

The Remarkable Expansion of Community Banks in Brazil: Discovering Palmas' Methodology

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1. Introduction

As he walks out of the Arrival Terminal of Fortaleza's International Airport, Joaquim de Melo, founder of Banco Palmas, is glad to see the face of his trusted right-hand man, Asier Ansonera, who came to pick him up. Joaquim was in Asia where he was invited as a keynote speaker at a seminar on community banks as a tool for financial inclusion and local development in developing countries. As they start their car ride to Conjunto Palmeiras, where Banco Palmas is headquartered, Joaquim says to Asier, *"It has been 28 years since I first arrived in Conjunto Palmeiras and 14 years since Banco Palmas was created. Our community bank is unique in that it is the first of its kind and it is a model which several countries and regions wish to emulate. It is our responsibility to, not only help in this process, but to also anticipate the challenges which may come after the model has served its first true purpose - that is to bring local development to those who are financially excluded. I feel that it is time to reconsider some of the fundamental premises upon which Banco Palmas was built, at least in Conjunto Palmeiras, since the bank's true purpose in our beloved community has been fulfilled"*. Seeing that Joaquim looked tired from his long flight, Asier decided to let him rest during the drive, as they both silently reflect on the history of Banco Palmas's emergence and its recent expansion.

2. From seaside to swamp to Conjunto Palmeiras

Fortaleza has a population of 2.5 million inhabitants and is a major tourist destination attracting around 2 million visitors per year to its white-sand beaches, blue-water ocean, warm temperatures and exciting nightlife. Today, one can observe a modern tourist

infrastructure lounging the city's coastal and wealthiest area (Figure 1). However, this area of Fortaleza was not always a haven for tourists and the wealthy.

Figure 1: Fortaleza's modern skyline



In fact, prior to 1973 this coastal region of the city was occupied by fishermen and low-income families (Figure 2).

Figure 2: Fortaleza's coastal region in the 1970s



Seeing the potential for tourism growth, coupled with the appreciation of real estate in the area, the local municipality implemented an urbanization policy which involved driving the *favelados* (a derogatory term for slum residents) out of the area. This urban policy,

executed by the *Fundação para o Serviço Social de Fortaleza* (Fortaleza Social Service Foundation), involved displacing slum residents from the central, privileged districts of Fortaleza to the suburban and undeveloped areas of the city.

The displaced residents were forced to abandon their homes by the seaside and were assigned a vast land in a swampy and empty area located on the outskirts of Fortaleza, about 22 kilometers away from the ocean. While the city was focused on developing tourism on the one hand, its urban policy on the other hand, neglected to deal with the structural and social problems which displacement imposed on the slum residents. The swampy land allocated to the displaced residents was far from schools and city jobs and devoid of basic urban facilities such as public transportation, water supply, sanitation and electricity. It was, therefore, in these dismal conditions that the community of displaced 1,500 low-income families, called Conjunto Palmeiras (loosely translated as the Neighbourhood of Palm Trees, the latter being indigenous to the area), was born in 1973.

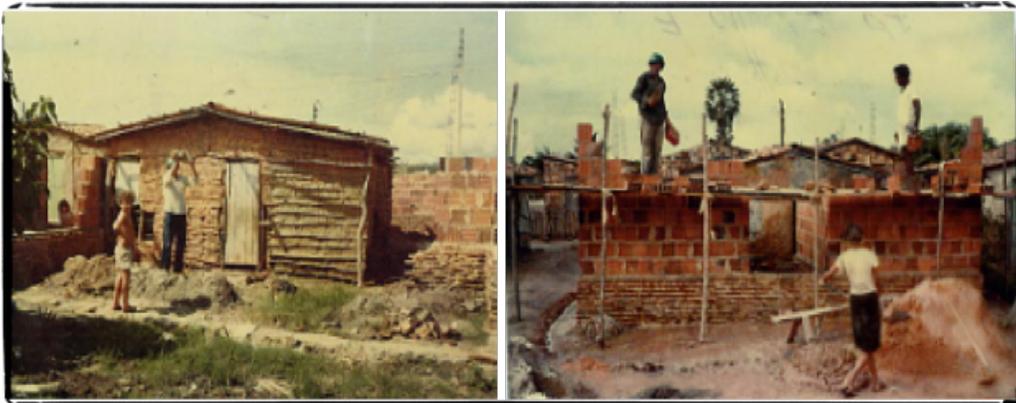
From 1973 to 1981, the population of Conjunto Palmeiras grew significantly due to the additional settlement of migrants coming from Brazil's interior rural areas. Within a short period of time, Conjunto Palmeiras expanded into a peri-urban slum of 32,000 inhabitants. As in the case of other Brazilian *favelas*, this expansion happened in the absence of basic infrastructures and social services. The inhabitants lived in dreadful conditions with very low levels of, and possibilities for human development.

3. ASMOCNP, a neighborhood association

After years of subsisting under an authoritarian regime, the early 1980s saw a period of gradual redemocratization in Brazil's society. Civil associations and community activist movements, which had up to that point been banished or inhibited, flourished vigorously. In this wave of change, the residents of Conjunto Palmeiras who were still largely neglected by the municipal government, created in 1981 a neighbourhood association called *Associação dos Moradores do Conjunto Palmeiras* (ASMOCNP; Residents Association of Conjunto Palmeiras; see Figure 3). Headed by local community leaders

and supported by progressive sectors of the Catholic Church and local/international NGOs, ASMOCONP's purpose was to help the community attain their rights to basic infrastructures such as access to water, electricity and education.

Figure 3: Creation of ASMOCONP through mobilizing the local community



The results achieved by ASMOCONP's organized actions were noteworthy, though not immediate. It took seven years for the neighborhood to gain access to a public water supply, an achievement which is still considered as one the most difficult in the Association's history. Over these seven years and through lobbying local authorities, ASMOCOMP brought outdoor lighting to neighborhood streets and electricity to the community's houses. Asphalt and sanitation, however, did not arrive before the 1990s, and was achieved through international aid. A partnership between ASMOCONP and GTZ, a German government-owned corporation specializing in sustainable development projects, provided funds and technical assistance for the construction of a sewage system and other urban improvements such as sidewalks and a drainage system. By the end of the 1990s, and as a result of nearly two decades of continuous effort, the former *favela* was finally urbanized.

Despite these urban improvements, the socio-economic condition of the community - instead of simultaneously improving - deteriorated to critical levels. In 1997, it was revealed, through an informal census by ASMOCONP, that most of the neighborhood's residents were unemployed or held precarious jobs. Ninety percent of the families lived on less than two minimum wages per month.¹ Seventy-five percent of the adult population was illiterate, and at least 1,200 children of school age were not in school. These conditions compelled several families to put their houses on the market and leave the community, because they could not afford the public fees for the new urban infrastructures such as electricity and water. It was an ironical situation, since the payment burden for these infrastructural improvements was now driving out the neighborhood's residents. When asked: "*Why are we poor?*" all residents would respond: "*Because we have no money!*"²

¹ The minimum wage in 1997 was R\$ 120 (Brazilian reais) per month, and the exchange rate was around R\$ 1.10 per US dollar, meaning that 90% of families lived on less than approximately \$218 US/month, or \$7 US/day.

² Ceras Project, 2011. Banco Palmas ou les richesses d'une favela. Available from www.ceras-project.com.

4. An instrument by Joaquim de Melo

During the 1980s and 1990s, as one of the community leaders and managers of ASMOCONP, Joaquim de Melo (shown in Figure 4) actively participated in the struggles for bringing basic infrastructures and urbanization to the neighborhood. He also had a very poor childhood, growing up in a housing project called Cidade Nova in the city of Belém (Pará). In 1978, he joined the parish seminary in the hope of becoming priest. However, six years later, he grew dissatisfied with seminary life and it was at this junction that the Archbishop of Fortaleza - Cardinal Aloisio Lorscheider – invited him and other seminary students to move to *favelas* and help the poor. Joaquim accepted the invitation and moved to the *Rampa do Jangururusú* - the garbage dump of the Fortaleza city. During his five months at the *Jangururusú*, he was moved by the appalling living conditions of the garbage pickers. It was then that he decided to become an activist and uphold social causes³.

Figure 4: Joaquim de Melo



Following his assignment at the *Jangururusú*, he was requested by the Archbishop in 1984, to help Conjunto Palmeiras⁴. It was also in this period that Joaquim's work

³ From Ashoka's website <https://www.ashoka.org/fellow/joaquim-de-melo-neto-segundo>

⁴ Langellier, J.P. 2010. Relocaliser l'économie et générer de la richesse sur place. Le Monde, 26 mai.

evolved away from the church, and he left the priesthood in 1989 to devote himself to community projects.

He had gained much respect in the community for the struggles he had undertaken to demand rights for the people of Conjunto Palmeiras. After nearly two decades of working for the community's advancement, Joaquim was concerned that the residents began leaving Conjunto Palmeiras in 1997. He stated, *"This was happening to many families back then: the husband wasn't working, the kids were sick, the house was the family's only asset and they couldn't afford all those taxes, so the result was to sell the place and move away, since you cannot sell your husband and kids to keep the house"*⁵. Furthermore, local businesses and small producers were severely impeded by the lack of access to credit and difficulties in marketing their goods⁶.

Thus, in the same year of 1997, ASMOCONP conducted another study on Conjunto Palmeiras residents' disposable income. The study revealed that the neighborhood's families spent an average of R\$1.2 million per month, most of which outside Conjunto Palmeiras⁷. As Joaquim explained, *"We discovered one important thing: we remained poor not only because we had little money, but mostly because we were spending it outside the favela."*⁸ To break this cycle and pull the residents out of poverty, Joaquim felt that *"an instrument had to be created for the community to both produce and consume locally"*⁹. This instrument would be the first ever community bank to be created, the Banco Palmas.

5. Banco Palmas: Conjunto Palmeiras rises from the ashes

Thus, it was against this backdrop that ASMOCONP redefined its priorities and generated strategies for income generation. This shift in the Association's priorities

⁵ João Joaquim de Melo Neto Segundo. Interview, July 7, 2007.

⁶ Genauto Carvalho de França Filho et al. 2012. Solidarity finance through Community development banks as a strategy for reshaping local economies : lessons from Banco Palmas, Revista de Administração (São Paulo), vol.47 no.3 São Paulo July/Sept.

⁷ Ibid.

⁸ Langellier, J.P. 2010. Relocaliser l'économie et générer de la richesse sur place. Le Monde, 26 mai.

⁹ Ibid.

would inaugurate a new phase in Conjunto Palmeiras' history where the Banco Palmas project would help the community rise from the ashes of socio-economic vulnerability.

Banco Palmas (see Figure 5) was, thus, founded in January 1998 with an initial capital endowment of only 2,000 Brazilian Reals (\$1,500 US), donated by Cearah Periferia, a local NGO. Additional funds were obtained from other local and international NGOs during the first six months of operation, totaling 30,000 Reals (\$27,000 US) which were earmarked for microcredit loans.

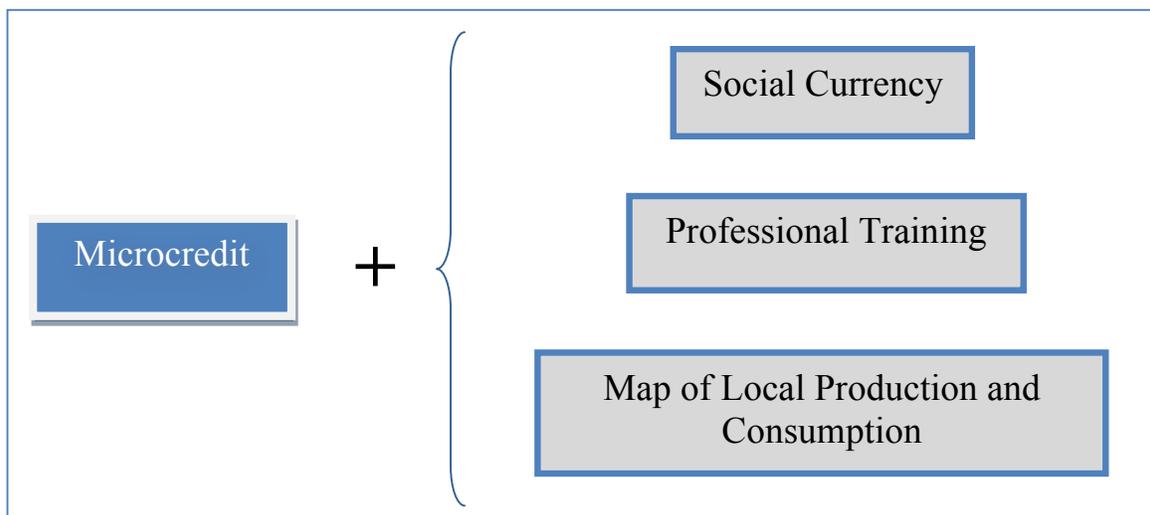
Figure 5: Banco Palmas



In addition to issuing microcredit, Banco Palmas had two other concurrent objectives. The first was to reduce financial exclusion in the community. Even to this day 39% of the Brazilian population does not have a bank account, and it is reported that 41.20% of this population wishes to have one¹⁰. However, financial inclusion was hard to achieve for the people of Conjunto Palmeira under the traditional banking system due to the latter's banking conditionality for which the people of Conjunto Palmeira. Furthermore, traditional banks were all located far from the community. Thus, Banco Palmas would resolve these two issues by being a proximity bank and by having banking conditionality adapted to the local community's reality. The second objective was to promote a production and consumption cycle within the community.

To articulate these two objectives, three instruments (as shown in Figure 6) were designed as part of Banco Palmas' methodology to be used in combination with the microcredit issued by the bank. These three instruments include a social currency, an intensive professional training and a map of local production and consumption.

Figure 6: Banco Palmas' Methodology: Instruments for Local Development



¹⁰ Schiavinatto, F and de Holanda Schmidt, F., 2011. SIPS Bancos. Inclusão financeira e bancarização no Brasil. In *Sistema de indicadores de percepção social*, by Fabio Schiavinatto (org.), 181-210. Brasília: IPEA.

6. Palma: a social currency

A local alternative currency - a social currency called Palma - was created by ASMOCONP to encourage local production and consumption. At the time of its creation, the Palma was such a novelty, that it led to strong resistance from Brazilian authorities. It is reported that in 1998, when Banco Palmas was preparing to be launched, the police raided its then tiny office, following complaints from Brazil's Central Bank. The Palmas had not yet been printed, but the police seized a handwritten ledger and 1000 Reals¹¹. Joaquim had to convince the government that the Palma was not a threat to the Real because it was pegged against the latter and that it was as legitimate as a coupon¹². Hence, the Palma (see Figure 7) which is printed on special paper with security coding to prevent forgery, is backed by the Real at one-to-one parity, so that for each Palma in circulation one Real is held in reserve by ASMOCONP.

Figure 7: Palmas are issued on security paper to prevent forgery



Hence, when obtaining a microcredit loan, the borrowers will receive Palma notes instead of Reals from Banco Palmas. As the Palma currency is only accepted within the boundaries of the neighbourhood, borrowers tend to spend the currency on local

¹¹ Prada, P., 2011. In pockets of Booming Brazil, A Mint Idea Gains Currency, Wall Street Journal, September 20.

¹² Ibid.

purchases. Converting the Palma into Reals can be done at any time at ASMOCONP, but this is discouraged through the imposition of a two percent administration fee. Today, the Palma circulates side-by-side to the official Brazilian currency and is accepted by local merchants.

As mentioned earlier, the aim of this local social currency is to promote a production and consumption cycle within the community, so as to ensure that the multiplicative, income-generating effects of the microcredit loans remain in the local economy. To further ensure these positive effects, two lines of microcredit are offered in the Palma currency: one that finances producers and merchants, and another that finances local consumers. To obtain either type of microcredit loan, the borrower does not have to present any documentation or formal guarantees like those required by formal credit institutions. Rather, the system is based simply on the borrower's local reputation, with neighbors giving assurance that the person applying for the loan is responsible and trustworthy. Additionally, loans issued in the social currency do not carry any interest. It is in those regards, that the Banco Palmas conditionality is different from those of traditional banks.

Figure 8: The PalmaCard



Today, the residents of Conjunto Palmeira can also use a PalmaCard (Figure 8) in conjunction with the Palma currency. The PalmaCard, developed by Banco Palmas, functions like a credit card and enables families to buy goods in local stores and pay for them, interest-free, the following month. The card therefore allows families to obtain goods ahead of earnings, but like the Palma, also ensures that local products and services are bought within the community.

7. Professional training for fruitful microcredit loans

Microcredit at Banco Palmas, as seen in Figure 6, is a central piece of a larger array of activities aimed at enhancing local development. Thus, Banco Palmas' central philosophy is based on developing a 'solidarity network' which integrates local producers and consumers in such a way that a large portion of the local wealth circulates locally, thereby maintaining the wealth in the community rather than generating income and employment elsewhere.

At the time when Banco Palmas was being created, there was a scarcity of professional qualifications among community members. As a consequence, ASMOCONP felt that a microcredit strategy in Conjunto Palmeiras would only be fruitful and sustainable if it was accompanied by complementary capacity-building actions. To address this lack of qualifications among local workers and producers, a variety of professional training courses and workshops are offered by Banco Palmas since its inception. The aim is to provide the members of the community with specific professional and business skills which will help them make fruitful use of the microcredit loans. Therein lays one of the most important premises of ASMOCONP's developmental philosophy which is that: promoting financial support, without triggering conditions which allow people to become true agents of their emancipation as citizens and entrepreneurs, is a recipe for failure.

Part of these capacity-building actions was accomplished by a number of *emprendimientos solidários* (solidarity businesses), which are small production units founded by ASMOCONP and run as part of the Banco Palmas. The most important ones

include Palma Fashion (small sewing factory), Palma Limpe (producing cleaning materials), Palma Natus (producing natural soaps) and Palm Arte (producing handicraft products). Each solidarity business (Figure 9) is an independent and financially sustainable business operation. They are all located within the Association's building in order to reduce operating costs. Their purpose is to temporarily employ local workers and train them in specific professional and business skills, hence, enabling them to thereafter work for themselves or for other local businesses.

Figure 9: Solidarity businesses founded by ASMOCONP





The capacity-building actions are also complemented by a variety of training-oriented projects, sustained through partnerships with development agencies, NGOs and universities. One of these projects, the *Bairro-Escola* (Neighborhood School, Figure 10), is a training program aimed at the community youths aged between 16 and 24 years. The program offers them the possibility to learn a new skill through a three-month internship

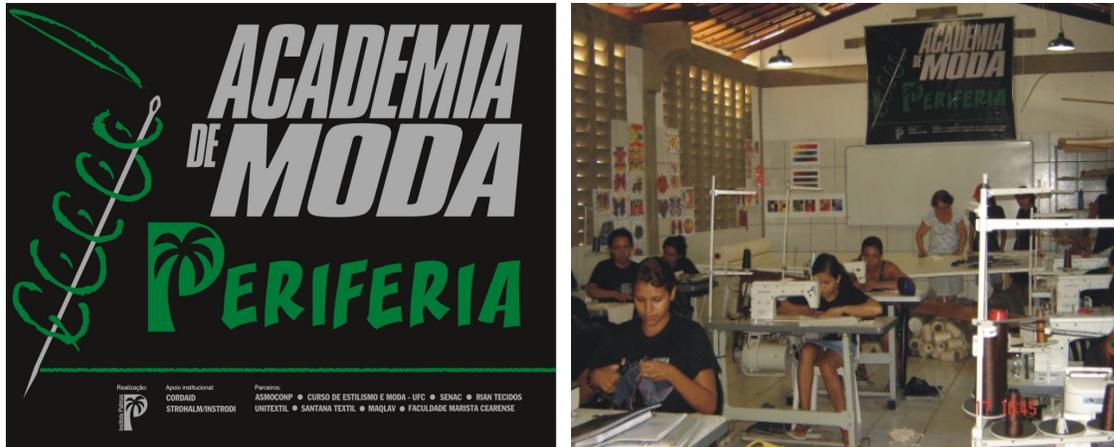
in a local, formal or informal, business. Both the trainees and the business owners receive small grants during the program, and in many cases the trainees are hired on a permanent basis after the internship. This project is funded by the Inter-American Foundation and was initiated in 2005 with the aim of training 1,000 youths in the first three years.

Figure 10: Bairro-Escola



Another project, the *Academia de Moda* (Fashion Academy, Figure 11) - taught by undergraduate and graduate students from two accredited fashion colleges in Fortaleza - is oriented towards young women, who are offered courses in sewing, tailoring, fashion design and marketing. Upon completing the courses, participants are eligible for microcredit loans from Banco Palmas to start their own sewing businesses.

Figure 11: Academia de Moda



8. An idiosyncratic map

The third and leading characteristic of Banco Palmas' methodology is its annual 'Local Consumption and Production Map' (Figure 12) which is idiosyncratic to Conjunto Palmeiras and therefore distinguishes it from all other Brazilian microcredit initiatives.

Figure 12: Map and Card of Local Consumption and Production



PRODUTO	UNID	QUANT. MENSAL P/ 251 FAMÍLIAS	UNIDADE MENSAL POR FAMÍLIA	TOTAL MENSAL PARA 6000 FAMÍLIAS	PREÇO UNIT.	TOTAL MENSAL P/ 6.000 FAMÍLIAS (R\$)
CARNE BOVINA	KG	2.252	9	53.833	R\$ 5,50	R\$ 296.079,68
CARNE DE FRANGO	KG	3.124	12	74.677	R\$ 3,20	R\$ 238.967,33
FRUTAS	KG	4.420	18	105.657	R\$ 2,00	R\$ 211.314,74
OLEO DE COZINHA	LT	3.312	13	79.171	R\$ 2,50	R\$ 197.928,29
ARROZ	KG	4.468	18	106.805	R\$ 1,60	R\$ 170.887,65
PÃO	UNID	39.380	157	941.355	R\$ 0,15	R\$ 141.203,19
PEIXE	KG	1.060	4	25.339	R\$ 5,50	R\$ 139.362,65
FEIJÃO	KG	3.148	13	75.251	R\$ 1,80	R\$ 135.451,79
AÇÚCAR	KG	3.664	15	87.586	R\$ 1,50	R\$ 131.378,49
VERDURAS	KG	3.320	13	79.363	R\$ 1,50	R\$ 119.043,82
REFRIGERANTE	LT	2.336	9	55.841	R\$ 2,00	R\$ 111.681,27
CAFÉ	KG	1.972	8	47.139	R\$ 2,00	R\$ 94.278,88
BISCOITO	PCT	1.716	7	41.020	R\$ 1,85	R\$ 75.886,85
LEITE EMPÓ	LT	1.668	7	39.873	R\$ 1,80	R\$ 71.770,52
LEITE LÍQUIDO	LT	2.264	9	54.120	R\$ 1,30	R\$ 70.355,38
MACARRÃO	PCT	2.196	9	52.494	R\$ 1,30	R\$ 68.242,23
OVOS	UNID	17.340	69	414.502	R\$ 0,15	R\$ 62.175,30
FARINHA	KG	1.784	7	42.645	R\$ 1,00	R\$ 42.645,42
VINAGRE	VD	732	3	17.498	R\$ 1,90	R\$ 33.246,22
MASSA DE MILHO	KG	1.696	7	40.542	R\$ 0,70	R\$ 28.379,28
GOMA	KG	636	3	15.203	R\$ 1,80	R\$ 27.365,74
MAIONESE	VD	404	2	9.657	R\$ 1,50	R\$ 14.486,06
SAL	KG	1.004	4	24.000	R\$ 0,30	R\$ 7.200,00
RAPADURA	UNID	512	2	12.239	R\$ 0,50	R\$ 6.119,52
					TOTAL	R\$ 2.698.828,69

The above card contains a wide ranging list of products such as beef, flour, sugar and mayonnaise.

The map is based on a detailed research operation implemented by Banco Palmas and which provides up-to-date information on the quantity of products and services typically produced and consumed within the community. The information is collected through an extensive door-to-door survey carried out by young people from the community. The survey allows Banco Palmas to better evaluate which investments should be promoted or discouraged based on the local demand for particular products and services. The idea is to adjust the local supply to the local demand. By doing so, Banco Palmas is able to efficiently use its microcredit and professional training projects, by specifically focusing on products and services which will satisfy the community's existing needs. This mechanism allows the bank to finance local businesses based on both the needs and capacity of individual microentrepreneurs, but also considering community development as a whole, on a territorial basis. This also prevents individual micro-businesses to saturate the local market with a particular product or service and, thereby, causing existing competitors to collapse or be displaced.

This initiative is further supported by ASMOCONP's promotion of a monthly "Fórum Econômico Local" (Local Economic Forum; Figure 13), where microentrepreneurs and local residents meet and discuss the types of businesses to be promoted. The premise for

the forum is that each community member, despite his/her educational level or economic situation, is an agent for bringing solutions to local problems. The neighborhood association therefore believes that sustainable and local development can only be achieved through a higher degree of self-management and thoughtful cooperation from each resident.

Figure 13: Banner for the Local Economic Forum



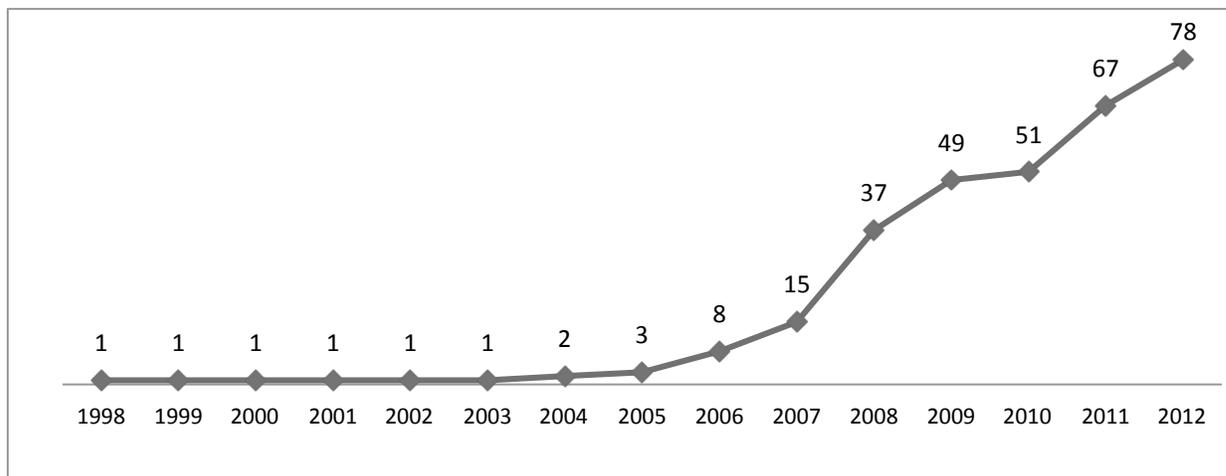
The creation of a computing school in Conjunto Palmeiras exemplifies how investment is strategically directed towards the needs of the community, rather than to an individual entrepreneur. After it was determined that many young people in the community were spending hours travelling to more developed areas of the city in order to acquire computer knowledge and expertise necessary to gain access to better jobs, the *Fórum Econômico Local* decided that Banco Palmas should support the creation of a computer school within the neighborhood. Since there were no local entrepreneurs with experience in this domain, the bank convinced the owner of a small local market, who also had the largest building in Conjunto Palmeiras, to house the computing school business in his facility. Banco Palmas also believed that the market owner was the ideal and best equipped entrepreneur to expand into a totally new business activity. This is how the local market owner also became a successful computer school manager.

9. A new era led by expansion

In 2003, Banco Palmas created the Instituto Palmas (Palmas Institute) with the objective of replicating the experiences of the bank throughout Brazil. As a result, in 2004, the second community bank, Banco Par, was opened in the close-by municipality of Paracuru. Two year later, five more community banks began operations in other Brazilian states, thus leading to a network of Brazilian community banks. Instituto Palmas gradually developed procedures to ensure the proper functioning of the network and to validate the various community banks' policies, currencies and other attributes.

Five years after the Institute's creation, the network escalated to 37 operating agencies; until it finally skyrocketed to 78 banks in 2012 (see Figure 14). Spread across 16 Brazilian states, these banks provide excluded communities with access to banking services and products.

Figure 14: The expansion of Instituto Palmas community banks



10. From solo operations to partnerships

In the beginning, it was a challenge for Instituto Palmas to manage the network's expansion due a lack of certain specific competencies and experience in the field. Moreover, an additional challenge was that the Brazilian society in general was not

familiar with the role and functions of community banks. To overcome these challenges, Instituto Palmas developed partnerships with other financial institutions which had, for example, competencies in diagnosing demographic zones where community banks are needed and in providing support in start-up activities.

Among the first partnerships, was the one created in 2005 between Instituto Palmas and Brazil's largest banking institution - Banco do Brasil – to develop a shared microcredit operation in Conjunto Palmeiras. The partnership combined the strengths of each party whereby on the one hand, Banco do Brasil had extensive access to funds, as well as technological tools and back-office systems to support large-scale credit operations, but lacked knowledge of lending methodologies for microcredit clients. On the other hand, Instituto Palmas possessed expertise in microcredit practices and methodologies, but had limited access to funds and technology.

The partnership involved an initial allocation of R\$ 270,000 (\$160,000) from Banco do Brasil to Instituto Palmas to be employed in offering microcredit to local residents. This resulted in a huge increase in the amount of funds available to Banco Palmas for microcredit purposes growing from R\$ 30,000 (\$18,000) to R\$ 300,000 (\$180,000). However, in accordance with Banco do Brasil's operational policies, microcredit loans had to be issued in Reals. Plus, Banco do Brasil charges Banco Palmas a monthly interest rate of 2% which is transferred to the microcredit loans. Although other aspects of Banco Palmas' lending methodology remained unchanged, these two specific requirements represented a significant shift from its original principles and philosophy of no interest loans and the use of a social currency.

Instituto Palmas established other partnerships, such as with the *Secretaria Nacional de Economia Solidária*¹³ (SENAE; National Secretariat for Economic Solidarity) and the *Banco Nacional de Desenvolvimento Econômico e Social* (BNDES; National Bank for Economic and Social Development in Brazil), to develop the network of community banks in Brazil.

¹³ Under the aegis of the Ministry of Labour and Employment of Brazil.

11. Creating community banks

In order to create a community bank, the project must be, in a first instance, backed by an existing organization such as a local foundation or association or an organization from the public or private sectors.

In the case of a local foundation or association, the latter contacts Instituto Palmas and requests for further information on the creation of a community bank. This process is defined as a bottom up approach, since the interest for the creation of a bank comes from the community. It is similar to the process which led to the creation of Banco Palmas through the direct efforts of the community and ASMOCONP.

The public sector, represented by Local or Federal Governments, can also create community banks by having recourse to Instituto Palmas' services and knowledge. Such public sector initiatives have also been witnessed outside Brazil whereby Instituto Palmas was contracted by the Government of Venezuela to train a team of government officials in launching Venezuelan community banks. This case exemplifies a top down approach, as the initiative comes from the government and not from the Venezuelan local communities.

Private sector initiatives entail private companies which are interested in enhancing development in territories where they are located or wish to locate. A successful example of such a private sector initiative includes the involvement of an electricity company in the creation of a community bank in the state of Rio de Janeiro. The company had to regularly cut electricity supply to the locals due to the latter's inability to pay their electricity bills. The company realized that providing the locals with access to financial services and loans with attractive interest rates, will not only resolve the issue of unpaid electricity bills but will also lead to local economic development.

Instituto Palmas concentrates its efforts on excluded communities where the impact is the most meaningful. Asier Ansonera, Microcredit Director at Instituto Palmas, is adamant that community banks can only thrive in territories where inhabitants are committed to, and embrace the project. He emphasizes that *"...before a bank can be implemented or*

started anywhere, the community has to be interested... and the community has to be responsible for the management of the community bank.... Because ultimately, it's up to the community to decide whether they want to have a bank or not." Communities must not only be committed to the development of the banks, but they must ensure the sustainability of their banks through the creation of partnerships without the intervention of Instituto Palmas. They must show autonomy which is considered as a presage for success.

12. A diversity of challenges and barriers

The expansion of community banks across Brazil has revealed a diverse set of challenges and barriers to Instituto Palmas.

Firstly, community banks can operate in Brazil under different legal configurations. There is no unifying legal configuration to encompass their mission, activities and products. As a consequence, a community bank can operate under different forms such as a NGO, a local association, a local union or an *Organização da Sociedade Civil de Interesse Público* (OSCIP; a civil society organization for public interests). None of these aforementioned forms are adequately suited to the proper functioning of community banks.

Secondly, public bureaucracy at the level of Federal or Local Governments has become the Achilles' heel of community banks. With time and experience, Instituto Palmas has learned how to deal with public bureaucracy. Nevertheless, public bureaucracy remains a barrier in the development of community banks since public policies and procedures vary from one territory to next, and community banks seldom have the organisational and administrative structures to handle these territorial differences.

Thirdly, the most common barrier in creating a community bank is insufficient funds. Very often, the creation of a community bank can be stalled because the initial estimates for capital fell short of the real level of funds required by the project.

Fourthly, in some cases the community can also be an obstacle to the creation of a bank. Thus, to avoid community resistance the first task that Instituto Palmas performs is explaining to the residents what a community bank is, its mission, activities and objectives. The longer it takes the residents to understand the basic concepts of a community bank, the longer it takes Instituto Palmas to decide on the currency and the products or banking correspondence which will be offered.

Once these above challenges and barriers are overcome, the institute must undertake the following steps in setting up a community bank. First, it sends technicians to the community in order to establish contact with the residents and explain the structure, purposes and the functioning of the bank. Second, the institute tracks local associations who may be interested in managing the bank. Third, Instituto Palmas instructors will search for, recruit, hire and train local individuals who are comfortable with the methodological procedures which are imperative to the daily operations of the bank. Asier describes the arduous nature of the process “... *to find the right people to manage the bank... who will be the bank manager, the cashier, the loan agent, the loan officer... Training them to make sure that they will work well; this is the most difficult thing. Because it is a work that is very detail oriented, and with which we have to be very careful, and we work in communities where people have a very limited education.*”

13. Ingredients for success

Instituto Palmas maintains that main ingredient for the success of community banks is not financial services or microcredit since these are not sufficient for promoting social inclusion. Cohesion between the people of the community is the indispensable ingredient for success. Asier explains that “*the more structure a community has, in terms of social contact, basically how people relate to each other within the community, the higher the chances are that a community bank will succeed... And this challenge is huge, because the bank not only needs to manage and deal with financial inclusion, but also deal with extreme social exclusion where people do not even know about their own territory.*”

Another important element for success is Instituto Palmas' 'territorial approach' based on creating financial and non-financial tools designed to respond to the different needs, realities and expectations of different territories. The ultimate goal is to stimulate empowerment of each territory and encourage eventual autonomy from the institute and the government. In some cases, Instituto Palmas has to monitor and support the banks for a few years, in order to consolidate the latter's management and to encourage them to independently create partnerships with other supporting organizations.

The presence or absence of local factories, businesses and producers also determines the impact and the success of community banks. In communities where local associations are active, opening a community bank leverages the existing local economic dynamic and generates wealth and growth. Asier summarizes the conditions that allow a community bank to blossom: *"So, which factors affect that local ecosystem? I would say, local social fabrics including local associations that have credibility with the community. Educational capacity in the location, support from the local government, and a clear idea of what runs the economic life of the territory also helps."*

14. OurBank, a software for a network

One of the major developments which technology brought about, was allowing community banks to act as banking correspondents on behalf of other major financial institutions in Brazil. Banking correspondent involves arrangements between traditional banks and the community banks whereby the latter agree to act as an outlet for the former's financial services. Through the use of point of sale devices or basic personal computers which act as terminals used for financial transactions, clients can pay bills, open bank accounts, deposit or transfer money, access credit, bank account balance and statement and withdraw government benefits from the community banks. As a banking correspondent, the community banks then have to deal in both Reals (issued on behalf of traditional banks) and social currencies.

Thus, people in excluded locations were able to open bank accounts, pay bills, deposit and transfer money with traditional banks through community banks which acted as banking correspondents. However, Asier points out that, *“Banking correspondence has not evolved much since it was first created. It was huge, it was very helpful, and it continues to be very helpful in many communities, because these communities now have access to basic banking services, and because the technology provides them with those services. But banking correspondence did not continue to develop into the kind of products that can further develop those communities. So, banking correspondence continues to provide very basic services, and now, these communities - whether excluded or recently included - they have a demand for many more services, more sophisticated, involving larger loan amounts, more flexible conditions, etc.”*

Instituto Palmas knows that this gap can be only filled by adopting and using new technologies. The challenge is to develop or acquire technologies which have a reasonable cost-benefit ratio. Thus, the institute is engaged in developing adapted technological tools in order to provide suitable products to the excluded communities. Asier notes that technology can: *“...have big impacts on how Instituto Palmas deals with education barriers that are in many of these communities; where they do not have a lot of time for basic education, to use advanced types of software. But they know how to operate cell phones, they know how to operate basic types of software, because everybody has them.”*

To that end, Instituto Palmas is presently developing in partnership with the Indian organisation Mahiti Infotech, a free software system for information management called OurBank designed specifically for microcredit institutions. This software will be crucial to the network of community banks in several ways.

Firstly, at the time being, all existing software operate on line, by exchanging information between branches and require an internet connection. OurBank, on the other hand will not require the community bank to have access to the internet.

For Instituto Palmas, creating banking products and delivering them to communities are intrinsically linked to technology, since, as per Asier: *“... technology is going to give us*

the ability to make the entire process more flexible, more user-friendly, more efficient, more adapted and, cheaper, in general. So, if we are able to use technology in the whole process of designing and implementing, executing, monitoring - any product, service or strategy that we use - we are going to have much bigger impact, it is going to be easier to manage and to replicate the model of community banks.”

It is not just the OurBank platform that has to be user-friendly, but also the procedures to create new products or to modulate the system without creating difficulties in the process. The environment where community banks are located may vary or may change quite rapidly. It, therefore, becomes imperative that the technology is quickly adaptable to new conditions, needs and regulations. The platform must be adapted to incorporate those changes while at the same time performing efficiently on a daily basis.

For Instituto Palmas, the cost efficient impact is as important as diminishing the geographic barriers between the excluded or recently included communities. For Asier, communities from all corners of Brazil will *“participate in the process of delivering or creating products, through crowd-funding or crowd-sourcing, and other things that we are going to be looking into. They will come up with new ideas and products, strategies which will support our actions to lobby for changes in public policies, in general”*.

Thus, by expanding the network through the OurBank software, the lobbying power of community banks, for influencing changes in public policies in their favour, will also increase. The huge impact that the institute desires to obtain is to jump over this barrier, and create a legal framework for community banks, as mentioned before. Such positive externality would be brought by the use of new technologies.

The OurBank platform software is therefore the first of its kind. Both Instituto Palmas and Mahiti Infotech are presently working a plan to create a research and innovation laboratory, where ideas and products can be developed in order to help the network of community banks expand and function more efficiently.

15. Conclusion: Whereto Palmas?

As they drive into Conjunto Palmeiras, Joaquim realizes that his feeling of pride in the progress that the community has made in the last 28 years never abates. Today, Conjunto Palmeiras has shed its *favela* status and is an urbanized city in its own right. With increasing local economic development, trade and business dealings outside the community have increased, thereby making the social currency Palmas less viable. Furthermore, local production for local consumption is no longer the community's main source of revenue. These are some of the issues which he wishes to discuss with Asier, the employees of Banco and Instituto Palmas and the other members of ASMOCONP.

As they reach the Banco Palmas head office, Joaquim warmly thanks Asier for the ride from the airport. He adds, *'Asier please set up a meeting for tomorrow. We need to discuss with everyone concerned the challenges that we are now facing in managing 78 community banks located in regions with different levels of economic development. The many partnerships which we have with local and international NGOs, universities and institutions. Most importantly, we need to discuss the future of the Palmas currency in this community.'*