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Solidarity Finance and Public Policy:

The Brazilian experience of community development banks

Augusto Câmara Neiva,
Juliana Braz,
Diogo Jamra Tsukumo,
Center for Solidarity Economy at University of São Paulo
Joaquim Melo,
Instituto Banco Palmas

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NGLS, Palais des Nations
1211 Geneva 10, Switzerland

Tel: +41 (0)22 9172076
ngls@unctad.org
www.un-ngls.org

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Solidarity Finance and Public Policy: the Brazilian experience of community development banks

Augusto Câmara Neiva[i]
Juliana Braz[ii]
Joaquim Melo[iii]
Diogo Jamra Tsukumo[iv]
Translated by Asier Ansorena[v]

Introduction

This article attempts to approach the development process of solidarity finance public policy in Brazil, starting from the end of the 90's. We will start with a brief historical account of the birth of grassroots movements during the military dictatorship, in 70's and 80's, and its importance in the return of democracy in Brazil. Together with the historical account, we will also enumerate the economic changes and the entering of Brazil within the process of economic globalization, as well as the resurgence of cooperative ideas and initiatives of the solidarity economy. Within in the field of solidarity finance it is necessary to establish a link with the increase of incentive policies to support microcredit. In contrast to other Asian and Latin American countries where such experiences took place during the 70's, in Brazil it only saw visible growth in the 90's both with the creation of microcredit organizations as well as the dissemination of government programs. Thus, this text presents the context by which solidarity economy initiatives grew stronger and its interface with the institutional environment created by the microcredit and financial inclusion agenda. It is important to highlight, that this paper does not aim to analyze municipal or state level public policy, in spite of their relevance in strengthening the solidarity economy and microcredit initiatives. Federal Government actions will be the focus of our analysis with the showcasing of changes encouraged within legislation as well as within the political and institutional environment at the Central Bank of Brazil and at Public Federal Banks. Furthermore, this paper will attempt a more in depth presentation of the community development bank (CDB) experience and the use of social currency. Also, we present the difference between CBD and the traditional microfinance and moreover how this experience has linked itself to different government policies and its challenges in consolidating itself as a solidarity finance public policy.

Solidarity Finance in Brazil: notes from its historical account.

In order to talk of solidarity economy public policy it becomes key to recapture the process by which Brazil became democratic once again, more so considering that within that time several social movements became organized and how they will later on pushed for the establishment of the National Secretariat for the Solidarity Economy within the Ministry of Labor and Employment (SENAES/MTE) and the building of solidarity economy public policies at all levels of government, federal, state and municipal.

During the 70's and 80's emerged a group of organizations, that took on urban questions such as housing, infrastructure and health, which came to be referred to as the new social movements (SADER, 1995). Together with those social movements the so called "new unionism" became stronger with the strikes in the area of greater São Paulo[1], region where the automobile and metallurgic industries are located. These organizations with the support of the most progressive sectors of the catholic church, which operated from grassroots ecclesiastic communities (CEB's)[2], and of the intellectuals and activists that were being persecuted by the military government became an important force in the process of democratization of Brazilian society. Thus, a political landscape was shaped beyond state level with the active participation of civil society in the political debate. It is within this space, where several these groups meet that the Workers Party emerges (Partido dos Trabalhadores – PT) during the mid 80's.

It is with the approval of the citizen's constitution in 1988, which guaranteed important changes for the promotion of people's civil rights and the formalization of public spaces for civil society such as councils and conferences, that a new movement seemed to be in the rising. Meanwhile, this mobilization as well as the new political context did not translate into decreasing social inequality and improvement of the quality of life of the poorest segment of the population. On the contrary, during the decade of the 90's, neoliberal policies became a enormous barrier for the consolidation of recent social victories, by pushing budget and state cuts in line with the idea of minimum State. Furthermore, the flexibilization of labor laws, and a productive restructuration with an increase in unemployment resulted in a large amount of working people turning towards informality[3].

Looking at the macroeconomic context, the construction of the Plano Real[4], allowed for certain economic stability by exercising a certain control over inflation. This shift, if at first considered to be beneficial for the population at large, in the end contributed to a favorable environment for the arrival of international players to further the process of globalization and financialization of the Brazilian economy. During the same year, 24 foreign banks were allowed to begin their operations within the country. According to Contel (2009) "since the establishment of the Plano Real, the Brazilian banking system has been gaining efficiency, but at the same time it has been losing the ability to work in favor of the territory as a whole. Thus, allowing for the predominance of a functional logic instead of a territorial one".

Within this context, several grassroots and collective initiatives began to emerge in order to cope with the unemployment question and the increase of informality. These initiatives worked as a counterweight to the neoliberal politics of the Brazilian government which were deepening historical regional and social inequalities.

During this period, the unions begin a discussion regarding their role in keeping jobs that sit outside of the legal victories attained for workers in their employer – employee relationship. The unions went on to support workers both in the organization of cooperatives as well as in

[1] During this period former president Luis Ignacio Lula da Silva emerges as a strong leader from the union movement.

[2] Grassroots ecclesiastic communities were groups organized within the communities by priests and other religious figures linked to the Catholic Church. Their goals were directed towards religious activities as well as issues related to the day to day problems of the population.

[3] Informality is considered for many authors an important characteristic of our development process ((KRAYCHETE, 2000; OLIVEIRA, 2003).

[4] The Plano Real (Real Plan) was a set of measures implanted by the government in 1994 to stabilize the brazilian economy. The plan intended to stabilize the domestic currency and control inflation.

the recovery of business arising from bankrupt estates, which will end up being managed democratically by the workers themselves.

The CUT[5] creates the Agency for Solidarity Development (ADS) in order to encourage and provide technical support to those initiatives. Beyond that the National Association of Workers and Self-Managed Companies (ANTEAG) was established in 1994, which is an entity representing unionized workers. Within the social sphere, organizations of the Catholic Church such as Caritas[6] with a record of supporting grassroots organizations began to take part in developing strategies linked to the world of labor. In addition, universities take on an important role in recognizing those practices and go on to organize projects and programs with the objective of helping in the formation of solidarity productive groups.

Within the field of solidarity finance we see three types of entities emerging. Credit cooperatives for farmers, which are created with support from the CUT and following the logic of regional and territorial development. Community development banks, which are established by local associations and thirdly solidarity rotating funds stimulated, mostly, within rural areas and in projects financed by the Catholic Church and by international aid organizations.

The Solidarity Economy is above all a testing field where cooperation, self-management and solidarity meet and point to a new development model and to important transformations on how we produce and consume. These initiatives provide continuity to the labor struggle for better working conditions and for overcoming social inequalities. Despite talking of a certain continuity, new practices and a new discourse are elaborated aiming to provide economic solutions to political actions.

The arrival of Lula's government opened up a new phase for grassroots organizations for the actualization of public policy and social rights as well as in the increase of participation in the design of public policy. The establishment in 2003 of the National Secretariat of Solidarity Economy (SENAES) within the Ministry of Labor and Employment became a great mobilization effort from several social actors in search of the institutional space needed for the initiatives that began to appear in the mid 90's[7]. Also during 2003 the Brazilian Forum for the Solidarity Economy was established which tries to aggregate all of the initiatives that are part of the field of the Solidarity Economy.

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[5] Central Única dos Trabalhadores (Unified Workers' Central) is one the most important national trade union center in Brazil.

[6] Cáritas is an institution of public utility which advocates for human rights and for solidarity and sustainable development and is linked to the National Bishop Conference of Brazil (CNBB).

[7] Right after the 2002 general elections a Working Group called GT Brasileiro was formed, this working group was able to link the different actors that are part of the solidarity economy in Brazil. These actors were part of the following entities and networks: Brazilian Network of the Solidarity Economy (RBSES); Institute for Political Alternatives for the Southern Cone (PACS); Federation of Entities for Social and Educational Assistance (FASE); National Association of Workers in Self-Managed Companies (ANTEAG); Brazilian Institute of Socioeconomic Analyses (IBASE); Brazilian Caritas; Movement of Landless Rural Workers (MST/\CONCRAB); University Network of Technological Incubators of Grassroots Cooperatives (Network ITCPs); Solidarity Development Agency (ADS/CUT); UNITRABALHO; Brazilian Association of Microcredit Institutions (ABCRED); and some public officials that will in the future create the Manager Network of Public Policy for the Solidarity Economy. Source www.fbes.org.br

Paul Singer pointed to the values of the new secretariat and to the collective process of its formation at the opening of the III National Plenary of the Solidarity Economy[8]: "you are our partners in this secretariat which was created yesterday. We need information and knowledge which you possess, as well as the demands that you present in order to build together federal public policy towards the support, encouragement and improvement of the Solidarity Economy within our country. I'm almost asking you to create a Brazilian Forum of the Solidarity Economy which is representative and vigorous, so that we, in federal government, can also have within the Ministry of Labor and Employment a solid base of struggle and together build the bases for a new society, which is fairer, more equal, and more democratic than the one which we have today."

One of the principles of the Solidarity Economy is democratic participation, and in that way, as Paul Singer's speech show us, the relationship between the state and the initiatives of the Solidarity Economy must have an open and collective debate. There lies the implicit notion that public policy is built mutually between state and society. Thus, from the start of SENAES' tenure the dialogue has had two directions: internal, in terms of building an institutional environment and partnerships with other ministries, secretariats and other government bodies as well as external in terms of building a dialogue with initiatives of the Solidarity Economy and providing support to its demands.

Over the past ten years, SENAES has built a number of partnerships with different ministries and government entities and increased the value of resources available for the execution of different programs. However, the amount is still small, if compared to other areas such as labor and social development.

Both the initiatives of solidarity finance and solidarity economy have established themselves politically through the State and Municipal Forums of Solidarity Economy and have developed partnerships with local government.

Community Development Banks: from local experience to a strategy for territorial development.

Towards the end of the 90's, after 20 years of accomplishing victories in the development of infrastructure within Conjunto Palmeiras, poverty, income and jobs were still the main challenges to be faced. This context of poverty was confirmed by a local research study done within the neighborhood, by which the local association of residents ASMOCONP (Association of Residents of Conjunto Palmeiras) perceived that part of the oldest residents of the neighborhood had to move out because they no longer could afford the costs brought about by the urbanization of the neighborhood. Looking for local alternatives, several seminars, debates and research to understand local economic problems were organized. This resulted in the structuring of a development strategy which linked local consumption with local production. Consumption was stimulated initially, through a local credit card called PalmaCard, an exchange club and later on with the availability of a social currency (Palmas) for the whole

[8] Prof. Paul Singer's speech, already as Secretary of the recently established National Secretariat of Solidarity Economy (SENAES/MTE), at the opening of the III National Plenary of the Solidarity Economy held in June of 2003.

neighbourhood (MELO; MAGALHÃES, 2005). Local production was incentivized through credit offering for productive purposes and by supporting commercialization strategies by local producers and merchants. Thus, in 1998, Banco Palmas, the first community development bank in the history of Brazil began its story, in Fortaleza, Ceará.

It was the only community development bank until 2003, but this began to change from that year forward as several community associations and the public sector became interested in its implementation in other locations. This build up of interest was so significant that the community association (ASMOCONP) decided to create a new entity - Instituto Palmas – in order to replicate the methodology. By 2005 there were 6 community development banks and 9 in the process of implementation.

Within this context, it became necessary to transform the experience of Banco Palmas, rooted to the local history of Conjunto Palmeiras, into a territorial development methodology or strategy. For this journey from concrete experience to conceptual abstraction to take place several meetings together with institutions, people involved with the area and with the new community development banks were organized. From this exchange of ideas came about the formation of the Brazilian Network of Community Development Banks as well as the conceptual framework and main features of a community bank.

Following the definition of the network, community development banks are interweaved solidarity financial services, of an associative and communitarian nature, directed towards job creation and income generation within the perspective of reorganizing local economies, having as its foundation the principles of the solidarity economy. Its main objective is to promote the development of the territory and strengthen its community organization.

The term solidarity, within this context, means subversion from the utilitarian logic of an economy ruled by the maximization of profit and optimization of resources to a logic built around trust and cooperation (SINGER, 2003; FRANÇA FILHO, 2008).

These values are also present at the framing of an action performed as a network. Since encouraging local consumption and production is conceived as something interlinked – local network of producers and consumers – it breaks away from the market logic where producers compete and consumers are fought over, in order to strive for an associative economy. The concept of network affirms an action which does not aim for a single target – a client – but looks to the whole territory (community) linking its residents, local institutions and merchants.

This is one of the great differences between traditional microfinance initiatives and solidarity finance. The former being more linked to a minimalist vision which prioritizes a service provision for a low income population, mostly microcredit. The latter approaches an integrated development of the different territories by providing a set of financial tools which promote it (UNIVERSIDAD DE GENERAL SARMIENTO, 2007).

Another variance is the fact that the managing entity is local and community driven. This is a fundamental characteristic of the initiatives from the solidarity economy field, which holds as a necessary condition the collective construction of the initiative by those who are part of it. As Singer states (2007: 58) "The necessary investment for development must come from the whole community, that way everyone can become owner and benefit from new wealth being produced”.

The associative and communitarian nature of CDBs, can be analyzed through its institutional dimension: the way it is organized and established, through community history, through its needs and local linkages; but it can also be analyzed through its finality: the rooting of its own actions within social relationships and through the strengthening of community organization and participation.

Another important feature of the CDBs is the way it delivers microcredit. Because it is rooted in the community and has as part of its DNA to provide for a population that is not able to produce real guarantees/collateral, it is within the community itself that information about potential recipients is looked for. This information is gathered by exchanging words with a neighbor or local shopkeepers, by visiting the house of the applicant, and through the participation of the resident in the activities organized by CDB and the community. There is a direct link between the economic and social exchanges within the community and microcredit delivery. These forms of delivery which use social and community networks as a way to obtain information about its clients, can be referred to as finance of proximity, by some people (ABRAMOVAY, 2004; ABRAMOVAY E JUNQUEIRA, 2005). Differently from the solidarity groups, which is the classical microcredit methodology, consulting with the neighborhood becomes a way to obtain more information about the potential recipients, but it is not a meant to be community collateral for the loan itself. We could however, referred to it as a social voucher.

The social currency also upholds the territorial character of the actions performed by the community bank. It is well known that there are several social currency experiences around the world and within a great diversity of contexts: from the experiences of Austria and Germany which use the theory of Gesell rusting money[9], where the currency loses its value with time, to the LETS (Local Exchange Trading System) which saw its beginnings in Canada, and today, are spread around different countries and arranged in different ways (BÚRIGO, 2010). In Brazil, the social currency is linked to two strategies – exchange clubs and community development banks. In the exchange club, the social currency is used within a defined space, which means, producers and consumers meet to exchange products and/or services within a defined time and space. Within the perspective of Solidarity Economy, exchange clubs also allowed for the constructive discussion of pricing, since these exchanged occur under a different set of principles. Within the community bank strategy, the social currency also