

Shopping

In Brazil's Favelas, a Middle Class Arises

By David Biller and Katerina Petroff | December 20, 2012



Photograph by Dado Galdieri for Bloomberg Businessweek

A thriving middle class is changing the landscape of the favelas

The night before appliance retailer Casas Bahia opened in Rio de Janeiro's largest slum, resident Joana Darc de Morandi couldn't sleep. Shopping list in hand, Joana was first in line to get in, seven hours before some 200 people began streaming through the store's front door. "It's very important for the neighborhood," Morandi, 57, says of Rocinha, the slum where she lives. "Casas Bahia being here is a show. It's beautiful. It means everything. You can find anything you need."

Drawn by improved security, rising incomes, and a booming credit market, Brazil's big retailers are opening shop in the favelas, the hillside shantytowns once viewed by most Brazilians as no-go areas. About 56 percent of the 12 million people who live in slums such as Rocinha were considered middle class in 2011, up from 29 percent in 2001, according to a study this year by Instituto Data Popular, a São Paulo-based research group. As reforms have taken hold over the last 10 years, the economy has created many more jobs than before, giving inhabitants of the favelas a chance to work. Unemployment in Brazil dropped to 5.3 percent in October, less than half the level a decade earlier. A stepped-up government aid program that

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paid the poor to keep their children in school, among other things, also boosted income. Today, Rio's favelas have an economy worth 13 billion reais (\$6.1 billion), according to the Data Popular study.

Casas Bahia's Rocinha location sold 10 times more during its Nov. 6 opening than an average store takes in on a typical day. The chain will open its third favela location next year, says Roberto Fulcherberguer, vice president of Via Varejo, which operates the Casas Bahia brand. The company's competitor, Ricardo Eletro, opened its first Rocinha store in October 2011.

A linchpin of the expansion has been Rio's so-called pacification community policing strategy, Fulcherberguer says. Special forces last year took control of Rocinha and expelled or arrested drug gangs that controlled the slum of 69,000, which sprawls above the city's wealthiest beachside neighborhoods, including Ipanema. Rocinha was the 28th favela to be pacified in Rio since 2008, and 12 more are scheduled to be occupied before the city hosts matches of the 2014 FIFA World Cup.

"We are already looking for properties, either to rent or to buy, in any community that has been pacified and where there is protection by police or the army," Michael Klein, Via Varejo's chairman, told reporters at the opening of the Rocinha store. "The more communities that are pacified, the more Casas Bahia stores we'll have." Sales in the first three quarters of 2012 from Via Varejo's stores were up 9.1 percent from a year earlier, according to financial results released Oct. 31. The company expects 70 percent of its growth to come from Casas Bahia stores in the northeast, one of the country's poorest regions, Fulcherberguer says.

A challenge for retailers could arise as more homes in the favelas are formally connected to the power grid. Utilities are working to turn families that tap illegally into the electrical system into regular customers. The problem is that legitimate electric power is much more expensive than illegally obtained power. Families that switch to normal electricity service may not be able to afford appliances that need a lot of power to run, says Marcelo Neri, an economist who studies poverty.

Morandi's not concerned about having enough electricity to power the blender, mixer, fan, and coffeemaker she bought at Casas Bahia. She paid for her goods in two installments, which means she probably paid interest in the high double digits. That didn't bother her either. Until recently she wanted to leave her favela; she's changed her mind. "We were missing Casas Bahia, and now we've got that," Morandi says. "Rocinha is marvelous."


The bottom line: If the slums of Rio were a separate economy, they would have a GDP worth \$6 billion—an attention-getting number for chain stores.

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