

Banco do Brasil promotes Community Development Banks for the poorest

Banco do Brasil has the highly important commitment to contribute to the economic development of Brazil's various regions. Along this line, it has been working since 2005 with Instituto Palmas on preparing methodology to create Community Development Banks.

Brazil's experience with Community Development Banks dates back to 1998, when Banco Palmas was established in Palmeiras, a poor neighborhood on the outskirts of Fortaleza, the capital of Ceará State, located in the northeastern part of the country.

Starting in 2003, this experience was transmitted to other cities in Ceará and to other Brazilian states, attracting the attention of the Ministry of Labor and Employment's National Secretariat for Economic Solidarity, which, among its solidarity financing strategies, establishes alliances with the Banco Palmas Institute to help consolidate the Community Banks methodology.

The spread of this experience to other states led to the creation of the Brazilian Community Banks Network. In 2006, Banco do Brasil, through its subsidiary Banco Popular do Brasil, became a member of the Network, in keeping with the criteria of the National Program for Targeted Productive



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Microcredit (PNMPO), in other words, of credit lines for Community Banks.

COMMUNITY BANK PURPOSES AND AIMS

Community Banks are integrated financial systems that support production chains in impoverished communities situated on the outskirts of large cities or in rural areas, agrarian reform settlements, and indigenous communities.

The basic characteristics of Community Banks are the following: (1) Management by the community itself, including the coordination and administration of financial

and human resources; (2) Establishment of an integrated local trade system by stimulating production, marketing and training simultaneously; (3) Creation of a social currency, known as local currency, accepted only for commercial transactions within the community itself, being recognized and valued by local producers, merchants and consumers, and thus creating a solidary and alternative market among families; and (4) Supply of targeted productive microcredit, banking products and services, thus encouraging financial inclusion by the population at the base of the

pyramid, without any need for people to travel to the large urban centers.

The main objective of a Community Bank is to produce income in highly impoverished communities with heavy unemployment, by stimulating the creation of solidarity networks between producers and consumers in such a way that the wealth produced is invested in the community itself through the granting of microcredits to promote the production of small and micro entrepreneurs and of consumption microcredits for low-income population sectors, thereby energizing the local economy.

Social currency is used to incentivize local production and trade. It is backed by national currency --in other words, for each unit of social currency that is issued, the Community Bank holds one unit of national currency. The difference lies in the fact that social currency is accepted for commercial transactions within the community. Several promotional and discount measures have been worked out to encourage its use, such as the fact that a unit of social currency buys more than one unit of local currency, making it more competitive. This competitive differential in relation to local currency favors the circulation of the wealth that has been generated within the community itself, expanding local commercial power, increasing the wealth in circulation and creating jobs and income.

Producers wishing to buy something that is not available in the community can exchange specific sums of social currency for national currency in the Community Bank. This premise

is grounded in the belief that any community, city or country needs to interact with other economies in order to develop. With the acceptance of the exchange of social currency for national currency, local entrepreneurs are able to bring in from outside the technologies, inputs, equipment and other basic services they need for their undertakings.

The value to the community of social currency lies not so much in its intrinsic value, but in its capacity to produce goods, services and know-how, allowing citizens excluded from conventional market dynamics to trade their goods, know-how, services, labor and culture.

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Social currency methodology generates a virtuous circle, inasmuch as the entrepreneur pays his or her employees in social currency, which covers more than just the cost of their basic consumption needs in the local market --in other words, food, clothing and health products. The seller, who is paid in social currency, then uses it to pay his or her light and water bills in the Community Bank, which puts it back into circulation in the form of new loans, and so on successively.

The creation of small, new local production units or the expansion of existing ones, motivated by the ease of access to microcredit, together with the boosting of economic activities through associations and cooperatives, result in more jobs and income. With its alliance with Banco Palmas, entered into in order to extend its radius of action to the lower-income segment and thus contribute to sustainable local communities, Banco do Brasil adopted a strategy to expand Community Banks and to reinforce the circulation of social currency in communities excluded from traditional market dynamics.

Based on Instituto Palmas' innovative experience, 34 Community Banks have already been set up, with Banco de Brasil's participation, in lower-income communities in the States of Ceará, Maranhão, Paraíba, Piauí, Pará and Sao Paulo. Banco do Brasil develops and offers through the Community Banks, financial products and services designed to meet the financial needs of this population segment, like simplified checking accounts, life insurance, payment of National Social Security Institute (INSS) beneficiaries, and payment of water, light, telephone and tax bills, etc.

METHODOLOGY FOR ESTABLISHING COMMUNITY BANKS

Banco do Brasil is involved in financing the establishment of Community Development Banks in the various regions of the country that fulfill the necessary minimum conditions for adoption of the methodology. This methodology is divided into two parts, the first targeting the establishment, and the second the consolidation of those Banks.

ESTABLISHMENT OF COMMUNITY BANKS

Community banks are established in a three-phase process, which differs according to the level of organization and local capacities existing in each territory. These phases are generally the following:

a) Identification: the phase in which studies and diagnoses are conducted and visits made to the site to verify the existence of the necessary conditions for the Bank's establishment. The following aspects are examined:

- (1) presence of a local actor from civil society interested in performing and directing the Bank's activities;
- (2) commitment of the local government, university and private initiative to support the Bank's establishment;
- (3) existence of local production groups; and
- (4) existence of an installed telephone network in the municipality/neighborhood (necessary for the operation of electronic banking).

b) Preparation: sensitizing the population, producers and merchants in the municipality/neighborhood/territory to the bank's operation and training credit agents and managers through the following stages:

- (1) Meetings with the prefecture, community and other local actors to find out about their expectations, negotiate support and define the contribution of each one to the creation of the Community Bank;
- (2) Consciousness-raising campaign with government and community experts. At that time, ideas about local development and economic solidarity are addressed and the stage of development reached by the Conjunto Palmeira community through its experience with Banco

Palmas and banks belonging to the Community Banks Network are presented as examples of successful cases;

(3) Economic solidarity courses (ABCs of Economic Solidarity) to inform the population about how to collectively organize local producers' and consumers' networks by coordinating production chains and creating economic solidarity instruments (fairs, local currency, etc.). During the course, students will carry out a practical exercise that will conclude with the mapping of local production and consumption; and

(4) Course for credit agents and managers to train community members who are going to act as credit agents and managers.

c) Establishment: after the sensitizing and training process, practical preparations will be started for the Community Bank's operation, emphasizing:

- (1) Planning of the Community Bank with a view to deciding upon its operation, name, products, management, partners and other matters;
- (2) Community Bank staff training and creation of the management instruments (forms, registration cards, determination of the interest policy, collateral system, credit analysis and other matters);
- (3) Preparation, jointly with official federal, state and municipal bodies, of the necessary documentation for the Bank's registration;
- (4) Opening of the checking account, registration in the files, signing of agreements;
- (5) Preparation and publication of graphic materials about the Community Bank and the local social currency;
- (6) Printing of the social currency; and
- (7) Inauguration of the Community Bank and advisory assistance to the management staff.

The establishment of a Community Bank depends upon the involvement of several actors working together to achieve the synergistic relationship necessary for the success of the undertaking.

CONSOLIDATION OF COMMUNITY BANKS

a) Strengthening: The consolidation of Community Banks is just as important as their establishment and inauguration. Their strengthening is fundamental and experience has shown that this will take more or less 24 months to achieve. After that, the Banks are able to overcome the initial difficulties that emerged during the process. Strengthening efforts are conducted both internally and externally:

- (1) Improvement of management relations and training of the local team through upgrading;
- (2) Opening of a local economic forum by creating spaces for exchanges among producers, entrepreneurs, local organizations and consumers; and
- (3) Strengthening of relations with the local government in an effort to obtain better conditions for the Community Bank's successful operation.

b) Sustainability: the final phase demands the observation of a series of desired elements that will demonstrate the viability and sustainability of the undertaking. Important among these are financial management

indicators, like default and profitability ratios. Maintaining the community's commitment to the Community Bank is also a key element that is essential for the project's sustainability.

All of these phases are carried out within the concept of economic solidarity. Their collective ownership and the broad social control over their actions set Community Banks apart from other initiatives in the area of access to microfinance. That characteristic helps empower communities, which assume the role of workers of the changes, in an effort to reduce social inequalities through associative and cooperative practices, the creation of economic wealth and the valuing of the local environment.

Alternatives like fairs and street markets are adopted for the marketing of products, in alliance with social and local movements. These facilitate the establishment of direct relations between producers and consumers in the search for collective ways to sell products produced by families with a view to increasing the people's purchasing power and making it possible to sell more products.

In addition, Community Banks offer financial education courses and encourage environmentally correct practices and the rational and sustainable use of natural resources. The concern is not limited to credit recipients or to some specific production segment with no strategic and systemic importance within the diversity that constitutes the social fabric in the territory. It is the responsibility of the community to build local networks that incorporate producers, merchants and the inhabitants, in order to make

DIRECT AND INDIRECT BENEFICIARIES

The main beneficiaries of Community Banks are the inhabitants of the communities where they are established. These are families with low levels of schooling and few skills, generally the beneficiaries of government income distribution programs, that make their living from providing minor services and that have problems in obtaining regular incomes. Generally speaking, they do not participate in the traditional financial system either because there is no bank branch nearby or because they do not have the required documents to open a checking account.

As correspondent banks of Banco do Brasil, Community Banks make it possible to bring these people into the banking system and to deburocratize access to credit by removing the need for formal guarantees or the checking of real estate records.

In that role, they provide banking services like account opening, payment of water, electricity, telephone and tax bills, and credit operations, among others, for which they are paid by the Banco de Brasil, thus guaranteeing them an income for their operation and sustainability. Not only the credit recipients, but also the entire community benefits, inasmuch as Community Banks, based on economic solidarity principles, promote the creation of local networks in the areas of production, marketing and finance, and the training of the community itself, thus

optimum use of available resources and minimize the environmental impact.

RELATIONSHIP WITH STRATEGIC PARTNERS

The establishment of a Community Bank depends upon the involvement of several actors working together to achieve the synergistic relationship necessary for the



contributing to the fight against poverty and violence.

Also to be stressed is the capacity of the community itself to mobilize for the establishment of a Community Bank, by collaborating in the coordination of the different social actors in the region. This effort contributes directly to the organization process and commits the community, stimulating the feeling of belonging and of social inclusion.

As a result, the benefits go beyond the possibility of access to credit and to banking services, inasmuch as boosting the local economy results in development, the attraction of new undertakings that offer possibilities for jobs and income, and an improvement in the supply of public services like sanitation, education, health, transportation and security.

In addition, local development engendered by economic solidarity, with the identification, valuing and strengthening of the community's know-how, creativity and productive potential, produces a cooperative, solidary force capable of improving conditions by building up the self-esteem and bettering the quality of life of the people committed to the process.

success of the undertaking. Some alliances are common to and constant in almost all projects, while others have local features, as explained below.

Local Promoter Institution: local organization willing to promote the Community Bank and to be responsible for the performance of the bank's activities. It is normally



made up of Community organizations, Community Councils or Forums specifically created for that purpose.

Government: all Community Banks established in the country are directly concerned with public policies, considering the local promoters' understanding of the social usefulness of the undertaking. In this sense, many Community Banks operate within the physical premises of municipal prefectures, which also contribute funds for loans and share the cost of their operation. At the federal level, the Ministry of Labor and Employment's National Secretariat for Economic Solidarity has been instrumental in promoting the spread of Community Banks.

Banco do Brasil: In addition to providing microcredit lines through its various units at the national, state and local levels, Banco do Brasil participates in this process via a series of actions like the following:

- (1) Presence of qualified officials in all of the states, in the areas of social relationships, teaching, economic solidarity, finance and management, as well as in the administrative, banking and computer areas;
- (2) Organization of simplified analysis methodology for determining the credit limits of member institutions either autonomously or through the Community Bank network;
- (3) Establishment of relations with social networks and with the local partners wherever the Community Bank is organized;
- (4) Support for production and consumption mapping;
- (5) Encouragement of local actors to take part in setting up Community Banks;
- (6) Responsibility for the logistics



Fight the poverty is the goal.

of installing computers, printers, POS terminals (computer terminals interconnected with a center computer) and other devices needed for the banking operations of Community Banks;

- (7) Training of the project's technical teams and local partners through national, state and local offices;
- (8) Management and coaching of operations in the states and monitoring of the default rate using analysis, collection and control systems;
- (9) Coaching of each Community Bank's management processes; and
- (10) Provision of financial consulting and administrative and accounting processing services in an effort to establish the necessary systems, so that the Banks can develop efficiently and in a coordinated way.

Local trade: In order to make local development processes viable through the circulation of social currency, it is essential to get local merchants involved in the system. Once strategic merchants, like gas stations, collective transportation companies, pharmacies, restaurants and supermarkets start accepting payment for their goods and services in social currency, smaller establishments will feel more secure about joining the system.

Universities, National and International Cooperation Institutions and NGOs: In order for consumers to buy their goods and services in the community itself, these must be competitive; otherwise, they will go to the large centers for their purchases. In addition to the attractiveness of social currency, the quality of the goods must meet the consumers' expectations. Here, it is important for strategic alliances to be signed with institutions equipped to offer training in new production, management, marketing, design and other techniques and technologies.

Another element of key importance for the efficient operation of Community Banks, in addition to alliances, is the participation in and commitment of communities to their establishment and consolidation.

FINAL CONSIDERATIONS

Community Banks, by simultaneously coordinating production, marketing, financing and the people's training, play a key role in promoting local development and community organization. Their debureaucratized establishment and direction by the communities themselves give these Banks the necessary legitimacy and responsiveness to meet the financing needs of the poorest people, at interest rates and with credit analyses this population segment is able to handle.

Belief in the creative and entrepreneurial potential that exists at the base of the population pyramid and in the people's ethical values lead Community Banks to assume the risks of investing in this low-income segment and to build economic solidarity

networks that operate using alternative currencies and solidarity mechanisms that challenge the competitiveness and individualism of the traditional market.

Banco do Brasil, sharing the same beliefs as Community Banks, believes in the creative potential of the market at the base of the pyramid and, in line with the Federal Government's aim of incentivizing the financial inclusion of the informal and lower-income Brazilian population, extended its efforts to the field of microcredit and microfinance. Furthermore, by acting jointly in an alliance with Community Banks through Banco Popular do Brasil, it gives these people an opportunity to become a part of the country's financial system.

In addition to financial inclusion and promotion of the local economy, several development programs have reached the pockets of poverty with concrete proposals for producing income and building citizenship through alliances signed between Community Banks and governmental, non-governmental and multilateral organizations.

Establishing a Community Bank requires raising funds for the following purposes:

- **Promotion:** mobilizing the community, training the inhabitants and the bank promoters, creating management instruments, and providing credit agents with resources for the Bank's first year of operation.
- **Local infrastructure:** hall, computers, furnishings and equipment, Internet, etc.
- **Credit:** initial funds to promote production and consumer credit.

IMPROVEMENTS NOTED IN COMMUNITY LIVING CONDITIONS

An investigation made by the Federal University of Ceará in the Palmeiras neighborhood 10 years after Banco Palmas entered into operation, identified the following results: (1) 25% of the inhabitants declared that their income had risen; (2) 23% of the inhabitants were able to start a business; (3) 25% of the merchants increased their sales; and (4) 90% of the population considers that their quality of life improved.

The funds facilitated by Community Banks, combined with promotional action and the improvement of local conditions in the communities served, by stimulating the opening of small businesses and the expansion of existing ones, helped create income generating circuits.

From Banco do Brasil's standpoint, the results of its efforts in the establishment and maintenance of Community Banks, in alliance with the other actors involved in the process, are the following: (1) 36 Community Banks are in operation; (2) 25 municipalities have been committed; (3) 6 Brazilian states are involved; (4) over 5 million people have been served; (5) R\$3 million from the National Targeted Production Microcredit Program have been disbursed in loans; (6) credit totaling R\$1.9 million has been granted to the people; and (7) the default rate is below 3%.



- **Local promoter institution:** local organization appointed as the Bank's promoter. Furthermore, the successful establishment of a new Community Bank using the methodology explained above requires the following: (1) The community itself must decide to establish the Bank and to become its promoter; (2) The Bank must always operate with two credit lines: one in national currency and the other in social currency; (3) It must finance local production and consumption by promoting the territory's internal development; (4) In its marketing strategies, it must promote undertakings through fairs, solidary businesses, and a marketing center, among other things, encouraging the formation of networks of local producers and consumers; (5) It must operate in territories where the hallmarks are high levels of financial exclusion and social inequality; (6) It must target a public whose distinguishing features is a marked social vulnerability and consisting above all of the beneficiaries of governmental social income distribution programs and compensatory policies; and (7) Its financial sustainability in the medium term must depend upon obtaining subsidies justified by the social utility of its practices.

Even so, the alliance of Community Banks with Banco do Brasil produces income for their operation, inasmuch as they are paid for providing financial services and for their productive microcredit operations. The monthly income received guarantees the Community Bank's sustainability and constitutes an important source of funds that can be applied to developing the local economy. ■

