

# Innovative Finance Inclusion

## Banco Palmas

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## Abstract

In the '70s, Brazil was facing a military dictatorship. The Government installed a national policy to increase the infrastructure of the states' capitals to increase tourism. In 1973 the gentrification started in Fortaleza City, where more than 1500 inhabitants, mostly fishers and their families, were displaced from their houses on the beachfront to open space to build Beira Mar Avenue, the main avenue in the city, considered after that the most expensive place to live (Palmas Bank, 2018, p.2).

These people were designated to live in another place twenty kilometers far from the beach, which disabled most of them from continuing working as fishers. When they arrived in the new designated area, there was nothing more than mud. Without any infrastructure and help from the Government, they started to build the Conjunto Palmeiras. In 1981 they organized the association called ASMOCONP - Associação dos Moradores do Conjunto Palmeiras (Association of the residents of Palmeiras Neighborhood). Concerned about the lack of interest of the Government in implementing basically public policies, they organized seminars called "Inhabiting the uninhabitable: income generation and local development in Conjunto Palmeiras" not just to raise local needs and join forces before the Government but to discuss why they were poor and what could be done to reverse this situation in practice. In this process, in 1991, came the first map of income and consumption habits of those who lived in the region. In 1997, on the second edition of the seminar, the association celebrated the infrastructural achievements and turned its attention to the fact that most of the residents of the favela were unemployed, the infrastructure brought new bills like water and electricity, and most of the children were not in the school (JAYO, CALDAS, 2013, p. 49).

As a result of those seminars, in 1998 was created the Palmas Bank, a community bank. It is focused on fighting poverty in its community and improving local development by principles of *solidarity socio-economy*.

This Case Study paper aims to study some key micro-finance concepts through the concrete study case of the Palmas Bank. The research undertaken for this paper is essentially qualitative and descriptive since the data collected were from documents realized by the institution itself, books, articles, and documentaries. We divided the paper into "The Organization" and "Specific Area of Interest". In the first topic, we split it into the background, how the organization works, and its goals. For the second one, we divided it into the scope of activities, uniqueness, relevance, innovation, and success points. Besides the sources, we also highlighted some public visibility in the references.

### Keywords:

Micro-Finance, Micro-Credit, Community Bank, System of Credit; Local Economy; Social Vulnerability.



# 1 The Organization

## 1.1 Background

In the '70s, a group of fishermen from Fortaleza were displaced from where they had lived their whole life and sent to a place far from the sea. In this new area, a poor community called Conjunto Palmeiras, they had no help from the local Government or even could work. As a consequence of the total abandonment, they decided to create a neighborhood's Association, to manage the construction of houses and implement some basic infrastructure. However, even building an entire community, they faced a high rate of unemployment that led to a high level of violence in the region. Thus, they organized a meeting to tackle social issues within the community. They had the help of the local priest, João Joaquim de Melo, who, with other members of the association, carried out a survey to track the production and consumption. It was named "Production and Consumption Map" and showed that they had money. The data collected showed that people from the community preferred to spend their money on other city regions instead of fostering local production. Therefore, with the result of the survey, they realized that it was necessary for a local mindset change, where people needed to spend their money inside the community, buying locally, and would make the local economy grow. Consequently, to help local producers, the Association created the Palmas Bank (Banco Palmas), raised 2000 reais (around 300 euros) to provide the first 10 loans as a credit portfolio, and created their local currency, "Palmas". The idea was to use Palmas to increase the consumption locally, increasing the *fidelity* between customer and business. Furthermore, those who decide to pay with Palmas would get discounted products.

## 1.2 How Palmas Bank works

The creation of the Palmas Bank was guided by principles of *solidarity socio-economy* from Paul Singer and liberation theology. Under this theory, the Community Banks are solidarity, networked, associative, and community-based financial services aimed at generating work and income to reorganize local economies. In this sense, one of the main goals of Palmas Bank was to develop the local community where the community shares the decision-making process. Moreover, the main activities of the Bank are Production loans (to foster local business) and Consumption loans (to improve internal transactions in the neighborhood, using the local currency). These loans are only granted after the approval of a local committee where an officer from the Bank checks the candidate's reputation to see if this person is trusted. Besides that, the interest rate is below 5%, and there is a *social control* where the whole community is notified about the defaulting client. Consequently, If the local



committee verifies that this person is acting in good faith trying to renegotiate the debt, the bank offers help to plan the payment or another loan.

Source: <https://www.institutobancopalmas.org/o-que-e-um-banco-comunitario/>

### 1.3 Goals

Since its creation in 1998, the Palmas Bank goals were related with end poverty, gender equality and education, which are some of the goals from the 2030 Agenda for Sustainable Development Goals (SDGs) adopted by the UN in 2015. By creating their own currency, they were able to keep the money running inside the community. Allied with their bank services they were able to focus on local development as their final goal with the bank.

- **End poverty:** The Palmas Bank was focused on fighting poverty in its community and improving local development. After the consolidation of Palmas as a local currency, the Bank also started to expand its purposes to other SDGs.
- **Gender equality:** As most entrepreneurs in the Conjunto Palmeiras were women, the Palmas Bank created a program called "women's incubator" with courses for sustainable production and collaborations with NGOs and other institutions to connect those women. In the words of João Joaquim de Melo: *hybridization of the economies* is a work of communicating solidarity economy with capitalist economics (Palmas, 2014, min: 15:53).
- **Education:** the creation of the Institute Palmas Bank where students could access the internet and attend extra courses such as English or prepare them for the exams to enter the University (vestibular). The Institute is also responsible for sharing its methodology to implement other CDBs across Brazil, with around 52 initiatives already in the country.

The most important to highlight here is not their many initiatives related to SGDs, but how they balance solidarity economy and capitalist economy towards sustainable finances that could provide them with the local engagement and capital to run all these initiatives.



## 2 Specific Area of Interest

### 2.1 Scope of activity

- **Units:** 113 community banks, using Palmas' Bank methodology.
- **Geographic distribution:** All regions in 20 states and 90 municipalities in Brazil.
- **Customers:** People in social vulnerability, in particular including (but not limited to) women, youth, traders, entrepreneurs, etc.
- **Operations:** From 2011 to 2018, 14 million reais were lent to 5,600 enterprises, 84% of the were women (Palmas, 2018).

### 2.2 Uniqueness, relevance, and innovation

- **Uniqueness:** They define itself as "more than a bank: it is an integrated system of credit, production, trade, consumption and human happiness". Instead of using the Gross domestic product (GDP) as an index, they use Gross National Happiness. The Government of Bhutan created this index to measure the wellbeing of its population. This is only possible through their own currency (Palmas) created to keep the money running within the community.
- **Relevance:** It focuses on reorganizing the local economy in a sustainable and long-term way to overcome urban and rural poverty, promoting responsible economic development from consumption to production, creating work projects, and generating income. It has also been working on youth and women's empowerment through professional training projects, microcredit lines, new collective business, and women "incubators" workshops. They balance solidarity economy and capitalist economy towards sustainable finances that could provide them with the local engagement and capital to run all these initiatives (Palmas Website).
- **Innovation:** The combination of 04 products working integrated and simultaneous in the community: I) credit for the production; II) credit for the consumption (in the social currency money); III) bank correspondent; IV) strong social control about the bank activities.

### 2.3 Success points

- Wide range of banking, financial, and microcredit services and products.
- Creation of a "local currency" called "social currency" available to spend and invest only in the community.
- Strong resilience and adaptation regarding new technologies, such as the creation of the E-Dinheiro (the electronic money from the Palma Bank).



- National and International Partnerships to share the methodology with other communities and improve the local development.
- Reduce the level of violence in the Conjunto Palmas;
- Low-level of default, around 1% to 3%.





### 3 References

#### 3.1 Public visibility (awards, recognition, media publicity, and/or marketing)

- 2005/2008: the Bank of Brazil Foundation's Social Technology Award (FINEP).
- 2008: the Millennium Development Goals Award – Brazil. United Nations Development Program (UNDP).
- 2011: Technical Note PGBC 387/2011, from the Brazilian Central Bank (Bacen). This document formally recognises social currencies like the Palmas as an essential instrument for fostering financial inclusion.
- 2013: International Association of Economic and Social Councils and Similar Institutions (Aicesis) MDG Awards.

(Source: CERNEV; DINIZ, 2020)

#### 3.2 Links to website(s) and social media

<http://www.institutobancopalmas.org>;

<https://www.facebook.com/BancoPalmas>

#### 3.3 References

CERNEV, Adrian Kemmer; DINIZ, Eduardo Herinque. *Palmas to E-Dinheiro! Clapping the Digital Evolution of a Local Social Currency*. Revista de Administração Contemporânea, 24 (5), Sep-Oct 2020. Available at <https://www.scielo.br/j/rac/a/n3TkXYtmk8kqRBXvr dxSp9c/?lang=en>>. Last access: April 2022.

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SILVA, Ana Beatriz Gomez. *Banco Palmas: uma alternativa de inclusão financeira*. Monografia. Repositório UNESP, São Paulo, 2017. Available at: <<https://repositorio.unesp.br/bitstream/handle/11449/156412/000897553.pdf?sequence=1&isAllowed=y>>. Last access: April 2022.

Committee on Social Inclusion, Participatory Democracy and Human Rights (UCLG). *Banco Palmas and conjunto las Palmeiras*. 2010. Available at: <[https://www.uclg-cisd.org/sites/default/files/observatory/files/2021-06/Fortaleza\\_EN.pdf](https://www.uclg-cisd.org/sites/default/files/observatory/files/2021-06/Fortaleza_EN.pdf)>. Last access: April 2022.

Further reading:

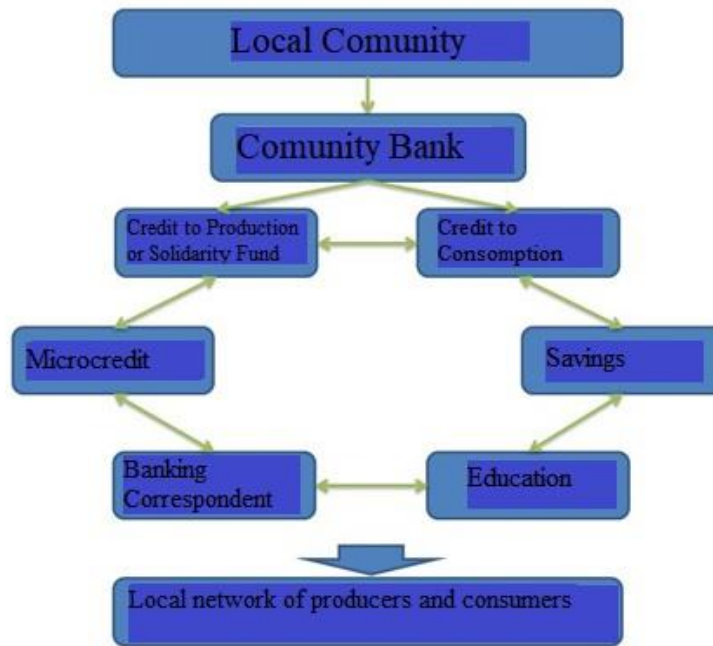
POZZEBON, Marlei; CHRISTOPOULOS, Tania Pereira; PEERALY, Jahan Ara; SALDANHA, Fabio Prado. *The expansion of community banks in Brazil: discovering Palmas' methodology*. GV Casos. Vol. 4, no. 2 Jul/Dez 2014. Available at: <<https://base.socioeco.org/docs/14676-69466-1-pb.pdf>>. Last access: April 2022.





## Appendix

### 3.4 Appendix1: How does Banco Palmas work?





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