

# Cash transfer with social currency in Brazilian Cities: poverty relief or guaranteed income?

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## Abstract

Cash transfer programs have spread across the global south to fight poverty. They are usually paid in cash, only for the poorest households, and dependent on behavioral conditionalities from the beneficiaries, frequently educational or professional. In Brazil, in the Rio de Janeiro state, the city of Maricá started in 2019 a new modality of unconditional cash transfer, paid with a local currency, which grants US\$40 dollars each month, per person, for 26% of their population. The local currency, Mumbuca, is managed by a community bank, also responsible for granting microcredit, funded through currency circulation. The model of guaranteed income with a local currency and microcredit is a development strategy created by Maricá, and has shown positive outcomes in the creation of formal jobs. Three other cities implemented similar programs in 2021, and at least five are following suit in 2022. The article sheds light on the merits and challenges of the four cities with the program in place, and its replicability in other municipalities.

**Keywords:** social currency, guaranteed income, community bank

## Introduction

This essay explores the characteristics of cash transfer with social currency, pointing out common and divergent characteristics among those implemented in four municipalities in the state of Rio de Janeiro (RJ). The justifications for the existence of cash transfer programs are presented in section 1, as well as a brief history of the Brazilian background with these programs.

Maricá's pioneering institutional arrangement is the subject of section 2. The characteristics of the programs in Niterói, Itaboraí and Cabo Frio are also explored below. In section 3 the municipalities are divided into two modalities: poverty relief and guaranteed income programs. Based on the design of each public policy, the challenges of each modality are listed.

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The article seeks to characterize this new modality of municipal transfer policy. The arrangement of social currency, community bank and cash transfer innovate by combining social policy with local development in an unprecedented way.

### **1. State action and the role of cash transfer programs**

There is economic motivation for the State to act in the provision of welfare policies. This can occur in a contributory way, with the inhabitants of the country paying a social contribution to be entitled to a certain counterpart - a pension with a higher value, for example - or in a non-contributory way, when individuals have the right regardless of having paid for it.

Barr (2012) points to efficiency and social justice as a justification for non-contributory policies since the other way would not include the entire population. Ignoring these people would have negative externalities, such as hunger, crime, and protests. The overall dissatisfaction would not only be bad for those directly affected but would also generate a society with conflicts and less productivity. Non-contributory benefits are necessary for preserving the social fabric and a smooth economic functioning.

Kerstenetzky (2021, 2022) considers welfare policies as a structuring driving force for economic development. Investment in social policies would be a tool with potential to promote good-quality jobs, expand the productivity and creative capacity of individuals, and foster development with a low ecological footprint. Therefore, they could play a key role in reducing contemporary ills: poverty, high inequality, and low social cohesion.

A relevant non-contributory policy with great dissemination since the 1980s are cash transfers offered to specific target group in the universal modality or with conditionalities. In the first modality, every person within the eligibility criteria would be entitled; an example would be a retirement pension with a minimum value after a certain age. In the second modality, the conditionality may be related to taking a professionalizing course or maintaining minimum school attendance.

These cash transfers are mainly adopted in developing countries because they are considered effective and inexpensive for poverty relief. These countries often have highly informal labor markets, leading to unstable incomes for the population (Barrientos et al,

2010). Cash transfer programs gain the role of providing a minimal regularity in the monthly budget of families.

### **1.1 Cash transfer programs in Brazil**

Brazil has two non-contributory cash transfer programs: the *Benefício de Prestação Continuada* (BPC) and the *Programa Bolsa Família* (PBF), currently named *Auxílio Brasil*. BPC, created by law 8742/1993, provides a minimum wage payment to poor elderly people over 65 years old, with per capita family income up to 1/4 of the minimum wage. The *Auxílio Brasil*, created by law 14.284/2021, pays at least R\$400 for families in extreme poverty (up to R\$105.00 per capita) and in poverty (up to R\$210.00 per capita).

The *Auxílio Brasil* is a public policy with municipal and federal participation. The municipalities are responsible for selecting beneficiaries, while the other entity is responsible for paying the benefits. The inspiration for this institutional arrangement is the result of a historical process in which some municipalities implemented minimum income programs with conditionalities in the early 1990s, such as *Bolsa Escola*, and other smaller ones such as *Bolsa Alimentação* and *Auxílio Gás*.

Throughout this decade these policies had become widespread, but there were budgetary difficulties for municipalities to finance them. The Federal Government took over the role of funder of the *Bolsa Escola* and left the administration to the cities. Later, this arrangement of cash transfer programs was unified in the PBF with the law no. 10.836/2004. The policy was maintained with few changes until late 2021, when it was renamed *Auxílio Brasil* and some adjustments in eligibility conditions were made.

An intermediary factor between this transition of programs was the *Auxílio Emergencial* (AE) created in April 2020 with its validity extended multiple times until the end of 2021. The program, which was created to mitigate the health and economic impacts of the Covid-19 pandemic, paid R\$600 per person without any counterpart, provided they fit one of the eligibility conditions: being over 60 years old, being unemployed or engaged in informal activity, not receiving pensions or unemployment insurance, monthly family income up to R\$522.50, per person; and not having received taxable income, in the year 2018, above R\$28,559.50. The policy benefited 66 million directly through the benefit and 126 million indirectly, when considering the family of the beneficiaries (Auxílio Emergencial..., 2020).

During the PBF's full period of effectiveness, it was a cash transfer program of great national prominence, with an impact on poverty reduction. A few initiatives by states and municipalities with cash transfer programs were done in a complementary way, often taking advantage of the institutional structure of payments of the PBF and complementing it with an extra value to the already eligible beneficiaries. Another modality of cash transfer policy emerged in Rio de Janeiro municipalities, starting in Maricá (RJ) in 2013, with payment through a social currency to a certain set of beneficiaries (more on that below), with the intermediation of a community bank. The example of Maricá was disseminated to at least four other cities in Rio de Janeiro in 2022.

## **2. Social currency and cash transfer: Maricá's pioneering spirit**

Before Maricá there were previous experiences with social currency. The model originates from a community operation in Fortaleza (CE) in 1998 with the Palmas currency. The city of Silva Jardim (RJ) also created the Capivari currency, operating between 2010 and 2012. This type of currency has six intrinsic characteristics:

1- It is backed by reais. For each social currency issued there is a corresponding currency in reais kept in a commercial bank in the country.

2- It is equal to the national currency: 1 social currency corresponds to 1 real (R\$).

3- It permits the exchange. The holder of social currency can exchange it for reais, whenever he/she wishes.

4- Its circulation is restricted to a determined territory: a district, a neighborhood, or a municipality.

5- It moves freely in the territory. It circulates hand-to-hand, allowing one merchant to buy from another.

6- The wealth generated by its circulation is reinvested in the territory without private accumulation (Adapted from E-dinheiro, 2022)."

The city of Maricá created its Mumbuca currency in 2013 inspired by the two previous experiences. However, it added a number of innovations:

- (i) it started the payment of minimum income programs in the local currency;
- (ii) income received for social benefits could not be converted to reais;
- (iii) it created a broad solidarity economy program, having a milestone in the bidding of the Mumbuca Community Bank, responsible for managing

Mumbuca, in addition to the definition of criteria for analyzing and granting microcredit;

- (iv) the currency was created in a digital format, for operational ease and greater security, ready to be used in debit card and later in apps as well.

These distinct characteristics were thought to make the social currency a local development strategy. Maricá is in the metropolitan region of Rio de Janeiro, and a significant part of its population works in neighboring cities, such as Niterói or the state capital, Rio de Janeiro. Thus, paying minimum income benefits in mumbucas combats poverty and provides income to be spent in the local commerce, while keeping the resources within the city. Each sale in mumbuca is subject to a 2% fee, lower than those charged by traditional credit cards flags and the revenues raised through the fee are used to finance community bank activities and microcredit programs.

The minimum income policy in Maricá, created by law no. 2.448 in July 2013, granted 70 mumbucas for families with incomes of up to 1 minimum wage, subject to certain conditionalities and eligibility conditions. There was an adjustment to 85 mumbucas at the end of 2014. In 2015, the previous program was replaced by three other minimum income programs, additionally a so-called “basic income” was created adding 10 additional mumbucas for all audiences. The changes are summarized below:

“The laws profoundly modified the characteristics of the municipal cash transfer, changing: i) the eligibility criteria by family income: it went from up to 1 SM to up to 3 SMs; ii) the target audience: the *Gestante* modality started contemplating pregnant women during pregnancy and until the child turns one year old; the *Jovem Solidário* modality aimed at young people between 14 and 29 years old with low income; and the *Renda Mínima Mumbuca* aimed at family caretakers with income below 3 SMs; iii) the database: previously only a municipal registry was used, after the change, the *Cadastro Único* (Single Registry) also started to be used (Silva et al, 2020).”

In 2017 there was a new adjustment in the minimum income value (to 110 reais) and in the basic income supplement (20 mumbucas), totaling 130 mumbucas per family. At that point benefiting approximately 20,000 individuals out of a total population of 165,000. In 2019 all minimum income policies were unified under the so-called Citizen’s Basic Income, the value became 130 mumbucas per person and the coverage was expanded to about 42,500 individuals. The eligibility condition is now to be registered in the *Cadastro Único* and to have lived in Maricá for at least three years.

From March 2020 until December 2021, beneficiaries received 300 mumbucas per person each month, during the most acute period of the pandemic. From 2022 on, the value of the benefit was readjusted to 170 mumbucas between January and April, and then increased to 200 starting in May. Additionally, another social policy, the *Programa de Amparo ao Trabalhador* (Aid to Workers' Program, PAT), started to be paid in mumbucas, until April 2022. City Hall employees also started receiving meal vouchers in the local currency. By April 2022 there are approximately 70,000 people receiving income in mumbuca (42.4% of the population).

The mumbuca is widespread, being currently accepted in 12,608 stores in Maricá, both formal and informal. Waltenberg et al (2021) also point to positive results in the creation of formal employment since 2019, at least in the short term. Considering the potential positive impacts of the policy, the regional strength of the political group responsible for the policy in Maricá, in addition to the economic crisis due to the pandemic, the cash transfer with social currency was emphasized in campaigns for municipal elections in other municipalities of Rio de Janeiro in 2020, such as Itaboraí, Niterói, São Gonçalo and Saquarema.

### **2.1 Dissemination of cash transfer with social currency: Niterói, Itaboraí, Cabo Frio and Porciúncula**

Niterói created the Arariboia Social Currency with law no. 3.621/2021. The currency is part of a promotion of the Solidarity Economy and is used to pay the cash transfer for 63 thousand people. The eligibility criterion adopted was to be registered in the *CadÚnico*, besides being in extreme poverty (per capita household monthly income up to R\$105) and poverty (up to R\$210 per capita). The program pays 90 arariboias (equivalent to R\$90) per individual, with a maximum of 6 benefits per family; no counterpart is required. There is provision for annual adjustment of the amount, based on the inflation index – IPCA.

The payment to beneficiaries is made with the intermediation of *Banco Arariboia*. The beneficiaries cannot convert to reais and must consume in local formal or informal commerce. The purchase operation has a 2% transaction fee, paid by the merchant, plus 1% for a conversion to reais. These fees are directed to the *Fundo Banco Comunitário de Niterói*, managed by the *Secretaria Municipal de Assistência Social e Economia Solidária* (SMASES).

There is an important difference with respect to the Maricá model in the arrangement between local government, *Fundo Banco Comunitário de Niterói*, *Banco Arariboia* and the granting of microcredit. The Municipality of Niterói controls the governance of the currency and the Fund with the law no. 3.621, besides later regulations by the Executive power that might come by later. The Fund receives resources: (i) from the fees; (ii) multiple possibilities of receiving municipal resources; (iii) contributions, donations from individuals or companies, inheritances; (iv) transfers from other funds; (v) income from financial applications. The Fund, in turn, has an agreement with Banco Arariboia and will on-lend the necessary resources for its operation, besides the payment of benefits and the concession of microcredit.

The municipality of Itaboraí created the *Pedra Bonita* Social Currency and the *Renda Básica da Cidadania Familiar* (RBCF) in 2021. The RBCF pays 150 *pedras bonitas* per family (equivalent to R\$150), considering the following eligibility conditions: (i) being enrolled in *CadÚnico*; (ii) not have any family income; (iii) itaboraienses must have lived for 2 years in the municipality, non-itaboraienses Brazilians must have lived for 3 years, foreigners for at least 5 years; (iv) annual eligibility inspection of criteria 1 and 2 held in the beneficiary's month of anniversary. In February 2022 there are 4,045 eligible beneficiaries.

The municipality manages a network of accredited merchants, as well as the currency uses and rates. *The program* prioritizes micro-entrepreneurs and small local businesses, as long as they are food stores, pharmacies, or establishments for the purchase of cooking gas. The 2% rate applies only to the merchant when converting the resources into reais. These resources go to the *Fundo Banco Comunitário Popular de Itaboraí* and are passed on to the Community Bank convened to operate the currency. There is no microcredit implemented so far.

The *Moeda Social Itajuru*, in Cabo Frio, is a cash transfer policy targeted on the most vulnerable. The 500 beneficiary families receive 200 *itajurus* monthly (equivalent to 200 reais), as long as they: (i) are registered in *CadÚnico*; (ii) have monthly per capita income of up to one minimum wage; (iii) reside in the city for at least three years.

The management of the money transfers, the beneficiaries, and the businesses in the accredited network is in the hands of the city government. Beneficiaries can spend their *itajurus* in formal commerces of food, pharmacy, and hygiene stores. There are

explicit legal restrictions on spending on alcoholic beverages, tobacco, and cigarettes. The Community Bank has a restricted role in passing on payments to beneficiaries.

The *Elefantina* Social Currency started to be implemented in 2021 in Porciúncula. The law discusses the creation of the currency and the Elefantina Social Bank, without explicitly mentioning cash transfer policy and amounts. Later news mention payment of social programs in the city with Elefantina, without much detail (*Elefantina é a nova moeda...*, 2021). Given the scarcity of information, it is worth acknowledging its existence, but it will not be included in the comparative analysis.

### **3. Social currency and cash transfer: poverty relief or guaranteed income?**

The analysis of the design of the social currency with cash transfer implemented in the four municipalities of Rio de Janeiro reveals convergences. The arrangement between currency, cash transfer and the existence of a community bank for intermediation is common to all cities. Other important aspects are the use of the *CadÚnico* as an eligibility tool, and the absence of conditionalities for the receipt of income.

Table 1 presents a summary of the characteristics and allows us to observe the main differences: target group, value, freedom in the use of resources, and the role of the community bank. These four aspects of the policy allow us to identify two different types of programs within the same arrangement: poverty relief and guaranteed income. The first group has very strict criteria, dedicating resources only to the extremely poor, while the second has a wider scope and a municipal development perspective for the program.

Cabo Frio and Itaboraí have developed poverty relief programs. The eligibility criteria are quite strict to benefit only the extremely poor families, with a low value of the family benefit. The registration of businesses in the accredited network is controlled by the municipalities and is restricted to food, pharmacy, and cooking gas purchases. In this arrangement, the Community Bank is responsible only for the payment of the benefit, there is no microcredit.

Niterói and Maricá have the social currency as a central part of a municipal development strategy. The currency is used to pay a wider target audience with a higher amount paid per person. These individuals can spend their income in any commerce, and this circulation of the currency provides resources for the community bank to offer microcredit. Besides the common aspects, it is worth pointing out two differences, the

target group of the guaranteed income of Maricá is more comprehensive in relation to Niterói. Another important difference is that Banco Mumbuca has a greater role in the analysis and granting of credit, while Banco Arariboia just applies guidelines provided by law.

**Table 1 - Summary of the characteristics of social currencies with cash transfers in Cabo Frio, Itaboraí, Niterói and Maricá.**

	<b>Beneficiaries</b>	<b>Eligibility</b>	<b>Value</b>	<b>Readjustment</b>	<b>Where to use</b>	<b>Role of the bank</b>	<b>Fees</b>
<b>Cabo Frio – Itajuru Social Currency</b>	500 families	- enrollment in <i>Cadúnico</i> - monthly per capita income of up to one minimum wage - live in the city for at least 3 years	200 reais per family	There is nothing provided by law	Accredited network of formal stores defined by the municipality: food, medicines, hygiene products. Restrictions on alcoholic beverages, tobacco and cigarettes.	Payment of the benefit	Unspecified
<b>Itaboraí – Pedra Bonita Currency and Renda Básica da Cidadania Familiar (RBCF)</b>	4,045 persons	- enrollment in <i>Cadúnico</i> , - have no family income, - live in the municipality for two years. - eligibility inspection in person from year to year.	150 reais per family	There is nothing provided by law	Accredited network decided by the municipality: food, pharmacies, cooking gas purchase	Program Payment	2% per conversion to Brazilian real from merchants

<b>Niterói – Arariboia Social Currency</b>	63,000 persons	- enrollment in Cadúnico - to be in poverty or extreme poverty	90 reais per person	Annually, based on the IPCA inflation index	No restriction	- merchant registration - program payment - granting of microcredit according to criteria defined by the city	- 2% paid by the merchant on each sale, - 1% per conversion to reais
<b>Maricá – Mumbuca Social Currency and Renda Básica de Cidadania</b>	42,500 (RBC), 70,000 (Mumbuca) persons	- registration in Cadúnico - live in the city for at least 3 years	170 reais per person	There is nothing provided by law	No restriction	- merchant registration - program payment - analysis and granting of microcredit	- 2% paid by the merchant on each sale

Own preparation with data compiled from E-dinheiro (2022) and municipal legislations.

### 3.1 Challenges of poverty relief and guaranteed income programs

Cabo Frio and Itaboraí have comparatively lower gross domestic product per capita and budget. Part of their restrictive choices in policy design may be due to budget constraints. However, the model of poverty relief they adopted is subject to criticism: high cost of management and monitoring, and the low capillarity in the adoption of the currencies.

The high costs can be seen in the process of managing the registered base of merchants. This challenge will cause municipal civil servants to devote several hours of work to the analysis of which businesses would be eligible, a decision subject to dilemmas and discretion. An example of the possible dilemmas faced: if a market wants to be part of the accredited network, should it be accepted because it sells food and essential goods, or barred because it allows the sale of alcoholic beverages?

The annual inspection of the beneficiaries in Itaboraí in the month of their birthday will also mean costs to be considered. This will bring a contingent of individuals every month to the municipal offices, requiring an effort from the municipality to deal with them and to check their conditions of eligibility: not having income. Individuals close to the poverty line have oscillating incomes from month to month due to unstable labor market conditions, so this inspection can lead to undue exclusions from the program.

In January 2022, the programs in Cabo Frio have 500 families and Itaboraí has 4,045 people. Adding this small number of beneficiaries to the great bureaucratic difficulty in managing the accredited network, it is possible to imagine a low capillarity of the currencies in their respective territories. The small number of beneficiaries means not enough income circulating, making it difficult to convince the merchants to go through the process to accept the currency. In addition, the businesses may have difficulty in achieving their eligibility, given the analysis process by city government staff. The biggest risk is that the currency becomes poorly accepted and restricted to specific businesses, which may become monopolists in the local currency, restricting purchasing options of the beneficiaries.

Gama and Costa (2021) reinforce the fear of low capillarity of the local currency. The authors analyze the case of Mumbuca in Maricá, where the number of merchants adopting the currency grew slowly and gradually over time. The number of beneficiaries with income in the local currency was a decisive factor for merchants to choose to become part of the accredited network. In January 2022, according to E-dinheiro (2022), only 48 merchants were eligible in Cabo Frio and none in Itaboraí.

Niterói is also subject to the challenge of overcoming the low initial capillarity, a stage already overcome by Maricá. Another challenge faced by these municipalities will be the management of microcredit; Gama, Maldonado, and Freitas (2021) analyze the *maricaense* case and find that the funds available for microcredit grow along with the adoption of the currency. However, in 2021, part of the available credit was not granted, which may have occurred due to low demand by the population or by the bank's own choice. This raises two concerns: (i) as long as the currency has low capillarity, there will be little funding for microcredit; (ii) if credit is not properly publicized and managed, it may have less than the desired impact on economic activity.

## **Conclusion**

Brazil has an important trajectory in cash transfer policies from the *Bolsa Escola* municipal programs in the 1990s to the current *Auxílio Brasil*. In Rio de Janeiro state municipalities, a new institutional arrangement combining cash transfer and social currency started in 2013 and spread in 2021. Among the four municipalities, two main groups of policies emerged: poverty relief and guaranteed income.

The common factors of these programs in Cabo Frio, Itaboraí, Niterói, and Maricá are the use of the CadÚnico, the presence of a community bank, and the absence of conditionalities for receiving the income. There is a great divergence in the choice of the target public, the value, the freedom in the use of the resources, and the role of the community bank. Cabo Frio and Itaboraí have created poverty relief programs, with family benefits and an accredited network controlled by the city with only food, pharmacy, and cooking gas. Niterói and Maricá adopted guaranteed income programs with an individual character, with a wider scope in the target group and without restrictions in the use of resources.

In the first group, the community bank is only responsible for paying the benefit. In the second group, this entity also plays a role in granting microcredit to formal and informal businesses. In the aggregate, the municipalities with poverty relief programs adopt the currency only to transfer income and ensure that the resource stays within the municipal boundaries. Cities with guaranteed income programs use currency, microcredit, and cash transfer as a local development strategy.

There are challenges in implementing this institutional arrangement, regardless of the goal of the municipalities. Cabo Frio and Itaboraí will have to deal with high management and monitoring costs, and possibly low capillarity in local currencies. Niterói and Maricá have yet to develop efficient ways to use microcredit in their local development strategy.

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