

## 9. Community development bank

### Description

Community development banks (CDBs) aim to generate economic development in low to middle-income areas. They have been widely used in the US, where they have long been institutionalised and the Treasury Department has a fund to support them. The best known example, however, is Grameen Bank in Bangladesh, which was founded by the Nobel laureate Muhammad Yunus and popularised the use of microfinance in the developing world. CDBs can be for-profit or non-profit and take many forms. The case study below highlights a unique model established in Brazil which is managed by the community it serves.

### Case study: Banco Palmas (Brazil)

In 1973, municipal redevelopment initiatives in Brazil's fifth largest city of Fortaleza, in the north-east of the country, displaced around 2,000 families from its coastal areas to a peripheral inland district called Conjunto Palmeira. Displacement to the area continued in the following years, contributing to its impoverishment, high unemployment rates and lack of services. The situation led to the establishment in 1998 of Banco Palmas, a unique community development bank, to provide credit to residents, create jobs and stimulate local development as part of the solidarity economy movement.

#### **Principles of a solidarity economy**

Given that the IDPs originally relied on fishing for their livelihoods, they became increasingly impoverished in their new inland and under-serviced area. In response, they came together in 1981 to set up the Conjunto Palmeira residents' association (*Associação dos Moradores do Conjunto Palmeira*, ASMOCONP). Over the following years, they instituted a range of community initiatives to build homes and sewage systems, pave roads and install water and electricity supplies in what was gradually becoming a favela or slum. By 1997, the residents and their community organisations had successfully urbanised the area.<sup>1</sup>

Their vision of economic and social development was based on the principles of a solidarity economy, which encourages local production and consumption networks and job creation, and community investment in educational, cultural and social institutions.<sup>2</sup> In 1997, ASMOCONP began to organise community meetings, 96 in all, where members discussed the fact that 80 per cent of families spent all of their money outside the community, giving traction to the notion of producing, selling and buying locally.

The social entrepreneur Joaquim de Melo Neto Segundo is a key figure behind Banco Palmas and its innovations. A Fortaleza resident and long-term community mobiliser, he recognised the importance of community-driven finance institutions in the late 1990s. Community members secured a 2,000 real (\$615) loan from the local NGO Cearah Periferia and set the bank up in 1998.<sup>3</sup> Over the next seven years, it relied on funding from international agencies, NGOs and aid organisations such as the German development agency GTZ, Oxfam, the Ecumenical Service Coordination (CESE) and the Dutch development organisation Cordaid. PRORENDA, a German foreign aid programme that focuses on upgrading slums and "urban management by the poor," provided some of the start-up funding for ASMOCONP.<sup>4</sup>

This illustrates how international NGOs and bilateral aid organisations can play an instrumental role in financing community development banks that become sustainable and outlive the initial programme. In 2003, ASMOCONP went on to establish Instituto Palmas, a non-profit umbrella organisation that serves as the bank's parent company.

Banco Palmas offers three types of microcredit for production, commerce and services, and it is a unique and innovative venture in many ways. Similarly to Grameen Bank in Bangladesh, which was founded by the Nobel laureate Muhammad Yunus and popularised the use of microfinance in the developing world, it does not demand good credit history, extensive requirements for registration, proof of income or assets as collateral for loans. Instead, neighbours vouch for applicants and social ties are used to both evaluate and enforce the loans.

IDPs in countries where microfinance opportunities are available often still find themselves at a disadvantage because they do not have the same established social ties as the local community. In Conjunto Palmeiras, however, people displaced from the coast make up much of the district's population and the social ties they brought with them helped to engender two-way trust between the bank and its potential clients, and enable it to provide IDPs with access to credit.

Banco Palmas is not a static institution, but has learned and evolved from its experiences. Two years after its foundation, it launched another experiment when it stopped issuing loans in Brazilian reals and set up a new community or local currency called the "palma" instead. Its value was set at parity with the real to eliminate exchange costs and fluctuations, making both currencies equally attractive to use. Parity also meant local businesses were more willing to accept the palma, strengthening relationships between local merchants, consumers and producers.

Snapshot	
Practice	Banco Palmas, 1998 to present
Main actors	Associação dos Moradores do Conjunto Palmeira <sup>5</sup> (ASMOCONP) Funders: Local NGO Ceariah Periferia, German Development Agency (GIZ/GTZ), Oxfam, the Ecumenical Service Coordination (CESE) and the Dutch development organisation Cordaid
Context	Residents of coastal areas of the city of Fortaleza were displaced by development projects to the impoverished inland district of Conjunto Palmeira in the 1970s. In the absence of basic services and livelihood opportunities for former fishermen, Conjunto Palmeira residents developed a series of community initiatives to improve their living conditions and basic infrastructure. Over the decades since their displacement, they have built homes, water and sewage systems and electricity networks. In 1981, they set up ASMOCONP to promote the concept of a solidarity economy, which encourages the creation of local networks of production, consumption and job creation, and community investment in educational, cultural and social institutions. <sup>6</sup> No such investment was possible, however, without access to credit.
Target group(s)	2000 families displaced from coastal areas to Conjunto Palmeira
Summary	ASMOCONP established Banco Palmas in 1998 as a community-driven financial institution to fund the development of their neighbourhood based on principles of a solidarity economy. The bank adopted credit requirements adapted to its poor clients. No credit history was required, nor were income or assets demanded as collateral for loans. Instead, neighbours vouched for applicants, and social ties were used both to evaluate the loans and enforce their terms. Most IDPs struggled to re-establish social networks lost as a result of their plight, but given the length of time Conjunto Palmeira residents had been displaced such ties were in place.  Banco Palmas offered low interest loans to local people, including those originally displaced to the area. It offered three types of microcredit for production, commerce and services. For the first seven years of its existence, the bank received funding from international NGOs and bilateral aid organisations such as GTZ, Oxfam, CESE and Cordaid, but in 2003 it was transformed into Instituto Palmas, a non-profit organisation that serves as the umbrella organization that includes Banco Palmas and other community ventures.  The bank also introduced the “palma”, a local currency that is exchanged with the Brazilian real at a rate of one-to-one and has an economic multiplier effect.
Strengths <i>(Key elements of right to adequate housing and key programmatic elements from matrix appear in bold)</i>	Banco Palmas is a successful example of a community-driven development initiative that incorporates residents' <b>meaningful participation</b> . The community created an <b>innovative and effective finance mechanism</b> to transform the shape and future of the neighbourhood. Brazil's government has slowly recognised the bank's success and has facilitated similar schemes in other areas, which constitutes a <b>transfer of knowledge</b> and a <b>change in institutional norms</b> . The practice shows <b>how international NGOs and bilateral aid organisations can play an instrumental role in financing initiatives such as community development banks that become sustainable in their own right and outlive the initial programme</b> .
Key challenge(s)	Community development banks are an example of a gradual and incremental community-led approach. As a result they require sustained engagement, reflection and changes in practices over long periods of time.
Factors that could influence potential for replicability	Highly committed and engaged neighbourhood organisations and civil society groups Donors that are flexible when funding the initial phase, understanding that development impacts can only be measured in the-long term National government's eventual recognition of the concept of community development banks and the use of an alternative local currency IDPs living in protracted displacement for long enough to establish social ties

Merchants even began to incentivise use of the palma by offering discounts on purchases made in the local currency. The use of a local currency meant that spending also stayed local, so that purchases or investments made with Banco Palma funds helped to boost the vitality of Conjunto Palmeira economy and encourage the district's development. Each loan provides both individual economic benefits to the recipient and wider economic benefits to the district and community.

The approach was not fully accepted by the Brazilian government at first. Between 2000 and 2010, the Central Bank of Brazil tried to bring charges against Banco Palmas for creating a secondary currency that undermined the real. In 2011, however, after a decade of court cases and negotiation, the central bank issued a technical note on the importance of social currencies, community development banks and their role in the poor's social inclusion.<sup>7</sup> As such, a grassroots initiative became institutionalised at the national level.<sup>8</sup>

Given that the community runs the bank, it promotes self-management and local autonomy and allows it to innovate, adapt and respond to new trends and pressures. It is free to expand into using and developing new financial instruments, as evidenced by its launch of a credit card, the PalmaCard.<sup>9</sup>

Brazil does not have a national legal framework for the establishment of community development banks so Banco Palmas is registered as a public interest civil society organisation (*Organização da Sociedade Civil de Interesse Público*, OSCIP). It is also part of the Brazilian network of community banks, which provides legal support to secure government recognition.

Instituto Palmas has launched two other innovative programmes. Its *projeto fomento* or stimulus project relies on community and private donations to build community assets such as schools. The bank estimates the investment value of the project and issues loans in palmas for the same amount. In this way, it “clones” and doubles the community investment.<sup>10</sup> *Projeto ELAS* targets women who receive social welfare benefits through the national *Bolsa Família* programme. It works towards women's social and economic inclusion by offering microcredit loans, professional training and establishing small business incubators for them.<sup>11</sup>

As Banco Palmas has expanded its activities, it has also raised national awareness of the community development bank model, leading to creation of at least 104 such institutions in Brazil as of 2013. Paul Singer, the national secretary of the solidarity economy within the Ministry of Labour, has recognised their importance, and has asked Banco Palmas to replicate its model in other municipalities.

It has also formed partnerships with the Bank of Brazil, the National Bank of Economic and Social Development and the Federal Savings Bank to increase its credit portfolio to three million reais. Between 2010 and 2013, it lent 12 million reais to more than 15,000 people, reaching the poorest and most vulnerable residents in both urban and rural areas. A 2014 impact evaluation of its activities showed that 99 per cent of survey respondents thought Banco Palmas had contributed to improving their living conditions, including improvements in housing, health-care, employment opportunities and financial security.<sup>12</sup>

### Conclusion

This case study tracks the trajectory of a community of coastal residents displaced in the early 1970s by redevelopment initiatives. International NGOs, bilateral aid organisations and national financial agencies have made a number of efforts to assist the Conjunto Palmeira community, but the success of Banco Palmas has largely been a local one.

International development experts cannot simply replicate successful community-driven initiatives. They emerge from a complex, sustained and evolving process of building solidarity in a community, undertaking campaigns to establish basic services, and introducing the principles of a solidarity economy. Forty years have seen the slow but steady growth of a community born out of the experience of forced displacement that has relied predominately on internal organisation rather than external resources to create a finance model that has transformed the shape and future of their neighbourhood.

## Notes

1. Joaquim Melo in Banco Palmas on its 15<sup>th</sup> Anniversary: Resisting and Innovating, vol.1, Solidarity Economy Centre, (NESOL-USIP: Sao Paolo, 2013), p.22
2. Instituto Palmas [O Que E Um Banco Comunitario?](#), last accessed 3 December 2014
3. Melo in Banco Palmas on its 15<sup>th</sup> Anniversary: Resisting and Innovating, p.24
4. Ying Gao, The Local Knowledge Bank: Uncovering the Processes and Networks of Social Innovation at Brazil's First Community Bank, MIT Department of Urban Studies and Planning, 2014, p.75
5. Association of Dwellers from Conjunto Palmeira
6. Instituto Palmas, What is a Community Bank (O que e um Banco Comunitario?), <http://goo.gl/ZznZY3>, last accessed 3 December 2014
7. Central Bank of Brazil, technical note PCBG 38/2011, September 2011
8. Melo in Banco Palmas on its 15<sup>th</sup> Anniversary: Resisting and Innovating, p.25
9. Joaquim de Melo Neto Segundo, [Ashoka biography](#), last accessed 3 December 2014
10. *Ibid*
11. Augusto Câmara Neiva, Juliana de Oliveira Barros Braz, Carolina Teixeira Nakagawa and Thais Silva Mascarenhas, Banco Palmas Impact on Community Development and Finance and Banking Inclusion, in Banco Palmas on its 15<sup>th</sup> Anniversary: Resisting and Innovating, p.143
12. *Ibid*, p.177