The *Prospective Group* represents an estimated potential market of 377,000 FDP and is composed of 3 unique segments: (1) the *Women Domestic Workers*, (2) the *On the Move*, and (3) the *Prospecting*.

- **The Unbanked Group** is considered as the group with the most pressing needs but is characterized by **lower stability and financial independence**. The Unbanked Group represents an estimated potential market of 510,000 FDP and provides an opportunity for FSPs that want to leverage their transactional platforms to foster financial inclusion.

Figure 3: Market segmentation based on clustering of FDP segments by stability and independence levels²



Source: Own elaboration, survey data

The 6 FDP segments in the *Well-Placed Group* are priority segments and likely interest many FSPs.

- **The Established Employee (120,000 FDP):** They are mainly men with higher education who live in families with high-income and are employed in the formal job market. They have achieved economic stability and seek a better quality of life for their family as well as aim to be fully socially integrated. Most of this segment live in São Paulo (49%), Rio Grande do Sul (10%), Rio de Janeiro (8%) and Santa Catarina (6%) while still 16% reside in the northern states of Roraima and Amazonas. Overall, they are financially included as the vast majority (90%) have a bank and/or digital account. One-third have a personal loan and nearly two-thirds have a credit card, which are both predominantly used for consumption purposes.
- **The Young Ambitious (96,000 FDP):** The segment is composed of young women and men, mostly single, with high education and familiarity with technology. Due to their high education, they can quickly find employment but aim to attain better job opportunities and develop their professional career with a decent and growing salary in Brazil. As a result, the vast majority moved to the southeast, mainly São Paulo (59%), Rio de Janeiro (5%), followed by the Federal District (Brasília, 9%) and the southern states of Rio Grande do

² The stability index (vertical axis) reflects the integration and stability of PDFs in Brazil and is determined by the regularity of income, the type of employment and the desire to remain in the country. The independence index (horizontal axis) measures the level of economic autonomy in terms of income.

Sul (11%) and Santa Catarina (4%). Like the *Established Employees*, most of The *Young Ambitious* are fully banked with access to a conventional and/or digital account. Despite access to a credit card and/or personal loan, the credit limits are modest and obtaining a personal loan remains troublesome.

- **The Informal Employed (57,000 FDP):** Most of this group are women with secondary education and two-thirds live with their families in Brazil. They are informally employed with a regular income and are interested in capacity building and professional skill development to increase their opportunities in the formal labor market. Alternatively, some aim to start their own small business in the hospitality and service sector since it requires low startup capital. Most of the *Informal Employed* segment are from Venezuela and Bolivia and have settled in São Paulo (53%). However, 25% reside in the northern states. Most have a bank and/or digital account and use mobile banking for their basic transactions. As the majority lack proof of income, access to credit cards and personal loans is limited.
- **The Accomplished Entrepreneur (34,000 FDP):** They are mainly men living with their families for more than 6 years in Brazil. While most established their business since more than 5 years and live in the southeast (65% in São Paulo and 9% in Rio de Janeiro), while 7% stay in the Federal District, and some 14% reside in Roraima. The vast majority have an established and registered individual microbusiness under the simplified business registration option. They seek to grow their business to generate more revenue and aim to acquire personal and business assets. In terms of access to finance, they are fully banked with access to multiple bank and digital accounts. The majority have access to a personal loan and credit cards, which are often used for business purposes as they face challenges in accessing a business loan. Many are interested in improving their business and financial skills.
- **The Motivated Self-Employed (83,000 FDP):** They are mainly women (69%) who have lived in Brazil since 2018 and have started their business activity for 2 years. They seek to develop their business skills and formalize their business. Their businesses are typically in the food and service sector and informal (i.e., without business registration). Operating in the informal sector, they have limited access to personal loans and credit cards, and even fewer have access to business or micro loans. As a result, most reinvest their profit into the business. In comparison to the *Accomplished Entrepreneur segment*, about half still live in the northern states of Brazil (Roraima and Amazonas), while the other half are located in São Paulo. Most look forward to improving their business, financial and language skills as well as general labor market skills.
- **The Gig Worker (21,000 FDP):** They are men and women, mainly single or divorced, with high technological affinity depending on the app-based gig economy. They aspire to improve their personal living standard and grow their business activity. Most (59%) have established themselves in São Paulo, while one-third reside in the northern states of Roraima and Amazonas. As most of this segment have already lived in Brazil for more than 10 years, they are fully banked, i.e., have a bank account and debit card. Although about one-third have a personal loan, financing a vehicle or other business assets remains challenging.

The Prospective and Unbanked Groups could be potential targets for fintech and digital banks with alternative credit models and willingness to serve diverse client segments. Additionally, government-owned banks, public institutions, and development agencies could also be interested in targeting these segments because of their social responsibility mandate.

Finally, international good practice shows that offering financial services to FDP combined with supporting local disadvantaged populations is of vital importance, especially when local populations lack access to financial services. Over the last 5 years, financial inclusion in Brazil has expanded significantly from 57% in 2017 to 87% in 2022. Most of the Brazilians who entered the formal banking system are from the C, D and E segments. Yet, there are still challenges related to the access and usage of financial services by the low-income segment of the population, in particular for the self-employed and micro entrepreneurs.

Brazilian micro entrepreneurs of the lower-income segments C, D and E (per-capita income of up to R\$2,000 per month) have similar traits as FDP entrepreneurs and thus, could be served with similar or the same financial services and products. For example, Banco do Povo Crédito Solidário (BPCS) in São Paulo has implemented a program with the partnership of Kiva and the support of UNHCR Brazil that offers their credit products to refugees and migrants and Brazilian micro entrepreneurs. Addressing FDP financial services while also promoting local entrepreneurship can be a win-win, as it contributes to the economic well-being of both groups and can lead to more stable and inclusive communities. The segment of Brazilian low-income microentrepreneurs provides an additional market potential of 469,000 people in Brazil.

Access and use of financial services of FDP in Brazil

An innovative financial ecosystem has emerged in Brazil from digital banks, fintech startups, and Central Bank-led initiatives to fill regulatory gaps and market demands. The Central Bank-led initiative of the Brazilian instant payment system PIX has made transactional banking accessible to both FDP and the broader Brazilian population. As a result, 62% of FDP have a conventional and/or a digital account and perform a variety of payments, and 55% use mobile and 11% internet banking for their financial transactions. The ease and simplicity of opening a digital account, which allows for various types of payments and transactions, are the major reasons that contribute to these results. Furthermore, the use of digital accounts has been encouraged within the FDP community.

Digitalization of financial services is already helping to meet the financial demands refugees and migrants in Brazil. Since 94% of migrants own a mobile phone and 75% have a home internet connection, digital financial services enable them to complete transactions, contract loans, send remittances, open a savings account, and hire insurance products, indicating the commercial potential of this segment.

Access and usage of the following financial services are essential for FDP in the Brazilian context

- **Remittances remain a key need for the FDP population:** Most international transfers made by 66% of FDP rely on informal sources to send money to family members in their home country or elsewhere.
- **Savings are made through digital solutions:** Digital banks offer remuneration with 100% of the Interbank Deposit Rate (Certificado de Depósito Interbancário – CDI) on the balances of the digital account without the need to open a conventional savings account.
- **Access to personal loans and credit cards remains a challenge for FDP:** 35% have access to a personal loan and /or credit cards. Artificial Intelligence (AI) and big data have helped financial institutions improve their scoring algorithms for personal loans to client segments with regular income and the Brazilian low-income population. These developments have benefited FDP, especially those who are formally employed. However, operational hurdles such as inflexible risk assessment methods and insufficient data limit the banking sector's capacity to map FDP's profiles and meet their demand.
- **Access to commercial loans and microloans remains challenging:** Self-employed and microentrepreneurs have unmet credit needs to grow their businesses. Of the estimated market of 138,000 businesses owned by FDP, only 3% were able to obtain a business or micro loan from a financial institution. Some of the unmet demand has been filled through informal sources such as loan sharks and friends & family, which can generate internal and external conflicts when these companies face challenges in repayment. Consequently, most FDP entrepreneurs have been fully reinvesting their profits to organically grow their businesses. However, some FSPs (e.g., FSPs engaged in microfinance) offer a variety of financial products to micro and small businesses, including migrant-owned firms that comply with existing eligibility requirements. For

example, the MFI Banco Pérola digitized its loan application process to enhance the customer experience. BPCS and Banco Santander, through its microfinance program Prospera, offer customizable solutions for micro and small enterprises including group lending. In fact, very few FSPs promote their products to FDP, leaving most FDP unaware of those financial opportunities.

- **Leveraging the initiatives and practices applied by Brazilian FSPs that serve the Brazilian unserved and underserved segments to the FDP community could be an attractive approach to advance their financial inclusion.** It could also provide an opportunity to address the financing needs of the native, lower income microentrepreneurs of the C, D and E segments since they face similar challenges as FDP entrepreneurs regarding access to finance. Like FDP, they are: (i) unaware of potential alternatives in the market; (ii) don't have the financial knowledge to make use of the existing formal financial offerings; or (iii) are not approved by financial institutions' requirements. As a result, they are similar to FDP in that they rely on personal loans, revolving credit cards, and informal finance.

Business Opportunities

Business opportunities emerge from several areas of common financial needs across the identified FDP segments. The potential market sizes for specific products and services are estimated and explored from different strategic angles, accounting for the diverse focus of various FSPs.

The FDP market remains unexploited despite the strategic opportunities for the Brazilian financial sector. FSPs aiming to leverage their existing solutions and platforms associated with corporate social responsibility or sustainable finance strategies are well-positioned to tap into this market gap. Furthermore, the FDP market provides business opportunities for niche players such as mid-sized financial institutions that target specific segments such as women, micro and small enterprises and for fintech, and digital banks that are interested in piloting innovations to serve new segments.

In conclusion, an estimated revenue of R\$ 460 million serving a potential market of FDP (refugees and migrants with more than 6 months living in Brazil) across the full range of products and services were identified.

This potential market provides 3 main opportunities for FSPs:

- Serving specific FDP populations within the *Well-Placed* and/or *Prospective Groups*, with credit in form of personal loans and credit cards, remittances, and other financial services such as savings and insurance products.
- Addressing the needs of the full FDP population through digital transactions and remittances.
- Leveraging existing financial inclusion practices to serve the FDP community.

The following 5 business opportunities to serve the FDP segments have been identified:

- 1** **Remittances present the largest opportunity in terms of number of clients:** estimated 653,000 additional FDP users who will use formal channels for their transfer to their home country with an estimated revenue of R\$ 74 million. Partnerships with digital payment service providers are the key pathway to provide the target segment with secure, efficient, and transparent solutions.
- 2** **Financial deepening and expansion of digital transactions that target the entire adult FDP community:** estimated potential market of 514,000 users and an estimated revenue of R\$ 1.9 million by facilitating access to digital accounts and digital transactions.

3

Unlocking the growing demand for personal loans and credit cards: estimated 228,000 additional FDP users and an estimated annual revenue between R\$ 177 million and 224 million. The most promising segments within the *Well-Placed Group* include the segments of the *Established Employee*, the *Young Ambitious*, and the *Accomplished Entrepreneur* given the higher loan limits and potential to cross-sell other products.

4

Offering microcredit and business loans to meet the diverse needs of FDP micro and small entrepreneurs and self-employed: estimated additional 62,000 FDP customers with an estimated annual revenue of R\$ 73 million. FSPs with a strategic focus on micro and small enterprises have an opportunity to target FDP owned business including the self-employed with their current offer on micro credit and business loans to close the financing gap.

5

Banking on women FDP segments: according to this study's findings, women FDP outnumber men in nearly all FDP segments. Banking on women FDP segments can generate an estimated additional 214,000 women FDP users and an estimated annual revenue between R\$ 79 million and R\$ 86 million. Opportunities that target women could be interesting for FSPs that already have, or are considering developing, a women market initiative, or for FSPs that already serve a major percentage of women. For those FSPs, it could be an opportunity to foster gender financing by focusing on the retail sector via the FDP segments of the *Women Domestic Workers* and the *Young Ambitious* (with 62% women share) and/or through the female migrant entrepreneurial segment of the *Motivated Self-employed*, which has 69% women share.

Table 1: Overview of business opportunities and estimated market potential of serving FDP

Business Opportunity	Potential Users	Groups (Segments)	Estimated revenue per year
Remittances – developing a business relationship	653,000	Well-Placed Group Prospective Group Unbanked Group	R\$ 74 million
Financial deepening and expanding of digital transactions	514,000	Well-Placed Group Prospective Group Unbanked Group	R\$ 1.9 million
Personal loans and credit cards – unlocking the growing demand	288,000 157,000 Personal Loans 71,000 Credit Cards	Well-Placed Group Prospective Group	R\$ 177 million to R\$ 224 million
Business loans – the untapped market	62,000	Well-Placed Group (Accomplished Entrepreneur Motivated Self-Employed Gig Worker)	R\$ 73 million
Banking on women FDP segments	214,000	Women Domestic Worker Female Young Ambitious Female Motivated Self-Employed Female Informally Employed	R\$ 79 million to R\$ 86 million

Source: Own elaboration, survey data

In addition, there is a simultaneous opportunity to provide business loans to the Brazilian underserved C, D, and E microenterprise segments in addition to the business opportunities targeting FDP. This represents an

additional market of 469,000 customers of Brazilian microentrepreneurs and an estimated revenue per year of R\$1.06 billion.

Recommendations

To exploit opportunities for the financial and economic inclusion of FDP in Brazil, several recommendations for various actors within the ecosystem were developed.

Recommendations for Financial Service Providers to serve FDP

The specific recommendations to FSPs are outlined as a three-phase roadmap: (1) start with an internal review and diagnostic of their own FDP customers, (2) define the business model and value proposition targeting the FDP segments, and (3) implementation and go to market activities.

Phase 1: Internal diagnostic

- 1. Learn which FDP segments are already your customers:** Since a large portion of FDP already use financial products and services, FSPs should analyze their own data to understand which FDP segments are already served and what services they use. Gaining those insights, will support FSPs to define their FDP strategy and related business decisions and adjustments.
- 2. Identify and address internal barriers to serve FDP:** Evaluate and identify any internal operational impediments, as well as any unintentional preconceptions toward FDP. Some of the activities to be explored include training and sensitization for staff in places with high FDP concentrations, as well as hiring FDP as employees.
- 3. Consider incorporating the FDP community into the institution's Environmental, Social and Governance (ESG) and/or commercial agenda.**

Phase 2: Business model and value proposition targeting FDP

- 4. Start with the current set of financial and non-financial products and services:** FDP already use products and services that cater to their financial needs. It is important to identify which products and services best meet FDP needs and how the existing business model can be leveraged to reach FDP more efficiently.
- 5. Adapt or create new products and/or financial and non-financial services** that are relevant to the identified FDP segment(s) to be targeted. This includes a review of eligibility criteria to access products and services as well as conditions of products and services.
- 6. Adapt current business practices and policies** to better serve FDP, when needed. Review and assess current procedures and policies such as scoring models and approaches that serve the low-income population in Brazil.
- 7. Assess the need to make adjustments in the core banking system** to identify FDP and ensure data collection on FDP as part of the management information system (MIS).

Phase 3: Implementation

- 8. Create communication and marketing campaigns aimed at FDP:** a clear message of welcome recognizes the refugee and migrant population and helps to dispel common misconceptions about FDP, as well as address FDP's self-rejecting attitudes.
- 9. Sensitization and awareness training:** Training and sensitization of staff in locations with FDP concentrations as well as considering hiring FDP as employee could be some of the activities to be considered. Sensitization trainings and awareness building activities could be supported and provided by

local and international support organizations or through the provision of a technical assistance program to foster financial inclusion of FDP in Brazil.

10. **Defining commercial targets and key performance indicators** (KPIs) to monitor and evaluate results and the level of achievements.

Recommendations for national and international support organizations

1. **Market breakdown:** segments with higher vulnerability can benefit from the offer of vocational and business training, financial education, market information and guidance on how to access and use diverse public services provided by local refugee organizations, such as UNHCR, UNHCR partner organizations (e.g., Caritas), as well as Brazilian business development agencies.
2. **Connection and interaction with the financial ecosystem:** organizations that are in direct contact with the refugee and migrant populations can bridge the financial sector with these population segments to provide support in their readiness to take advantage of existing financial products and services.
3. **FDP as employees for FSPs:** National and international organizations could play a leading role in raising FDP awareness of the financial sector as a prospective employer. This may be especially relevant for the *Young Ambitious* segment, as they are highly educated and wish to pursue a career in Brazil. Partnerships between national support organizations, training institutes and FSPs could be formed to increase FDP's capabilities to make them more appealing to FSPs.

Recommendations for the public and private sectors

1. **Coordination role:** the public sector should further enhance its coordinating role within the ecosystem promoting the economic integration of the FDP population by providing up to date and accurate data and information on the regulation and categorization of FDP to effectively develop policies and programs targeting FDP.
2. **Enhancing identity verification mechanisms:** this provides private sector actors with enhanced security assurances when conducting transactions with FDP segments.
3. **Inter-sectoral articulation:** strengthen and harmonize the initiatives of international and national support organizations. Engaging both public and private sector stakeholders to make direct or indirect contributions to foster economic and financial inclusion of FDP should also be considered.
4. **Employment of FDP:** foster employment opportunities for FDP into the teams of various organizations. This tactic provides multiple advantages ranging from incorporating refugees' perspectives and experiences concerning technical and operational issues, workplace diversity and helps to address barriers that migrants face in accessing employment.

1 Introduction and context

This report is developed within the Project “Fostering the Financial Inclusion of Forcibly Displaced People in Brazil,” launched by the International Finance Corporation (IFC), part of the World Bank Group. The main objective of the study is to present concrete business opportunities regarding the provision of sustainable financial and non-financial services to refugees and migrants in Brazil, hereafter referred to as Forcibly Displaced People (FDP).

Box 1: Defining FDP for the purpose of this study

For the purposes of this study, FDP includes refugees and migrants living in Brazil for more than six months. According to the Cartagena Convention definition (UNHCR, 1984), refugees are individuals who are outside their country of origin or habitual residence and are unable to return because of serious and indiscriminate threats to life, physical integrity or freedom resulting from generalized violence or events seriously disturbing public order. The Brazilian Refugee Law (Law 9.474/1997) defines refugees as those (i) who face well-founded fears of persecution for reasons of race, religion, nationality, social group, or political opinion, (ii) having no nationality and being out of the country where he or she had previously retained permanent residence and cannot or does not wish to return to such country based on circumstances mentioned previously and, (iii) face serious and widespread violation of human rights seeking refuge outside his or her home country.

According to UNHCR (UNHCR, 2022 a), in order to be recognized as a refugee by the Brazilian government, one needs to claim asylum, becoming an asylum seeker. As long as the claim hasn't been determined legally, the person remains asylum seeker.

Furthermore, we define the term migrant as a person who made a conscious decision to move away from his or her place of usual residence, mostly across an international border for a variety of reasons such as socio-political or economic instability, natural disasters and other reasons and may wish to return to his/her home country in the future. In other words, migrants refer to people on the move that voluntary came to Brazil.

Additionally, immigrants are persons who decide to move to another country with the goal to stay permanently. Immigrants and migrants are visa seekers or seekers for residence permit.

To gather information that supports the goal of fostering the financial inclusion of FDP in Brazil, an analysis of the economic and financial possibilities for the target segment was performed, including:

- Demand analysis, including market size and potential as well as a market segmentation;
- Assessment of current and potential supply of financial and non-financial products for FDP; and,
- Gap analysis to identify business opportunities for financial services providers (FSPs) to serve FDP in Brazil.

Data as of mid-year 2023 indicate that more than 110 million people around the world have been forced to leave their homes due to armed conflicts, persecution, or serious human rights violations.³ In Latin America, Venezuela has witnessed the largest exodus of people in recent years. By June 2023, more than 7.3 million had left Venezuela in search of international protection and better living conditions.⁴

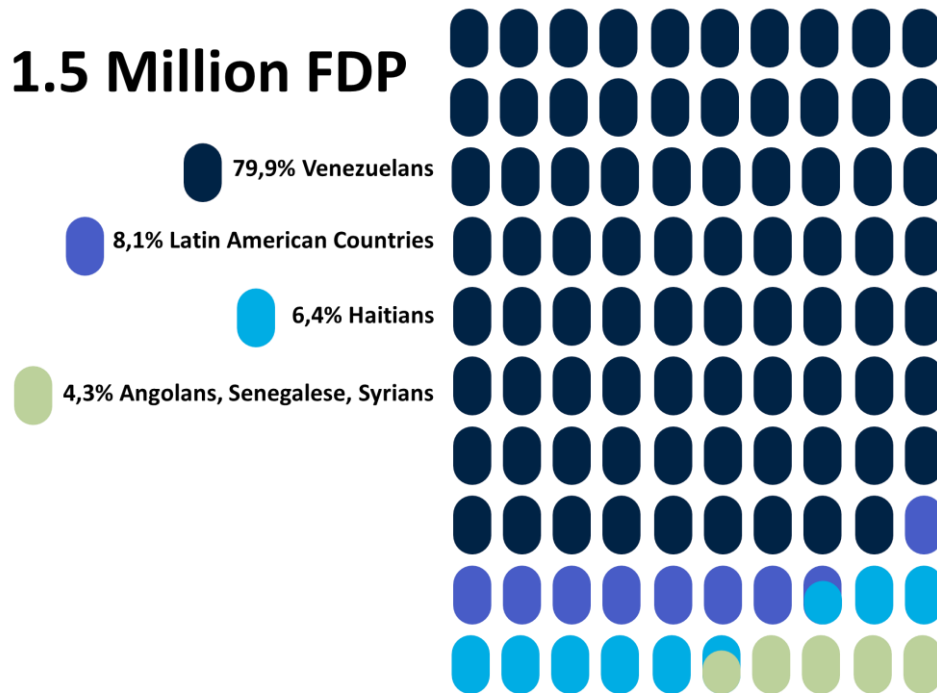
³ (UNHCR, 2023 a)

⁴ (UNHCR USA, 2023)

Between January 2017 and December 2023, more than 560,000 Venezuelans were registered in Brazil, all of which were documented upon arrival. In addition, by the end of 2023, around 150,000 refugees from other countries were registered as refugees, asylum-seekers, persons in need of international or national protection.⁵

By December 2022, of the total 1.5 million refugees and migrants resided in Brazil,⁶ Venezuelans are a large majority (79,0%), followed by Haitians (6,4%), applicants from other Latin American countries (8,1%), and applicants from non-Latin American countries such as Angola, Senegal, and Syria (4,3%).⁷

Figure 4: Market overview as of December 31, 2022



Source: (OBMigra, 2023 a), (UNHCR, 2022 b)

The total of 1.5 million immigrants includes FDP and other types of immigrants

Brazil's asylum and migration regulations⁸ are considered as part of the most advanced in Latin America, allowing refugees and migrants to access basic services, including health and financial services, as well as obtain employment once an asylum request is submitted. With registration as an asylum seeker, FDP receives a refugee request protocol that is valid for one-year, renewable yearly, until the case is decided by the National Committee for Refugees (Comitê Nacional para os Refugiados -CONARE) and the following Brazilian documents:

- Provisional ID (Documento Provisório de Registro Nacional Migratório - DPRNM);
- Work and Social Security Card (Carteira de Trabalho e Previdência Social - CTPS); and
- An individual Tax Identification Number (Cadastro de Pessoa Física - CPF).

⁵ (UNHCR, 2023 b)

⁶ (OBMigra, 2023 a)

⁷ (UNHCR, 2022 b) ; (UNHCR, 2023 c)

⁸ (Brazilian Ministry of Justice and Public Security, 2017) ; (Brazilian Ministry of Human Rights and Citizenship, 2023)

Box 2: Migration status and respective Brazilian legislation⁹

Refugees: Refugees are persons who are forced to flee from their homes, frequently abruptly and unexpectedly, in response to events that potentially endanger their lives, physical integrity, or freedom (for example, wars, conflicts, or persecution). The Refugee Law (Law 9.474/1997) defines what a refugee is, their rights and creates the refugee authority CONARE.

Migrants are persons who relocate voluntarily. The individual decides to move and has the relative freedom to organize and carry out their plans without risking their life or physical integrity. The Migration Law (Law 13.455/2017) deals with the principles, rights, and rules of migration.

Asylum Seeker: are those that request asylum in Brazil. Anyone requesting asylum in Brazil cannot be deported to the border of a country or territory where their life or freedom is threatened. Decree 9.277/18 Art. 3 determines that the provisional National Immigration Registration document constitutes the identification document for the refugee until the final decision of the process for asylum is made.

In response to the large inflow from Venezuela, the Brazilian government launched Welcome Operation (*Operação Acolhida*) in March 2018, and remains ongoing. The operation is built upon 3 pillars:

- Organization of incoming FDP at the border, comprising first humanitarian and health assistance, registration, and paperwork provision;
- Shelter provision;
- Settlement program based on voluntary relocation opportunities to over 930 locations around the country with the goal of relieving pressure on public services in Roraima¹⁰ and promoting FDP social and economic integration in Brazil.¹¹

The operation is led by the Brazilian Government and has the support of the United Nations High Commission for Refugees (UNHCR), the International Organization for Migration (IOM), the civil society and the private sector. In addition, other international organizations such as United Nations Children's Fund (UNICEF), United Nations Population Fund (UNFPA) and the Red Cross, among others are collaborating.

Furthermore, in June 2019, the Brazilian government implemented the so-called "simplified refugee identification process" to accept asylum-seekers from Venezuela on a "prima facie basis".¹² Thus, in general, asylum applications (or residence permit applications) are simple to make for Venezuelan FDP. Work permits and CPFs are also easily obtained due to the outlined simplified process.

By December 2023, more than 122,700 Venezuelan have been relocated from the northern state of Roraima to more than 930 Brazilian cities to find better opportunities in terms of access to formal employment, housing, and education (see figure 5).

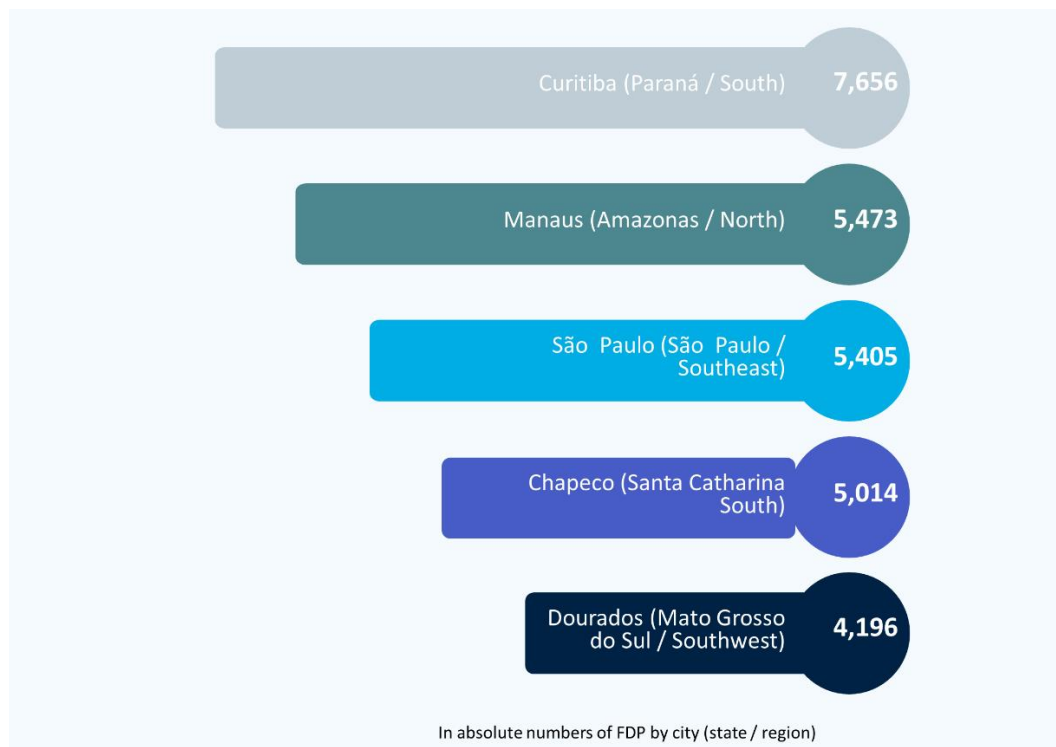
⁹ (Brazilian Ministry of Justice and Public Security, 1997) ; (Brazilian Ministry of Justice and Public Security, 2018); (Brazilian Ministry of Justice and Public Security, 2017)

¹⁰ Northern state of Brazil that is the main corridor for FDP coming from Venezuela

¹¹ (IOM, 2023)

¹² (United Nations, 2019) ; (Brazilian Ministry of Justice and Public Security, 2021); (UNHCR , 2023 e)

Figure 5: Distribution of Venezuelan FDP relocated by the settlement program – Top five Brazilian cities (2023)



Source: (R4V, 2024)

In 2012, the Brazilian government issued special regulations for Haitians coming to the country, recognizing their need for humanitarian reception and protection due to a major calamity and environmental disaster which affected their home country. Since then, political turmoil has also increasingly led Haitians to seek international protection in other countries. They can request a temporary visa to Brazil and authorization for provisional residence for two years and latter on apply for permanent residency or claim for asylum.¹³ Similar to Venezuelan FDP, Haitians can work and access public services, including access to financial services.

Importantly, a strong network of humanitarian aid organizations in Brazil ensures that applicants are supported throughout the process for asylum and/or residence. The final decision on the refugee request is made by CONARE, which is a collegiate body and includes, in addition to representatives from different parts of the government, representatives from UNHCR and civil society. After the refugee request is granted, the person receives a permanent residence permit. Being a refugee or resident, the rights set forth in the Federal Constitution, Refugee Act or Migration Law apply¹⁴ accordingly and guarantee equal and free access to social services, programs and benefits, public goods, education, full public legal assistance, work, housing, and social security.

Despite favorable conditions for FDP to establish themselves in the country and a strong support network, challenges remain regarding their access to formal financial and non-financial services in Brazil. Persistent prejudices against FDP result in a lower degree of financial inclusion than that of the native Brazilian population. While 87% of the Brazilian adult population was banked in 2022,¹⁵ survey data show that only 62% of the adult FDP population use a financial product such as a bank and/or digital account and transactional services in Brazil.¹⁶

¹³ (Brazilian Ministry of Justice and Public Security, 2023)

¹⁴ (Brazilian Ministry of Justice and Public Security, 2017)

¹⁵ (Gifford & Plano CDE, 2022)

¹⁶ Calculation based on this study

Box 3: Challenges to access finance for Brazilian low-income microentrepreneurs and FDP entrepreneurs

According to our research, only 3% of refugee and migrant entrepreneurs have access to business loans. Although this percentage is much higher for Brazilian entrepreneurs from the lower-income C, D, and E classes (19%)¹⁷, both segments face challenges to access finance for their businesses. Both groups (FDP entrepreneurs and Brazilian low-income microenterprises) satisfy their financing needs through retail loans, mainly in the form of personal loans and revolving credit cards, in addition to their own resources and informal finance. These forms of financing are typically more expensive and do not correspond to the needs of an enterprise because they are characterized by low amounts, short-term finance, and highly revolving.

Furthermore, Brazilian micro and small enterprises (MSEs) encounter comparable obstacles as FDP entrepreneurs that pose a risk to their financial sustainability, which includes limited availability of financial resources, societal and cultural hurdles - particularly for enterprises owned by women and minority groups -, as well as limited opportunities for training, skill development, and networking.

Thus, there is an opportunity for FSPs to address this financing gap, for both Brazilian microentrepreneurs and FDP entrepreneurs by adjusting their existing initiatives and approaches as well as by leveraging good practices of financial inclusion and the digitalization in Brazil.

Sources: Own research, (Banco Central do Brasil, 2021) and (Gifford & Plano CDE, 2022)

This study demonstrates that FDP in Brazil have advantageous features that contribute to local development and the Brazilian economy. Such findings contradict existing biases concerning the stability, independence and permanence of the refugee and migrant population in their host countries, particularly Brazil.

The study's main findings serve as the foundation to implement solutions outlined with major participants in the sector. In collaboration with the IFC, financial institutions are encouraged to participate in these activities.

The report is structured as follows: Chapter 2 provides a brief overview of the market assessment methodology; Chapter 3 presents the relevant characteristics of FDP in Brazil, including market sizing and market volume; Chapter 4 assesses the needs for financial products, including transactional services, credit, remittances, savings and insurance of FDP in Brazil; An in-depth market segmentation with prioritized segments with the greatest potential for financial actors is outlined in Chapter 5. A comprehensive analysis of the supply side follows in Chapter 6, analyzing the current products, service offerings and systemic challenges and Chapter 7 presents the business opportunities, which have been identified and are deemed to be commercially attractive and sustainable for financial institutions that want to take concrete action. The study concludes with specific recommendations diverse stakeholders focusing on FSPs that are interested in the refugee and migrant market segment.

¹⁷ The C, D, and E segments correspond to 140 million people in Brazil (over 70% of the population) (Gifford & Plano CDE, 2022). The Brazilian Institute of Geography and Statistics Instituto Brasileiro de Geografia e Estatística (IBGE) classifies the population into five segments (A, B, C, D, E) based on the gross monthly income of the family unit. Segment A (> 20 minimum wages), segment B (between 10 to 20 minimum wages), segment C (between 4 to 10 minimum wages), segment D (between 2 – 4 minimum wages) and segment E (up to 2 minimum wages). (VocePerguntaCom, 2021)

2 Overview of the Methodology

The study aims to determine the market potential of FDP as clients of financial service providers. To this end, an online survey with demographic, multiple choice, rating, and Likert Scale¹⁸ questions, as well as focus group discussions and in-depth interviews with FDP, were used as the main research methods. These methods enabled the collection of data about the demographics, socioeconomic levels, demand and needs for financial and non-financial services, the current use of financial products and services as well as perceptions and challenges in accessing financial and non-financial services of FDP in Brazil.

An online questionnaire captured information from a sample of 1,070 FDP respondents and was the main quantitative tool to investigate the demand for financial services. The study gathered data on demographics, the socioeconomic status, documentation regularization of FDP, and their degree of integration within the host country. Other questions aimed to capture the diverse backgrounds, previous financial behaviors of FDP in their home country as well as the current financial behaviors and aspirations of FDP in Brazil.

As FDP are usually closely connected to migrant and refugee communities, the Respondent Driven Sampling (RDS) method was identified as the most efficient way to contact them. The method relies on a social network of existing FDP members as well as statistical adjustments to approximate random sampling. With the support of UNHCR, several organizations that work with FDP across Brazil were contacted. In total, 18 organizations from 8 Brazilian states shared the survey link within their networks and FDP communities.

A cluster analysis of the survey data identified similar patterns for the market segmentation. To carry out this analysis, survey respondents who were alike were clustered into groups based on common aspects, such as gender, employment, income level, or the desire to stay in Brazil, among others.

Qualitative research integrating 20 in-depth interviews and 8 focus groups complemented the collected quantitative data. The qualitative research focused on refugees and migrants from Venezuela, Haiti, and Bolivia – the three countries with the largest number of refugees and migrants in Brazil. In-person focus groups with refugees and migrants from Haiti and Bolivia were held in São Paulo while those with FDP from Venezuela were conducted in Boa Vista, Roraima. Individual in-depth interviews with 20 FDP were conducted via WhatsApp. FDP participants were selected with the assistance of UNHCR partner organizations in Brazil.

To gain insights on the current offering of financial and non-financial services of Brazilian FSP and their interest and/or experience in serving FDP, 12 FSP were interviewed between May and September 2023. Most interviews with FSPs were held online and a few took place in person. To reflect the diversity of the Brazilian financial sector, major and mid-sized private commercial banks, fintech and digital banks, as well as microfinance institutions, state-wide development agencies, and public financial institutions were included. In addition, FSPs were selected by considering the main motivations to serve FDP:

- Mission to expand access to financial services as key driver for business growth and expansion of the FSPs' footprint in the market.
- Corporate social responsibility (CSR) strategy, serving FDP with tailored services as main driver to engage with FDP.
- Leveraging existing solutions and platforms associated with CSR strategies: FSPs interested in piloting “innovations” that serve new segments, particularly when this can be combined with CSR strategies.

¹⁸ Likert Scale is a psychometric response method where respondents can easily answer questions and state their level of agreement that helps to measure the audience's opinions and perceptions with greater nuance than a simple “yes” or “no”, e.g., strongly agree, agree, neither agree nor disagree, disagree, strongly disagree.

- Mandate and mission of public finance organizations that could drive interest in developing approaches and services that target FDP segments.

To estimate the market potential of each unique FDP segment, the following methodological approach was applied: The survey data was used to determine the participation of each unique FDP segment identified among the sample of 1.070 FDP respondents. These values were extrapolated using the total number of 1.3 million adult immigrants (including forcibly displaced people and other immigrants) living in Brazil as of December 2022¹⁹.

Annex 2 provides more details about the research methodology. A list of the FSP mapped and interviewed is provided in *Annex 3*.

¹⁹ In order to define the adult population of FDPs, the average rate of refugees and migrants under the age of 15 was calculated by deducting it from the total immigrant population of 1.5 million in December 2022. (OBMigra, 2023 a); (UNHCR, 2023 d)

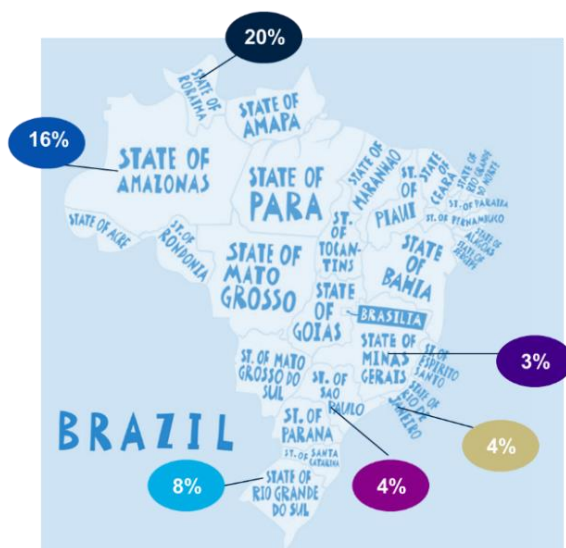
3 Demand characteristics

The following section analyses the demand characteristics and core aspects of the FDP community in Brazil, outlining the overall market volume, the geographical distribution of FDP living in Brazil, their demographic and socioeconomic profile and previous financial experience. The information provides evidence to challenge certain preconceptions and biases toward the FDP community.

3.1 The FDP market in Brazil

As of December 2022, FDP in Brazil represent an attractive market of 1.3 million adult individuals. According to the survey, 99% of FDP are documented.

Figure 6: Refugees and migrants established in most common Brazilian states, August 2023



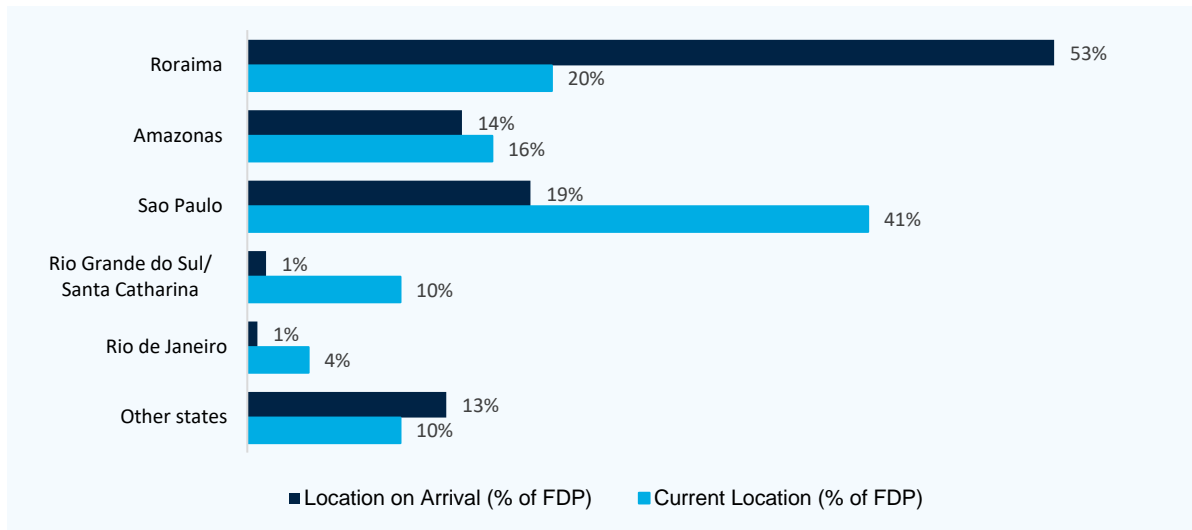
Source: Own elaboration, survey data

The survey collected data from FDP residing in São Paulo (41%), followed by the northern states of Roraima (20%), the first entry point for FDP coming from neighboring countries, such as Venezuela and in the state of Amazonas (16%).

According to our survey and in response to economic and employment opportunities, FDP and in particular Venezuelan FDP have been relocating from the northern state of Roraima to the southeast especially to São Paulo and the southern states (Paraná, Rio Grande do Sul and Santa Catarina).

The following figure depicts the geographic distribution and migration patterns of FDP, highlighting the contrast between their initial arrival state and current location. While the majority of FDP (mainly Venezuelans) arrive in Roraima, only 20% chose to stay. In contrast, in São Paulo and many southern states, more FDP now reside than those who initially entered these regions.

Figure 7: Geographical distribution of FDP on arrival and current location as of 2023

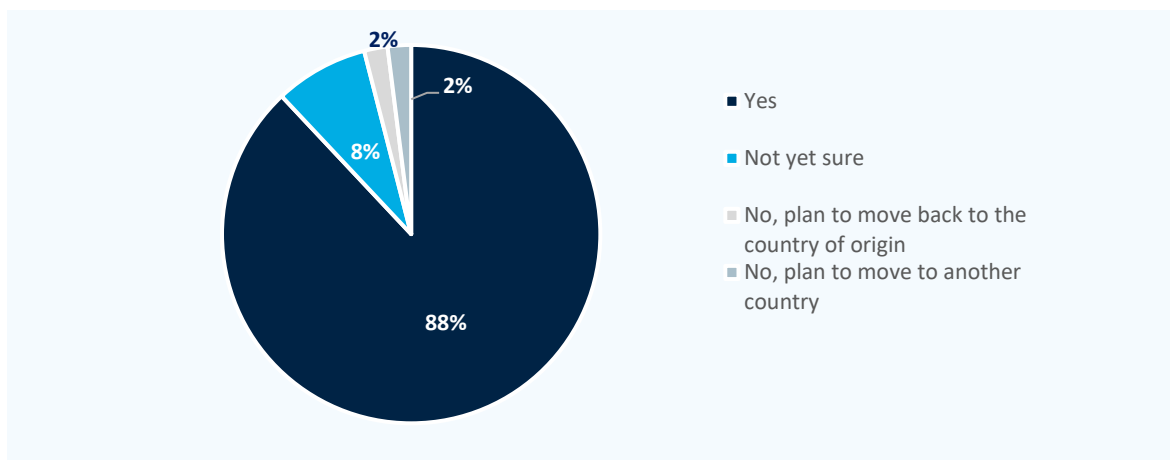


Source: Own elaboration, survey data

Note: N=1,070 of FDP surveyed

Our survey data further reveals that a large majority of FDP have intentions to stay in Brazil for the foreseeable future: 88% of FDP expressed plans to remain in the country for the next two years, confirming their commitment and interest to stay in the country.

Figure 8: Intention of FDP to stay in Brazil



Source: Own elaboration, survey data

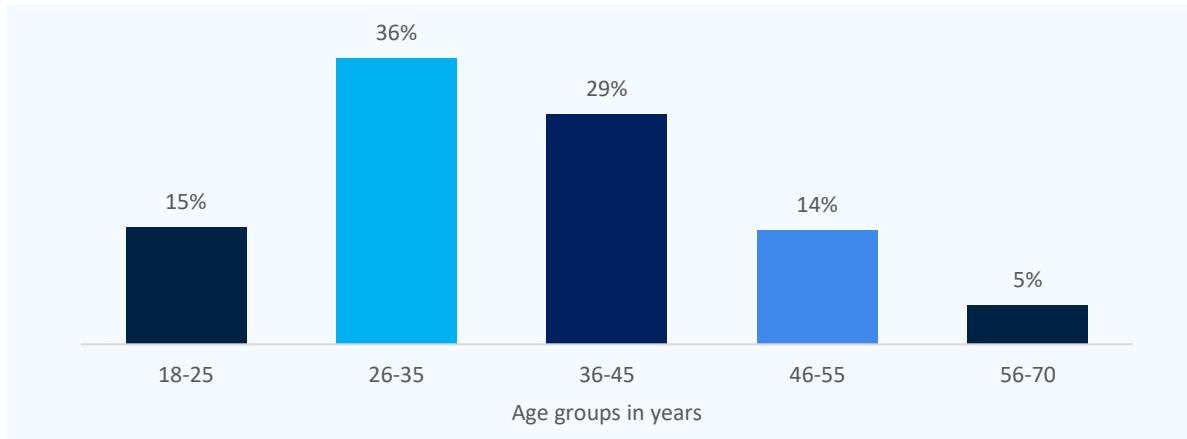
Note: N = 783 of FDP who live with their families

Furthermore, 69% of FDP stated that they had no plans to relocate to another city within Brazil in the next 6 months, indicating a desire for stability and rootedness. Additionally, 62% of the surveyed FDP have been living in Brazil since 2020, dispelling the notion that their presence is transient. These findings underscore the fact that migrants and refugees seek more than temporary stay; they are actively building their lives and making Brazil their home. Their intentions and length of stay challenge the perception of transitory residency and emphasize the importance of recognizing them as a potential long-term market. Contrary to popular belief, a significant portion of FDP in Brazil have successfully obtained the necessary documentation.

3.2 Demographic profile of FDP

With respect to the demographic profile of FDP, our research indicates that nearly half of FDP (45%) are younger than 35 years old. The average age of surveyed FDP is 36.5 years.

Figure 9: Age distribution among FDP



Source: Own elaboration, survey data

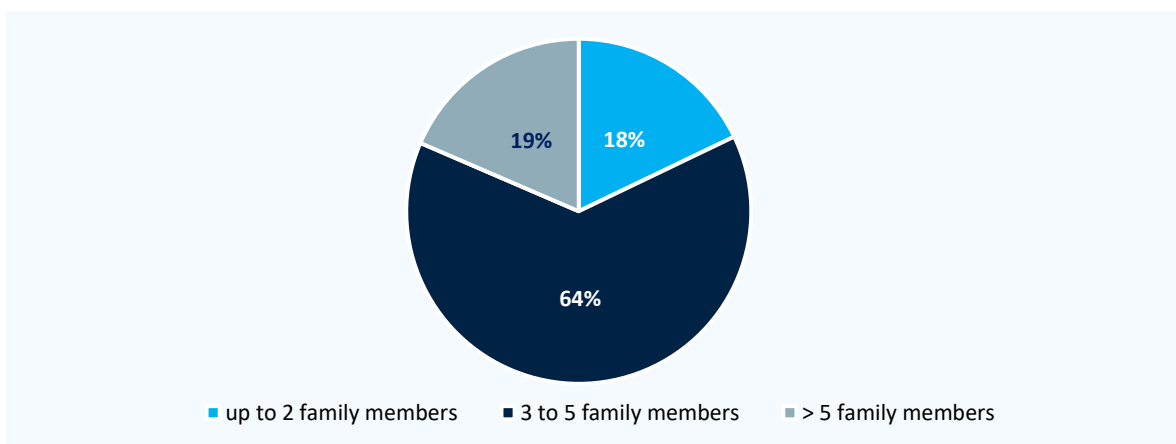
Note: N=1,070 of FDP surveyed

Secondary data corroborates the arrival of a predominantly young FDP community that sought asylum in 2022: the two cohorts between the ages of 25-39 and 15-24 years old accounted for 52% of total asylum requests in 2022, suggesting a substantial potential for labor force development.²⁰

More than two-thirds of surveyed FDP were women (68%), reflecting the tendency of feminization of displacement observed over the last years. In terms of marital status, most FDP declared to be single (57%) while 20% reported to be married and another 19% live in a stable union. A minority is divorced (3%) or widowed (1%).

The vast majority (73%) of FDP live with their family in Brazil. The average family size is between three to five family members (64% of FDP families reported a family size between 3 and 5 family members). In addition, 80% of respondents indicated that they were the head of the household.

Figure 10: Distribution of FDP families by family size



Source: Own elaboration, survey data

Note: N = 1,070 FDP surveyed

²⁰ (OBMigra, 2023 b)

According to the survey, FDP exhibit higher levels of education compared to the average Brazilian population: 36% of FDP surveyed had attained a higher education degree²¹ compared to 21% for the Brazilian population in 2022.²² Nearly half (46%) of FDP respondents possess up to a high school diploma.

These findings challenge the common belief that FDP lack educational attainment. Given their level of education, FDP possess the capacity and expertise to complement the Brazilian labor market and contribute to the local development.

3.3 Socio-economic profile of FDP

Our survey data reveals that two-thirds of FDP in Brazil are economically active, whether through self-employment and entrepreneurship or via formal or informal employment. When compared to the labor force participation rate of the Brazilian population, which stood at 63% from May to July 2023, the FDP ratio of 66% is very similar.

Figure 11: Socio-economic details of FDP in Brazil



Source: Own elaboration, survey data

When seeking employment in Brazil, language barriers, limited social network, access to information on legal aspects and where to find main opportunities are the most frequent obstacles for FDP. Additionally, 20% of FDP in Brazil reported encountering prejudices as refugees or migrants. Other barriers include the inability to afford the necessary financial resources to seek employment.

According to the Observatório das Migrações Internacionais (OBMigra) Annual Report 2022, most of FDP with formal employment work in the production of goods and industrial services (27%), retail (22%) or as science and arts professionals (15%).²⁴ However, informality remains an inherent characteristic of the economically active FDP. Based on the research, 52% of economically active FDP develop an informal activity. In addition, 35% of FDP receive government transfers.²⁵

Female displacement led to an increase in the arrival of children and adolescents. Additionally, there has been a substantial increase in the participation of female FDP in the formal labor market. According to the OBMigra Annual report 2022, 60,800 female FDP were registered in the formal labor market at the beginning of 2022, compared to 19,100 female FDP in 2011. Of the female FDP population, 38% were under 30 years old, the

²¹ Including completed undergraduate degrees as well as incomplete and completed (post) graduate degrees.

²² (OECD, 2022)

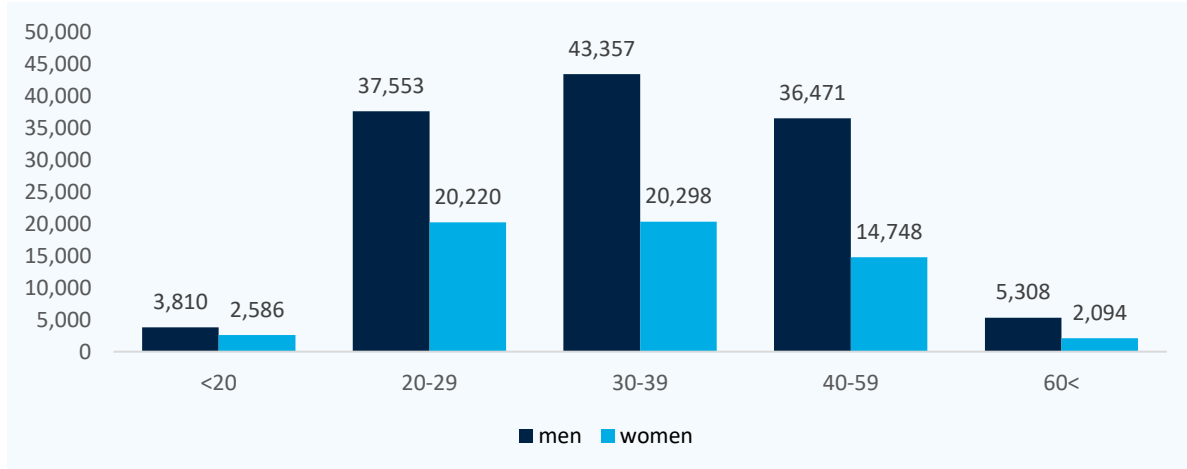
²³ Those are defined as individual microentrepreneurs (Microempresarios individual – MEIs) according to the complementary law 123/2006 (Global Regulation, 2006)

²⁴ (OBMigra, 2022)

²⁵ Own elaboration, survey data

majority (59%) were between the ages of 30 and 59 and 3% were older than 60 years. Comparatively, 32% of the 127,000 male FDP in the formal labor market were under the age of 30 by beginning of 2022.²⁶

Figure 12: Number of FDP in the formal job market, by gender and age in Brazil

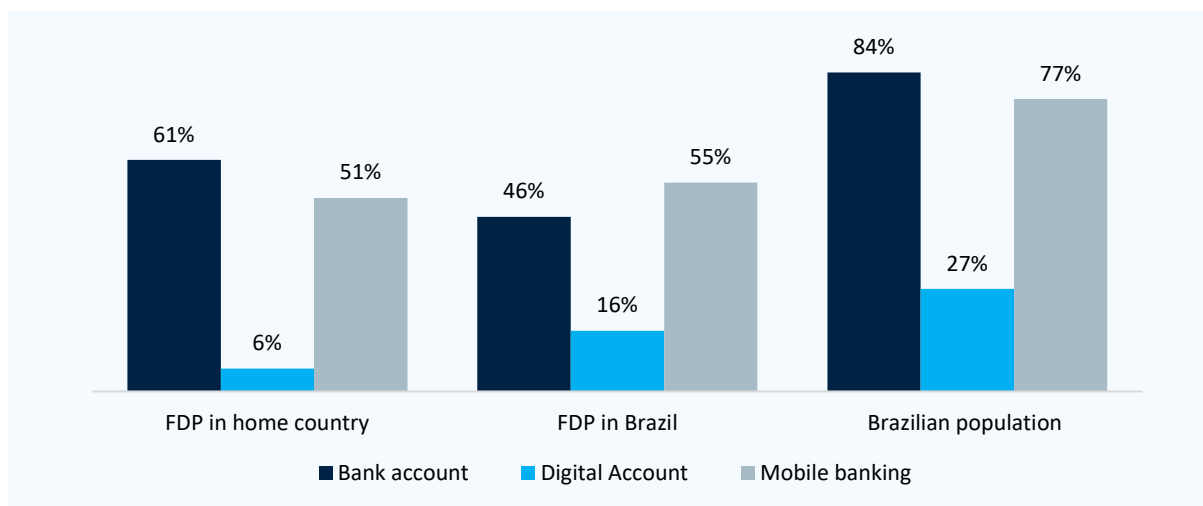


Source: (OBMigra, 2022)

3.4 Financial experience of FDP

It is noteworthy that most of the FDP population has extensive previous experience with financial products in their home countries, indicating their familiarity with financial systems and products. According to the survey, 61% of FDP had an ordinary bank account in their home country while only 45% of FDP staying in Brazil use an ordinary bank account. By contrast, digital services appear to have higher uptake for FDP in Brazil: 16% of FDP living in Brazil use a digital account compared to 6% in their home country. Despite the growing usage of digital accounts among FDP, there remains a gap of 11 percentage points compared to the adoption rate observed in the Brazilian population (27%), Brazilians use conventional bank accounts more frequently (84% versus 46%).²⁷

Figure 13: Use of financial services by FDP in their home country and in Brazil compared to the Brazilian population



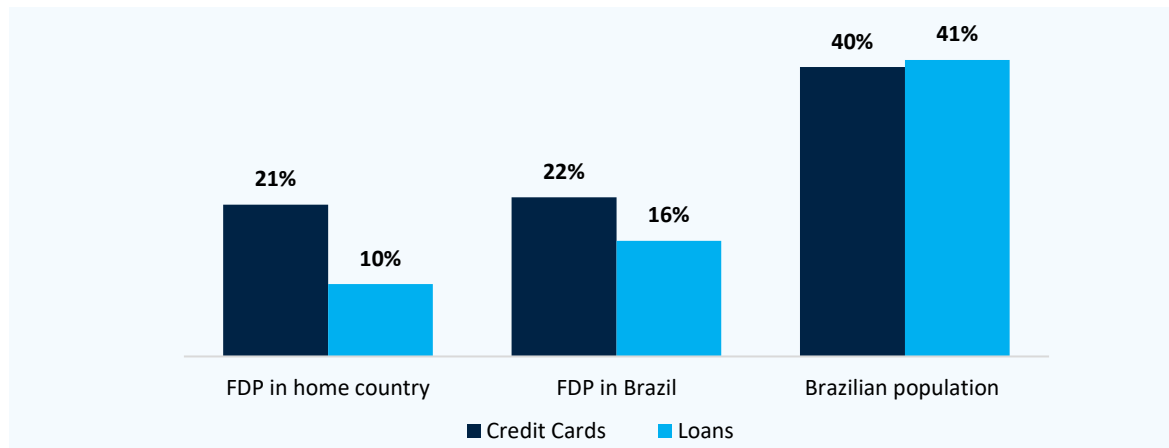
Source: Own elaboration, survey data for FDP in Brazil and in their home country as of 2023;
Global Findex data 2021 for the Brazilian population

²⁶ (OBMigra, 2022)

²⁷ (World Bank, 2021) and own elaboration, survey data

This finding suggests that FDP may face challenges to open ordinary bank accounts and access financial services. Approximately 55% of FDP in Brazil use their mobile devices to consult and perform transactions, a slightly higher proportion than the 51% of FDP in their home countries. The global pandemic may have been one reason for this increase, forcing many users to utilize digital services. Data also indicates a shift from in-person banking toward digital channels, with only 21% of FDP in Brazil utilizing in-person services compared to 51% in their home countries. This also occurs due to increased technological adoption and the evolution of the banking industry, thereby demonstrating the digital literacy of FDP and their ability to leverage technology for financial transactions.

Figure 14: Access to credit cards and loans



Source: Own elaboration, survey data for FDP in Brazil and in their home country as of 2023; Global Findex data 2021 for the Brazilian population

While our survey shows that only 10% of refugees and migrants had access to loans in their home country, the percentage increased by 6 percentage points for FDP residing in Brazil (16%). Nevertheless, FDP face greater barriers in obtaining loans than Brazilians. According to the Global Findex Data 2021, 41% of the Brazilian population received loans from financial institutions.²⁸

According to our survey, one-third of FDP used at least one insurance product in their home country, such as health, life, or car insurance, whereas just 3% of FDP use an insurance product in Brazil. There is no primary need to obtain a private health insurance given that FDP has access to public health. Furthermore, the demand for vehicle insurance is limited since the majority of FDP do not yet have the financial means to own a vehicle as well as to have a Brazilian driving license.

3.5 Conclusions

FDP in Brazil represent an attractive and appealing market for financial institutions due to their demographic and socio-economic characteristics. However, misconceptions surrounding FDP can hinder FSPs from recognizing the economic opportunities they represent.

- **The vast majority of FDP in Brazil have obtained the Brazilian documents.** Counting with the documentation allows them to legally reside in the country and access public services, including financial services.
- **FDP are spread across all Brazilian states but have concentrated populations in the southeastern, northern, and southern regions.** The geographical distribution of FDP ensures that FSP have an opportunity

²⁸ (World Bank, 2021)

to tap into diverse markets and tailor their services to meet the specific needs and preferences of different FDP communities.

- **FDP exhibit higher levels of education compared to the average Brazilian population.** In addition, nearly half of FDP are under the age of 35, indicating a significant potential for labor force development.
- **The vast majority of FDP intend to stay in Brazil for the foreseeable future.** These indicates that migrants and refugees seek more than temporary refuge; they are actively building their lives and making Brazil their home.
- **One-third of FDP have a stable and regular income, of which half are formally employed.** These findings reflect the economic contribution of FDP to Brazil's workforce and the local economy as well as highlights their financial stability.
- **Most FDP have experience with financial products in their home country and are digital savvy.** Although a higher percentage had traditional bank accounts (61%) in their home country compared to Brazil (45%), the adoption of digital accounts and digital transactions among FDP in Brazil has increased significantly, also driven by technological advancement.

These insights highlight the untapped market potential of FDP in Brazil and offer a window of opportunity for the financial sector since there is high demand for financial products and services. By recognizing the potential of the FDP customer base and by offering inclusive and accessible financial solutions to FDP, FSPs can simultaneously cater to their unique requirements and foster economic growth and empowerment within these communities.

4 Financial needs

The following section analyses the needs of FDP for core financial products including transactional services, credit, remittances, savings, and insurance in Brazil.

Emerging digital banks, fintech and Central Bank-led initiatives have created an innovative financial ecosystem. The intensive use of technology and data have enabled the creation of innovative products and services to address existing gaps. As a result, the role of digitalization and online access is a cornerstone in accessing financial services for FDP.

4.1 Assessing the financial needs of FDP

▪ Digitalization of financial services – the pathway to basic transactional financial products

The digitalization of financial services and products has greatly facilitated the financial inclusion of migrants and refugees in Brazil. In particular, digitalization has enabled the possibility of opening a digital bank account within a few minutes, reduced the need for documentation, and permitted access to digital payments. The implementation of PIX,²⁹ the Brazilian instant payment method created by the Central Bank of Brazil, allows funds to be transferred between accounts within a few seconds, at any time of day. It's practical, fast, and secure. PIX can be made from a current account, savings account or prepaid payment account. It allows transfers between Person-to-Person (P2P), Person-to-Business (P2B) and Business-to-Business (B2B), and payment of bills from any account. In turn, the FDP population is able to benefit from easy access to transactional products.

The digitalization of the banking sector and the digital affinity of the FDP population – 94% have a cellphone and 75% have an internet connection at home – have paved the way for digital financial solutions and business opportunities. 62% of FDP use financial products and services in Brazil, more than half through digital channels (55%) and internet banking (11%).³⁰ However, 38% of the FDP population does not have a bank or digital account as they either believe that there is no need, that it is too costly or because they don't have any money to save. An additional 9% declared that they don't have an account due to lack of documentation.

More than 90% of the banked FDP make payments and transfers within Brazil using PIX since it is convenient, easy to manage, and low cost. Furthermore, there are no potential language barriers.

“PIX is all – for payments and for receiving.”

(Male FDP from Boliva, Rio Grande do Sul)

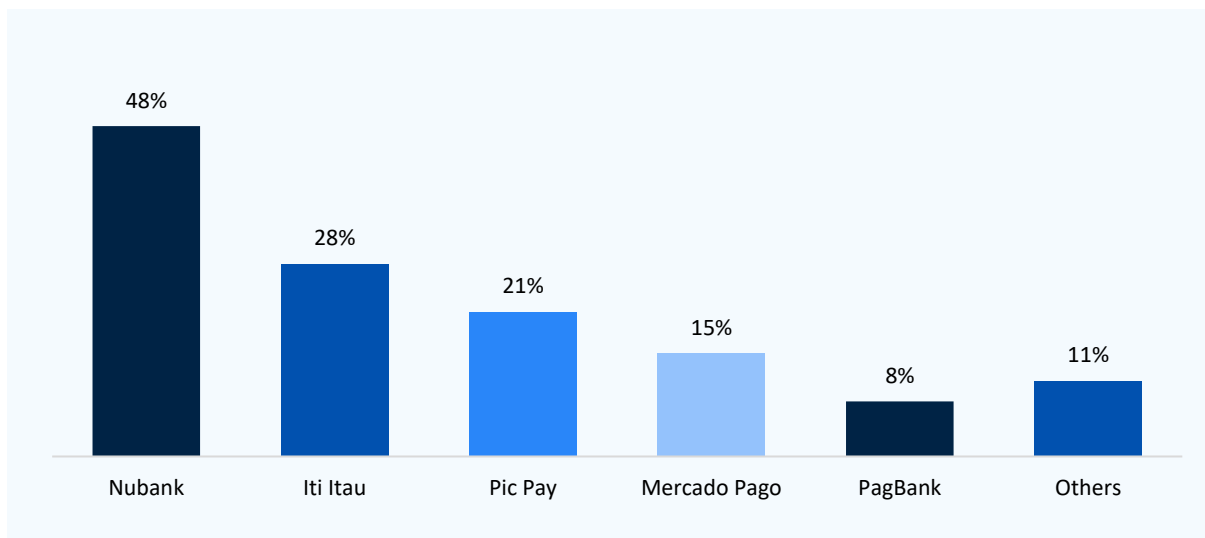
Thus, mobile banking is the preferred channel to carry out financial transactions for more than 66% of the FDP population regardless of documentation status. Around one fifth of the FDP population still perform their transactions over the counter or directly at the bank.

Nearly half of FDP hold digital accounts and wallets in Nubank, followed by Iti Itaú, Pic Pay and Mercado Pago (Figure 15). The preference for a special financial institution by FDP relies heavily on recommendations from their peers and trusted community organizations. In addition, opening a digital account is easy, simple, and fast. As further detailed in Chapter 6, digital banks/fintech provide additional financial services such as credit cards, personal loans, and savings products, among other offerings.

²⁹ (Banco Central do Brasil, 2023)

³⁰ Own elaboration, survey data. Note: in this context, digital channels refer to having a digital account and performing financial transactions through the banking app on the mobile device, while internet banking refers to online banking on other devices.

Figure 15: Use of digital accounts by FSP



Source: Own elaboration, survey data

Note: N = 664 FDP using financial services and products in Brazil. Multiple answers were possible

Despite the increasing access to bank and digital accounts, as well as basic transactional services, multiple unmet financial needs of the target segment remain to be addressed.

▪ **Self-employed and microenterprises have an unmet credit need to grow their businesses.**

Overall, there are an estimated 138,000 self-employed and micro and small businesses owned by FDP. Most of the self-employed (83,000) are individuals who perform an income-generating activity out of their home. The main activities are related to food production and service provision. Within the segment of micro and small enterprises, 34% have registered their business (Cadastro Nacional da Pessoa Jurídica – CNPJ)³¹ as MEI or in form of a company. Although 69% of the self-employed and microbusiness are owned by women, only 46% of the registered businesses are women-owned (for further details on the segment profiles, see chapter 5).

There is an unmet demand for business loans to purchase supplies, machinery, and equipment. Based on the survey, only 3% of FDP self-employed and microenterprises have met the financing needs for their business through a formal loan from a financial institution. Some of the unmet need for funding has been satisfied through informal sources such as friends and family (12%) or money lenders (3%). Most (85%) reinvest their profits to organically grow the business. Nevertheless, around one-third of the FDP self-employed, micro, and small businesses would be interested in obtaining a loan to grow their business.

▪ **Credit needed for consumption and for emergencies is met by informal means and credit cards.**

When it comes to funding for emergencies and basic requirements, one-third of the FDP population turns to friends and family, while a minority (3%) uses money lenders. The average loan amount borrowed from friends and family is R\$ 2,000.

³¹ CNPJ is the formal registration of a business activity. There is a specific regulation to register as an MEI, with simplified process to encourage business registration. Legal entities, also known as Pessoas Jurídicas or PJs, that have registered their company have access to a variety of banking options, including customized financing and loans for their enterprises. Among other benefits, it permits them to negotiate better terms with suppliers and provide their customers with alternative payment options.

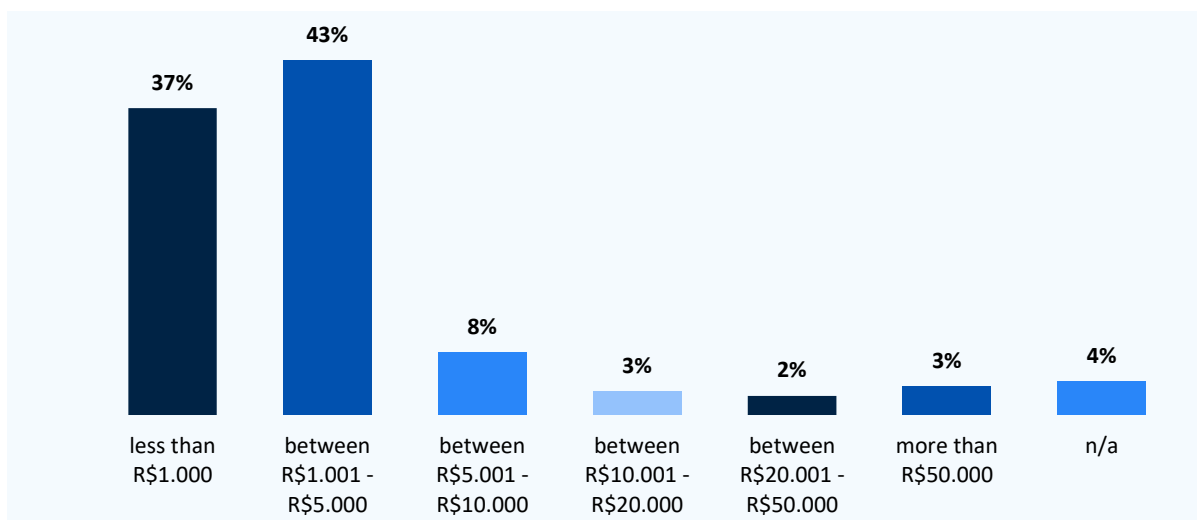
Credit cards are used by 22% of FDP to satisfy consumption needs and desires, even though the majority have low credit limits (ranging from R\$ 500 to R\$ 1,000).

“I use the cards a lot – I keep it because paying for purchases in the supermarket etc. is convenient.”

(Female FDP from Venezuela, São Paulo)

Overall, 26% of FDP had access to a personal loan, which were primarily used for consumption purposes. 80% of FDP reported a loan size of less than R\$ 5,000; only 20% were able to access loans beyond R\$ 5,000 as illustrated in Figure 16.

Figure 16: Loan amount for FDP who reported having a loan

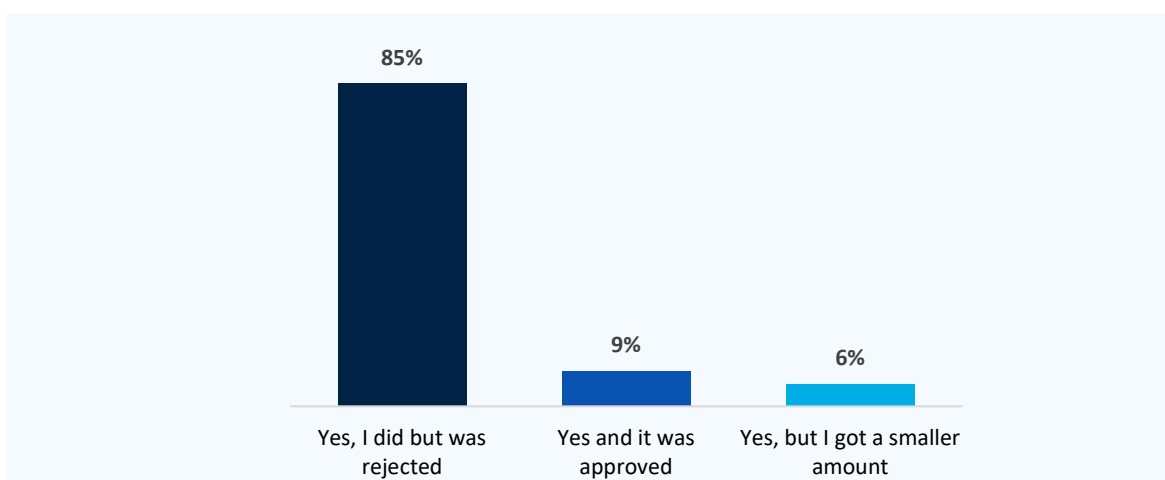


Source: Own elaboration, survey data

Note: N = 173 FDP who had a loan

Larger loan amounts (> R\$ 10,000) are generally used for the purchase of an asset or for a housing loan. In general, FDP access to loans is challenging; of the 23% who tried to access a loan, only 15% were successful while 85% were rejected (Figure 17).

Figure 17: Responses of loan applications made by FDP

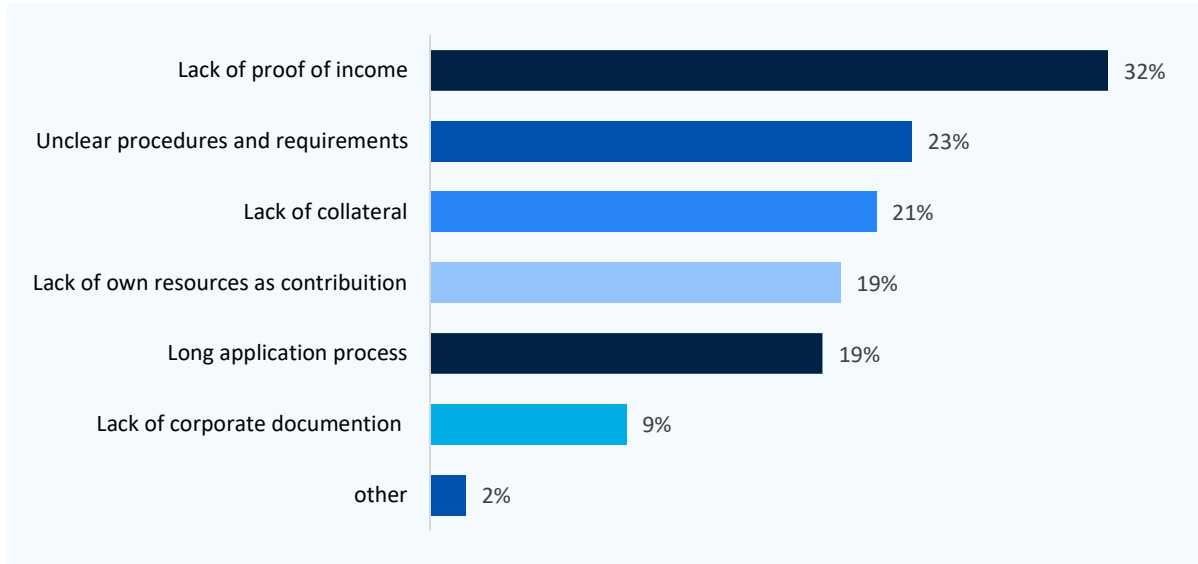


Source: Own elaboration, survey data

Note: N = 118 FDP who applied for a loan

The main reasons for rejection communicated by interviewed FDP mentioned negative perceptions related to being a migrant or refugee and the lack of a credit history in Brazil, proof of sufficient and regular income to access a business loan. Vehicle or housing loans are even more challenging because they usually require more documentation, especially proof of income.

Figure 18: Challenges when applying for a loan by FDP

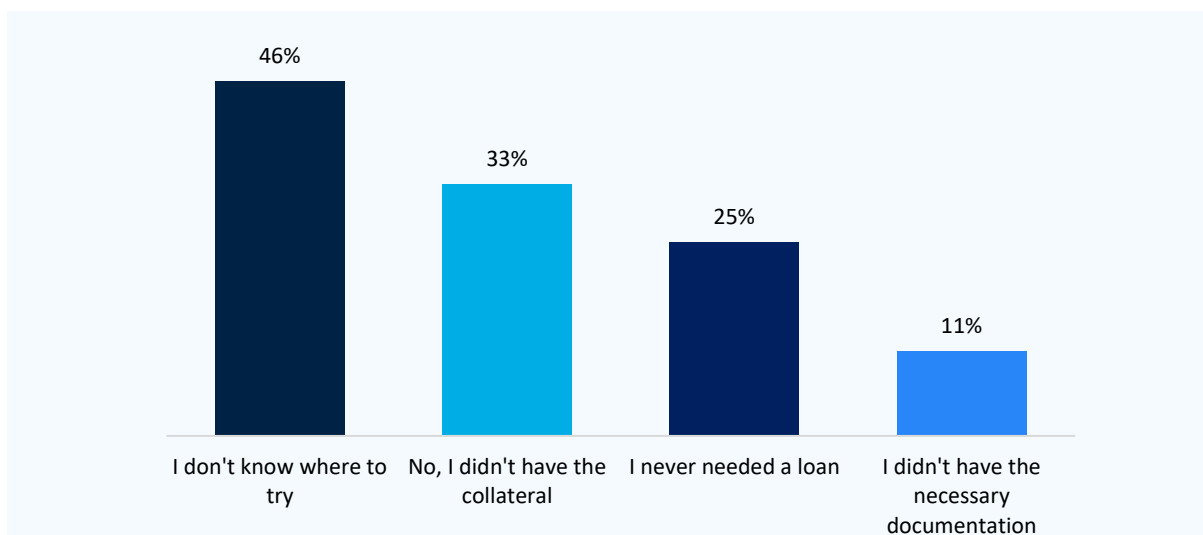


Source: Own elaboration, survey data

Note: N = 118 FDP who applied for a loan, multiple answers were possible

For FDP who reported that they did not request a loan, 46% lack information on where and how to apply for a loan while another 33% had the perception that they don't have the necessary collateral and/or documentation (11%) to be successful. Only 25% of FDP declared they had no need for a loan (figure 19).

Figure 19: Access to loans – Reasons for not applying for a loan by FDP



Source: Own elaboration, survey data

Note: N = 373 FDP who did not apply for a loan; multiple answers were possible

▪ Remittances to their home country is a need for most FDP, who mainly rely on informal channels

Sending remittances to their families is one of FDP's primary demands. According to the survey, 34% of FDP use financial service provider to send money to family and friends back home. This encompasses both traditional remittance firms and digital payment platforms, which are regulated by the Brazilian Central Bank. There are significant differences according to the nationality of refugees and migrants. Bolivians transfer money to their home country through more formal means such as Western Union, exchange bureaus and digital payment platforms, while most Venezuelan FDP use informal channels.

Most Venezuelan FDP transfer money from their bank account using PIX to a trustworthy person in Brazil who finalizes the transaction with the recipient in the home country almost instantly. However, most FDP using informal channels are not aware of the costs and the applied exchange rate; they value the simplicity and convenience of the service.

***"I send money to someone using my PIX. It is fast and convenient.
We trust them and know them from recommendations."***

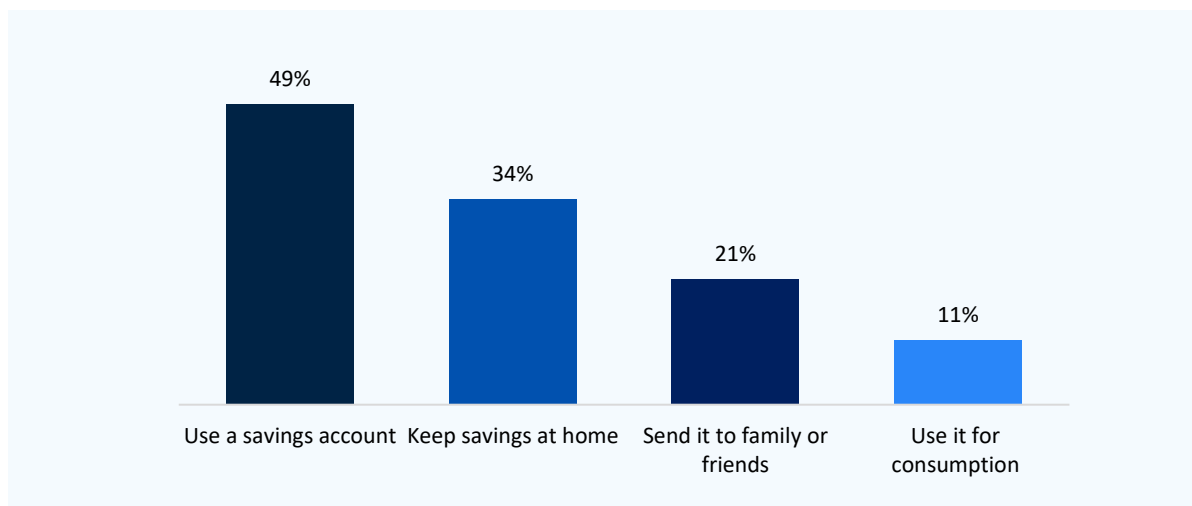
(Male FDP from Venezuela, Boa Vista)

▪ Savings as a safety net for emergencies and to meet future goals

15% of FDP save but most FDP do not save regularly as they struggle to cover their living expenses. 85% declared that they don't have any money left after covering all their expenses at the end of month.

Half of the FDP population who saves keeps their funds at an account in a financial institution. However, about one-third saves their money at home (34%). Another 21% send any surplus to their families back home or spend the savings to meet consumption needs (12%). A small minority lend it to a known acquaintance (1%).

Figure 20: Savings pattern of FDP



Source: Own elaboration, survey data

Note: N = 160 FDP; multiple answers were possible

Nevertheless, with the increase of digital accounts/wallets and growing competition, FSPs, mainly digital banks, are offering their digital accounts with attractive interest rates to encourage savings (see Chapter 6 for further details).

■ Insurance products ensuring security and comfort

Insurance products are not much demanded or used by the FDP population in Brazil: Only 3% have an insurance product.

FDP in Brazil have the same access to basic services as Brazilian nationals, e.g., public health system or government subsidies. Thus, the need for health insurance, for example, is not a priority for FDP living in Brazil.

However, in the medium and long term, demand for insurance products beyond health insurance is expected to increase since 88% of FDP are planning to stay in Brazil for a longer period and don't plan to move. With further integration and improving livelihoods, demand for life insurance as well as liability insurance, car insurance or insurance to protect business assets against robbery, fire etc. should increase.

4.2 Conclusions

Emerging digital banks, fintech companies, and Central Bank-led initiatives have created an innovative financial ecosystem that addresses existing gaps and needs. The implementation of PIX, the Brazilian instant payment method, has allowed migrants and refugees as well as Brazilian microentrepreneurs from the C, D, and E income segments easy access to transactional products and services.

The FDP population's digital affinity (94% have a cell phone and 75% have an internet connection at home) paves the way for the increased use of digital financial solutions and business opportunities. One fifth of banked refugees and migrants hold a digital account. In addition, mobile banking is the preferred channel by FDP for financial transactions (55%).

There are still multiple unmet financial needs for the FDP segment despite the increasing accessibility of bank and digital accounts.

- **Remittances and access to a bank account (current, savings or digital account) and related transactional products such as PIX are common financial needs for the full FDP population and are widely met by the current offering.** FDP value easy access to basic, digital bank accounts and transactional services.
- **Access to loans is still a challenge:** only 15% of FDP who tried to obtain a loan were successful.
- **An estimated 138,000 self-employed, micro and small enterprises owned by FDP have an unmet credit need to grow their businesses.** Only 3% of these businesses have secured financing through a loan from a financial institution. Part of the unmet financing need is met through informal sources, such as friends and family and money lenders, while the majority of FDP business operators reinvest profits to organically grow the business.
- **Credit needs for consumption and emergencies are not yet met.** Those needs are satisfied by friends and family or money lenders, as well as through the use of credit cards.
- **Although 15% of FDP save, only half have a savings account at a financial institution.**
- **Only 3% of FDP in Brazil have insurance products.** However, since 88% of refugees and migrants intend to stay in Brazil, there are medium and long-term commercial opportunities for insurance products such as liability, car, life, and business asset insurance.

In summary, FDP have diverse unmet financial needs, which need to be further detailed depending on their unique profiles (e.g., source of income and income stability). As a result, market segmentation of the heterogenous FDP population is required to identify business opportunities for FSPs. In turn, this can deepen

the financial offer to the target segment and increase financial inclusion for the unbanked and underbanked FDP segments.

5 Market segmentation

The data collected from the demand research with the FDP population³² was used to identify different consumer personas within the heterogenous FDP population. The objective is to differentiate the FDP population based on various characteristics, needs, behaviors, and patterns of use of financial products and services.

This segmentation, and the creation of distinct persona profiles, will help in identifying the most important value propositions for each segment and assist financial institutions in identifying relevant target segments.

The segmentation followed a two-step clustering approach. In a first step, the consumer persona profiles were defined using the criteria listed below.

Figure 21: Criteria for segmentation



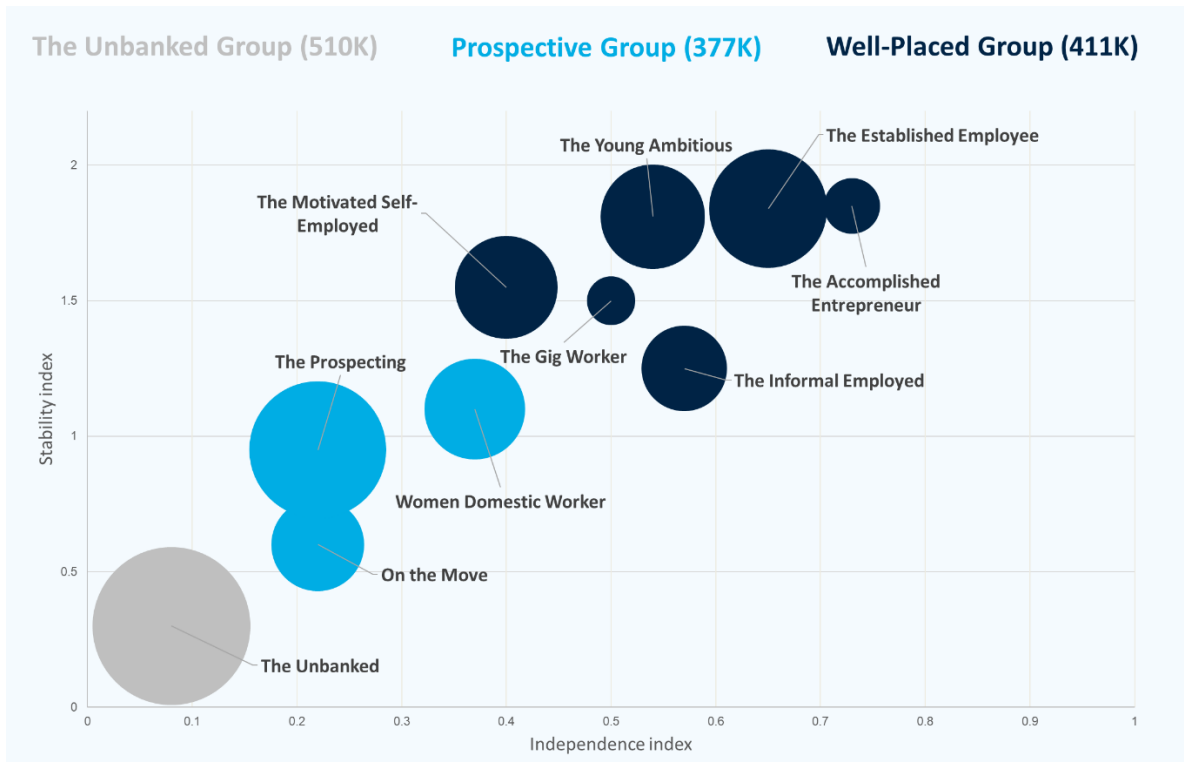
Source: Own elaboration, survey data

In a second step, the identified personas were clustered using stability and independence indexes to determinate segments of potential clients and interest for FSPs. The stability index (vertical axis) measures the level of integration and stability of the FDP in Brazil; it is determined by income regularity, employment type and willingness to continue in the country. The independence index (horizontal axis) measures the level of economic autonomy based on income level, including the level of governmental support through social programs. For further details please refer to Annex 2.

Based on this approach, 10 FDP customer segments including their market size have been identified and estimated, which were then clustered into three main groups (the *Well-Placed*, the *Prospective* and the *Unbanked*) based on their independence and stability score.

³² This activity was based on an in-depth analysis of the refugee and migrant population through a comprehensive survey and qualitative demand research.

Figure 22: Market segmentation applying stability and independence indexes



Source: Own elaboration; survey data

Note: The bubble size indicates the market share of each segment. The higher the persona is positioned towards the top-right, greater is the potential market for a wide range of financial products.

The Well-Placed Group (*The Established Employee, The Young Ambitious, The Informal Employed, The Accomplished Entrepreneur, The Motivated Self-employed and The Gig Worker*) captures clusters positioned in the top right quadrant. **With favorable characteristics, this group provides ideal customers for the majority of FSPs and therefore captures the prioritized personas.**

- The *Well-Placed Group* is characterized by high stability in terms of stable employment and regular income, along with high educational levels.
- They have been living in Brazil for several years and intend to stay. The 6 FDP segments in this group are banked, i.e., most have a bank and/or digital account as well as a debit card.
- They have a high demand for cross-cutting services like transactional banking as well as potential for savings products and (life) insurance in the mid-term.
- *The Established Employee, The Young Ambitious and The Informal Employed* have a high demand for personal loans and credit cards; *The Accomplished Entrepreneur, The Motivated Self-employed and The Gig Worker* require access to business loans and/or microcredit solutions to grow their businesses.
- The *Well-Placed Group* is considered attractive for larger private FSPs, midsize banks with digital capacity and a credit appetite for niche segments, fintech with credit models that can leverage alternative data and willing to serve diverse client segments as well as to FSPs providing credit solutions to the micro and small enterprise segments.

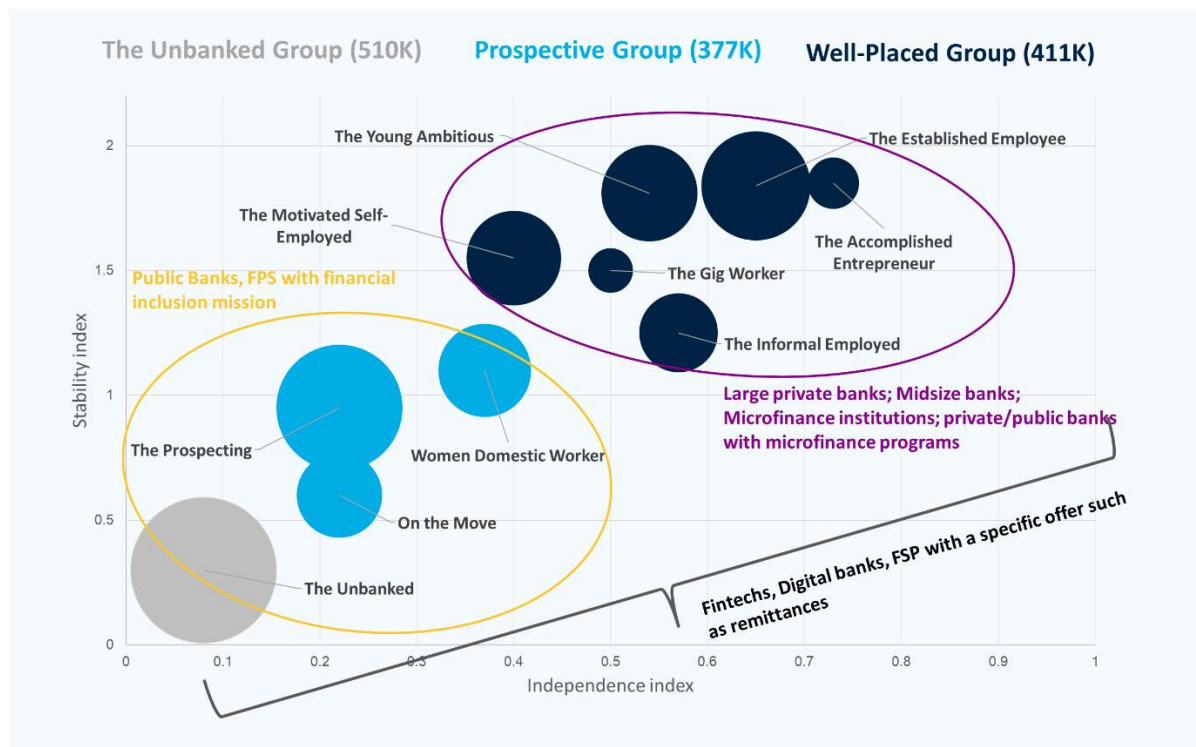
The Prospective Group (*Women Domestic Workers, On the Move and The Prospecting*) **has potential to become ideal customers for FSPs in the mid and long run.** These 3 FDP segments are mainly active in the informal sector

and are driven to settle down and earn a better living. To find better and more stable job opportunities in Brazil, they are eager to further develop their technical and professional skills to successfully apply for formal jobs.

The **Prospective Group** shows greater vulnerability through unstable and low income, which is why they have not been considered as priority segments for most FSPs. However, there is a potential market to open digital accounts and enhance transactional banking, which would allow the segment to demonstrate their financial capacities and build financial histories that would eventually enable access to personal loans and credit cards to cover consumption needs. Providing access to formal remittances channels is another opportunity. This segment could primarily appeal to fintech with credit models that are able to leverage alternative data and a willingness to serve diverse client segments and FSPs that offer a specific service, e.g., remittances. The segment could also appeal to large private financial institutions with a social responsibility angle.

The Unbanked Group of FDP represents a financial inclusion opportunity as they have most pressing financial needs to open a bank account for access to basic financial transactions such as bill payments and other P2P transfers. Currently, 52% of FDP in this segment are unemployed or are looking for work. 40% receive social benefits provided by the government. In addition, *The Unbanked Group* is also an interesting market for remittances since most use informal channels to send money to their families back home. As a result, this segment could appeal to FSPs that seek to leverage their transactional platforms to foster financial inclusion.

Figure 23: Clustering FDP segments with relevant FSPs



Source: Own elaboration, survey data

5.1 Characteristics of the Well-Placed and priority segments

The most relevant aspirations, preferences, challenges, and financial needs of the prioritized segments are described below.

The *Well-Placed Group*, which consists of six customer personas and an estimated potential market of 411,000 customers, has been identified as the highest priority segment with the greatest potential to absorb a variety of financial products and services from a large number of various FSPs. Women outnumber men in all segments except the *Established Employee* and the *Accomplished Entrepreneur* segments.

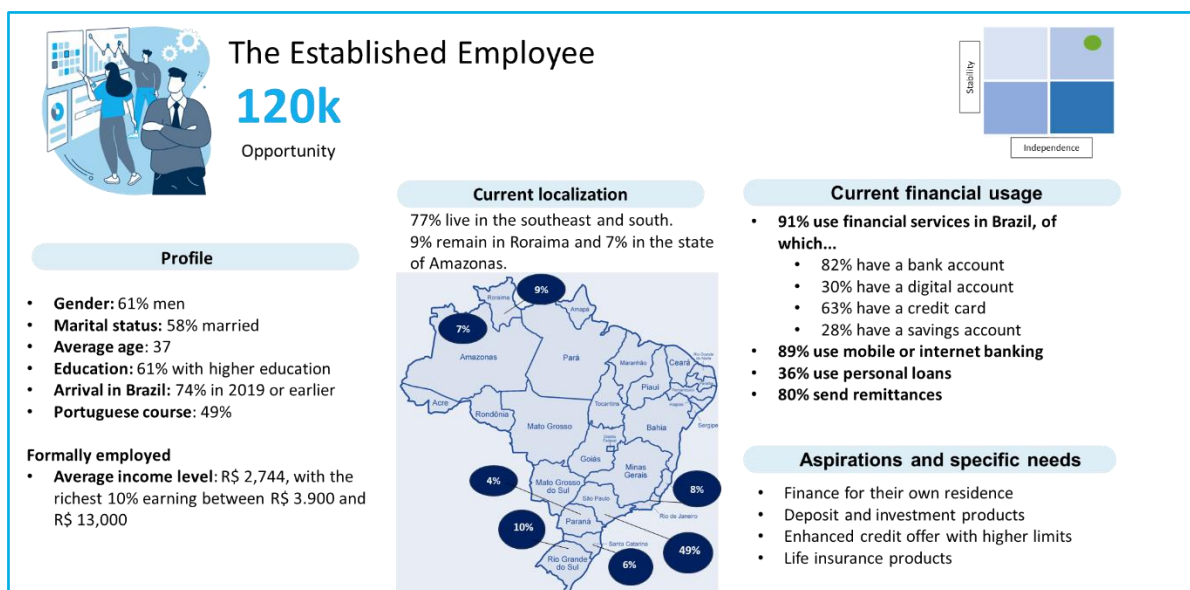
Figure 24: Well-Placed segments with potential to absorb comprehensive financial services



Source: Own elaboration, survey data

Of the 6 segments, the *Established Employee*, the *Young Ambitious* and the *Accomplished Entrepreneur* are the most stable segments with higher income levels. the *Accomplished Entrepreneurs* and the *Gig Workers* believe that financial products are not tailored to their needs, reflecting the high unmet demand, in particular with respect to access to finance for their businesses.

As follows, the different customer personas of these groups will be described in more detail.



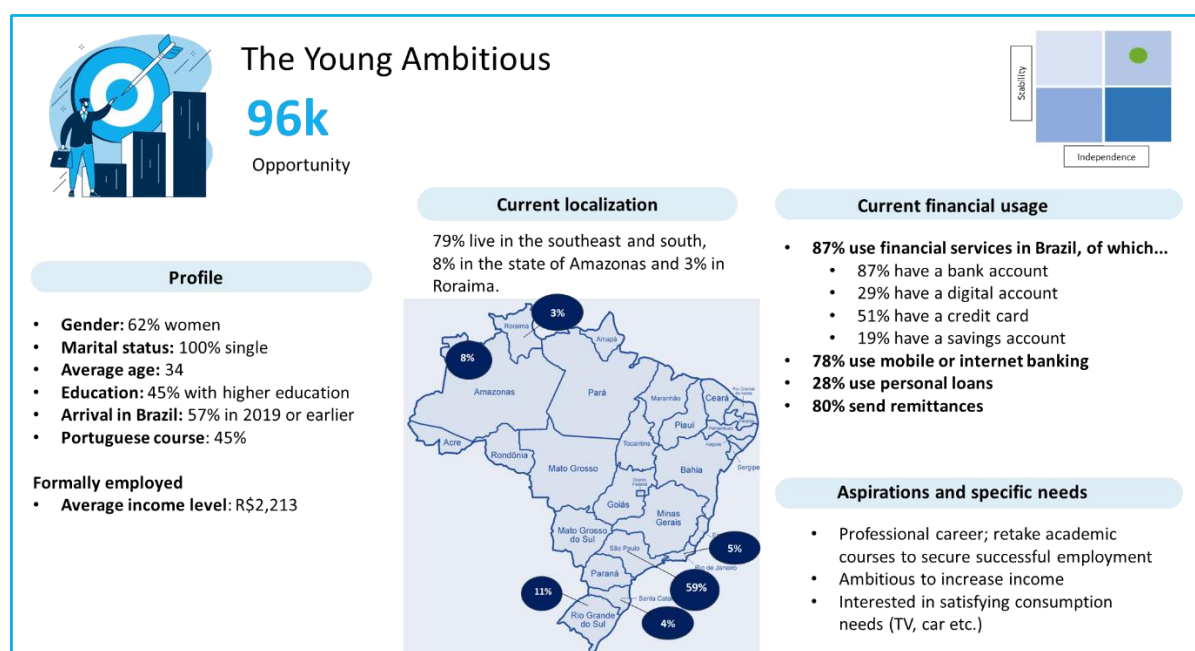
The Established Employees are predominantly male and hold formal employment. Their average age is 37 years old, and they possess a high level of education.³³ They typically live with their families, which most often consist of 3 to 5 members. More than 74% have resided in Brazil for more than 4 years. The majority (57%) live in the southeast (São Paulo and Rio de Janeiro), 16% in the southern states (Rio Grande do Sul and Santa Catarina); 16% reside in the northern states of Roraima and Amazonas.

Financial usage and needs: Overall, they can be considered financially included since 90% have a bank account and/or digital account to satisfy their basic financial needs. One-third have a personal loan and nearly two-thirds have a credit card, both of which are utilized predominantly for personal expenses.

Aspirations include securing permanent employment that provides a steady and rising income, acquiring their own residence, enhancing their standard of living, and becoming fully integrated citizens of Brazil.

Challenges/unmet needs: Although fundamental financial needs such as bill payment, online shopping, and other transactions are met, there are possibilities for improvement and growth. Although the segment does have access to credit cards and loans, the average approved limit is less than R\$ 2,000, which is insufficient to cover all their expenses (such as the purchase of domestic equipment and assets). To cater for future plans, they are interested in deposit/investment products, life insurance, and in particular, enhanced credit offers.

³³ Including completed undergraduate degrees as well as incomplete and completed (post) graduate degrees.

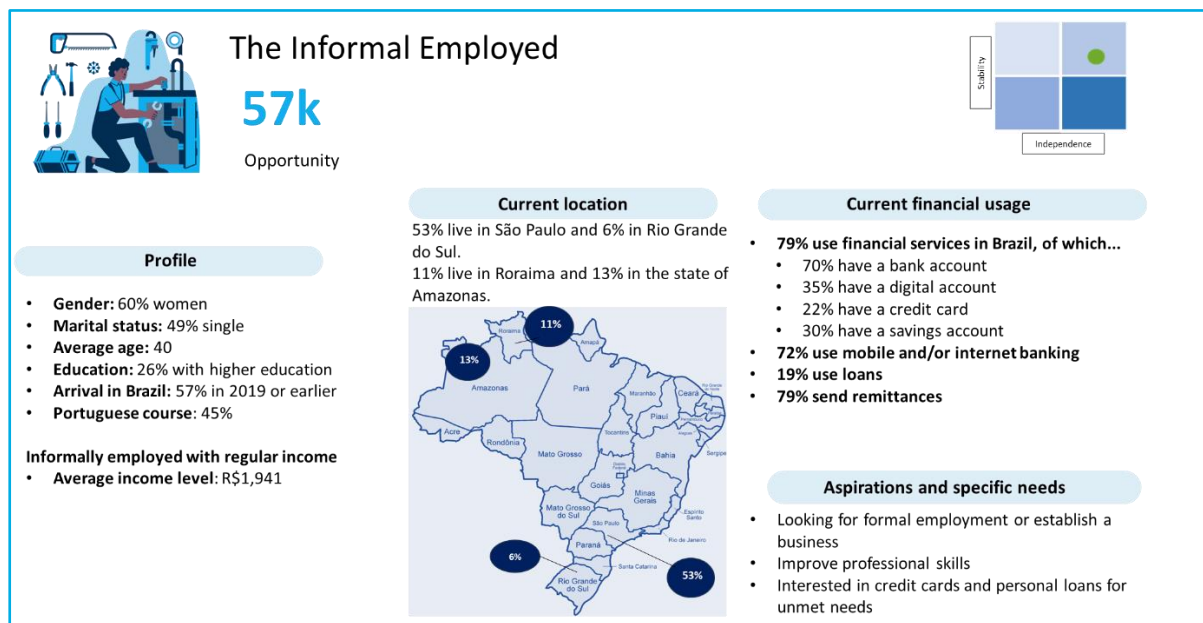


The Ambitious Young represents highly educated young women and men who are driven to build a professional career in Brazil. Due to their education and interest to stay in Brazil, they have quickly been able to integrate into the formal labor market and adapt to a new environment. However, their monthly income is still relatively low (on average R\$ 2,213). They often even retake academic courses to secure more rewarding employment. More than 57% have resided in Brazil for the past 5 years and intend to remain in the country. To realize better employment opportunities, most went to the southeastern and southern states of Brazil.

Financial usage and needs: Basic financial needs such as online purchases and payments are widely met as the majority have a bank and/or digital account. Additionally, they are technologically literate and digitally adept, with 78% utilizing mobile transactions. Additionally, 51% possess a credit card and 28% have a personal loan, albeit with modest balances (below R\$ 1,000 on average).

Aspirations: Their motivation is to obtain better employment and pursue a professional career that pays a respectable and increasing salary.

Challenges/unmet needs: Even with formal employment and the ability to provide proof of regular earnings, obtaining personal loans continues to be troublesome. In the medium term, they are interested in deposit and investment products to grow their financial capacity.

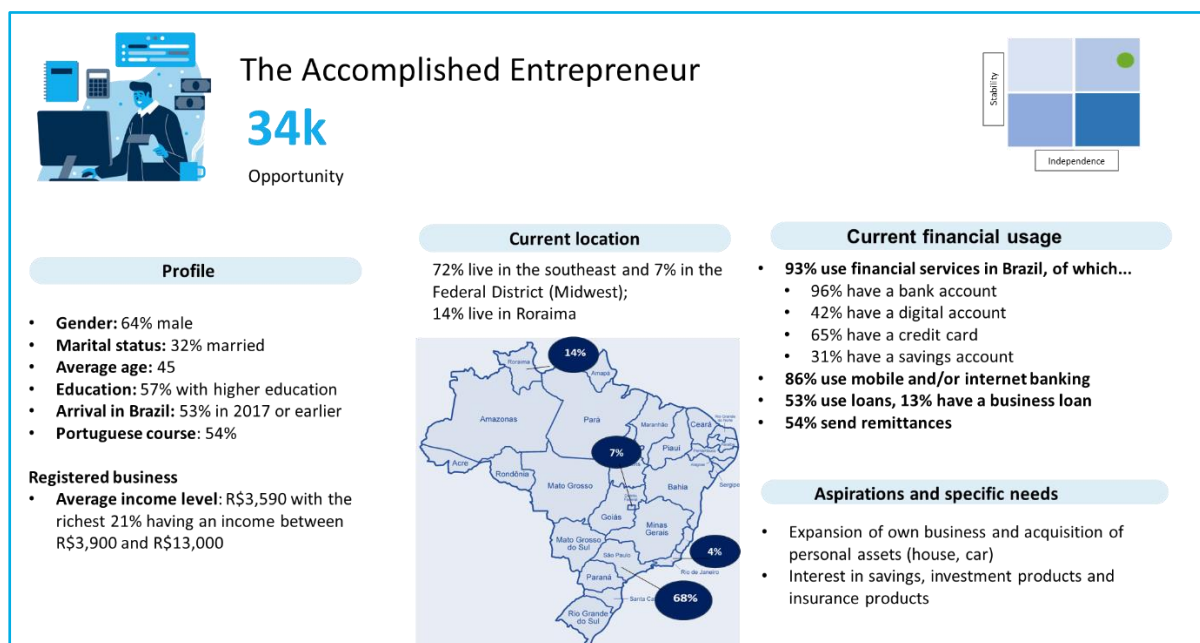


As the name implies, the **Informal Employed** are employed informally but have a regular income. In Brazil, nearly two-thirds live with their families as head of household and are in average 40 years old. The segment is composed of 60% women. Most are from Venezuela and Bolivia. 53% settled in São Paulo and 24% live in the northern states of Roraima and Amazonas.

Financial usage and needs: Basic financial needs, in particular transactions, are typically met as 70% have a bank account and debit cards. Almost 80% send money to their family through remittances, which is mostly done through unofficial channels. To meet their consumption demands, 22% use a credit card and/or a personal loan (19%). However, because they lack proof of income, loan amounts are low and insufficient to meet their needs.

Aspirations: Achieving formal employment status would enable them to enjoy the benefits of formal employment and earn a greater income. To increase their employment possibilities, they are ready to acquire additional competencies via specialized capacity building, which includes professional skills development. Some might even consider entrepreneurship.

Challenges/unmet needs: They are interested in credit cards and personal loans to cover their unmet consumption and personal needs. This requires encouragement for account utilization in order to boost transaction frequency and establish their financial capability, which will subsequently help them qualify for a credit card and/or personal loan. Options to substitute expensive informal remittances would be highly demand.

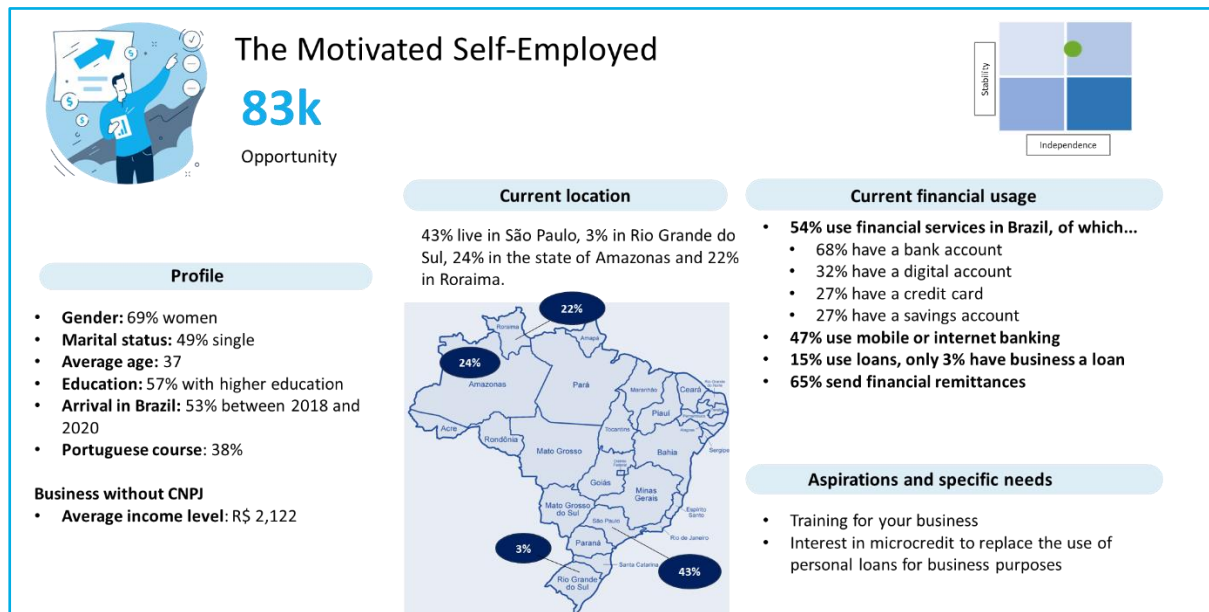


The Accomplished Entrepreneur is characterized by a high level of integration in Brazil: most (53%) already have a permanent residency and have lived in the country for more than 6 years. They are mainly married men with an average age of 45 years. Most have a business registration as individual micro entrepreneurs under the simplified business registration option or a small company with up to 5 employees. The majority have established themselves in the southeast (São Paulo 68% and Rio de Janeiro 4%) or in the Federal District (7%).

Financial usage and needs: They have been operating their businesses for more than 3 to 5 years (on average), which makes the segment an interesting target for financial institutions. The segment could be characterized as fully banked since they typically have two to three bank accounts in different banks, including digital accounts. Due to their regular and stable middle income, they are potentially interested in savings and investment products, as well as insurance products (e.g., life insurance and insurance for business assets). Overall, this profile is characterized by a high degree of stability and independence and therefore considered a high priority segment for several FSPs.

Aspirations: Their main objective is to expand their enterprise with the intention of increasing income and ensuring a secure and respectable standard of living for their families. They are also considering the purchase of personal and corporate assets, such as a vehicle or residence. In addition, most are interested in improving their business and financial skills.

Challenges/unmet needs: A major challenge is access to a business loan. Only 13% have a business loan, which limits the growth and expansion of their businesses. Hence, to finance business operations, they use their credit card and/or personal loans to finance working capital. Established entrepreneurs look forward to a relationship with their banks as a partner to provide tailored credit solutions, improved banking packages to support transactions with suppliers as well as other services such as payroll and invoice management.

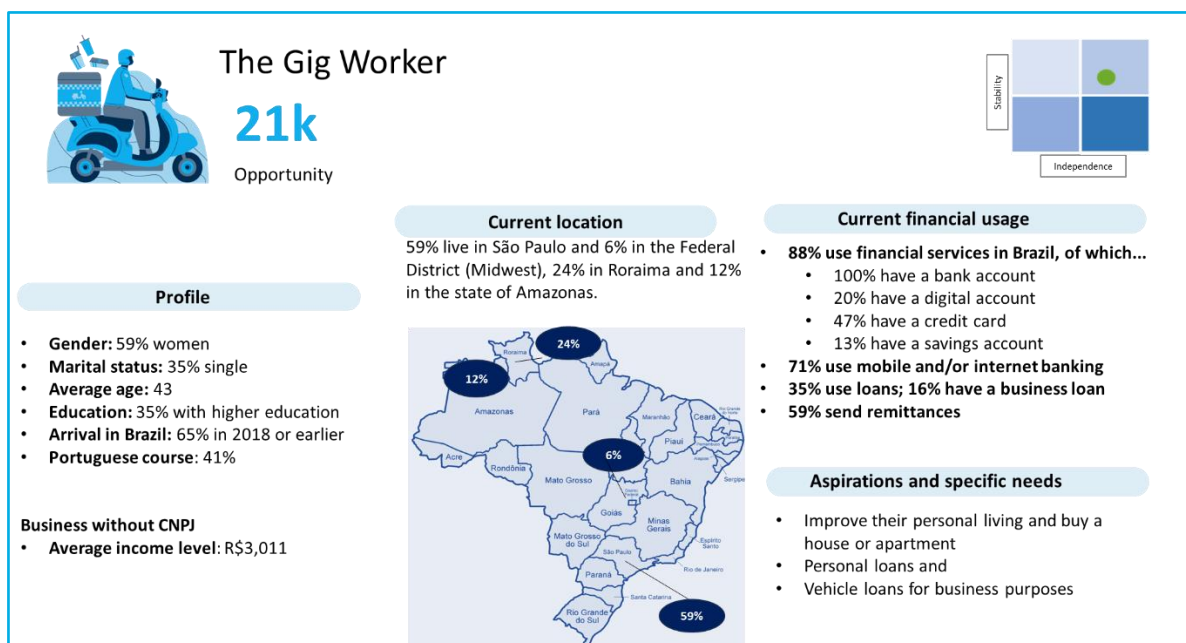


The Motivated Self-employed are composed mainly of women (69%). More than half (53%) have been arriving in Brazil between 2018 and 2022 (53%). They are 37 years old on average and 49% are single. The businesses are mainly women-owned and active in the food and service sector as well as commercial activities. Their businesses are generally informal and operated out of their home. They have attended entrepreneurship trainings to upskill their managerial, financial and commercial capacities and continue to be avid seekers of non-financial services. The majority (68%) are from Venezuela and one-quarter are from Bolivia. Compared to the Accomplished Entrepreneur segment, 46% still live in the northern states of Roraima (22%) and Amazonas (24%) while 43% have settled in São Paulo.

Financial usage and needs: Around two-thirds have bank accounts and debit cards (68%) and hold two bank accounts on average. However, only one-third have a digital account and less than half use mobile and internet banking for their transactions (47%). Therefore, there is potential to increase transactional banking to build financial records and financial history. They do not yet take advantage of the range of existing products and services and are potentially unaware of the offering and/or feel that they are not eligible for some services. Only 27% have access to credit cards and 15% to loans, which are mainly personal loans but often used for business purposes. 27% have a savings account, but do not save regularly.

Aspirations: They aim to improve their business skills through capacity building to stabilize their economic activity and satisfy personal needs. They are interested in microcredit opportunities to substitute their use of personal loans for business loans.

Challenges/unmet needs: Access to credit for their businesses is challenging due to the following: i) a lack of information on opportunities, ii) a perception that they will not qualify, iii) a lack of collateral and documentation, amongst others. There is a substantial opportunity to provide microcredit to women entrepreneurs, which could support business growth and replace the use of personal loans and credit cards for business purposes. In addition, the segment lacks information on other financial services such as investment and deposit products or cost-efficient banking packages including free transactions. The provision of capacity building would be attractive as well.



The Gig Workers are self-employed and typically work in the (often informal) delivery service/Gig economy. They have a driving license for a car or motorcycle. They can be categorized into 2 groups: (1) those with a valid residence permit who have been residing in Brazil for more than 10 years and have an extensive network of customers and (2) younger individuals who have been residing in Brazil for more than 5 years but only recently started offering delivery services. Nearly all intend to remain in the same city (82%). Most (59%) live in São Paulo; 24% in Roraima and 12% in the state of Amazonas, both in the north of the country.

Financial usage and needs: the majority of *Gig Workers* are banked and most have at least 2 bank accounts. In terms of digital coverage, 71% use mobile or internet banking. Almost half (47%) have a credit card. 35% have access to a personal loan but only 16% were able to secure a commercial loan.

Aspirations: With an average income of R\$ 3,011, both cohorts aspire to enhance their standard of living by purchasing a motorcycle or car and, eventually, an apartment. Most are seeking to develop their business skills.

Challenges/unmet needs: Only 20% have a digital account, indicating a high unmet demand of digital financial products. Personal loans as well as vehicle loans for business purposes would be very attractive to help stabilize and expand their business. Also, savings for future purposes (currently at 13%) and insurance products, such as life insurance, would be useful to feel safe and protected.

5.2 Characteristics and potential of the *Prospective Group*

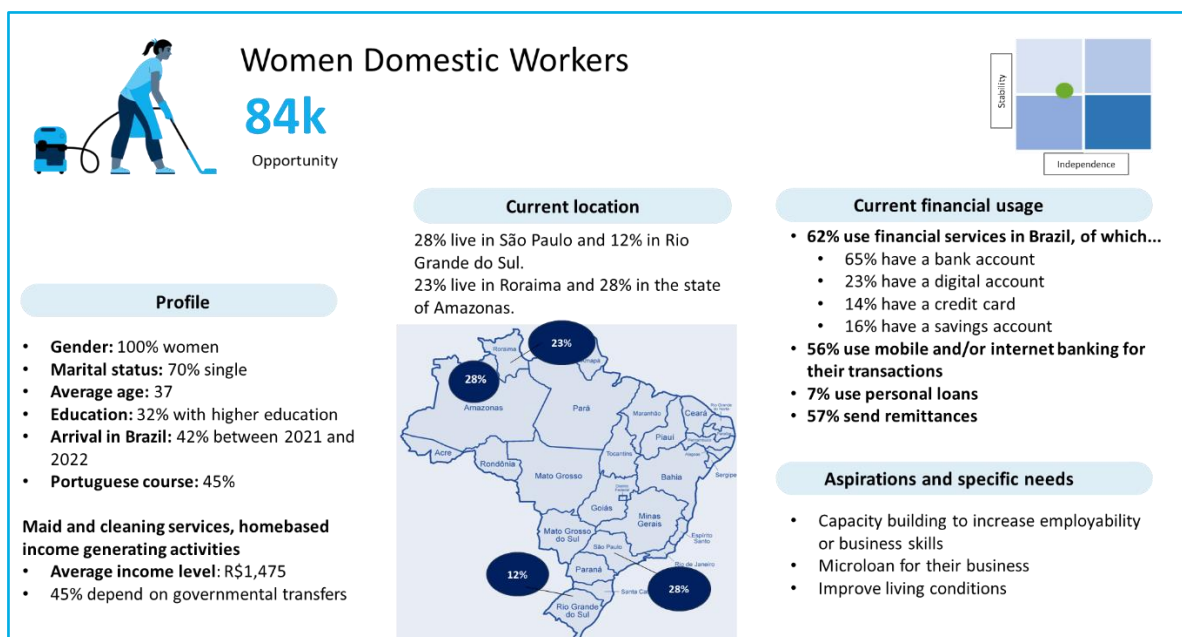
The *Prospective Group* is composed of three FDP segments that have a high potential to absorb cross-cutting services like remittances and digital banking. Given their lower level of independence and stability, opportunities for credit and savings products are limited compared to the *Well-Placed Group*, yet they present a potential market in the mid and long run.

Figure 25: Prospective segments with potential for cross-cutting services and specific offering



Source: Own elaboration, survey data

The customer personas for each of the three groups are described in more detail as follows.

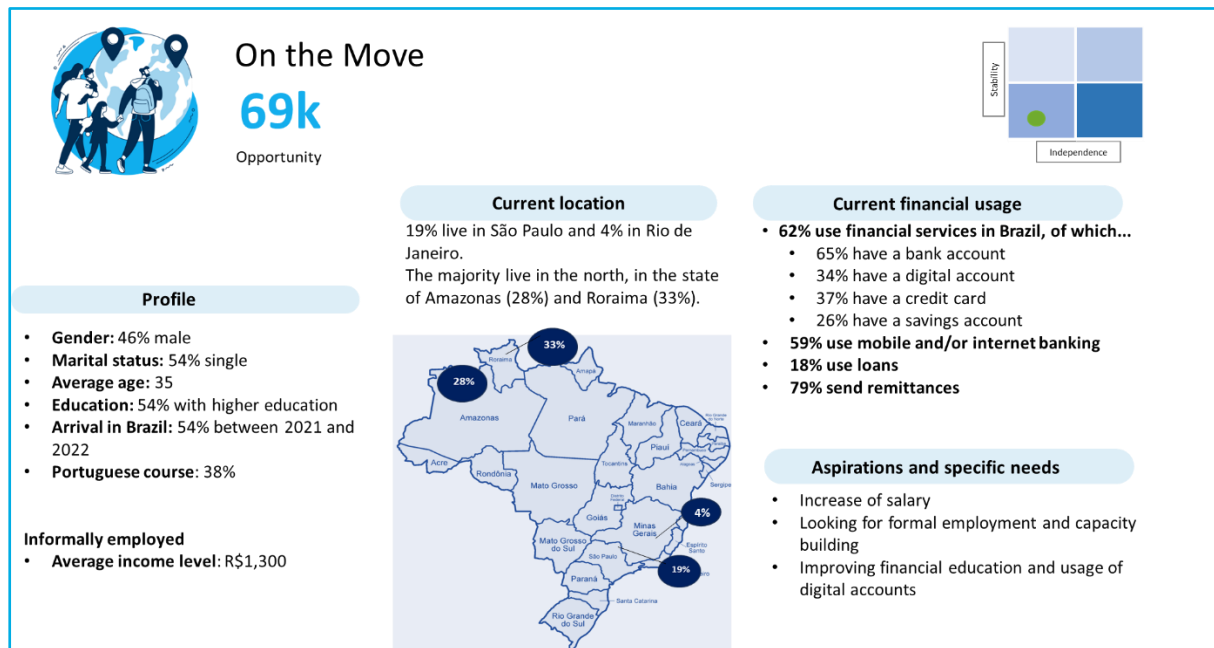


Women Domestic Workers have an average age of 37 years. They are frequently single mothers, making it difficult to obtain full-time employment. Despite the difficult circumstances, they intend to stay in the country. The majority try to make a life by offering cleaning services, maid services or by selling traditional Venezuelan food and sweets in their neighborhood. Furthermore, 45% are recipients of social government programs. Their average monthly income is of R\$ 1,475. Their primary concern is finding employment and entrepreneurship opportunities to support their families. The vast majority are from Venezuela (91%). A little more than half reside in the northern states of Roraima (23%) and Amazonas (28%) while 28% moved to São Paulo and 12% stay in Rio Grande do Sul.

Financial usage and needs: Almost two-thirds of the segment have access to a bank account and 23% have a digital account. More than half (57%) send money to their home country. As income is R\$ 1,475 and irregular, only a minority of the segment save or have access to a loan and/or credit card. In terms of perception, one-third is of the opinion that it is difficult to find information about financial products and services offered in Brazil that would suit their needs.

Aspirations: They would like to attend capacity development trainings to improve their employability or business skills. In terms of financial needs, they are interested in accessing personal loans and/or credit cards to meet their consumption needs.

Challenges/unmet needs: The majority still rely on cash transactions, especially since they are frequently compensated in cash for their maid and cleaning services. Improving financial education and encouraging the use of digital accounts and transactions are critical to develop their financial records and history. Solidarity loans may be an alternative for those who have a small business activity.

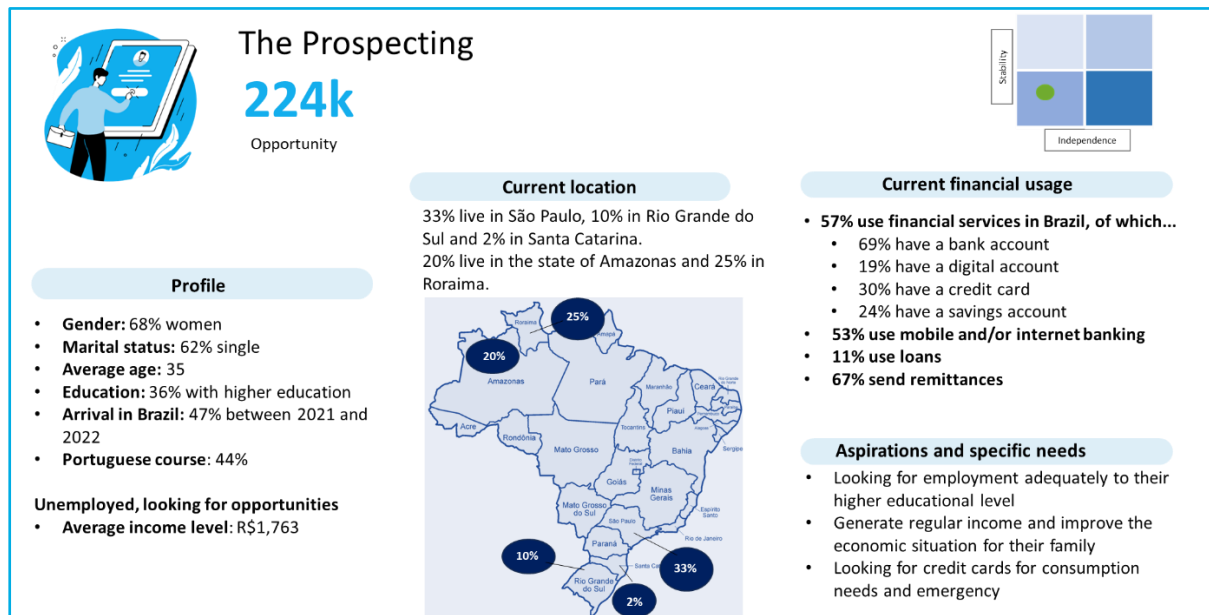


The **On the Move** segment consists of informally employed FDP. The majority is single (54%) and half of the segment (54%) are in Brazil for less than 2 years. In turn, they are still trying to find their way through the substantial life changes. As they earn low irregular income (less than one monthly minimum wage) in the informal sector, they are waiting for formal job opportunities and are willing to move to other states to make a better living. Most have a high level of education, with good qualifications for decent employment. The vast majority are from Venezuela (91%). One-third still live in Roraima and 28% reside in the neighboring state of Amazonas; only 19% moved to São Paulo.

Financial usage and needs: 65% of this segment have access to bank accounts and 34% have a digital account. As opposed only 26% have a savings account but do not save regularly. 37% have a credit card, which is mainly used for consumption purposes. The vast majority (79%) send remittances to their families back home, using mainly informal channels.

Aspirations: They are flexible since they live without their families and are determined to improve their employment situation in order to send more money to their home countries. They also aspire to satisfy some personal needs. They desire to improve their hiring and labor market capabilities, but they also want to improve their financial and language skills.

Challenges/unmet needs: Most of their financial demands are tied to remittances, as well as meeting some personal necessities. Thus, offering secure and cost-effective remittance services as well as a credit card and/or personal loan are feasible paths to better serving the segment.



The Prospecting segment is characterized by the desire to find a job. They are mostly single (62%) and household heads (61%). Almost half of the segment (47%) have been living in Brazil for less than 2 years. They want to establish themselves in Brazil and are determined to stay. They left prior jobs due to dissatisfaction and are now eager to obtain a better job that is in line with their higher educational level and generates a regular income that can improve their economic situation. For those still employed, the average monthly income of the segment is R\$ 1,763. The majority (86%) are from Venezuela. While 45% still reside in the northern states of Roraima (25%) and Amazonas (20%), one-third reside in São Paulo and 12% have moved to the southern states of Rio Grande do Sul and Santa Catarina.

Financial usage and needs: 69% hold a bank account (19% of which are digital accounts). Only 53% use mobile and/or internet banking for their transactions. 30% of the segment has a credit card with low limits, and 24% have saving account. Access to personal loans is limited: only 11% have a loan. The majority (67%) send remittances to their families in their home country.

Aspirations: Most are looking forward to generating regular income and improving the economic situation for their family by finding better and more stable employment. In terms of financial aspirations, they would like access to a credit card for consumption needs and emergencies.

Challenges/ unmet needs: As access to digital accounts is very low (19%), the segment shows high potential for increasing transactional and digital banking products, which could be complemented by remittances products. They seek personal loans for consumption needs and to deal with emergencies. Considering their low income, opportunities for savings, loans and credit cards are limited but can be increased through tailored products.

5.3 Conclusions

The FDP population in Brazil consists of various unique segments based on different demographic and socio-economic characteristics. Thus, they demand different types of financial and non-financial services that respond to their needs.

- **The Well-Placed Group (estimated potential market of 411,000 FDP)** is regarded as the most attractive segment and comprises the following 6 FDP segments: *The Established Employee, The Young Ambitious, The Informal Employed, The Accomplished Entrepreneur, The Motivated Self-employed and The Gig Worker*. FSPs view the high level of stability and independence of the segment as ideal customers, allowing them to offer a variety of products and service and build a strong customer relationship. FSPs that could be interested in those segments include large private FIs, midsize banks, fintech, digital banks, MFIs or private and public FIs with microfinance programs.
- **The Prospective Group (estimated potential market of 377,000 FDP)** is composed of 3 unique FDP segments: *Women Domestic Workers, On the Move and The Prospecting*. The *Prospective Group* is considered as an interesting potential market in the medium- to long-term. It represents a potential market for FSPs that have a strong social responsibility and/or financial inclusion strategy. It also appeals to FSPs that want to leverage their existing platforms and are interested in offering a specific product or service such as remittances.
- **The Unbanked Group (estimated potential market of 510,000 FDP)** is considered as the least favorable group for most FSPs due to higher vulnerability in terms of financial stability. However, this segment may be interesting because it has the most pressing financial needs and may present an opportunity for FSPs that focus on financial inclusion of vulnerable segments.

6 Supply analysis

In terms of assets and market share, the Brazilian financial sector is highly concentrated in 5 large banks. Nevertheless, the industry is quite diverse in terms of the number and type of FSPs, including large private commercial banks, mid-sized private banks, digital banks as well as microcredit or microfinance institutions,³⁴ finance cooperatives, development agencies and public financial institutions.

Increased digitalization has expanded new alternatives to users, including tailored services to targeted audiences. In addition, the spectrum of digital financial services has significantly increased. Internet and banking applications, e-wallets, and other mobile solutions are vital components of Brazil's financial offering, particularly for low-income and vulnerable groups. As a result, it is not surprising that 62% of the adult FDP population has access to some form of financial services.

FSPs were classified by type of institution to ensure a representative sample that reflects the diversity of the Brazilian financial sector. The 5 groups emerging from this classification are defined below:

- **Group 1. Large private banks:** have wide physical branch networks and capacity to provide access to underserved segments with an added social responsibility angle.
- **Group 2. Mid-sized private financial institutions (banks) and finance cooperatives:** have a wide capacity and credit appetite that could serve FDP through an added social responsibility angle.
- **Group 3. Fintech/digital banks:** challengers with capacity and credit models that leverage alternative data. They have a willingness to serve a variety of client segments, with an added social responsibility angle, which also enables access to social impact investment.
- **Group 4. Microfinance institutions (non-governmental organizations – Organizações de Sociedade Civil de Interesse Público (OSCIP)):** provide access to micro credit to underserved segments of self-employed and micro entrepreneurs as part of their mission and capabilities.
- **Group 5. Public financial institutions and state-wide development agencies:** their mission is to support the FDP population and they have technical and financial capacity to do so.

Regarding the strategy to encourage financial service providers to service FDP, the following motivation drivers were explored in an effort to segment Brazilian FSPs:

- **Mission to expand access to financial services:** This could be a key driver for smaller institutions, MFIs, and financial cooperatives.
- , simultaneously providing a growth opportunity and helping to diversify their services and target segment.
- **CSR strategies:** Serving FDP with tailored services could be considered by several FIs and Fintech as the main driver to engage with the target segment.
- **Leveraging existing solutions and platforms associated with CRS strategies:** Several institutions might be interested in piloting “innovations” to serve new segments when this can be combined with CRS strategies.
- **Public policy to access credit and international cooperation policy:** Due to their missions and mandate, public financial organizations could be interested in developing approaches and services targeting the FDP populations.

³⁴ MFIs are set up either as non-governmental organizations called OSCIPs or as Sociedade de Crédito ao Microempreendedor e à Empresa de Pequeno Porte (SCMEPP), a company governed by CMN Resolution nº 3.567, of May 29, 2008, issued by the Brazilian Monetary Council (Conselho Monetário Nacional - CMN), which is a legal entity subject to the authorization and supervision of the Central Bank of Brazil.

Depending on their classification and primary motivating drivers, individual FSPs may be more inclined to serve the whole FDP market and/or certain FDP segments as indicated in the table above.

To identify the enablers and barriers of accessing financial services for FDP, key-informant interviews were conducted with 12 FSPs and visits were made to randomly selected branches of FSPs in Boa Vista (Roraima). In addition, product, and service gaps as well as market opportunities were identified by contrasting the needs, challenges, and barriers identified through the demand-side research.

6.1 Analysis of the current offering

Analysis of the current offering of Brazilian FSPs is based on the main financial needs of the FDP population: transactional products, credit facilities, remittances, savings, and insurance products.

Except for MFIs, all FSPs offer a comprehensive array of financial services and products. Fintech and digital banks provide more specialized and innovative digital solutions and products. Public suppliers have no (or limited) digital products or remittances in their portfolio. By contrast, MFIs offer tailored loan products to micro and small entrepreneurs and attend to their diverse needs.

6.1.1 Digital accounts and transactional products and services as enablers for financial inclusion

Digital accounts and mobile transactions are already used by 55% of the FDP population. Nevertheless, there is still opportunity to deepen transactions with existing users and expand reach to the more than one-third of FDP who do not use yet financial services in Brazil. Digital transactional products and services that enable P2P, P2B as well as B2B payments using PIX and other payment methods as well as payment of utility bills are offered by all financial institutions and are part of the banking package when opening an account, including a digital account or wallet.

Digital banks solve pain points by providing better usability: understanding the rules, processes and conditions has reduced transaction costs and improved accessibility for the Brazilian population, in particular for the low-income population, which has also benefited the FDP community. The advantages and benefits of the digitalization of financial services includes the following.

- **Accessibility to open a digital account:**
 - Simple onboarding process that is done over the phone.
 - Less stringent documentation requirements: to open a digital account, FDP need to present their CPF, phone number, email address, personal identification document (DPRNM, RNM or RNE)³⁵ and a photo. To open a current or savings account, clients need to present proof of residence and proof of income, depending on the bank and type of account.
 - Most digital accounts are free of charge (no maintenance fee).
- **Digital management** of the account through a digital app facilitates access to transactions and products overcoming potential language barriers. However, the digital app is only available in Portuguese (for all suppliers).

Moreover, the following two features help to facilitate digital financial services:


- A linked debit card that allows a user to make payments or withdraw money (for a fee).

³⁵ Brazilian Identification Document (ID) for FDP RNM which substituted the previous RNE.

- Additional benefit: customers can establish the amount they are going to save, which is remunerated at the Certificate of Interbank Deposit (CDI) rate (i.e., interest rate for interbank deposits).³⁶

Finally, the widespread use of digital accounts/wallets and related transactional services among the refugee, migrant and Brazilian population bolsters the use of related product and services.

Table 2: Examples of transactional products and digital accounts mostly used by FDP

	<p>The instant transaction network PIX has seen fast adoption and has 110 million Brazilian users after the launch in 2020.³⁷ By February 2024, 722 million users had been registered, mostly individuals.³⁸ Transactions via PIX are cheap, instant and simple to manage compared to traditional transaction methods such as Transferencia Eletronica Disponivel (TED).³⁹ As a result, PIX has become the preferred transaction method for most Brazilians, including the refugee and migrant population. In 2021, 40 million Brazilian made a digital payment for the first-time using PIX. The rate was even higher at the base of the pyramid (income classes D and E), where 50% of PIX users made a digital transaction for the first time.⁴⁰</p> <p>The implementation of PIX had a major impact on micro and small businesses: 89% accept PIX as their main means of payment alongside cash; payment via debit and credit cards sits at 50%. PIX has also become the preferred transaction method by entrepreneurs themselves, who in turn, encourage their customers to use PIX.</p> <p>Fonte: https://www.bcb.gov.br/estabilidadefinanceira/pix</p>
	<p>Nubank's digital account that targets individuals and registered businesses is easy to access and is affordable, including for FDP. 48% of surveyed FDP have opened a digital account at Nubank.</p> <p>Through the app, customers can apply for other services such as credit cards, personal loans and insurance products. In addition, like all banks, Nubank also offers PIX alongside TED as transactional products.</p> <p>Fonte: https://nubank.com.br/</p>
	<p>Banco Itaú launched "Iti Itaú," a digital value proposition in November 2019 with the objective to increase and facilitate financial inclusion, drive technology, and retain leadership in key segments.</p> <p>The digital account is free and can be opened online in a few steps. After opening the digital account, customers have access to a range of financial services through the app such as transactional operations like instant transfers (paying and receiving) using PIX as well as payment of utility bills, online purchases and topping up credit on a cellphone. Payments can be programmed to facilitate on-time payment.</p> <p>28% of surveyed FDP hold a digital account at Iti Itaú.</p> <p>Fonte: https://iti.itau/</p>

³⁶ Certificate of deposits (CDB) rate - is one of the most popular investments and is an important funding source for FSPs. The CDI is another investment product. Currently, the CDB rate is 100% of CDI rate, which is linked to the interbank rate. Both investments are higher than the normal saving account rate.

³⁷ (Bloomberg, 2021).

³⁸ (Banco Central do Brasil, 2024)

³⁹ TED allows transfers the same day if done before 5 pm. (Brazil Counsel, 2020)

⁴⁰ (Gifford & Plano CDE, 2022)

6.1.2 Wide-range and highly diversified credit offer available to meet the needs of the FDP population, but accessibility remains a barrier



Financial institutions provide a range of credit facilities to retail and business customers. This includes credit cards and personal loans, as well as microcredit facilities and discount of receivables for small and microenterprises. However, according to our survey, availability does not necessarily transfer into credit access for the FDP population, which stands at 16%.

▪ Access to personal loans and credit cards

22% of FDP are using credit cards to meet their consumption and basic needs, while 16% have access to a personal loan. Access to credit cards and personal loans is determined by account turnover, account tenure, and credit history. Credit cards are issued to customers who demonstrate financial stability through regular income flows. Therefore, FSPs stress the importance of increasing account activity and avoiding cash transactions. Customers with permanent employment are frequently offered pre-approved credit cards based on their income, credit history and other data. Thus, formally employed FDP have a higher propensity to access a credit card or personal loan.

The conventional credit card product includes specific benefits in the form of cash back and discounts at a variety of brands. Depending on the benefits and type of credit card, monthly or annual maintenance fees can be quite expensive. To offer access to the majority of the low-income Brazilian population, banks (and particularly digital banks and fintech) introduced credit cards with no monthly fee or a reduced monthly charge that is tied to the customer's bank deposits/investments and/or monthly transaction volume. Consequently, credit cards have become more accessible and affordable for Brazilians with lower incomes, including the FDP population.

Table 3: Examples of credit cards and personal loans offers, including potential for enhancement to FDP

	<p>Nubank offers a range of digital loan products to its customers, which are accessible through the app.</p> <p><i>Personal loans.</i> The bank offers several loan products including a loan guaranteed by a client's deposits.</p> <p><i>Credit cards.</i> The credit card "Ultravioleta" offers cashback of 1% on purchases along with other benefits. The monthly fee is R\$ 49 and can be reduced depending on a customer's investments at the bank and their monthly purchase volume.</p> <p>Fonte: https://nubank.com.br/</p>
	<p>Neon is a fully digital payment platform authorized by the Central Bank of Brazil.</p> <p>Neon offers a range of loan products to individuals, including payroll loans, consumption loans as well as loan against a fixed deposit/investment fund, called "ViraCredito"⁴¹ that links credit and savings.</p> <p>Loans are requested through the app. However, loan approval is subject to a credit analysis. Personal loans have a maximum loan amount of R\$ 15,000 with an average interest rate of 5% per month.</p> <p>Fonte: https://neon.com.br/</p>

⁴¹ ViraCredito, the name of Neon's personal loan product means that each 1 R\$ you invest in one of Neon's investments will turn 1 R\$ in credit.



Banco Inter, one of the major digital banks in Brazil, offers a range of digital solutions to its individual customers and to enterprises, including MEIs.

The account can be opened digitally and is free of charge, including accounts for MEIs. All services are managed through the app.

The credit card limit is tied to the savings product. While generating interest on the savings, the amount saved also serves as credit card limit.

Customers can use the app to access a variety of investing and savings options that are tailored to their financial capabilities and needs.

Fonte: <https://contadigital.inter.co/>

▪ Current credit offers for micro and small enterprises

Financial institutions and MFIs offer a range of products and services, including non-financial services to self-employed individuals and micro and small enterprises that operate in the informal sector or that are a registered company but do not qualify for the bank's business segment. **Nevertheless, our survey results display that only 3% of FDP have access to business loans.**

The current offering includes installment loans for working capital, investments to finance against receivables and group/solidarity loans.

Accessibility: most loan products from MFIs are accessible for micro and small enterprises owned by FDP if they comply with the prerequisite of having an ongoing business for a minimum of six months to one year along with basic personal documents such as CPF, RNM/RNE and proof of residency.

Risk assessment is based on an assessment of the business, bank account turnover and/or demonstrable income and credit history, which many FDP lack. To address the lack of credit history, some MFIs employ the graduation principle, which allows microentrepreneurs and the self-employed to establish a credit history by beginning with modest amounts.

Table 4: Examples of credit offers to the self-employed and micro and small enterprises, with potential for enhancement to FDP



Banco Daycoval, a financial institution specialized in serving small enterprises with a wide range of credit products. "Credito Digital Daycoval" is an online option where entrepreneurs can apply for a loan from a variety of credit modalities, including working capital, discounts on receivables, uncollateralized overdrafts and others. However, only registered micro and small enterprises, e.g., those with a CNPJ are eligible.

Fonte: <https://www.daycoval.com.br/>



Prospera, the bank's microfinance program offers a range of tailored products to micro and small enterprises that are not yet served by the small business unit at the bank.

Loan products include solidarity loans and individual loans up to R\$ 20,000 for 24 months.

Risk assessment is based on socio-economic analysis done through a business visit by the loan officer to define the payment capacity.

Once the loan has been approved, the client needs to open a conventional or digital bank account at Banco Santander with the respective benefits including

a debit card. In addition, customers can apply for a point-of-sale (POS) device and receive access to non-financial services that are offered free of charge.

Fonte: <https://www.santander.com.co/pq/prospera.html>



Established in 2009, Banco Pérola is an MFI that serves micro and small enterprises. Banco Pérola has digitized its entire application and credit process to be more cost efficient and enrich the user experience. Applications are made online by filling out a detailed questionnaire and submitting basic documents such as CPF, RNM, proof of residence and the last three months of bank statements.

The MFI offers a loan product for businesses owned by FDP in collaboration with UNHCR. The product, “CrediTodos,” does not differ significantly from the MFI’s conventional product, although some concessions are made to facilitate FDP access to the product. The maximum loan size is R\$ 15,000.

Fonte: <https://bancoperola.org.br/>



Mercado Pago offers a range of POS devices to business with different pricing depending on the solution.

Credit products include:

- Installment loans
- Credit against business volume
- Emergency credit to be paid back within a month.

Fonte: <https://www.mercadopago.com.ar/>




6.1.3 Remittances as cross cutting need for all FDP

67% of the FDP population regularly send money to their home country, independent of the segment. Most FDP transfer money at least every two or three months although the amount varies significantly depending on the income of FDP. Lower amounts average around R\$ 100 while bigger transfers are about R\$ 500. Most FDP send money to their families through informal channels. This is particularly the case for Venezuelan FDP compared to FDP from other nationalities (see chapter 4.1.) In addition, transferring funds to Venezuela through formal channels is often limited due to the volatile exchange rate and restrictions on money transfers from the Venezuelan government. In turn, this pushes FDP towards informal channels, such as individuals in the market who offer these services. The FDP are mostly unaware of the costs and exchange rate but trust and convenience are attractive features to transfer money.

Until recently, Brazil had very rigid foreign exchange rules. However, a new legal framework for the foreign exchange market introduced several changes have reducing bureaucracy and made some transactions, such as receiving and remitting overseas funds, easier for individuals and businesses.⁴²

FSPs offer remittance products either directly using the SWIFT system or through alliances with a money transfer operator (MTO) such as Western Union. The costs of remittance services using the SWIFT system depends on each bank's pricing strategy. International transfers can also be made through specialized and authorized payment entities such as Remessa Online and Wise, options which haven't yet reached the target segment. These channels are easily accessible since the entire process is online and these operators have a lower cost and more competitive exchange rate than MTOs or banks using the SWIFT system.

Table 5: Examples for Remittance products with potential for enhancement to FDP

	<p>Banco Daycoval is a financial institution with more than 50 years in the Brazilian market specialized in credit for companies, individuals (payroll loans and vehicle financing), foreign exchange products (foreign trade and remittances), asset management and investment.</p> <p>Through partnerships with MTOs and/or online payment providers, the bank provides remittances, including to FDP.</p> <p><i>Fonte: https://www.daycoval.com.br/; Interview with representative</i></p>
	<p>Remessa Online is an independent institution authorized by the Brazilian Central Bank to perform international transfers over the internet. Transfers typically take between a few hours up to one day.</p> <p>FDP transfer the respective funds from their Brazilian account using one of the payment systems (e.g., PIX, TED) to an account at Remessa Online which finalizes the transfer within a few hours depending on the time of operation. For example, Nubank is partnering with Remessa Online.</p> <p><i>Fonte: https://www.remessaonline.com.br/</i></p>
	<p>Wise was launched in 2011 with the vision of making international money transfers cheap, fair, and simple. It has further evolved, and now offers a multi-currency account, a debit card and has segmented its offer to businesses and individuals. Payments can be made with a bank transfer, debit, or credit card. However, Wise does not yet operate in all countries and currencies. For example, transfers to Venezuela and Bolivia are currently not available.</p> <p><i>Fonte: https://wise.com/br/</i></p>



⁴² (KPMG, 2022)

6.1.4 Savings, an instrument for reaching future goals and building a safety net

Only 15% of the FDP have a savings account and less than 3% used other deposit products such as term investments or investments funds.

Traditional savings accounts and products such as fixed deposits are offered by all authorized FSPs. Digital banks have attracted customers with some innovative products to save and invest for future goals as well as for immediate needs and emergencies by focusing on simplicity in the opening and application process for diverse investment opportunities. Table 6 presents a few examples of innovative products and approaches to encourage a savings culture and habits.

Table 6: Examples of savings products with potential for enhancement to FDP

	<p>Iti Itaú offers an easy way to save through its app. Investments and savings for a purpose or emergency are encouraged by offering 100% of the CDI rate, which is more attractive than the typical savings account rate. In addition, customers specify the amount they want to save and the time frame to reach their goal by using the app. The process is simple and does not require an in-person meeting at a branch.</p> <p>Fonte: https://iti.itau/</p>
	<p>Nubank has developed an innovative approach to encourage small savings for different purposes by opening “caixinhas” – a kind of subfolder to organize savings objectives. The process is done through the bank’s app, making it simple and convenient. Savings is encouraged by offering 100% of the CDI rate.</p> <p>Fonte: https://nubank.com.br/</p>

6.1.5 Insurance

The Brazilian insurance and financial industry provide a diverse range of insurance products that have been specifically designed to meet the requirements and preferences of various customer segments.

However, only a small proportion of FDP (3%) make use of insurance products, as they give priority to other financial and economic needs and basic coverage (e.g., health) is provided by the Brazilian state. Furthermore, a significant proportion of FDP have yet to obtain assets such as vehicles or properties, leading to limited demand for insurance products beyond life insurance.

The accessibility of insurance products is typically characterized by the required documentation and affordability of the premium. For instance, Nubank offers life insurance through its mobile application, enabling clients to choose a plan that aligns with their specific requirements and personal characteristics. In addition, the bank offers insurance alternatives for mobile devices, covering protection against theft and unintended harm, which may be comprehensive or partial. The app provides a graphical depiction of the monthly premium before the user finalizes their request.

As a result, current product and service offerings designed for the Brazilian population are relevant to the FDP population. However, as most of the FSPs haven’t thought about FDP as a market segment, potential demand has yet to be captured and attended.

6.2 Barriers and challenges limiting financial institutions to unlock the FDP market potential

Several barriers prevent financial institutions from capturing the potential demand of FDP.

Internal operational barriers

- **A lack of knowledge and information** about the FDP population has proven to be a major impediment to understand potential differences in terms of use and preferences of products and services.

The CPF and RNM/RNE are the primary documents needed to access financial services. None of these documents include information regarding the client's origin. The RNM/RNE does not specify if the person is a migrant or a refugee, but it does indicate whether the holder has permanent or temporary residency based on the validity of the document. Hence, FSPs find it difficult to profile the target segment to assess risks and tailor products and services that respond to the needs of FDP.

- **Sustainability agenda:** Even though the majority of Brazilian FSPs have incorporated social and environmental aspects, including principles of non-discrimination and equality into their strategy and commitment, most FSPs have not yet considered FDP as a distinct target segment. This study has the potential to alter this perception by shedding additional light on the FDP market's potential and characteristics. This requires convincing leaders at the management and board level who can promote the FDP market as a distinct segment or by serving FDP segments via targeted solutions, including women, micro and small entrepreneurs, young entrepreneurs, start-ups, low income or vulnerable groups such as indigenous groups.
- **Biases and stereotyping:** Customer service differs significantly between branches within the same financial institution. For example, branches located in the border region to Venezuela or branches that have been operating with UNHCR to serve the FDP population had a different understanding of FDP challenges and needs due to higher familiarity with the target segment than branches in other regions. Those differences reinforce or transform the perceptions of FDP about FSPs and their willingness to ask for support and new products.

"The account officer gave me good tips in how to improve the movement of my account to be able to increase my credit limit."

(Female FDP from Venezuela, Boa Vista)

"When asking to open an account at the branch, the account officer responded that I can only open an account online. No further explanation was given."

(Male FDP from Venezuela, Boa Vista)

- **Risk assessment** requires adjustments to overcome the lack of information on the target segments' credit, financial and economic behavior. Existing credit scoring models may need to be revised and adjusted using alternative data like cellphone use, e-commerce data, payment and transactional data to avoid high rejection rates as well as to ensure sound credit decisions.

Communication barriers

Communication barriers arise from both the demand and supply sides. From the supply side, the gap encompasses the understanding of the target segment, identification of areas where the FDP can be located, and knowledge of the most effective means of communication to effectively promote the available and suitable

products and services. Furthermore, there is a lack of communication strategies to effectively convey the relevant value propositions to FDP.

From a demand perspective, FDP lack awareness regarding the range availability of products and services. The promotion of products and services through word-of-mouth will persist among FDP due to their low product knowledge and understanding, leading them to rely on familiar options that have yielded favorable experiences.

Although assistance organizations effectively provide explanations on the functioning of the Brazilian financial system and the necessary requirements for opening a bank account, they mostly impart only fundamental knowledge regarding products and services. These are additionally influenced by individual experiences.

In addition, language barriers further complicate the communication and dissemination of current product offerings.

6.3 Conclusions

Main drivers that can encourage FSPs to service FDP include:

- **A mission to expand financial inclusion to specific target groups**, including the micro and small enterprise segment: FSPs include MFIs, private and public banks with microfinance programs;
- **A solid CSR strategy combined with a strong operational capability** like major private banks;
- **Interest to leverage existing solutions and platforms as well as to drive the innovation agenda**. This includes fintech, digital banks and mid-sized banks that target specific segments or focus on specific products (e.g., remittances); or,
- **Mandates, public policies, and international cooperation policies**: public institutions and state-wide development agencies could be interested to develop programs that serve FDP.

The Brazilian financial sector has a diversity of FSPs and is also technologically advanced. The enables a wide range of financial products and services, including digital financial services.

Table 7: Summary of main products used by FDP Groups: current offering and market share served

Products	Current offering of FSP	FDP market currently served (%)	FDP groups
Bank accounts and transactional services	Bank accounts, including digital account, transfers and payment services	62% 55% use mobile banking service	Well-Placed Group Prospective Group
Credit facilities	Credit cards Personal loans Loans for business activities (microcredit, small business loans)	22% 16% 3% (micro and small entrepreneurs)	Well-Placed Group Prospective Group
Savings	Savings account and products that cater for emergency and future purposes	15%	Well-Placed Group Prospective Group
Insurance	A variety of insurance products are offered to different segments, but no specific products for FDP identified	Less than 3%	Well-Placed Group Prospective Group
Remittances	International money transfers through partnerships with MTOs and authorized digital payment providers	34% of FDP uses formal channels	Well-Placed Group Prospective Group Unbanked Group

Source: own elaboration, survey data

Product and service offerings designed for the Brazilian population are relevant to FDP, but FSPs have yet to capture the potential demand.

- **Fintech and digital banks are addressing pain points by improving usability, lowering transaction costs, and increasing accessibility.** PIX, the instant payment platform, has become the favorite alternative for both Brazilians and FDP, allowing users to perform inexpensive, instant, and simple transactions. The extensive use of digital accounts and wallets among FDP and the Brazilian population boosts the consumption of connected products and services. Banco Itaú for example, introduced Iti Itaú in November 2019, offering a digital account for free transactions, insurance products, and personal loans. In addition, fintech and digital banks are driving innovative financial solutions, such as Nubank's savings pockets ("caixinhas"), to encourage savings and promote a savings culture. Due to the ease and convenience of opening a digital account that allows access to other financial products, 55% of the FDP community already uses digital accounts and mobile transactions.
- **Various FSPs, including MFIs, cater to micro and small enterprises by offering a diverse array of credit products that are also applicable to businesses operated by FDP.** Banco Santander's Prospera program provides customized solutions for micro and small businesses, while Banco Pérola has digitized its application and credit processes to improve cost efficiency and the user experience. Despite the availability of microcredit and business loans, only 3% of self-employed individuals and micro and small firms owned by FDP have successfully obtained loans to facilitate business growth. This indicates a need to further adjust

and tailor products to the needs of FDP entrepreneurs and develop a targeted marketing strategy to reach the segment.

- **Several FSPs offer credit cards and personal loans to the retail segment, including the Brazilian low-income population.** FSPs have improved their scoring models by leveraging artificial intelligence and big data to facilitate the provision of personal loans to some client segments. These approaches can be used to reach the FDP segments and provide access to credit card and personal loans to cover their unmet needs.
- **Remittances are crucial for all FDP in Brazil, yet 34% use informal channels to send money back to their home country.** Payment service providers have developed innovative, agile and cheap solutions that allow FDP to send and receive remittances. In turn, there is an opportunity for interested financial institutions to partner up to serve FDP.

Nevertheless, the financial sector's ability to effectively cater to the potential demand of the FDP population is constrained by internal barriers, including risk assessment models, insufficient data and information about the target segment. Unconscious biases and stereotyping further influence how products and services are offered.

Finally, communication barriers from both the demand and supply sides prevent the effective delivery of financial services to reach the target segment and capture demand.

7 Identified business opportunities

7.1 Introduction

This section outlines the approach to identify business opportunities, along with potential market size and revenues, that target the FDP population in Brazil.

Unmet demand from FDP for core financial products and services (e.g., transactions, credit, savings, remittances, and insurance) was determined through a gap assessment of the current offering versus the needs of the FDP population. FDP profiles were also identified to allow for a more thorough understanding of the unique demands and prospects for financial products and services.

As stated in the previous section, the current offering of financial products and services caters to some needs of the FDP population, while other products and services require adjustments to unleash potential FDP demand. As a result, the potential demand of the FDP population represents an exploitable avenue to generate financial gains for Brazilian FSPs.

From the perspective of a FSP, some segments may be more relevant, eligible, and/or compatible with their business model and strategy than others. The following FDP markets, including potential customers as individuals, entrepreneurs, and the unemployed, were classified into three groups: (1) the *Well-Placed*, (2) the *Prospective*, and (3) the *Unbanked*. Together, the 3 groups include a total of 10 unique FDP segments.

In sum, the following market opportunities and potential demand were identified:

Table 8: Overview of business opportunities and estimated market potential

Business Opportunity	Potential Users	Groups (Segments)	Estimated revenue per year
Remittances – developing a business relationship	653,000	Well-Placed Group Prospective Group Unbanked Group	R\$ 74 million
Financial deepening and expanding of digital transactions	514,000	Well-Placed Group Prospective Group Unbanked Group	R\$ 1.9 million
Personal loans and credit cards – unlocking the growing demand	288,000 157,000 Personal Loans 71,000 Credit Cards	Well-Placed Group Prospective Group	R\$ 177 million to R\$ 224 million
Business loans – the untapped market	62,000	Well-Placed Group (Accomplished Entrepreneur Motivated Self-Employed Gig Worker)	R\$ 73 million
Banking on women FDP segments	214,000	Women Domestic Worker Female Young Ambitious Female Motivated Self-Employed Female Informally Employed	R\$ 79 million to R\$ 86 million

Source: Own elaboration. Interview and desk research data⁴³

⁴³ The potential market and estimated annual revenue were calculated based on the total population of adult immigrants in Brazil (including forcibly displaced persons and other immigrants), estimated at 1.3 million in December 2022

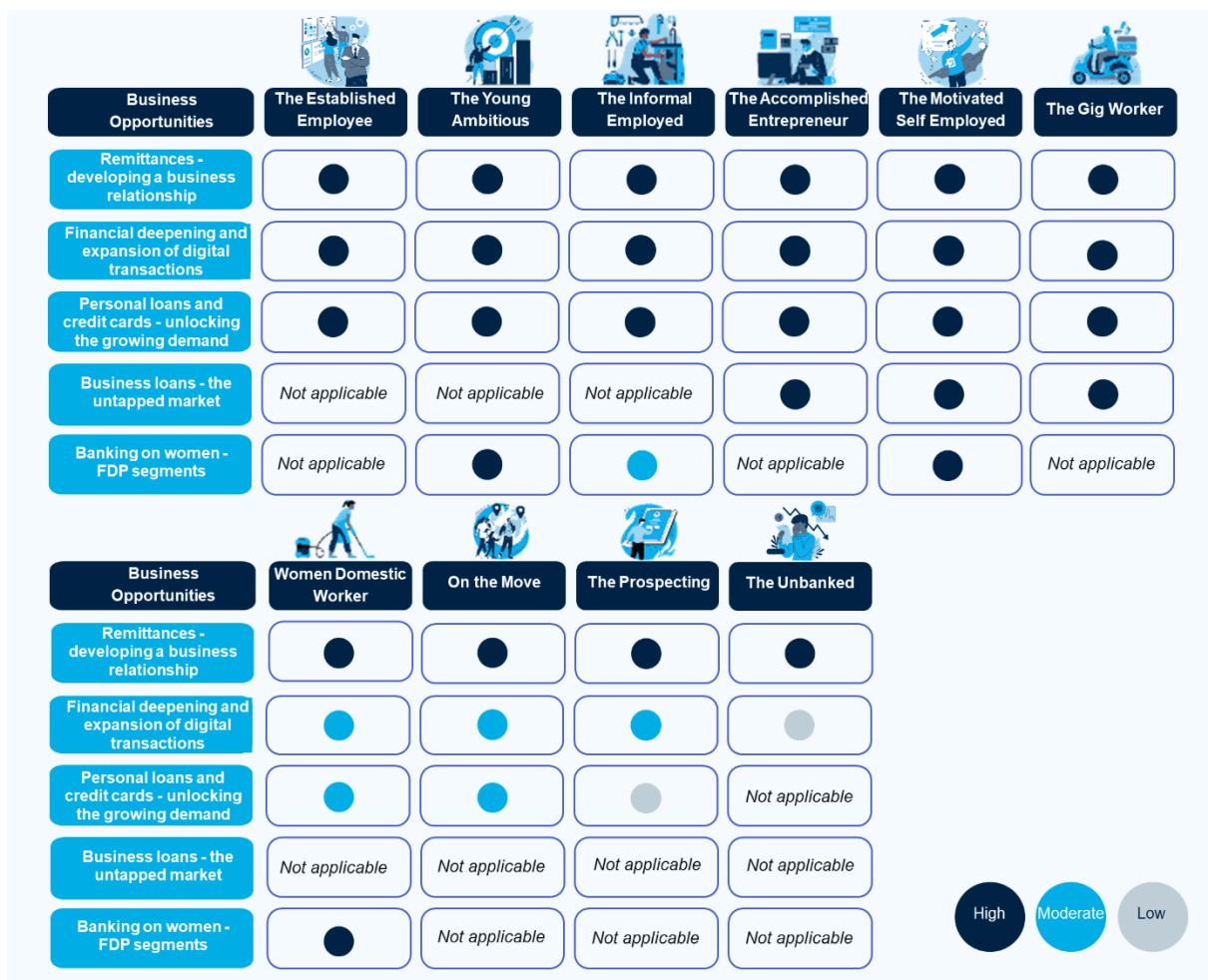
Overall, we identified an estimated revenue of R\$ 460 million serving a potential market of 1.7 million additional FDP across the suite of financial services and products. Some business opportunities target specific FDP populations within the *Well-Placed* and/or the *Prospective Group* while others address the entire FDP population (e.g., digital transactions and remittances). While there is a considerable business opportunity to deepen digital transactions, credits, and remittances, the study did not indicate a significant opportunity to serve FDP clients in Brazil with savings and insurance products based on the demand of FDP surveyed.

Moreover, we have identified that entrepreneurs in the C, D, and E income segments of the Brazilian population are largely underserved with business loans, an opportunity of 0.5 million potential customers. This provides an opportunity to leverage the incursion into FDP finance and increase the growth of business loans in Brazil.

7.2 Business opportunities

The following section outlines each business opportunity, the actions required to capitalize on it, as well as a description of the market size and the estimated revenues.

Figure 26: Market Potential FDP Group and segment by business opportunities

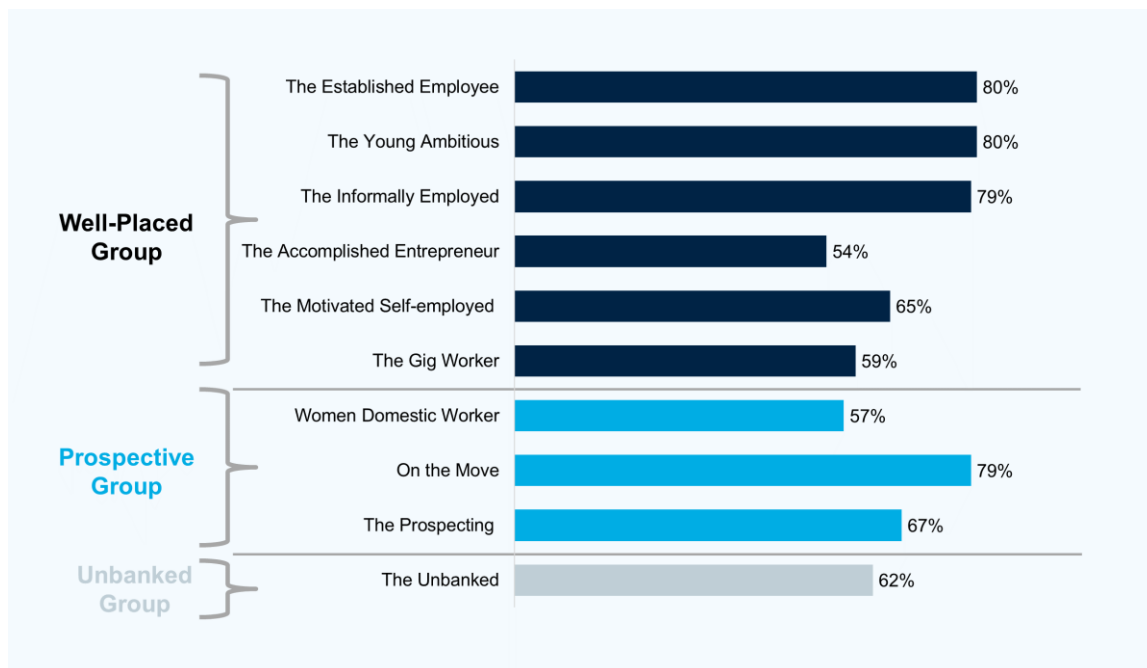


Source: Own elaboration. Interview and desk research data

7.2.1 Remittances – developing a business relationship

Remittances provide the largest opportunity in terms of business volume and potential market. Currently, 67% of the FDP population regularly sends money to their home country. However, only 34% of FDP use the formal channels offered by banks, money transfer companies (MTOs) or payment service providers. Most FDP use informal channels, in particular individuals who receive money from the refugee or migrant by cash or transfer – mainly PIX – which is then transferred to the home country. This practice is mainly used by Venezuelan refugees and migrants due to the limited options through MTOs. As costs and risks are high, FSP have a huge business opportunity to capture these flows.

Figure 27: Current use of sending remittances to their home country by FDP segments



Source: Own elaboration, survey data

■ Adapting of current offer to identified needs

Most FDP, irrespective of their profiles, currently seek speed and efficiency in terms of remittances, as well as security and transparency in pricing.

To meet the demand for remittances, technology and digital app-based remittances are the way forward. Under the new regulation, payment service providers have developed novel solutions, such as the possibility to open a multi-currency account that supports simple and cost-effective money transfer solutions.

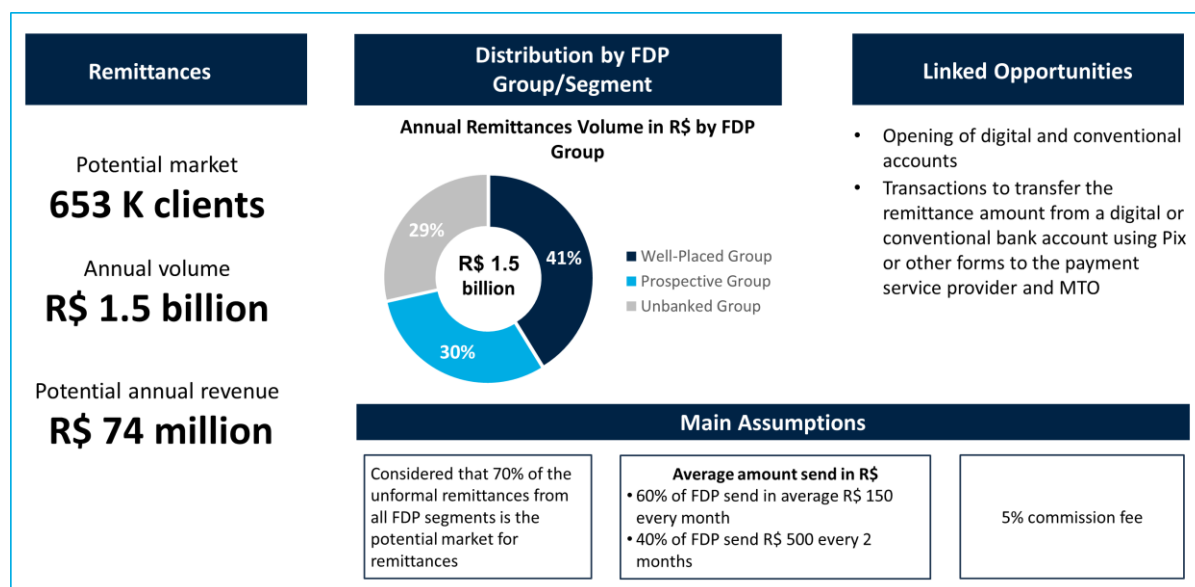
Cooperation with payment service providers could be a strategic option for digital banks, niche banks and MFIs like Banco Pérola. Currently, majority (66%) of FDP use informal remittance services, highlighting an important market opportunity for FSPs to attract new customers and diversify their product offer. As remittances are one of the most demanded financial services by FDP and are also linked to an emotional behavior, providing remittances could strengthen loyalty and the relationship between FSPs and FDP clients.

Partnerships between FSPs and payment services providers enables the possibility to:

- Increase market share and gain access to data on FDP's patterns of sending money abroad, which could be an additional data point in the development of credit scoring models.
- Build relationships and trust with the FDP segment, as sending remittances is one of the most important and emotionally charged needs of the FDP population.

Payment service providers such as *Wise* and *Remessa Online*, have partnerships with some digital banks offering remittances solutions that are readily accessible, convenient, transparent in their pricing and affordable. Moreover, if the refugee or migrant has a bank account, the funds will be transferred via PIX to the service provider, who will complete the transfer within a few hours, depending on the amount.

■ Potential market and revenue



Source: Own elaboration, survey data

The potential market is estimated at 653,000 additional FDP clients and is composed of FDP that mostly use informal channels with a potential annual volume of R\$ 1.5 billion. Based on the cost-efficient solutions, the potential revenue is estimated at R\$ 74 million per year with opportunities for further growth once trust has been established with the FDP population.

■ Potential challenges and mitigation measures

Partnering with international payment service providers to provide convenient, affordable, and secure remittances to the entire FDP population presents a significant opportunity. The greatest potential to increase and expand remittances from informal transactions is concentrated in the most vulnerable segments, particularly the *Unbanked* segment, which does not fit the strategy and business model of several banks.

Existing biases to reach these potential segments, especially the *Unbanked*, will further impede the provision of remittances.

As a result, developing awareness and communicating with the target audience is a crucial aspect to capitalize on this opportunity. It requires partnerships with local and regional refugee and migrant organizations as well as the use of various communication channels utilized by the FDP target audience such as radio and social networks.

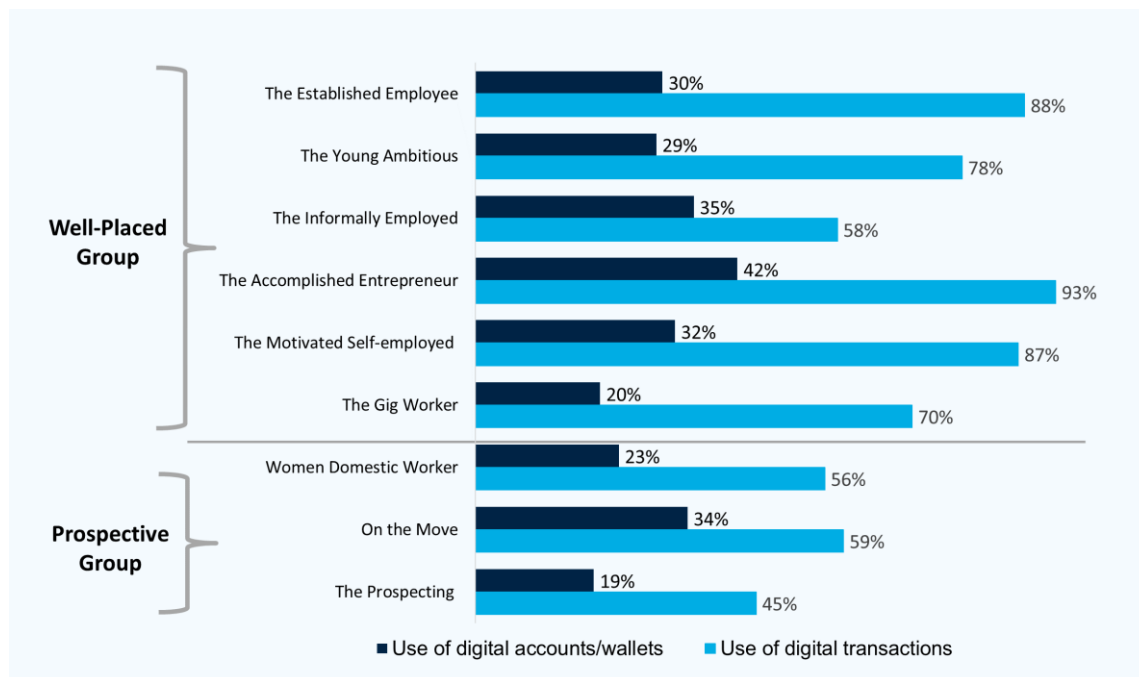
Technology is essential to offer cost-effective, transparent, and quick remittances services that can compete with informal solutions that are characterized by high convenience and trust in the person receiving the money.

Integrating the payment service as part of the product offering, e.g., as part of the wallet or digital value proposition, generates an ecosystem that enables the institution to develop risk models that allow to offer other, more profitable products and services, such as credit and insurance solutions.

7.2.2 Financial deepening and expansion of digital transactions

Digitalization of transactional services has facilitated the financial inclusion of the Brazilian and FDP population to open digital accounts and wallets. As a result, the majority of the *Well-Placed Group* and the *Prospective Group* use digital methods for their transactions (as visualized in the following figure).

Figure 28: Current use of digital accounts and digital transactions by FDP segment



Source: Own elaboration, survey data

Importantly, there are market opportunities where the entire adult FDP community could be targeted and massively developed. This could lead to an additional 514,000 users and related transaction services, such as utility bill payments, internet purchases, and others. In total, estimates suggest an additional 45 million transactions per year.

The business opportunity to deepen transactional and digital banking services builds on two avenues:

- (i) Expanding access to digital accounts and related basic financial transactions for those who do not have a digital account and do not currently use mobile and/or internet banking for their transactions. Opportunities exist across all three FDP segments.
- (ii) Deepening financial transactions by cross-selling other financial products and services, such as credit operations, savings, and remittances. This will increase business transactions, particularly in the entrepreneur segment due to the expansion of B2B and P2B relationships.

Growing transaction volume may not translate directly into significantly increased revenue, as most transactions use PIX, which is still available for free for individuals. However, increased transaction volume generates additional data that may be used to profile an individual's patterns and behaviors in terms of financial services utilization and boost the credit risk analysis capabilities at financial institutions.

■ Adapting current offer to identified needs

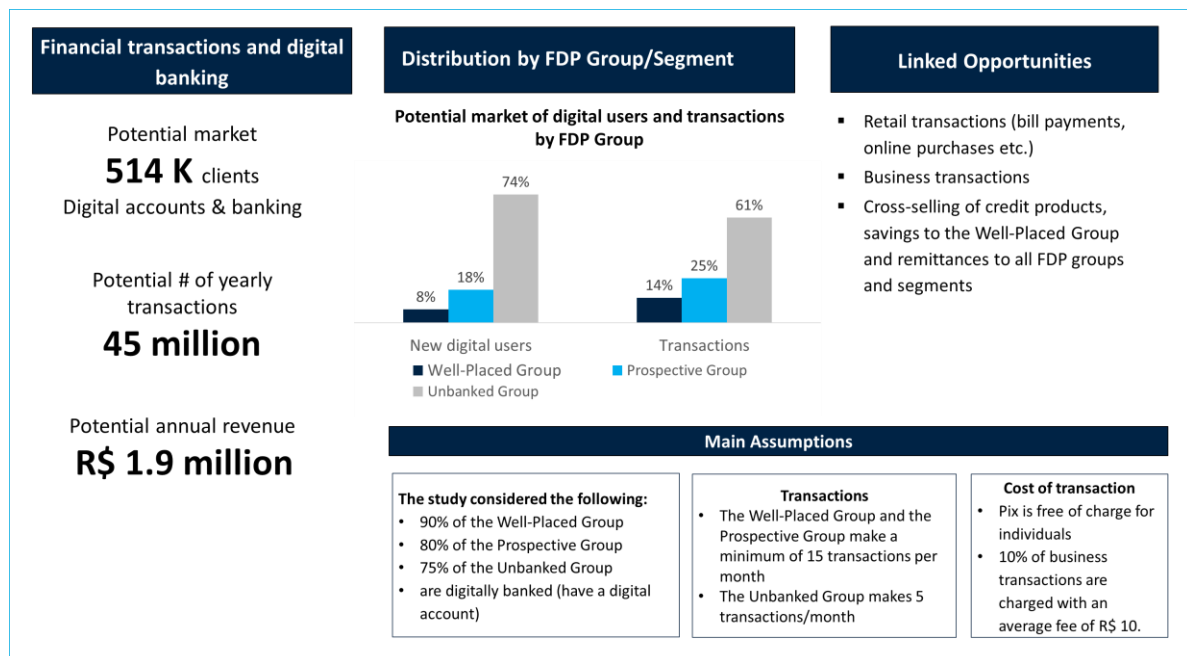
To expand access to digital accounts, there is no need to ease the access requirements because they already meet the needs of FDP. However, our survey suggests that FSPs could use the increased access to digital accounts to cross-sell other financial products and services.

Most financial institutions and digital banks offer digital accounts with simplified opening procedures, reduced documentation requirements (e.g., CPF, cellphone, ID, and a photo), and the ability to manage and operate the account via mobile phones with minimal or no maintenance fees. These characteristics address the requirements of FDP and mitigate potential obstacles.

With the launch of the instant payments system, PIX, there are no barriers in terms of documentation, costs or operational challenges that prevent FDP from engaging in any type of payment and transfer between individuals and online purchases (e.g., food delivery services, pharmacies, etc.). Additionally, all transactions performed by individuals using PIX are free of charge, enabling segments with low or irregular incomes to use the system for all types of financial transactions. All financial institutions provide these solutions.

Main segments: Digital solutions are relevant for all FDP segments, including those that currently do not use any financial services and products in Brazil.

■ Potential Market and Revenue



Source: Own elaboration, survey data

There is an additional estimated potential market of 514,000 FDP clients to increase their use of digital transactions. This includes 133,000 FDP in the *Well-Placed* and *Prospective* segments who haven't yet explored the full potential of a digital account for their financial transactions. Furthermore, there is an opportunity to bank at least 75% of the *Unbanked* segment by offering a digital account, corresponding to an additional 381,000 FDP customers. Together, these segments will become new PIX users, accounting for 60% of the total estimated additional transactions of 51 million per year. Assuming that 90% of the transactions are performed using PIX, which is currently free of charge for users, the expected revenue for transactional banking is R\$ 1.9 million.

Cross-selling opportunities also exist for various credit and savings products to the *Well-Placed Group* and at a lower scale to the *Prospective Group*.

■ Potential challenges and mitigation measures

Technology: Datamining FDP segments is challenging because, when opening digital accounts/ wallets and using PIX, CPF is the primary identifier. However, the CPF does not indicate if the individual is an FDP nor is it capable of designating an individual's residency status. However, this feature can also be positively viewed since the

analysis and decision-making will be free of bias. However, combining different data points such as RNE/RNM and nationality may help to identify if the customer belongs to the FDP community.

Continued digitalization and the emergence of new innovations will help FSPs to assess profiles, predict behaviors, and understand financial trends.

Awareness and communication: Reaching out to FDP is a challenge for FSPs. To capture the unmet need for digital and transactional services by FDP, all types of FSPs are challenged to select the most efficient communication channels as well as the appropriate communication. Communication activities might include participation in or sponsoring cultural events of FDP, building partnerships with local and regional support organizations or announcing their services and products on the radio, which is frequently used by the Bolivian community, among others.

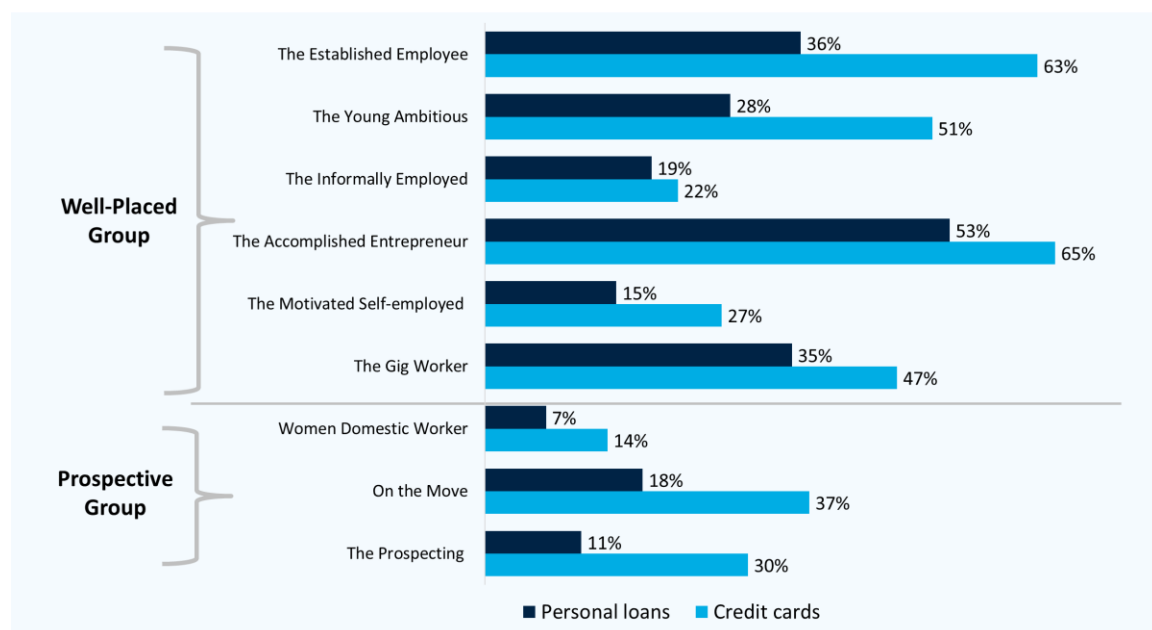
Awareness and knowledge of existing financial solutions relevant to FDP is a critical step toward expanding and deepening financial services. A lack of awareness on existing offerings, along with FDP perceptions that they are ineligible to open an account and that banks do not want them as clients restricts the financial inclusion of FDP in the Brazilian banking system.

7.2.3 Personal loans and credit cards – unlocking the growing demand

FDP seek credit opportunities to satisfy consumption needs, such as the purchase of goods for their home or for personal use, with the aim of improving their wellbeing and the wellbeing of their family. Thus, access to personal loans and/or credit cards are essential products. Personal loans may also be used to improve education or for emergencies. Although this opportunity could target diverse FDP segments, some segments have a better credit profile and thus generate a greater potential for FSPs.

The most attractive segments include the *Established Employee* and the *Young Ambitious*. In particular, the *Established Employee* segment has a higher average income, which permits higher limits for personal loans and/or credit cards. In addition, the *Accomplished Entrepreneur* segment provides an opportunity to extend personal loans and credit cards. Entrepreneurs often use personal loans and credit cards for business operations due to the ease of requesting a credit card or personal loan compared to a business loan.

Figure 29: Current usage of personal loans and credit cards by FDP segment



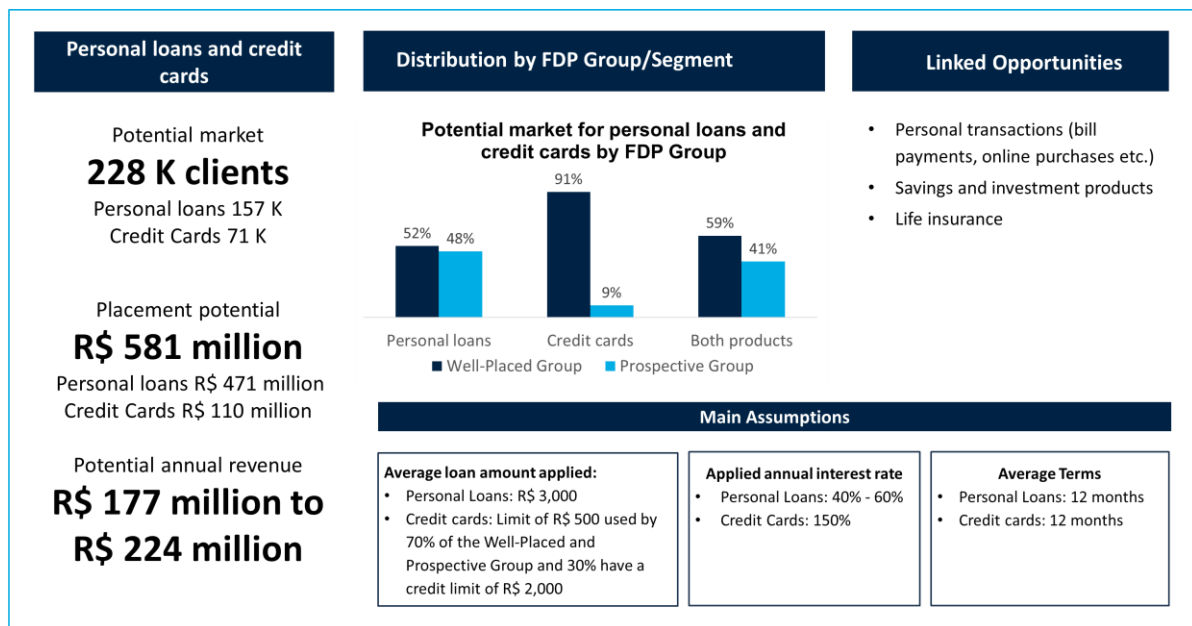
Source: Own elaboration, survey data

■ Adapting current offer to identified needs

The Brazilian banking system has devised a variety of personal loan products to serve various Brazilian groups, such as the formal employed, retired people and low-income populations. Personal loan products secured by a fixed deposit are an alternative way of extending credit to vulnerable segments with no formal employment and/or inconsistent income. Even though digital banks have started advertising a personal loan secured by savings in the account, obtaining a credit card or personal loan remains challenging for most FDP.

Extending personal loans and increasing credit card limits are based on the principle of graduation, beginning with a small amount that lasts for three or six months. Higher quantities and limits will be extended if the borrower has a solid repayment history and is actively seeking to expand operations.

■ Potential market and revenue



Source: Own elaboration, survey data

The total opportunity is estimated at 228,000 clients (157,000 clients for personal loans and 71,000 clients for credit cards). The opportunity represents potential annual revenue between R\$ 177 million and R\$ 224 million, based on average market interest rates and loan terms.

The *Well-Placed Group* is the largest subsegment for personal loans and/or credit cards to meet consumption and other needs, generating an estimated placement of R\$ 345 million. Moreover, access to personal loans and/or credit cards is easier for those who are formally employed and have access to a financial record (salary) as the primary source of loan repayment. This translates to an estimated 132,000 clients within the *Well-Placed Group*.

Finally, the *Prospective Group* offers a compelling business opportunity of 96,000 clients for personal loans and credit cards, equivalent to an estimated volume of R\$ 236 million.

■ Potential challenges and mitigation measures

The absence of credit history, primarily the inability to provide evidence of income, constrains the ability to obtain personal loans and credit cards. This pertains specifically to FDP who lack formal employment and the *Motivated Self-employed*. Financial institutions have formulated strategies and implemented novel technology and risk assessment models to evaluate the credit risk associated with low-income and vulnerable groups in

Brazil. Those practices and models could be applied with no or little adjustments to the FDP population who are not formally employed and who have low and often irregular incomes.

Further, FDP should be encouraged to increase their account transactions as a means of substantiating their revenue stream, particularly when they are engaged in self-employment or provide services such as cleaning, repairs or transportation. Depositing the remuneration received in cash for such services into their bank account and conducting subsequent transactions through the account rather than in cash is advisable.

Risk of over-indebtedness: Credit cards are a popular financial instrument in Brazil, exhibiting potential for over-indebtedness. Nearly, 70 million individuals (one-third of the Brazilian population) are in default on some form of debt, including bank loans and utility bills. To address this challenge, a comprehensive renegotiation program “Desenrola Brasil” was launched in October 2023 to restructure existing household debt owed to creditors through a digital application.⁴⁴ A guarantee for the consolidated and restructured debt of low-income households of BRL 10 billion fund (0.1% of Gross Domestic Product (GDP)) is being provided. The program also foresees enhancing financial literacy among households, with a focus on the use and consequences using credit cards.⁴⁵




According to the qualitative research, FDP revealed prudence in utilizing credit cards and frequently opt to reserve it for unforeseen circumstances. However, it is imperative to acknowledge the potential risks and consequences associated with the inability to control expenditure and payment of credit card obligations. Hence, financial education should be considered as a means of support.

7.2.4 Business loans – the untapped market

This research identifies an unmet demand for business financing across all FDP entrepreneurial segments. On average, only 3% of the self-employed and informal microenterprises had a loan for their business, while 13% of micro and small enterprises were able to secure a loan for their businesses.

As personal loans and credit cards are more accessible, they partially satisfy the financial needs of growing an enterprise, particularly for working capital. However, most entrepreneurs are interested in a business loan to expand and grow their business.

Figure 30: Credit solution used by FDP segments

Well-placed entrepreneur segments	Potential Market	Use of credit products (%)		
		Personal loans	Credit Cards	Business loans
 The accomplished entrepreneur	34,000	53%	65%	13%
 The motivated self-employed	83,000	15%	27%	3%
 The Gig worker	21,000	35%	47%	16%

Source: own research, survey data

The *Accomplished Entrepreneur* segment is composed of entrepreneurs who have already been able to register their micro or small businesses. The CNPJ allows them to open a business account and gain access to credit products with differentiated interest rates and other financial services. For example, some digital banks provide

⁴⁴ (Brazilian Ministry of Finance, 2023)

⁴⁵ (IMF, 2023)

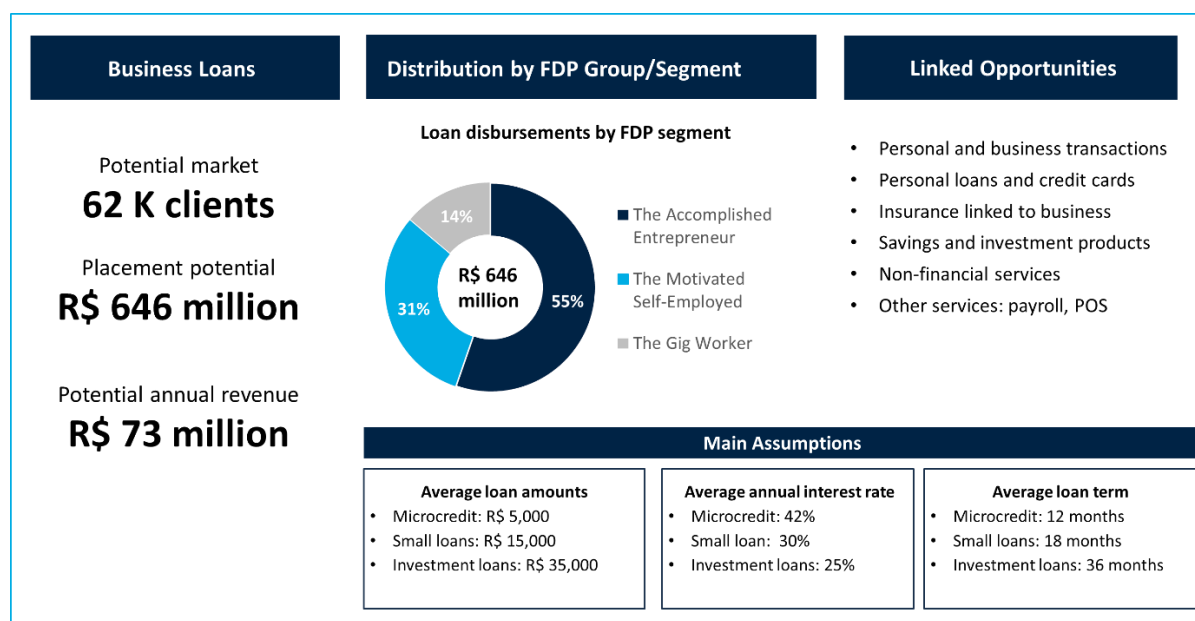
business accounts, specific credit products, and non-financial services to entrepreneurs. The *Motivated Self-employed* operate home-based businesses and microenterprises and are considered by majority of FSPs as high-risk customers due to a lack of documentation, financial capabilities, and business volume. If registered, the *Gig Workers* can also benefit from similar opportunities as the *Accomplished Entrepreneur* segment.

■ Adapting the current offer to identified needs

Several FSPs offer specific financing products including microcredit, discounts against receivables, or asset finance to small and micro enterprises. Banco Santander's microcredit program Prospera, public banks such as Banco do Nordeste, Banco da Amazonia as well as MFIs such as Banco Pérola, Banco Omni and BPCS as along with other regional and local microcredit programs have tailored products that respond to the needs of the entrepreneur segments.

Existing microcredit products should meet the requirements of the entrepreneur segments. Since the credit evaluation is based on stability, experience, and payment capacity, a lack of a credit history can be compensated by these factors. In addition, most entrepreneurs have a bank account where they perform payments and transactions, which facilitates the evaluation of their financial capacity.

■ Potential Market and Revenue



Source: Own elaboration, survey data

The market potential comprises at least 62,000 entrepreneurs who are interested in taking out a business loan to expand their business. This translates into a potential placement of R\$ 646 million and a potential annual revenue of R\$ 73 million applying benchmarked interest rates and terms for small loans, investment loans (equipment and vehicle finance), as well as microcredit products. The economic returns for financial institutions could be significant, especially if loans become recurrent.

■ Potential challenges and mitigation measures

When dealing with refugee/migrant-owned businesses, the lack of a credit history is a fundamental challenge. Lack of knowledge regarding the utilization of financial products and financial behavior restricts access to credit options. Thus, the rejection rate of business loans is considerable. The arrival of digital banking, smartphones, and the internet has facilitated the acquisition of alternative credit data, including telco, e-commerce, and utility

payment information. Character-based data has the potential to complement past financial information by providing insights about an individual's trustworthiness and sense of responsibility.

As the majority of the *Motivated Self-Employed* operate from their homes and/or in the informal sector, financial institutions are often reluctant to serve this segment due a lack of familiarity. The asymmetry of information and/or the existence of unconscious biases further diminish the desire to extend credit to this segment.

However, digital banks and fintech are more willing to experiment with new approaches and are actively seeking market expansion opportunities. Some digital banks have adopted a segmentation strategy by tailoring their services to cater to both individual and business customers. In contrast, traditional financial institutions utilize data obtained from POS devices to gain insights into transaction flows and patterns, enabling them to design personalized solutions for micro and small businesses.

Another challenge is related to the provision of collateral. Most FDP find it difficult to provide the necessary guarantees because they do not have roots in the country and have not yet acquired sufficient assets to pledge. Also obtaining a personal guarantor is challenging since they mostly act within their own community. MFIs have identified alternatives for smaller loan amounts, including the acceptance of movable assets as collateral and the provision of loans without collateral.

The application and analysis procedures for business loans are still burdensome for both applicants and financial institutions, particularly in the case of larger loan amounts. As a result, FDP often tend to opt for personal loans and credit cards, which can be conveniently obtained online, thereby circumventing the need for extensive data collection and document submission. Hence, non-financial services such as financial and business skill development are a key component to serve FDP entrepreneurs.

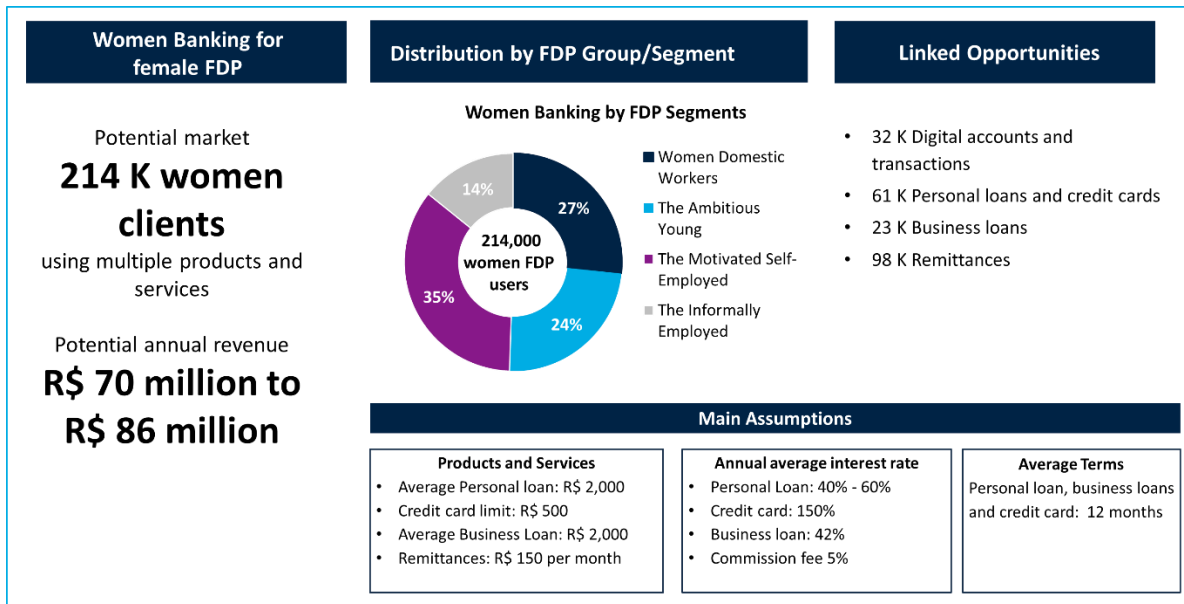
7.2.5 Banking on women FDP segments

The study revealed that women FDP outnumber men in nearly all FDP segments. Opportunities that target women could be interesting for FSPs that already have, or are considering developing, a women market initiative, or for FSPs that already serve a major percentage of women. For those FSPs, it could be an opportunity to foster gender financing by focusing on the retail sector via the FDP segments of the *Women Domestic Workers* and the *Young Ambitious* (with 62% women share) and/or through the female FDP entrepreneurial segment of the *Motivated Self-employed*, which has 69% women share.

■ Adapting current offer to identified needs

Several FSPs already have a significant female customer base in their portfolio. Serving women has become an important objective, particularly for FSPs with a strong social responsibility and/or ESG strategy. Furthermore, increasing women's financial inclusion and empowerment has become a strategic purpose and goal for a number of FSPs around the world. Thus, serving women FDP with a gender-sensitive value proposition represents a business opportunity for FSP that already have a women banking value proposition in place or are interested in doing so. To serve the women's market, it is important to assess and perhaps adjust existing products and services under a gender lens, ensuring that they respond to women's needs and challenges accessing finance.

■ Potential market and revenue



Source: Own elaboration, survey data

The FDP segments considered for the estimation of the business opportunity of Banking on FDP women includes the *Women Domestic Workers* (100% women FDP), the *Young Ambitious* (with 62% women share), the *Motivated Self-employed*, which has 69% women share and the *Informally Employed* with 60% women share.

The total opportunity is estimated at 214,000 women clients from the 4 most promising FDP segments for diverse financial products and services. The opportunity represents a potential annual revenue between R\$ 70 million and R\$ 86 million, based the digital account as enabler for cross-selling other products and services such as personal loans, credit cards and remittances as well as business loans for 69% of women *Motivated Self-Employed* segment. This segment has the greatest potential in terms of the number of female clients (76,000 clients, or 35% of the total female market identified). In addition to offering personal loans and credit cards for consumption and personal use, a potential market of 23,000 business loans was identified, which would generate an estimated loan volume of R\$ 92 million.

The *Women Domestic Workers* present a potential market of 57,000 women clients (27% of total women market), followed by 51,000 of young, highly educated women of the *Ambitious Young* segment and 30,000 of the *Informally Employed* segment.

The overall placement in terms of credit volume including personal loans, business loans and credit cards is estimated at R\$ 261 million generating a yearly revenue of R\$ 59 million to R\$ 75 million. Remittances is considered the most relevant product for all 4 female FDP segment with a yearly amount of R\$ 176 million and an estimated revenue of R\$ 11 million.

■ Potential challenges and mitigation measures

Sex-disaggregated data: FSPs interested in a women's banking program should count with sex-disaggregated data, allowing to separate their customers and respective portfolios by gender. This is an important pillar of a women's banking program, enabling the FSP to track and evaluate results by gender. This necessitates registering gender at the time of account opening as well as when requesting a specific loan product, data that should be captured in both the core banking system and the corresponding portfolio databases.

Senior management commitment: establishing a women's market program in general, as well as with a focus on women FDP segments, requires a strong commitment from senior management in order to become a

sustainable program. Establishing a gender champion within the organizational structure has proven to be an important factor.

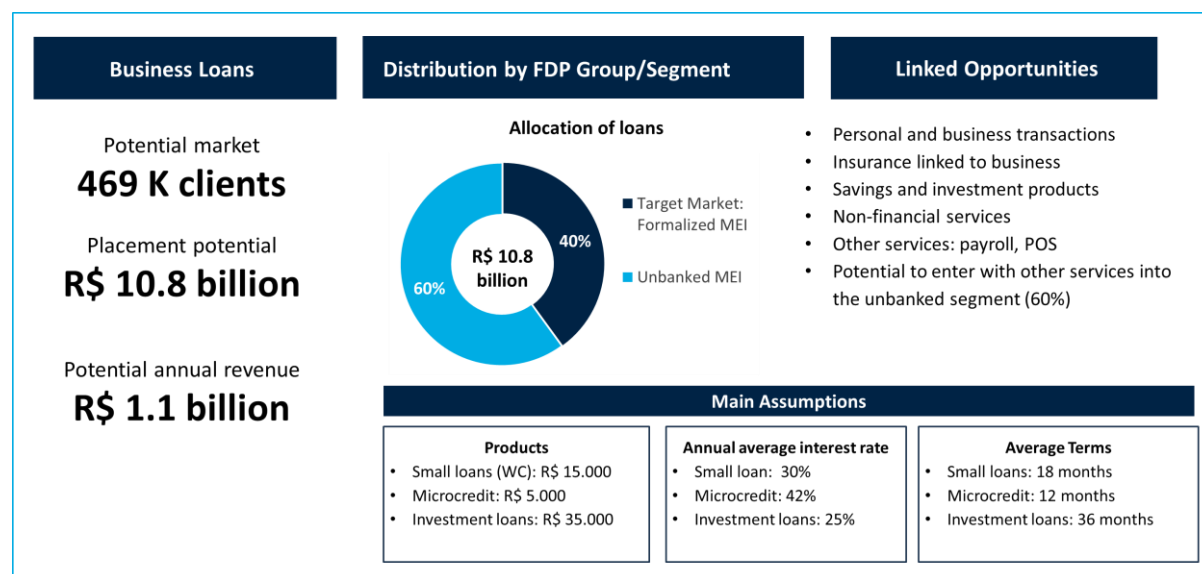
7.2.6 Business opportunity beyond the FDP segment: Leveraging business loans that target untapped C, D, and E microenterprise segments in Brazil

Recent research⁴⁶ confirmed an unmet demand for microenterprises business financing in Brazil:

- One-third of the segment satisfied investment needs through personal loans (71%), credit cards (46%) and overdrafts (35%).
- Retail loans are very costly,⁴⁷ short-term and mostly target working capital needs, which hampers the development prospects for these microenterprises.
- Only 19% of the enterprises in the C, D, and E segments took out a loan of the business, despite that 40% are formally registered as MEIs and had a bank business account.
- **Adapting the current offer to identified needs**

Through the National Microcredit Program (Programa Nacional de Microcrédito Produtivo Orientado – (PNMPO)) launched in 2005, the Brazilian Government incentivized FSPs to serve micro and small enterprises. Several FSPs, including MFIs, financial cooperatives as well as public and private banks developed a value proposition targeting the micro and small enterprise segments. However, less than one-quarter of this segment has access to formal business finance. As a result, there is still a need to further adjust the business model and microcredit offer to be more efficient in terms of growth and outreach by leveraging digitalization and innovation. This will benefit both the Brazilian micro and small enterprises and FDP entrepreneurs.

▪ Potential market and revenue



Source: Own elaboration, survey data

The estimated market potential comprises almost 500,000 entrepreneurs who are interested in taking out a business loan to expand, translating into a potential placement of R\$ 10.8 billion and an annual revenue

⁴⁶ (Gifford & Plano CDE, 2022)

⁴⁷ According to data obtained from the Brazilian Central Bank's Financial Citizenship Report 2021, it was observed that in the year 2020, MEI who obtained loans through regular accounts incurred an interest rate that was 78% higher for revolving credit compared to loans acquired through business accounts

potential of R\$ 1.06 billion applying benchmarked interest rates and terms for small loans, investment loans (equipment and vehicle finance), as well as microcredit products. The economic returns for financial institutions could be significant, especially if loans become recurrent.

7.3 Cross-cutting enablers to successfully deploy existing products that target FDP

Enablers strive to support the ecosystem to improve the impact of a value proposition that targets FDP as well as close existing gaps that hamper FDP' and refugee's financial inclusion.

Regulatory framework: Brazilian's immigration and refugee policy are regarded both as part of the most advanced legislations in Latin America, facilitating immigration to the country, protecting refugees and allowing FDP to stay documented in the country.

Past challenges regarding the acceptance of a temporary identity card (which is required in addition with a CPF to open a bank account) have been solved. Thus, few FDP see documentation requirements as a challenge to open a bank account and access financial services.

Technology has become an essential enabler and key component in providing financial services to vulnerable and low-income populations. Learnings and technological breakthroughs in the digitalization of financial services and related innovations, such as cryptocurrencies, which could be a game changer in the remittances market, allow for the provision of low-cost solutions.

Fintech, digital banks, and the Brazilian Central Bank's instant payment solution PIX are components that enabled FDP's financial inclusion by opening a digital bank account with access to other financial services. 55% of Brazilian FDP utilize mobile and online banking, highlighting the importance and influence of technology in financial inclusion.

Business model: Most FSPs have not considered serving FDP as a priority or an opportunity. The FDP population has been served within the business model of each FSP without considering FDP as a distinct segment/target group and the opportunity to develop a more tailored commercial strategy to reach and serve the segment. Here, fulfilling the demands of FDP and making sure the products and services are "fit for purpose" depends on FDP community interaction, either with the support organizations/non-financial service providers or directly. The way financial services and products are created and provided should be influenced by the knowledge that FDP may be more susceptible to financial misuse (i.e., informal loans and informal remittances) and personal security issues related to cash distribution.

Communication and awareness from both FDP and FSPs have proven to be one of the main challenges that hamper the growth and acceleration of financial services to the FDP segments.

FDP lack information and awareness regarding the current offer of financial services and frequently self-exclude themselves based on their beliefs that they are ineligible for financial services due to their documentation status and socioeconomic circumstances. Therefore, they avoid financial institutions out of fear of rejection. This behavior is reinforced by the beliefs and experiences (positive or negative) of the individuals with whom they relate.

A customized communication strategy (including appropriate communication channels and language) to reach the FDP population is a key enabler to expand and deepen financial sector integration.

Operational aspects: Meeting the diverse financial needs of the FDP population requires an adjustment of internal risk assessment criteria and updated view of the risk perceptions of the FDP population.

Understanding use, patterns and behaviors concerning financial services of the FDP population is key to develop adjusted credit scoring models and adapt credit and risk policies. Brazilian FSPs have developed advanced, and technology driven risk scoring models that build on traditional and alternative data such as information from cellphone companies, e-commerce data and others, which allows them to reach the Brazilian vulnerable and

low-income population. These methods can be expanded and applied to the FDP segment. In addition, some FSPs have also been applying psychometric data in their assessment, in particular when credit bureau data and historical data are missing.

Banco Perola, a Brazilian microfinance organization, began digitizing its entire microcredit operation, including the application and assessment process, by requiring microenterprises to fill out an online questionnaire. Credit decisions are made using a microenterprise lending score model and an online interview with the applicant, allowing for greater flexibility and adjustments in the decision-making process and when defining loan conditions (e.g., term, loan and installment amount, and collateral). Based on the first lessons from Banco Perola's pilot project with FDP in collaboration with UNHCR, Venezuelan microentrepreneurs scored similarly to Brazilian entrepreneurs, particularly Venezuelan women entrepreneurs. However, financial education, particularly knowing the implications of being reported to the Brazilian credit bureau when defaulting, has shown to be a key component in maintaining strong portfolio quality.

Role of international, regional and local refugee organizations: When creating a value offer that targets the FDP community, international and local refugee organizations play an important role. In particular, regional and local organizations have a thorough understanding of the requirements and difficulties faced by FDP, access to the communication channels they use, and knowledge of where and how to contact the target group (via social networks, gathering places, etc.). The most significant contribution, however, comes from the trust that these organizations have established with the FDP community. By establishing a strategic partnership with local and/or regional refugee organizations, those valuable assets can be leveraged.

When creating a strategic alliance that gives access to regional and local FDP groups as well as connections with the entire ecosystem, including employment agencies, capacity building providers, and others, international refugee organizations, and in particular the UNHCR, are a key partner.

7.4 Conclusions

Chapter 7 identifies five concrete business opportunities and potential markets for FSPs targeting the FDP population in Brazil. An estimated revenue of R\$ 460 million across the full suite of financial services and products has been identified with focus on

- Serving refugee and migrant populations within the *Well-Placed Group* and/or the *Prospective Group*.
 - Addressing the needs of the full FDP population with digital transactions and remittances.
 - Leveraging existing financial inclusion practices to serve the FDP communities.
 - Offering finance to the underserved Brazilian micro entrepreneurs as a collateral impact of targeting migrant micro and small entrepreneurs.
- **Remittances represent the largest opportunity in terms of business volume and potential market.** Technology and digital app-based remittances are the way forward, with payment service providers developing novel solutions. **The potential market is estimated at 653,000 clients, with a potential annual volume of R\$ 1.5 billion and a revenue of R\$ 74 million per year.**
- **Partnering with international payment service providers to provide remittances to the entire FDP population presents significant opportunities,** particularly in vulnerable segments like the *Unbanked Group*. To capitalize on this opportunity, partnerships with local and regional refugee and migrant organizations and the use of various communication channels are crucial. Technology is essential to offer cost-effective, transparent, and quick remittance services. Integrating payment services into product offerings can generate an ecosystem for developing risk models.

- **An additional 514,000 FDP clients have been estimated to foster financial inclusion and the use of digital transactions**, including 132,000 FDP of the *Well-Placed Group* and the *Prospective Group* who are not yet exploring the full potential of their digital accounts. In addition, reaching 75% of the *Unbanked Group* who could become new users, accounting for 61% of the total estimated transaction of R\$ 27 million per year. Cross-selling opportunities include different credit products, savings, and insurance to the *Well-Placed Group*. However, challenges include technology, awareness, and communication.
- **Meeting the growing demand for personal loans and credit cards from PDFs represents the biggest opportunity in terms of estimated revenue**. PDFs are looking for credit opportunities to satisfy their personal needs with the aim of improving their well-being and that of their families. **The opportunity is estimated at 228,000 clients and an estimated annual revenue of between R\$ 177 million and R\$ 224 million, based on average market interest rates and loan terms.**
- **FDP-owned businesses face challenges such as lack of credit history, limited knowledge about financial products, and unconscious biases**. Digital banks and fintech are exploring alternative methods to address these issues, but the application and analysis process for business loans remains cumbersome. In addition, customized credit facilities targeting businesses are offered to registered businesses while self-employed and microbusiness depend on personal loans and/or credit cards to meet part of their business needs. Serving the *Accomplished Entrepreneur*, the *Motivated Self-Employed* and the *Gig Worker* with existing and adjusted credit solutions as well as a target communication strategy. **This could lead to an estimated additional market potential of 62,000 FDP entrepreneurs with an estimated annual revenue of R\$ 73 million**. In addition, there is a parallel opportunity for FSPs to serve 0.5 million Brazilian low-income micro entrepreneurs.
- **Banking on women PDFs presents an opportunity for FSFs interested in this segment**. According to the results of this study, women outnumber men in almost all PDF segments. **The potential market is estimated at 214,000 customers, with estimated revenues of between R\$70 million and R\$86 million per year.**

8 Recommendations

This study's findings provide recommendations for various actors in the ecosystem with the objective of fostering the financial inclusion of FDP in Brazil. The recommendations consider the identified market opportunities for diverse FSPs.

Recommendations for FSPs to serve FDP

The study provides insights into the various FDP segments, identifying their most pressing needs, aspirations, challenges, and current usage of financial and non-financial services. It also outlines business opportunities for a range of FSPs. As a result, several concrete recommendations to FSPs to serve the FDP community have emerged and can be viewed as a roadmap for FSPs: (1) start with an internal review and diagnostic of their own FDP customers, (2) define the business model and value proposition targeting the FDP segments, and (3) implementation and go to market activities.

Phase 1: Internal diagnostic

1. **Learn which FDP segments are already your customers:** Since a large portion of FDP already use financial products and services, FSPs ought to analyze their own data to determine which FDP segments are served and what products and services are presently used by FDP. Understanding their behavior and financial patterns will assist in expanding outreach and provide suggestions for altering existing products and services, as well as develop a targeted communication strategy. To further understand FDP's pain points and challenges, qualitative research with their own FDP customers could be done.
2. **Identify and address internal barriers to serve FDP:** This includes identifying internal barriers and allocating resources to effectively implement a financial inclusion strategy for FDP. To address those obstacles, it is imperative to acknowledge and address unconscious biases pertaining to the FDP population. Training and sensitization of staff in locations with FDP concentrations as well as considering hiring FDP as employee could be some of the activities to be considered.
3. **Consider incorporating the FDP community into the institution's ESG and/or commercial agenda:** This will determine which business opportunity to pursue and/or which FDP segment(s) to focus on. Moreover, it will guarantee support and buy-in from FSP's leadership and senior management.

Phase 2: Defining the business model and value proposition targeting FDP

4. **Start with the current set of financial and non-financial products and services:** FDP already use products and services that cater to their financial needs. It is important to identify which products and services best meet FDP needs and how the existing business model can be leveraged to reach FDP more efficiently by keeping any development costs as low as possible.
5. **Adapt or create new products and/or financial and non-financial services that are relevant to the identified FDP segment(s).** This includes the review of eligibility criteria to access products and services as well as conditions of products and services. Building on learnings from serving other vulnerable and low-income segments could be leveraged when tailoring the existing products and services to the needs of FDP.
6. **Adapt current business practices and policies to better serve FDP,** when needed. Review and assess current procedures and policies including scoring models and approaches that are currently used in order to identify any challenges and risks that could limit the FSP in serving the targeted FDP segments.
7. **Assess the needs for adjustment in the core banking system:** this is mainly related to the possibility to identify FDP within their customer based to ensure data collection on FDP as part of the management information system (MIS).

8. **Create communication and marketing campaigns aimed at FDP:** a clear message of welcome recognizes the refugee and migrant population and helps to dispel common misconceptions about FDP, as well as address FDP's self-rejecting attitudes. This further includes the selection of the appropriate communication channels such as social media, sponsoring cultural events and radio announcement among others. Creating personalized communication strategies to diverse FDP also enables for the consideration of multiple languages as well as cultural aspects and behaviors to be handled such as preferred cash transactions.
9. **Sensitization and awareness training:** Training and sensitization of FSP's staff, in particular in locations with FDP concentrations are important to address unconscious biases as well as get to know and understand FDP's needs and challenges. Those sensitization trainings and awareness building activities could be supported and provided by local and international support organizations or through the provision of a technical assistance program to foster financial inclusion of FDP in Brazil.
10. **Defining commercial targets and key performance indicators (KPIs)** to allow monitoring and evaluate results and level of achievements serving FDP.

Recommendations for national and international support organizations

1. **Market segmentation** divides a broad target market into smaller segments based on specific characteristics and allows FSPs to tailor services and products to the needs of FDP while also providing insights to develop a targeted marketing and distribution strategy. By segmenting the FDP community, this study has identified potential and high priority segments for Brazilian FSPs and identified segments with higher vulnerability that can benefit from the current offer of support activities and non-financial services such as vocational and business trainings, financial education as well as market information and guidance on how to access and use diverse public services. Various international and local organizations are engaged in efforts to economically integrate FDP in Brazil. It is imperative for actors in the financial sector to be cognizant of the collaborative platforms established by entities such as the UNHCR, Caritas, and business development agencies like Serviço Brasileiro de Apoio às Micro e Pequenas Empresas (SEBRAE), and the Government of Brazil, among others. Specific activities could include:
 - Organization of roundtables and exchanges to share lessons learned and develop new approaches and services to further integrate FDP in Brazil.
 - Create joint promotional activities to build awareness among the FDP segment regarding options and alternatives with respect to employment, training, and capacity building as well as access to financial services.
2. **Connection and interaction with the financial ecosystem:** local and international organizations that are in direct contact with the FDP community can play an important role in bridging the financial sector with the FDP population. They can provide support, access to information on the Brazilian financial system, including an overview of type of institutions as well as provide initial guidance on what documentation is needed to open a bank account and access the existing offering of financial services and products. In particular, local organizations supporting FDP play an important role of the dissemination of knowledge and information as they are the first contact point and often most trusted organization.
3. **FDP as employees for FSPs:** There is potential for national and international organizations to assume a prominent position educating FDP about the financial sector as a potential employer. In particular, the *Young Ambitious* segment, who are highly educated and would like to pursue a career in Brazil, may find this particularly pertinent. Additionally, collaborations with FSPs might be established to enhance the capabilities of FDP and increase their attractiveness to FSPs. FDP employees will also enable FSPs to better understand and communicate with the target segment.

Recommendations for the public and private sector

1. **Coordination role:** The Brazilian government has implemented programs to promote the economic integration of the FDP population. The public sector has the potential to assume a coordinating role within the organizational ecosystem, aiming to enhance the efficiency and efficacy of services provided to the FDP community. These actors play an important role in providing current information on the regulation, regularization, and categorization of the FDP community. Various stakeholders in the public and business sectors, as well as foreign collaborators, require timely and accurate information to effectively develop policies and programs targeted at FDP.
2. **Enhancing identity verification mechanisms:** Enhanced security assurances are important for the private sector when engaging in contractual agreements or conducting financial and economic transactions with individuals with FDP backgrounds. Lack of respective personal documentation from their home countries often do not allow for a thorough background check.
3. **Inter-sectoral articulation** refers to further strengthening and harmonizing the initiatives of international and national support organizations. Further, public, and private sector stakeholders should engage in direct or indirect contributions to foster the economic and financial inclusion of FDP.
4. **Employment of FDP** into the teams of organizations that support FDP is both an important step towards integrating FDP into the local job market and also provides a range of advantages and benefits to the organization. It allows organizations to incorporate the perspectives and experiences of refugees and migrants into technical and operational issues, supports diversity in the workplace and helps to further understand and address barriers that refugees and migrants face in accessing public services, employment, and financial services.

Annex 1: Main laws defining FDP status and related regulations

The following table summarizes the different laws by FDP status and important implications in terms of documentation, rights to access employment and other public services, including the right to open a bank account in Brazil.

Table 9: Main Laws defining FPD status and related rights

FDP Status	Law		Subject	Detailed Information
Asylum seekers/ refugee applicants -	Decree nº 9.277/18 Link		Provides rules and clarifications on the identification of asylum seekers and on the Provisional Document of National Migration Registration.	The Law, in art. 3, determines that the Provisional Document of National Immigration Registration (which the Refuge Law 9.474/97 previously called "protocol") will have the following characteristics and effects: (1) constitutes, for all purposes, the identification document of the applicant for refuge, until the final decision of the process at CONARE; and (2) allows asylum seekers to obtain a) a provisional Employment and Social Security Card for exercising remunerated activity in the country; b) the opening of a bank account in an institution that is part of the national financial system; and, c) enrollment in the Taxpayer's Registry of Individuals (CPF).
	Decree 9.199/17			In art. 119, the Decree defines that (in § 2) the asylum seeker will have a provisional residence permit, until a response to his request is obtained. He/she will also receive the Provisional Document of National Immigration Registration. In paragraph 3 of the same article, the Law specifies that the document will allow the asylum seeker to enjoy rights in the country, including: (1) the issuance of a provisional work permit; and (2) inclusion in the taxpayer registration (CPF).
Refugees	Law 9.474/97 link		Defines mechanisms for the implementation of the 1951 Refugee Statute and determines other provisions.	In art. 6, the Law defines that the refugee is entitled, under the terms of the Convention on the Status of Refugees of 1951, to an identity card proving his/her legal status, work card/document and travel document.
				In art. 21, the Law states that as soon as the Federal Police Department receives the asylum application, it must issue a provisional identity document (this subject of the document was later regulated by Decree 9.277/19) in favor of the applicant and his family group that is in the national territory, which will authorize the

FDP Status	Law		Subject	Detailed Information
				provisory residence permit until the final decision of the process. Additionally, § 1 states that this provisional document (protocol) will allow the Ministry of Labor to issue a provisional work permit in favor of the applicant, for the exercise of remunerated activity in the country.
	Decree 9.199/2017 link		Decree that establishes rules for the application of the Migration Law (Decree that regulates the Law).	In paragraph 4 of art. 119, the Decree states that the recognition of certificates and diplomas, as well as the requirements for obtaining resident status and access to academic institutions of all levels must be facilitated, considering the unfavorable situation experienced by refugees.
Migrants (Including refugees with residency permit)	Law 13.455/17 link		Right to work and open a bank account	<p>The Migration Law establishes, in art. 3, the principles and guidelines of the Brazilian migration policy. Item XI establishes equal and free access for migrants to services, programs and social benefits, public goods, education, full public legal assistance, work, housing, banking services and social security.</p> <p>In art. 4, the Law specifies that migrants are guaranteed in the national territory, on an equal basis with nationals, the inviolability of the right to life, freedom, equality, security and property. Item XIV states that the right to open a bank account is among the rights guaranteed to migrants.</p> <p>Item XI states that, among the guarantees provided to migrants, is the guarantee of compliance with legal and contractual labor obligations and the application of worker protection standards, without discrimination on grounds of nationality and migratory status.</p> <p>Note: In an internal document (Circular Letter 3.813/17) with the force of internal regulations, the Central Bank of Brazil determined (art. 1) that financial institutions accept as valid the identity documents issued in favor of foreigners, especially the former RNE, the former Refugee Application Protocol, the Foreigner Identity Card and the Foreigner Identity Card Protocol. (link). The regulation, however, was repealed by other</p>

FDP Status	Law		Subject	Detailed Information
				internal regulation, which does not deal with the same subject. As the advent of the Immigration Law and the Decree (9,199/17) that regulates it, as well as the Decree (9,277/18) that specifies the criteria for the provisional document for refugee applicants, the issue is no longer regulated by the Central Bank, but by immigration legislation.

In 2017, the Brazilian government enacted a law protecting the human rights of all migrants and refugees residing in the country, which is regarded as one of the most progressive in Latin America. In addition, the government implemented the so-called "simplified refugee identification process" in June 2019, which allows asylum to any Venezuelan fleeing their home country without requiring proof that they are persecuted. In accordance with the "Portaria Interministerial MJSP / MRE nº 19, de 23 de março de 2021", Venezuelans can obtain provisional residency, which provides the right to obtain a work permit and an individual taxpayer identification number (CPF) and allows them to seek employment and provides the right to open a bank account, for example.⁴⁸

A special regulation stipulating the "concession of a temporary visa and the authorization of a residence permit by way of humanitarian shelter" was established that recognizes the need for the humanitarian reception of Haitians, who have been "affected by a major calamity situation or environmental disaster in the Republic of Haiti." Currently, Haitians are allowed to request a visa for travel to Brazil and authorization for provisional residence according to the the "Portaria Interministerial MJSP / MRE nº 37, de 30 de março de 2023".⁴⁹

⁴⁸ (United Nations, 2019); (Brazilian Ministry of Justice and Public Security, 2021) Venezuelans have the option to apply for residence as a refuge under the law 9.474/97 or requesting residency under the special law "Interministerial Ordinance MJSP / MRE no. 19, of March 23, 2021".

⁴⁹ (Brazilian Ministry of Justice and Public Security , 2023) The Brazilian Ministry of Justice and Public Security provides for the granting of temporary visas and residence permit for the purposes of humanitarian reception for Haitian nationals and stateless persons affected by major calamities, environmental disasters or institutional instability in the Republic of Haiti

Annex 2: Research methodology

1. Survey design and implementation

An online survey of 1,070 respondents was selected as the tool to investigate demand for financial services from a quantitative and aggregate perspective. We sought to gather data on socioeconomic status, migratory regularization, and the degree of roots within the host country. The remaining questions aimed to capture information on the diversity of FDP backgrounds, previous financial behaviors, current financial behaviors, and aspirations of potential migrant and refugee clients, enabling financial institutions to better serve their needs.

Data collection: Observational cross-sectional data. Respondents were recruited through an opt-in recruitment method (survey link).

Research instrument: Online survey questionnaire. The online questionnaire included demographic, multiple choice, rating, and Likert scale questions. It took approximately 12 minutes to complete.

Research design: RDS survey design. Since recent and representative data on asylum seekers, refugees, and migrants are not available at the municipal or state level in Brazil, we proposed a widely used sampling method to recruit hard-to-reach and hidden populations, via RDS. The sampling process relied on a social network of existing members of the population that allowed us to access the target population.

Identification and recruitment of participants: We leveraged two initial groups to recruit respondents from the target population: (a) participants from the focus group discussions and interviews; and (b) civil society organizations that work with migrants and refugees across different regions of Brazil.

Overall, 18 organizations across eight Brazilian states shared the survey links with their network: UNHCR, Caritas São Paulo, SJMR RS, SJMR SC, SJMR MG, SJMR RR, Aldeias Infantis SOS RS, Aldeias Infantis SOS RJ, IMDH, Museu A CASA, Hermanitos, AVSI, Caritas RJ, Adra, Toti, Migraflitx.

2. Codebook

After the survey data was collected, the first step in the analysis was to create a codebook in excel format. The codebook includes all survey questions, participant answers, and a numerical answer key for each question. This step helps to organize and standardize the survey data. There is an English and Portuguese version (*separate tabs within the file*).

The codebook contains four columns:

- **Variable:** indicates the ordering/number of each question. In the report (and R scripts), a “P” comes before each number. For example, question 10 is referred to as “P10”.
- **Question text:** the questions as they appear in the survey.
- **Value:** the possible answers to each question from the survey.
- **Numerical:** the possible (numerical) answers to each question from the survey.

Each question is color-coded according to its type.

Question types

Single option
Single option + Other
Open-ended
Multiple options

3. Analysis of all survey questions

Each survey question was analyzed using RMarkdown, an open-source statistical software. Tables and graphs were created for each survey question to visualize the distribution of responses.

Valid answers were defined as complete survey responses from respondents who agreed to participate (P10), identified themselves as a migrant or refugee (P11), had resided in Brazil for more than six months (P12), and completed the entire survey (P79).

4. K-means cluster analysis

To identify patterns in the survey data, a k-means cluster analysis was performed using RMarkdown. This procedure grouped similar survey respondents into distinct clusters based on selected variables. The selection of variables in a k-means cluster analysis is crucial since it directly impacts the quality and interpretability of the resulting clusters. As a result, it is important to choose relevant and meaningful variables to define the underlying patterns or characteristics of the data. In short, the method is a top-down machine learning approach that starts by randomly assigning observations to a specified number of clusters and then iteratively optimizing the cluster assignments.

The number of clusters for each analysis was chosen using the elbow method, a common technique to determine the optimal number of clusters in a dataset. The method calculates the sum of squared distances between each data point and assigns a centroid for different values of k (the number of clusters). By plotting these distances against the corresponding values of k and observing the resulting graph, the "elbow" point represents a suitable number of clusters where the decreasing rate of distances significantly diminishes, which indicates diminishing returns in clustering accuracy.

The variables used for the k-means cluster analysis are detailed below. These variables were selected based on their ability to differentiate or discriminate between potential migrant and refugee customer segments.

- 1) **Cluster analysis for the entire sample.** Uses gender (P13), age (P14), education level (P20), income regularity (P37), employment (P42), and use of financial products in Brazil (P57) as the selected variables for clustering observations.
- 2) **Cluster analysis for respondents that use financial products/services.** Uses gender (P13), age (P14), education level (P20), income regularity (P37), and employment (P42) as the selected variables for clustering observations.
- 3) **Cluster analysis for respondents that do not use financial products/services.** Uses gender (P13), age (P14), education level (P20), income regularity (P37), and employment (P42) as the selected variables for clustering observations.
- 4) **Cluster analysis for those that report themselves as micro-entrepreneurs.** Uses gender (P13), age (P14), education level (P20), income regularity (P37), and use of financial products in Brazil (P57) as the selected variables for clustering observations.

5. Qualitative methodology

10 distinct migrant and refugee profiles emerged by combining the k-means cluster analysis with the qualitative inputs from 20 individual interviews and 8 FGDs.

The qualitative research focused on the three main nationalities FDP in Brazil: Venezuela, Haiti, and Bolivia.

FGDs were held in person; group discussions with Venezuelan FDP were conducted in Roraima, FGDs with Bolivian migrants and Haitian FDP took place in São Paulo. 4 focus groups were scheduled for migrants and refugees coming from Venezuela. Since the majority of Bolivian FDP already have migrant status, as they have been living in Brazil for more than 2 to 5 years, 2 focus groups were conducted. Additionally, two FGDs took

place with Haitian FDP. In total, the FGDs included 69 refugees and migrants with an employment, nationality and migrant profile illustrated in the box below.

Number of FGDs	Nationality of FDP	Migrant status	Employment status
2	Bolivian Men: 8 Women: 10	Migrant (Resident permit): all	Employed: 4 (M) – 2 (W) Self-employed/ME: 4 (M) – 3 (W) Informal employment: 4 (W) No employment: 1 (W)
4	Venezuelan Men: 18 Women: 13	Refugee Status: 10 (M) – 7 (W) Migrant (Resident permit): 8 (M) – 6 (W)	Employed: 6 (M) - 3 (W) Self-employed/ME: 6 (M) - 6 (W) Informal employment: 5 (M) - 2 (W) No employment: 1 (M) - 2 (W)
2	Haitian Men: 10 Women: 10	Refugee Status: all	Employed: 1 (M) – 1 (W) Self-employed/ME: 2 (M) – 4 (W) Informal employment: 1 (M) No employment: 4 (M) – 3 (W) Student: 2 (M) – 2 (W)

Note: M stands for male FDP and W for female FDP; ME refers to micro enterprises

Furthermore, we conducted 20 in-depth interviews using WhatsApp or other platforms that were convenient for the participants. Most of these interview partners were contacted through the help of Hermanitos, Aldeias, Caritas and Serviço Jesuíta a Migrantes e Refugiados. The interviewees had the following profiles:

N°	Nationality	Gender	City	Economic activity in Brazil
1	Venezuela	Woman	São Paulo	Unemployed/artist
2	Venezuela	Man	São Paulo	Microentrepreneur/self-employed
3	Venezuela	Woman	São Paulo	Microentrepreneur/self-employed
4	Syria	Woman	São Paulo	Enterprise with CNPJ
5	Venezuela	Woman	Santo Angelo	Formal with CLT
6	Venezuela	Man	Porto Alegre	Informal without CLT
7	Venezuela	Woman	Porto Alegre	Microentrepreneur/self-employed
8	Venezuela	Woman	Manaus	Microentrepreneur/self-employed
9	Venezuela	Man	Porto Alegre	Informal without CLT

N°	Nationality	Gender	City	Economic activity n Brazil
10	Venezuela	Man	Porto Alegre	Formal with CLT
11	Venezuela	Man	Porto Alegre	Formal with CLT
12	Venezuela	Woman	Porto Alegre	Unemployed
13	Venezuela	Woman	São Paulo	Microentrepreneur/self-employed
14	Venezuela	Woman	Manaus	Microentrepreneur/self-employed
15	Venezuela	Woman	Manaus	Microentrepreneur/self-employed
16	Venezuela	Man	Manaus	Informal without CLT
17	Peru	Man	São Paulo	Enterprise with CNPJ
18	Venezuela	Woman	São Paulo	Enterprise with CNPJ
19	Venezuela	Woman	São Paulo	Enterprise with no CNPJ Informal employee
20	Venezuela	Woman	São Paulo	Enterprise with no CNPJ

Note: CNPJ refers to the business registration in Brazil, CLT (*Consolidação das Leis de Trabalho*) refers to a set of Brazilian laws aiming at formalizing and protecting the employees.

The profiles were analyzed and grouped according to key similarities, such as level of formality, employment type, gender, and aspiration to stay in Brazil. This allowed us to understand the specific characteristics of each segment.

Several in-depth interviews were also conducted with supply side actors, which were classified by institutional type to ensure that we captured a representative sample reflective of the diversity in the Brazilian financial sector. This ensured the inclusion of service providers that offer digital financial services like Mobile Money Operators and Fintech Associations. Between May and August 2023, 15 Brazilian financial services providers were identified, 12 participants were available for an in-person or online interview. For some participants, a follow-up interview was conducted to inquire more deeply about the respective challenges, barriers, motivations, and interests in serving the FDP market with a tailored and inclusive value proposition.

6. Profiling analysis

Based on the cluster analysis, results and qualitative inputs from the individual interviews and focus groups on the demand side, distinct profiles were identified by the team. These profiles were analyzed to understand the characteristics and preferences of each cluster. A dashboard was created using RMarkdown to illustrate the characteristics of each profile and allow for a comprehensive view of the identified segments.

Stability and Independence Index: A stability index and an independence index were proposed to allow for prioritization of the identified segments. This assumes that FIs are looking for stable and independent migrants as their ideal customers.

Each survey respondent receives a stability index score and an independence index score that are calculated as a simple average for each index component (e.g., income regularity, employment type, etc). To calculate the

index for a specific profile (i.e., segment of migrants), we calculate the average stability index score and average independence index score of the migrants that form that profile.

The components of each index and how each index is calculated are specified below.

Stability Index

$$\text{Stability Index} = \frac{\text{Income regularity} + \text{Employment} + \text{Willingness to move}}{3}$$

- Income regularity (0-2):
 - 0 if the respondent does not have a regular source of income.
 - 2 if the respondent has a regular source of income.
- Employment (0-2):
 - 0 if the respondent is unemployed or looking for a job.
 - 1 if the respondent is: (i) a student, or (ii) a domestic worker, or (iii) an informal worker, or (iv) retired.
 - 2 if the respondent is: (i) a formal worker, or (ii) a micro-/small business entrepreneur, or (iii) a self-employed professional.
- Willingness to move (0-2)
 - 0 if the respondent is willing to move inside Brazil within the next six months.
 - 1 if the respondent is not sure.
 - 2 if the respondent is not willing to move.

Example: A migrant with a regular source of income (2), that is formally employed (2) and is not willing to move (2) would receive a total score of 6. The stability index would then be equal to 6/3 (i.e., 2).

Independence Index

$$\text{Independence Index} = \frac{\text{Income level} + \text{Social program}}{6}$$

- Income level (0-4):
 - 0 if the respondent receives up to one minimum wage.
 - 2 if the respondent receives between one and two minimum wages.
 - 4 if the respondent receives more than two minimum wages.
- Social program (0-2):
 - 0 if the respondent does not receive any support.
 - 1 if the respondent is receiving only government support or only humanitarian support.
 - 2 if the respondent is receiving both government and humanitarian support.

Example: A migrant that is receiving more than two minimum wages (4) and who is receiving both types of assistance (2) would receive a total score of 6. The independence index would then be equal to 6/6 (i.e., 1).

These indexes help to determine which segments are more reliable, consistent, and independent, thereby assisting in the decision-making and targeting strategies of FSPs.

Through these steps, the analysis provides insights into the survey responses, identifies distinct profiles through cluster analysis, and proposes an index to prioritize segments for further action.

Annex 3: List of FSPs interviewed and mapped

The following table lists the FSPs interviewed and mapped during the period from May to September 2023.

N°	Name of FSP	Type of FSP	Date of Interview
FSPs that were interviewed			
1	ASSAS	Fintech	20.08.2023
2	Banco da Amazonia / Florecer (Programa de Microcredito)	Public financial institution	08.05.2023 (in person during visit to Boa Vista, Roraima)
3	Banco Daycoval	Mid-sized financial institution	06.07.2023
4	Banco Itaú / Iti Itaú	Large private bank	23.06.2023
5	Banco do Povo Crédito Solidário	Microfinance institution (OSCIP)	07.06.2023
6	Banco OMNI	Mid-sized financial institution	06.07.2023
7	Banco Pérola	Microfinance Institution (OSCIP)	25.06.2023
8	Banco Santander / Prospera (Programa de Microfinancas)	Large private bank	06.07.2023; 22.09.2023
9	Creditas	Fintech	07.08.2023
10	Koin	Fintech	07.08.2023
11	Mercado Pago	Digital Bank	28.06.2023
12	Nubank	Digital Bank	29.08.2023
FSPs that were only mapped			
13	Banco Inter	Digital Bank	Not interviewed
14	Banco Neon	Digital Bank	Not interviewed
Others			
15	ABCRED	Network of Microfinance Organizations	10.08.2023

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