



**UCLG**  
Committee

Social Inclusion  
Participatory Democracy  
and Human Rights

**Inclusive Cities  
Observatory**

## « BANCO PALMAS AND CONJUNTO LAS PALMEIRAS »

Fortaleza, Brazil

*Period of implementation: 1998 | Study case written in 2010*

**B**anco Palmas, Brazil's first community bank, has been conceived, created and managed by the Residents' Association in the neighbourhood of Palmeiras, on the outskirts of Fortaleza, a city in north-eastern Brazil. The main objective behind its creation was to foster economic and social development in the area, and it was based on a very simple idea: preventing resources and wealth from leaving the neighbourhood for other more affluent areas in the city and encouraging local production and consumption based on the logic of a solidarity-structured economy. Its own "credit card" and the local social currency (the "Palmas"), which circulate in the neighbourhood alongside the country's official currency, strengthen its internal economy and have been the key tools in making the project carried out by Banco Palmas something much more extensive than traditional microloan policies. Today, as well as the small shops in the neighbourhood which initially joined the project, it is also possible to see the sign "We accept Palmas" on public transport, and at service stations and butane gas distributors.



The **Inclusive Cities Observatory** was launched in 2008 by the UCLG Committee on Social Inclusion, Participatory Democracy and Human Rights with the aim of creating a space for analysis and reflection on local social inclusion policies. The initiative was developed with the scientific support of Professor Yves Cabannes (University College of London) and the Centre for Social Studies (CES) from the University of Coimbra. At present, the Observatory contains more than sixty study cases mostly developed between 2008 and 2010. Even though many of these cases refer to policies that have already come to an end, they still have much to offer: from capitalizing on the learning acquired by other local authorities to discovering suggestive and alternative means to address social inclusion challenges from a local perspective.

## Context

**Brazil** is a federal republic with a presidential system, consisting of a federal district and 26 states that are in turn subdivided into more than 5,500 municipalities. The Federal Constitution of 1988 has been the country's legal framework since the restoration of democracy after a period of military dictatorship (1964-1985). Direct elections for governors and parliamentarians are currently held at three levels: federal, state and municipal governments, which each have a four-year term. The Constitution, which is based on the principle of decentralization, sets out the responsibilities of each of the federated states and is responsible for a major change by transferring powers and resources to municipal governments.

The country has experienced a period of major economic development in recent years, with a reduction in extreme poverty, and health and education indicators markedly improving. However, Brazil is still facing serious problems to ensure that the entire population, which currently amounts to almost 200 million people, can have access to a universal range of high quality basic services.

The country's economic and social indicators must be analyzed at a regional level, as they often hide the huge and persistent disparities between the north and south. The southern and south-eastern regions continue to have a share of over 70% of the country's GDP (Gross Domestic Product), while in the north-eastern region it is barely 14% (Galeano; Mata 2008). The inequalities become clearer when the Human Development Index (HDI) is considered at a regional level. According to the Central Bank's estimates for 2007, the southern region had a rate of 0.850, while the north-eastern region did not exceed the average of 0.749.

At the same time, there has been a considerable increase in the quantity and quality of the instruments for popular participation implemented in the processes for formulation and monitoring of public policies, including deliberation councils, themed conferences, transparency portals, public policy observatories, and participatory budgeting.

**Fortaleza** is the capital of the north-eastern state of Ceará. With a land area of 313 km<sup>2</sup> and a population of more than two and a half million inhabitants, Fortaleza is today the country's fourth largest city. Part of this demographic concentration can be explained by the migration of large sections of the population from rural areas of the state to the city during periods of drought, in search of better living conditions in the capital.

Fortaleza is a coastal city with 34 km of beaches, in which the most important sources of income are trade and services. In recent years, tourism has been one of the most important driving forces in its economy.

The city suffers from the same problems as the country as a whole, such as a concentration of income and the existence of many high-risk areas (areas of precarious housing). In administrative terms, it is divided into six regional areas (*regionais*), which are areas covering several neighbourhoods with a similar structure to sub-prefectures in which the mayor appoints administrators, who have their own budgets and are responsible for structuring various basic services such as health, education, social welfare and infrastructure.

The **Conjunto las Palmeiras** is a neighbourhood in Fortaleza with more than 32,000 inhabitants. The Conjunto las Palmeiras was not established as an official district until 2007, and was a part of the large Jangurussu neighbourhood, and many social indicators for this specific area are not available that reason.

Most of the earliest residents of the Conjunto (in the 1970s) were people who had been evicted from other areas of the city due to government projects, or were immigrants from the inland area of the State seeking employment in the capital and who had to improvise their housing. As a result, residents lived in an extremely precarious manner and lacked access to basic services and infrastructure.

During the 1980s and 1990s, the residents of the Conjunto las Palmeiras carried out various campaigns and mobilisations to improve the structure of the neighbourhood. With the Conjunto las Palmeiras Residents' Association (Associação de Moradores do Conjunto Palmeiras – ASMOCONP) in the forefront, and by means of government investment and direct actions carried out by means of *mutiroes* (collective projects to help someone, as mutual aid or as a service to the community), the community managed to provide the Conjunto las Palmeiras with better living conditions, creating wastewater drainage networks, drainage channels, children's nurseries, and paved squares and streets.

The urban development of the neighbourhood led to the formalization of housing, which then entailed the requirement for fees and taxes to be paid. Because the local residents did not have the economic capacity to discount such a large proportion of their monthly expenses from their incomes, the residents began to sell their homes and moved into squatted properties or slums that had not yet been formalized, and therefore once again ended up living in the same conditions as before or in even worse conditions. Ironically, those who had participated throughout the struggle for improvements were now unable to benefit from them.

According to Melo (2003, p. 7), in a study carried out by the Residents' Association in 1997, “the poverty and hunger were devastating. 90% of the economically active population in the Conjunto las Palmeiras had a family income of below double the minimum wage (148 U.S. dollars), 80% were unemployed and it was impossible for small producers to work due to a lack of access to credit and no means of marketing their products. And as there were no places in the schools, around 1,200 children were hanging around the streets.”

The history of the neighbourhood since then has been one of struggle and resistance that has borne a great deal of fruit, including the creation of the famous and well-known “Banco Palmas.”

## Policy development

Banco Palmas is a community bank that operates on a collective and networked basis. As well as operating as a microloans system, the Bank also organizes various initiatives to promote consumption, production and local development. Banco Palmas, Brazil's first community bank, was created and has to-date been administered by the Conjunto las Palmeiras Residents' Association. The creation of its own “credit card” and a local social currency (the “Palmas”), which circulates in the neighbourhood alongside the country's official currency, has strengthened the internal economy and been valuable strategies in strengthening the initiative. Today, small businesses in the neighbourhood are not the only ones to display the “We accept Palmas” sign. It is also displayed on public transport, at service stations and by butane gas distributors.

Thanks to the support received from various international cooperation agencies and government bodies, the people's bank is still conducting a number of projects, including the Local Socio-Economic Forum, the “Women's Incubator” for small businesses for women, the People's Cooperation School, Solidarity Day, the Culture and Sport Solidarity Support Fund, and the Fringe Fashion Academy, among other initiatives related to the logic of socio-economic solidarity, in order to strengthen the local socio-productive chain.

Today, the Palmas Institute is responsible for the dissemination of techniques that have been created and supports the implementation of other community banks in Brazil and other countries, provided that these are based on the philosophy that it is possible to structure and coordinate the economy and democracy in a counter-hegemonic way.

## *Background*

The Conjunto las Palmeiras Residents' Association was established in the early 1980s. It is necessary to emphasize that the residents' organization included a large contingent of members of the Progressive Catholic Church who lived in the neighbourhood, and the priest at that time, João Joaquim de Melo, led the first projects that the Association carried out.

When it became apparent that residents were trying to avoid the responsibilities involved in the construction of the Palmeiras housing development, the association asked the neighbourhood the following question: "Why are we so poor?" The residents attempted to answer a complex question with a very simple answer: "because we have no money." At this point, a "Production and Consumption Map" was produced and a study carried out to find out everything that the population consumed or produced, and to analyze the places where they were traded. This map showed how much money there was, and all the consumption (food, clothing, toiletries and cleaning) that took place outside Las Palmeiras, that is, the money that left the neighbourhood to circulate in other, more prosperous, areas of the city. The conclusion drawn was that the cycle had to be ended in order to reduce poverty in the area and to generate jobs and income in the neighbourhood.

The people who participated in the creation of the Bank say that the idea came from within the community and its theoretical basis came from reading by the religious leaders and residents who were members of the cooperatives and liberation theology association (Banco Palmas, 2009). Although communications and exchanging experiences was very difficult at that stage, it is also possible to find parallels with the work done by the economist Muhammad Yunus in Bangladesh during the 1970s, with the creation of the Grameen Bank (the Village Bank), a people's bank that adopted the microloan as a socio-economic inclusion policy. However, there is no evidence or background that proves that the residents and leaders of Las Palmeiras had any contact with the written literature about Yunus at that time.

The first support came through international cooperation, from a foundation linked to the Municipality of Fortaleza that was geared to the professional development and generation of employment and income (PROFITEC) and a non-governmental organization in Fortaleza (Cearah Periferia) which contributed \$2,000 reais (equivalent to 834 euros) for the first loans.

All the resources had already been used up by the date of the inauguration ceremony, as they had been loaned to consumers and producers. At that point, the persistent work by the Bank's volunteers seeking confidence and support from financiers and mainly from local traders and producers began.

In the late 1990s, concepts associated with the solidarity economy were not yet well known in Brazil and there were great difficulties in obtaining a credit fund. A few months later, various agreements were signed with Oxfam and the Prorenda/GTZ project, but the biggest boost came from the collaboration with the Bank of Brazil through opening a line of credit.

The Banco Palmas has two credit lines - one in official currency and the other in the local social currency, Palmas. Purchasers using the social currency receive discounts from local traders, who in turn also benefit by increasing their customer "loyalty." Only member producers and traders can exchange the social currency for real money, as they need to make purchases (stock, raw

materials, etc.) and carry out economic transactions outside the neighbourhood, while consumers are encouraged to use the social currency in more than 240 establishments in the neighbourhood that accept the currency.

The innovation of the Banco Palmas lies in the integration of four different products:

1. Production loans (with no requirements in terms of collateral, level of income or assets);
2. Consumption loans (in the social currency). The granting of loans is only conditional on the approval of neighbours, who are consulted by the bank's loan officers. The campaign "Buying in the neighbourhood means more jobs" encourages applications for loans;
3. A banking services office (in the Banco Palmas the population can carry out banking operations such as payment of securities, receiving remittances from family members, opening a checking account, etc.); and
4. Considerable social control over the Bank's activities (exercised primarily by the Local Socio-Economic Forum).

The Association's work became more diversified as it created and organized activities for the training and empowerment of women and young people, such as the "Women's Incubator," a workshop prior to the university entrance examination, a fashion training and production space, the solidarity store and the solidarity day. These activities were carried out in collaboration with other cooperating partners of the Association and governmental and nongovernmental organizations. The Bank's funds are used to increase the Bank's capacity and to expand its lending activities. However, the good results it has achieved have led to the bank itself having a structuring role that has even been able to make the Association's other projects feasible.

### *Policy goals*

The Bank's broad objectives are to fight poverty in the Conjunto las Palmeiras and to reinforce a local solidarity network of sustainable production and consumption.

Over the first ten years, the Bank has worked on the idea of creating a network of "prosumers" to highlight the complementary relationship between producers and consumers. Today, it is possible to say that the concept and how to address it has been expanded, since the Bank introduced the proposal to "create a network of "prosumer-contributors" in which the residents are simultaneously producers, consumers and agents for social and citizens' change" (Brochure: "The economic inclusion projects by Brazil's first community bank" Mimeo).

### *Chronological development*

Since its formation as a wholly owned subsidiary of the Eldoret Municipal Council, ELDOWAS has been working hard to fulfill its mandate through pipeline network extensions and the inclusion of new consumers. It has also spent considerable resources rehabilitating the existing network to reduce transmission losses and developing new supply and treatment systems meant to ensure supply adequacy and improve service quality.

In its 12-year history, the Banco Palmas, which began with a "credit portfolio" of 2,000 reais and relied on voluntary work by some residents, has become a strong community bank that accounts for 1,000,000 reais and establishes or articulates various measures for local social development.



As a result of awareness-raising work in the neighbourhood for local consumption to become a means of avoiding the outflow of money to other areas in the city, the Bank made agreements and alliances that enabled it to expand its economic capacity. When it realized that in many cases granting credit would not solve the problems faced by many people who came to seek the Bank's help, but on the contrary might even make their situation worse, the Banco Palmas began to seek new partners to finance plans for qualifications and vocational training in cooperative incubators and the department of employment, which acted as an incentive for urban agriculture, etc.

In 2002, the Bank created the social currency of the Palmas in order to ensure the circulation of wealth in the neighbourhood. The residents can access the currency in the following ways: (1) receiving interest-free loans; (2) receiving their salary or other types of payments in Palmas and (3) exchanging reais for Palmas directly in the Bank.

In the next year, the Palmas Institute was established in order to disseminate "applied techniques" to help create new community banks in Brazil and other countries and to structure them in order to form a network. Today, the Banco Popular de Brasil, which is linked to the Bank of Brazil, has a credit line of 1,500,000 reais to guarantee the "financing" of the Banco Palmas and other community banks.

The Bank went through great difficulties in terms of its relationship with the formal economy. The Brazilian Central Bank inspected and supervised the Banco Palmas, threatened to close it and took legal action against the Association. Initially, agreements with official banks were unsuccessful, as they wanted the Banco Palmas to abandon its solidarity criteria when granting loans and to adopt official requirements such as proof of income and a "good reputation" in the debtors' records and lists.

These obstacles were overcome as a result of the Bank's growth in the community and the Banco Palmas signed agreements without changing its criteria. In 2009, the Central Bank also signed the terms of an agreement with the Ministry of Labour to produce the regulatory framework for community banks and social currencies.

The Banco Palmas now belongs to several Brazilian and international networks and forums, and devotes much of its efforts to fostering links between civil society and local governments to create and strengthen community banks.

### *Stakeholders, beneficiaries and participatory methodologies*

The main actors involved in the creation and consolidation of the Banco Palmas were the community leaders and residents of the neighbourhood, who organized themselves in the Residents' Association. Producers, service providers and consumers are the key components of this network, which has a wide range of partners related to international cooperation, universities and government bodies at all three levels (federal, state and municipal).

#### **Beneficiaries**

The main beneficiaries are the residents of the Conjunto las Palmeiras and the producers and providers of local services. Among residents, it is necessary to emphasize that priority has been given to women and young people in the community, especially in regards to professional qualifications. With the Palmas Institute acting as a promoter and raising awareness of these new socio-economic solidarity projects, the Bank's indirect beneficiaries also began to include residents of new communities or municipalities for whom help is being considered based on the creation of new community banks.

## Participation processes implemented

The Bank is managed through the Residents' Association, although there is also a small team that works directly at the Bank. In order to make reporting of accounts to the community easier, tools such as work sheets and simplified forms were created. The names of all those applying for a bank loan are disclosed publicly. As the residents are responsible for undertaking assessments when granting credit, in cases where bad faith in failure to make payments is verified, the names of the debtors are also published, despite the stipulations to the contrary of national legislation (the Consumer Protection and Defence Code).

The discussions take place in the Local Socioeconomic Forum (FECOL), which meets weekly and acts as a social auditor for the Bank. The Forum consists of traders, producers, consumers and representatives of various community organizations and public institutions (e.g. schools, daycare centres, health centres, etc.). The FECOL not only discusses issues related to the bank, but also issues that are of interest to the neighbourhood, such as violence, litter and cultural activities, among others.

### *Institutionalization and financing*

For many years, Banco Palmas has acted as the legal person for the Residents' Association, but now, after existing for 12 years and with the amount of resources that it is mobilizing, the time for change has come, and for its own management and registration, according to the assessment of its members (Palmas 2009, p.16).

Today, the official bodies of the economic system are debating how to regulate community projects for economic inclusion in various participatory forums and a draft bill is being considered to establish the legal framework for community banks and social currencies in the National Congress.

The list of partners and institutions that finance the Bank is quite extensive, and includes aid from international cooperation and from companies and organizations at the three levels of government (federal, state and municipal).

The Bank has no economic losses since, among other factors, breach of payments does not exceed 3%. By its nature, the bank does not appropriate profits and reinvests its surpluses in new loans for the community. Its funds are allocated to other Residents' Association projects.

## Outcomes and reflections

### *Key results and achievements*

The key results and achievements are:

- Awareness-raising among residents, traders and producers to cultivate consciousness of solidarity and the importance of strengthening the local economy;
- An increase in the positive perception of a neighbourhood that had previously been identified only in terms of violence and poverty, which improves residents' self-esteem and encourages the strengthening of the network;
- Creation of "internal savings" within the community, as the local network prevents the outflow of resources and wealth from the community;

- The creation of local businesses such as “PalmaFashion” (fashion and clothing), “Palmart” (crafts), “PalmaLimpe” (cleaning materials) and, recently “PalmaTur” (tourism), thereby generating more jobs and income at the local level;
- Qualifications and vocational training for women and young people in the community;
- The creation of the solidarity store and the solidarity day, and their availability to the community as marketing opportunities for local products;
- Training of community advisers by means of various economic solidarity courses to ensure the training of Banco Palmas' future employees and volunteers, and training of qualified individuals to provide advice to small-scale local entrepreneurs; and
- Dissemination of the Banco Palmas techniques and support for the creation of new community banks working towards socioeconomic development and solidarity through the Palmas Institute.

In order to expand its results locally and to encourage the creation of new banks, Banco Palmas is preparing to overcome its limitations and challenges by:

- Finding new mechanisms to cultivate an awareness of solidarity and foster an appreciation of local products among neighbours and residents, in order to alleviate the impact of today's prevailing consumer logic;
- Improving its organization of management and accounting;
- Expanding its product portfolio to make a reduction in interest rates possible;
- Providing access to technology for businesses supported by the bank as they are working within a traditional or semi-traditional system, which places them at a disadvantage compared to others in the market;
- Finding new mechanisms to alleviate the problem of security in community banks;
- Expanding the range of public policies that foster the solidarity economy; and

Constantly improving the bank's social control mechanisms.

### *Overall assessment and replicability*

Banco Palmas has become a successful experience that has now achieved local, national and international recognition, as can be seen by the fact that it has received several important prizes and its current role within the Solidarity Economy.

The Bank's greatest weakness remains the need to strengthen local production, since small-scale entrepreneurs in local businesses face competition from large companies and their industrialized products coming into the neighbourhood at more affordable prices. This is not so marked in the trade and services areas, where the levels of development in the community are more satisfactory.

The Bank has demonstrated its ability to reinforce a local network of producers and consumers that has a positive impact on the population's quality of life.

The Bank's change of perspective has focused on the perception of the residents as consumers/producers, which has today expanded the viewpoint of social actors (i.e. the change



in the term *prosumer* to *prosumer-contributors*), and the prospect of adding the idea of using another development indicator - replacing GDP (Gross Domestic Product) with the GNH (Gross National Happiness) - taking other aspects as well as the economic aspect into consideration. These factors seem to highlight a trend for the Banco Palmas to extend its social emancipation work.

Expanding the number of experiments carried out by community banks is a positive step. However, they must be taken carefully, so that distortions do not occur and so that these bodies do not end up becoming mere microloan institutions. The community's active participation, ongoing discussion about the possibility of sustainable consumption and fair trade, and the presence of the principle of solidarity in relationships between actors and social control are key points in maintaining differentiation and innovation in the methodology used.

### **Replicability or adaptation of policy elsewhere**

The experience of Banco Palmas has already demonstrated its potential as a benchmark for the creation of new community banks. Several of the more than 50 community banks that have been recently established in Brazil have received support through the Palmas Institute or have asked for advice during the process of establishment. The aim of the Network of Community Banks is to create 5,000 banks in the next 10 years. Dissemination of the idea is therefore among its priorities.

According to the institution's material (Palmas 2009, p. 23), the following are required to establish a community bank: a) a community organisation in the area capable of running the bank; b) premises with a computer and Internet connection; c) two people working full-time; d) financial resources that provide an initial support for the social currency of around \$3,000 reais (approximately 1,250 euros) as well as \$30,000 reais (12,500 euros) in resources for production loans.

Magalhães (2010) explains that the relationship between civil society and public power is essential, and that, practically, it is the condition that creates the opportunity in a small or medium-sized city, with the Municipality being the main economic agent in most of cases. He also cites two examples of successful new banks due to collaboration between civil society and public authorities. The first example is in the city of São João do Arraial, in Piauí, when part of the employees' salaries are paid in social currency payment through the community bank, the Banco dos Cocais. The second example is in Silva Jardim, in the state of Rio de Janeiro, where a municipal solidarity economy law was passed and the City Council funded the initial project to put 50,000 Capivaris, the area's social currency, into circulation.

It is therefore possible to replicate the project in different contexts. The structure of the social fabric and the commitment of local public authorities can undoubtedly guarantee this kind of project to a greater or lesser extent.

## **Further information**

This case study was researched and written by Neira de Moraes under the supervision of Dr. Stefania Barca in 2010. They both work at the Social Studies Centre at the University of Coimbra, Portugal.

### **UCLG Committee on Social Inclusion, Participatory Democracy and Human Rights**

Website: <https://www.uclg-cisd.org/>

Contact information: [cisd1@uclg.org](mailto:cisd1@uclg.org) | +34 933 42 87 70

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### Interview

Sandra Magalhães, at the offices of Banco Palmas in Fortaleza, Brazil, 29 December 2010.