United Nations Research Institute for Social Development

Scope, Limits and Potential of Solidarity Finance as a Renewed Strategy for Local Development

The Case of Community Development Banks in Brazil

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1. The Financial Exclusion Problem in Brazil

One of the most significant indicators regarding financial exclusion in Brazil is the number of people without a bank account. Out of 200 million Brazilians in 2011, 39.5% had no bank account, according to the Institute of Economic and Applied Research (IPEA). On the other hand, according to data from the Central Bank of Brazil (BCB), the number of people with access to a bank account in the country increased from 84 million in 2005 to 118 million in 2011. This data reveals the expansion process of the financial system, however, this process is a paradox, as pointed out by Carvalho and Abramovay (2004): on one side, Brazil has a regulated, sophisticated, solid and profitable financial system able to "protect" itself (and still profit) from several macroeconomic situations; on the other side, this same system has "low financial depth.” In other words, financing and credit are difficult to access, expensive and inadequate. Thus, despite the expansion process of the Brazilian financial system in recent decades, as in the case of correspondent banking (Diniz, 2013), the process still excludes thousands of people from the banking and financial system, either because of the distance between some poor communities and financial service stations, or because of the inadequacy between these financial products and services and the characteristics of the low-income population (Carvalho and Abramovay, 2004; França Filho and Mattos, 2013).

In fact, the logic of private agencies in Brazil is indistinguishable from this phenomenon on a larger scale. With financial globalization and increasing competition for "elite customers," low-income customers assumed marginal roles in the performance of large private banks (Dymski, 2005). However, in a relatively more recent move, big banks began to serve the lower income population not because the banks recognize their right to participate in the financial system, but because this population makes up a new market niche. As Dymski (2005) points out, this part of the population, although financially excluded, is financially active. The lack of opportunity to enter the banking system does not hinder the ability to make financial transactions, despite being mainly based on "cash.” Big banks began to directly offer services and products to poorer customers or, more commonly, indirectly through informal organizations subsidized by them. However, because these clients do not offer the guarantees required by the new system, these products and services are offered with high maintenance fees, interest rates and binding clauses in contracts in case of default, setting up a new form of exploitation of the poor (Dymski, 2005).

As a result, in Brazil, the microcredit initiatives operated by large private agencies are far from reaching the lower income population. In recent government mandates, even among the less neo-liberal and more redistributive government profiles, microcredit policies intensified for the lowest income population (França Filho, Rigo and Silva Junior, 2013). However, a number of shortcomings in terms of effective permeation of the population with the lowest income have been verified in such policies (Barone and Sader, 2008; Braga, 2011). Among the critical aspects in these policies, at least three can be highlighted: the first concerns the tradition of microcredit operation by large institutions (based in agencies, without community inclusion and for higher income people); the second aspect relates to microcredit social technology that is oriented towards creation activity, based in external agencies outside the community who think about activity as an individualized and decontextualized business; finally, the third aspect relates to the criteria to meet goals set by credit institutions, leading to the mass dissemination of individualized credit, generating substantial indebtedness of its customers (França Filho, Rigo and Silva Junior, 2013).

2. Regarding the Universe of Solidarity Finance

The limitations observed in how microcredit is managed allows for the debate about different microcredit possibilities to reignite. Thus, in Brazil, in addition to microcredit promoted by market organizations (private banks), public institutions (public banks) and even non-governmental organizations (for instance Oscips microcredit) and other organizations (credit unions), there is a vast range of experiences in the form of popular and community organization like the Revolving Solidarity Funds (RSF), Community Development Banks (CDB) and Collective Investment Groups (CIG), which expand and diversify the microfinance world (França Filho and Silva Junior, 2009). Such experiences, in addition to the cooperative mutual credit segment, compose the solidarity finance field in Brazil.

Solidarity finance is a kind of microfinance practice composed of initiatives that develop the potential to mobilize local investments and finance consumption and production through social networks between individuals and non-material forms of guarantee and control (Abramovay and Junqueira, 2005). Solidarity finance organizations seek to achieve economic sustainability without placing the achievement of social goals as an accessory for its public and territory. It is common among the products and services for solidarity microfinance as well as for production and consumption credit to have guarantees based on proximity relations, local credit cards, credit for urban and / or organic agriculture, solidarity exchanges clubs, social currency for local circulation and local savings.

One purpose for these experiences is to democratize the financial system through community resource management (França Filho and Passos, 2013). This segment of solidarity finance is within the field of Solidarity Economics and considers the particularities of the territory where it operates. It considers equally the social relations and neighborhood networks in how it operates in the territory.

The solidarity credit unions are a segment in the Brazilian credit union field Revolving Solidarity Funds (RSF). The RSF's are "a community savings where the resources saved are applied in the community by financing projects to generate employment and income." In the Northeast, there are over 180 experiences in Brazil and they have been around for about 30 years (França Filho and Passos, 2013, p. 49).

3. Origin, Reality and Specificity of Community Development Banks (CDBs)

In Brazil, the origin of CDB's refers to the Banco Palmas experience, established in 1998 and located in Conjunto Palmeiras, a former slum and current suburb of the city of Fortaleza in Ceara state. The association of residents in this neighborhood promoted the initiative because of the need to address community problems related to low income and the lack of job opportunities. From this experience, a positive impact, not only in their own neighborhood but throughout Brazil, was observed (France Son and Silva Junior, 2009; Borges, 2011). In fact, with the establishment of the Banco Palmas Institute in 2003, and the establishment of partnerships with other public and private institutions, a Brazilian network of community banks is developing. In 2004, the second CDB was created in Brazil, also in Ceará; in 2009, there were 49 CDB's and in May 2012, the Brazilian network was made up of 78 CDB's. At the end of 2013 there were 103 CDB's located in several states. Among the characteristics of and operational aspects of these organizations we highlight four: the collective management of resources and activities;

lines of credit; social control mechanisms; and the use of social currency for local circulation.

In CDB's, the collective management of resources and activities mark its role as a social technology owned by members of a community. This aspect is important in two main phases: during the implementation of the CDB and, obviously, during its development. In the first moment, the collective manifestation of interest, and the establishment of institutionalized spaces where opinions are expressed and decisions are made are key. Typically, two spaces are created for collective management: the Management Board and the Credit Analysis Committee (CAC). The community members involved in the CDB creation process determine the composition and representation in these two spaces. The Management Board relates to the more general meetings with participating community leaders and representatives of local organizations (and other CDB partners). In these meetings, general decisions and guidelines are made, such as new partnerships, fund-raising etc. Lastly, the CAC is composed of a group of CDB managers (called loan-officers), who are also leaders and representatives of the territory. Their job is to meet to discuss and decide on credit requests. Furthermore, the CDB's can create other spaces and compose their management as they see fit (França Filho et al., 2012).

In all these spaces the loan officers are important members. They are directly linked to the receipt, analysis and billing (if necessary) of the requests and credit concessions in many different lines. Most common credit lines are: a) Productive Credit, aimed at the creation or development of micro, small and medium enterprises, individual or collective; b) Consumption Credit, for small amounts of loans without interest and offered in social currency. The aims are to stimulate the consumption within the community through the use of a local currency and satisfy urgent needs of credit (França Filho et al, 2012;. Borges, 2011).

The decisions on credit requests and their eventual recovery have a special character. They are based on a social control mechanism between community members (França Filho et al., 2012), and not in the formality governed by laws and an expensive number of forms and documents. In this process, the sensibility of loan officers and their relationship with the neighborhood are important because they inform the CAC on the specifics of applications, determining the decision to lend (or not) based on specific information, the availability of resources at the CDB and on the applicant's CDB payment history.

In the process, the applicant's situation with other banks or the common credit protection systems (SPC or Serasa, for example) is not taken into consideration. This entire process emphasizes the importance of community relations in which loan officers expose the community credit requests to the CAC, within which relational aspects are important factors in credit analysis.

In order to stimulate production and local consumption, the CDB creates and maintains the territory instruments to stimulate consumption, such as credit cards and social currency. When these instruments become legitimized in the territory, which requires a relatively long awareness-raising process, they play an important role not only in the internal circulation of wealth (especially economic), but have a social impact and roles in identity formation. The use of social currency in the territory also ends up playing a pedagogical and symbolic role that involves the notion of citizen-owned currency, history and identity of place.

Among these peculiarities, França Filho and Silva Junior (2009, p. 103) highlight the "assurance and control based on proximity relationships and mutual trust." Such relationships allow not only the repayment of loans, but also the effectiveness of social currency circulation. Looking at these mechanisms, there is something "parallel" or "complementary" to what is legally constituted (the Real, the official currency of the country), and it can be inferred that the relationship of proximity and trust support the socio-economic and trading relations with the use of social currency.

Finally, it is important to note the central role of CDB's in promoting the construction of local solidarity economy networks. Such networks require arrangements between producers and consumers in a given territorial context, forming a socio-economic dimension that rethinks the reorganization of the local economy. However, in support of these socio-economic dynamics, such networks entail the stimulus and recovery of both socio-political initiatives such as public forums to discuss shared problems, socio-cultural or socio-environmental initiatives like cultural projects or actions that take care of the local environment. In summary, such networks articulate socio-productive initiatives or local service management as socio-organizational initiatives. The centrality of the role of CDB's in this case is closely related to the nature of their actions, both in the financing of activities and in the local-community mobilization due to the political pedagogical character inherent in its practice.

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