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

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

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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 Paulo¹, 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 informality³.

Looking at the macroeconomic context, the construction of the Plano Real⁴, 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 CUT⁵ 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 Caritas⁶ 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's⁷. 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.

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 Economy⁸: “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 money⁹, 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 referred to us local circulator; there is an increase in the usage area of the currency, since it circulates around a neighborhood, a community, being accepted by all commerce that has joined in its usage (BRAZ; SILVA, 2011).

According to Singer (2009), the major innovation of the community development bank was to link two modalities of solidarity economy – microcredit and the exchange club – expanding the reach of the social currency to a territorial coverage. Beyond stimulating the local consumption and circulation of the resources generated within the community, the social currency also symbolizes the process by which community identity is developed around the concept of endogenous development. There is also an educational aspect to it, because its use allows us

⁹ Reference to the Silvio Gesell.

to rethink the role of money and since it is only accepted within local businesses, it loses the role of accumulating in favor of the role of facilitator of product and service exchange.

Because of its territorial approach and furthermore because of its responsibility in reorganizing local economies, community banks implement actions that are intertwined and thus go far beyond a mere provision of financial services. For instance, vocational training, cultural projects, environmentally friendly activities, solidarity fairs, organization of production groups, financial education workshops and solidarity economy courses.

Any training or development action provided at the CDB, is only made possible if done by the collective and understood as a participation tool. Thus, the way services are delivered, the way loans are given out and trainings are provided define an environment driven by participation. Everyone who uses those services participates in this system of community development. Besides such a participation, which takes place extensively, it also creates a space for collective and public discussion, which are known as the development forums. This becomes important in order to ensure a public and open space for debate where not only links are build amongst the different actors present in the territory but also where a collective sense is given to their actions. França Filho (2004), when describing initiatives of the solidarity economy, points to a solidarity that comes from the citizens' own initiative, guided by the common good and which facilitates and motivates towards action within the public sphere.

The supply of financial services lacks purpose if it is not guided by principles such as community strengthening, planning and greater mobility of local resources, both social and economic, focused on the fostering of a local integrated development of the territories and based on the values of cooperation and democracy (SINGER, 2007; FRANÇA FILHO, 2008). The development that is desired is of a solidarity type, meaning, a development for the community as a whole and not just for a few of its members (SINGER, 2007). Consequently, it is not the financial tools that produce transformations, but the way in which they are used which redefines the meaning of economics as the way in which life is organized and not as the natural system where resources, consumers and market share are fought over and where profits must be maximized at all costs.

Solidarity Finance and public policy in Brazil

According to Singer (2009), there are three sectors which participate in the supply of financial services: the capitalist sector made up of private financial institutions; the public sector made up of public banks and a third sector constituted by a set of financial intermediaries where the initiatives of the solidarity finance are located. In this last sector is where we can find the experiences organized by the social movements, during the past few decades, in search of a reduction in poverty and social inequality. There one finds the experience of the solidarity rotating funds of the Brazilian Northeast¹⁰, supported by organizations from the catholic base and linked to the struggle for livelihood within the semi-arid (GUSSI, 2011); the solidarity credit cooperatives, which are mostly located in rural areas and organized through the strong mobilization of rural union movements (BÚRIGO, 2010), the community development banks which emerged from urban grassroots organizations present within the periphery of the larger

¹⁰ One of the poorest regions in Brazil.

cities (MELO NETO & MAGALHÃES, 2008) and microcredit NGOs¹¹ which inspired by international experiences look to increase the supply of credit and financial services to a population excluded from the formal system.

The support of alternative microfinance initiatives is strengthened according to the context of reaction to the formal financial system with the fostering of the process of banking the unbanked, as well as the actions taken to confront poverty and social inequality. Starting in the 1990's, with the economic and monetary stabilization brought about by the Plano Real, the Brazilian government together with the Central Bank of Brazil (CBB) has been implementing actions towards increasing the access to the financial system by the poorest sectors of the country, both in terms of access to credit and banking services. From then and until 2003, legislation regarding banking correspondence has been enhanced and new actions have been taken to strengthen the supply of credit both via the state and by supporting the operations of other institutions. However, it is not until 2003 that the government adopts financial and banking inclusion as a priority and considers it an essential part in reducing social inequalities and providing economic development. With that in mind, the simplified bank account¹² was created, the mandatory transferring of 2% of demand deposits for microcredit¹³ operations and the consolidation of legislation regarding banking correspondents¹⁴. (FELTRIN, VENTURA & DODL, 2009). Those actions had as its main objective to bring the largest financial and banking institutions inside the challenge for inclusion.

During the 90's there was a significant rise in the number of microcredit institutions in Brazil¹⁵. During the government of Fernando Henrique Cardoso different spaces emerged in order to discuss and research actions in the field of microfinance through the Council of the Solidarity Community. A new legal framework was developed to support two new legal entities that could perform microfinance services: the organizations of civil society for the public interest with a focus on microcredit (Microcredit NGOs) and credit societies for the microentrepreneur (SCM). The first legal entity signified a change in the legislation of those social non-profit organizations thus increasing their scope in order to provide credit services. The second legal entity signified the creation of new kind of for profit entity, regulated by the Central Bank¹⁶. In

¹¹ Within the field of microfinance we find some smaller local initiatives and other larger institutions which work under a more traditional model of microfinance and thus are restricted to following the practice of international institutions which generally understand microcredit as only a methodology to increase access to financial services

¹² Bank account with no monthly administrative fee, without prerequisites (such as proof of income), which permits the client to access credit. For Brazil this signified a great innovation, because it democratized the access to the banking system.

¹³ Res. CMN 3109/2003.

¹⁴ Res. CMN 3.156/03, 3.110/03.

¹⁵ According to Silva (2007) they represent the following characteristics: "organized as non-profit associations, without the involvement from the government; focuses on the urban environment; supported by international organizations through funding and technical assistance (pg. 57).

¹⁶ This new piece of legislation allowed these institutions to avoid liability from the Usury Law of 1933, which allows the charging of interest over the threshold of 12% only to institutions linked to the national financial system such as banks, credit cooperatives and other financial retailers. The regulation for Civil Society Organizations of Public Interest (OSCIPI) focused on microcredit, Lei 9.790/99, MP 2172-32 and of Credit Societies for the Microentrepreneur (SCM) Lei 10.194/2001 (SILVA, 2007)

1997, Banco do Nordeste do Brasil (BNB) founded Crediamigo, which eventually became the largest microcredit operation in Brazil¹⁷.

In the field of solidarity finance, the credit cooperatives were strengthened by changes in legislation that allowed for the creation of credit cooperatives for microentrepreneurs, and furthermore by the organizational strengthening due to the centralization of cooperatives. In 2001, Banco Nacional de Desenvolvimento Econômico e Social (BNDES) develops an institutional development program for microcredit NGOs.

These changes at the federal level also had resonance in the spreading of microcredit experiences across different municipalities, which starting in the 90's began to create state programs such as Banco do Povo Paulista and hybrid¹⁸ institutions such as São Paulo Confia developed by São Paulo's municipal administration (SILVA, 2007).

In 2002, the First National Seminar of Microfinance was held by the Central Bank of Brazil, putting together a diverse set of actors involved in the field. Seven similar events were organized by the CBB which in 2009 started to organize the Forums for Financial Inclusion (FREIRE, 2013).

During Lula's government, in 2003, Banco Popular do Brasil – linked to Banco do Brasil – was established, for the purpose of providing savings and credit services to lowest income populations. Later on, in 2005 the National Program of Oriented Microcredit is created, with funding from the Worker' Assistance Fund (FAT) in the amount of 200 million BRL, which according to Silva (2007) enabled the formation of a guarantee fund for microcredit institutions. In addition, the National Program for Family Agriculture was established, which also had a sizeable impact in rural policy funding and in strengthening local institutions, mostly credit cooperatives in order to increase their capillarity in rural areas.

Amongst the policies of BNDES we find the National Program for Popular Productive Credit (PCPP) which aimed to fund microcredit institutions through long term loans. Then, in 2001 the Institutional Development Program was created, which, after impasse of funding in 2003 and 2004, it resumed its actions through PNMPO (SILVA, 2007).

In order for the government to promote financial inclusion, it must create the right environment for commercial banks and especially for public banks to feel the need to increase the scope of their actions and thus include the government's ultimate goal.

If on the one hand the banking inclusion process and the relative changes to the financial system were aligned to the pressures of financial institutions and to the creation of minimalist strategies within the field of microfinance, on the other hand there was the dissonant discourse coming from the field of solidarity finance which always understood microfinance tools as something that should be part of a larger strategy that would include the needs of the territory and its local dynamics. SENAES became an important interlocutor, within the government, for a different discourse that proposes a new notion of development guided by

¹⁷ Today, Crediamigo issues 50% of microcredit operations in Brazil, with more than 1 million clients. It is also the largest microcredit program in Brazil and second in Latin America.

¹⁸ Institutions that are NGOs but with a participation of the public sector.

the principles of democracy and collective construction, as well as for internal government discussions on the agenda for initiatives of the solidarity economy.

In terms of financing the actions of solidarity finance, SENAES always had programs to support the solidarity rotating funds and CDBs. Despite credit cooperatives being considered a solidarity finance initiative, they did not receive direct funding from SENAES. The main actions during the first years were the signing of a partnership directly with Instituto Palmas, in 2005, for the amount of 1.2 million BRL, in order to replicate the methodology of CDBs. During this year, with funding from SENAES, the Ministry of Social Development and BNB, the Program of Support for Solidarity Productive Projects (PAPPS) was created with the objective of funding the projects of solidarity funds. From 2005 to 2008 more than 3 million BRL were invested in more than 50 projects.

Only in 2010, SENAES opens up a new round of funding for solidarity finance initiatives, through a public call for proposals, in order to support national and regional entities that work with CDBs and solidarity rotating funds. When analyzing the winning entities of the national projects, Caritas and Instituto Palmas, we see the strengthening of civil society institutions in the execution of solidarity finance public policy. These projects supported the consolidation of 60 already existing CDBs and in the implementation of 43 new ones, adding up to 103 CDBs in Brazil. This funding went primarily to the hiring of employees for the CDBs, technical assistance, and infrastructure for the banks. The challenge, which still remains for solidarity finance, is the creation of a public fund that could not just finance the different initiatives, but that also serves as a credit fund for loans. SENAES cannot provide budgetary resources for credit lines or transfer resources for guarantee funds for microcredit institutions. Thus, the challenge for CDBs is to obtain funds for their credit operations. In that way, when we think of the development of solidarity finance actions such as public policy, it is also important to analyze the direct relationships that entities such as social organizations establish with other federal entities. SENAES works to strengthen those dialogues, but it does not partake in the negotiations.

As part of the dialogues with public banks, there was a direct partnership between Banco Popular do Brasil and Instituto Palmas, established in 2005. Under this agreement, BCDs would start offering banking correspondence services such bill payments, opening bank accounts, withdrawals and deposits. In addition, CDBs began to have access to a credit portfolio of 700,000.00 BRL thus increasing their service capacity. At this point there are 37 CDBs operating in Brazil, of those 25 in the state of Ceara, 4 in Espiritu Santo, 3 in Piaui, 2 in Bahia and 1 in the states of Mato Grosso do Sul, Paraíba and Maranhão.

Starting in 2010, Instituto Palmas begins to work with Caixa Econômica Federal, another major public bank, to provide banking correspondence services. This partnership allowed for the Bolsa Família¹⁹ beneficiaries to become a main target group for the services of the CDB. In 2011, Instituto Palmas, launched Projeto Elas which links vocational training, home visits and access to loans for this particular target group. In this context, BCDs not only open up new avenues of dialogue with the public sector to continue implementing such actions, but allowed

¹⁹ Bolsa Família is a social welfare program of the government that provides financial aid to poor Brazilian families. It's the most important social program in Lula and Dilma's government.

the part of the population living under extreme poverty conditions to gain a better access to their services. Aiming to participate in the policies stemming from the government program Brasil Sem Miséria²⁰, there has been an ongoing conversation to strike a partnership with the Ministry of Social Development.

Another important partnership between a public bank and the Brazilian Network of CDBs, through Instituto Palmas, was established with BNDES in 2010. Instituto Palmas gained access, to a credit line that BNDES has available to support microcredit institutions, through a loan of 3 million BRL, in order for Instituto Palmas to build its own credit portfolio. Furthermore Instituto Palmas was able to access the Program for Institutional Development offered by BNDES, to support the actions of 51 CDBs in the network. Despite the fact that BNDES has a department focused on supporting Solidarity Economy efforts, where funding is made available to support productive initiatives of the solidarity economy such as recovered businesses, there is no specific fund available to support solidarity finance. Thus, Instituto Palmas has to access other programs made available for microcredit institutions. Once again, the institutional environment developed to strengthen such initiatives broadens the possibilities to establish agreements with different elements of the public sector and opens up the field to build new policies and actions to support BCDs and solidarity finance overall. In spite of this access, the number of partnerships and agreements with solidarity finance initiatives is still small, mostly because of the high degree of bureaucracy and the institutional capacity of the social organizations. Instituto Palmas, thanks to its institutional capacity, experience and credit portfolio volume was able to establish a partnership in the name of Brazilian Network of Community Development Banks.

Challenges

Community Development Banks have increased the breadth of partnerships both for funding and institutional support with a diverse set of institutions. Furthermore, CDBs have been understood as an important development strategy that is able to intertwine different public policies at different levels of government. However, there are a number of challenges to be addressed in the path forward.

Legally, CDBs since they are social organizations they qualify to be in the category described under the Law of NGOs and within the decree that regulates the entities with microcredit as the main purpose. For Brazilian legislation such entities are not considered to be financial institutions and thus are not regulated by the Central Bank. The fact that they are defined by this social aspect instead of a financial one prevents them from collecting deposits and thus without that ability CDBs are not able to create their own financial and banking products. Hence, there is legislation in force that does not cover completely the activities of Community Development Banks.

Today, the Central Bank of Brazil understands the use of the social currency as the use of a complementary currency. In 2007, the CBB approved a research project in order to gain a better understanding and evaluate the possibilities, limits and potential of the social currencies

²⁰ Brasil Sem Miséria is the expansion of the social program Bolsa Família and other public services to the poor people including health care, sanitation and education programs. This program was implemented during Dilma's government.

issued by the CDBs (FREIRE, 2013). Different from the year 2000, when the CBB went to Banco Palmas because they had received a complaint about the issuing of currencies, in the past 3 Financial Inclusion Forums held by the CBB there has been a space for debate. Social currency and CDBs have been recognized as important instruments in support of economic development and for the financial and social inclusion of the population. In other words, the financial inclusion agenda which has become central for the government allows for the initiatives of solidarity finance to have the right institutional environment to be recognized and strengthen.

Even with this overture from the Central Bank very little has been done in terms of writing the legislation that would support CDBs. The work of Marusa Vasconcelos Freire has proven a great contribution to the legal field²¹. The solidarity credit cooperatives, because they are financial institutions, are able to have a more active role in the normalization debate at the CBB and thus can benefit from the changes which took place in 2002, which at the same time open the space to the creation of other kinds of credit cooperatives.

The development of a national system of solidarity finance together with a funding system are considered to be of paramount importance by the practitioners in the field in order to advance and consolidate these experiences within the State's apparatus. In both National Conferences of Solidarity Economy, held in 2006 and 2010, the same message has been stressed in the official documents that came out from this forum of discussion. However, there has not been enough mobilization from the entities, SENAES and other government entities to build such instruments. Today, there is a technical cooperation between SENAES and the CBB, between SENAES and Caixa Econômica Federal, which could strengthen this process. In terms of grounded proposals, we have the bill from Federal Congresswoman Luiza Erundina²², which has been trying to gain approval since 2007 and it is still being discussed by the government.

In the field of the Solidarity Economy, there has been some progress in terms of legislation. In federal level, in 2012 a worker cooperative law²³ was approved and in 2010 there was the signing of the decree that created the National System of Fair Trade²⁴. The general law of the Solidarity Economy continues the process to be approved. Both state and municipal governments have created local legislation to support the actions of solidarity economy public policy²⁵. In the funding arena, we have few experiences of public funds²⁶.

The debate about the funding of CDBs has several dimensions. Here we will discuss just two of those dimensions: resources for credit operations and funding for the institution itself. In traditional microfinance experiences this has an intrinsic relationship, because it operates under the principle of self-sustainability – achieved through revenues acquired from its services, in the form of interest rates and fees. Thus, increasing resources for credit operations

²¹ For further reading: Freire, Marusa. (2011). Social Currency: Contribution towards a legal and regulatory framework for social local circulating currencies in Brazil.

²² Projeto de Lei Complementar 93/2007.

²³ Lei nº 12690/2012

²⁴ Decreto nº 7358/2010

²⁵ Espírito Santo State (ES/Brazil) Lei Estadual n. 8256/2006; Rio Grande do Norte State (RN/ Brazil) Lei Estadual nº 8798/2006; Rio de Janeiro State (RJ/Brazil) Lei Estadual nº 5315/2008; Carapicuíba Municipality (SP/Brazil) Lei Municipal nº 2992/2010;

²⁶ Osasco Municipality (SP/ Brazil) Lei nº 4421/2010; Minas Gerais State Lei Estadual nº 1528/2004.

allows for greater volume of operations and consequently provides a better chance to accomplish financial sustainability.

In the case of CDBs, funding has also been obtained by mobilizing community resources with local partners and by the community dynamic itself. In addition to revenues coming from financial services offered, public funding, mostly from SENAES and from public calls for proposals (there are agreements with municipalities and states, but in a smaller number), projects with the private initiative and international cooperation. This notion of sustainability is broadened by taking into consideration the social and economic dimension of its scope. Thus, one could understand the sustainability of such initiatives through the notion of hybridization of resources (FRANÇA FILHO; LAVILLE, 2004; GUERIN; VALLAT, 1999)

Obtaining funds for loans is difficult and rare. The hybridization of bank and community, prevents CDBs from being understood for their specificities and are normally placed along the pre-established lines of financial institutions which possess little room for manoeuvre for new arrangements and partnerships. The question of the management model also affects the dialogue. Nevertheless, the opening up of these institutions for dialogue, and a favourable political environment, has provided some degree of progress.

Today, Instituto Palmas has a loan of 3 million BRL and a project for institutional development with BNDES. Because it has a greater institutional capacity and due to its large credit portfolio, Instituto Palmas is able to meet the criteria of BNDES and thus it becomes the umbrella organization of other CDBs in order to provide access to credit funds. Since this umbrella model proposes a structure which facilitates the access to public funds for credit operations, could this put us on the road to sustainability? At the same time, this presents several challenges, for instance: how to think of the autonomy of CDBs and the risk that the entities responsible for the management of the funds run?

In terms of the partnership with Caixa Econômica Federal there has been progress in the process of creating a specific model for banking correspondence for CDBs – Community Bank Caixa Correspondent – thus differentiating itself from a mere service point such as lottery retailers and other commercial establishments.

Another topic which has brought about constant debate since the beginning of Dilma's government has been the relationship between federal government and social organizations in the drafting of public policy. We can at least describe two types of relationships developed between the State, non-governmental organizations and social movements: one which is based on the logic of minimum State, with the belief that private management is more efficient than public management, and thus unequivocally ending in the call for the outsourcing of public services, in other words, the State transfers the task of executing the different policies to the hired institutions; the other is based on a collective action amongst diverse actors in the creation, planning and execution of public policy, in other words in a non-dichotomy between State/civil society (DAGNINO, 1994; 2004)

There seems to be a small yet essential distinction: in the first case the relationship with the entities of the civil society is one of service provider, in other words, only a technical relationship. On the other hand, the second case carries with it a political relationship. These

two notions have been in dispute since the 90's with the process of democratic reconstruction. We could say that during the 90's we had a more instrumental vision through the neoliberal policies of the time. Starting in 2003, with Lula's government there was an increase in the political participation of civil society. Meanwhile, the discourse behind an efficient management logic made the state bureaucratic mechanism prevent the strengthening of a more democratic state from the point of view of changes in the correlation of forces between big capital and grassroots initiatives. From the beginning, SENAES has been the spokesperson and main driver within government, of a vision which contradicts the actions of the State: to strengthen grassroots initiatives so as to modify the correlation of forces present inside the State, with the goal of modifying it and turning it into something more effectively democratic. Meanwhile, the enrichment of bureaucracy, the criminalization of the relationship between State and grassroots organizations through agreements and partnerships has dramatically weakened the possibility of change within the Brazilian State. We still have a public sector, mostly at state and municipal levels, which acts upon the private logic which leaves the State at the mercy of large conglomerates and large family fortunes. The Federative Pact which makes the direct transfer of resources to the states and municipalities has both served in the effective decentralization of actions and resources as well as in the maintenance of the promiscuous relationship between the private initiative and the private sector.

Within this context, SENAES has been a voice for resistance, because besides launching a call for proposals from states and municipalities it has also continued to establish partnerships with social organizations²⁷.

In the field of solidarity finance, this process becomes even more contradictory, mostly because these initiatives are communitarian in nature and thus the communities themselves must play the leading role. Almost all of the resources from the program Brasil Sem Miséria have been destined to states and municipalities. For instance, SENAES approved more than 50 projects for different states and municipalities and many of these projects include provisions to support solidarity finance actions with the implementation of CDBs. How to think about the relationship between a community initiative and the public sector?

As the former mayor of the city of São João de Arraial in the state of Piauí says, the creation of the CDBs is the starting point for the construction of the loss of power of the public sector within the municipality. In other words, as the population takes ownership of the CDB the smaller the role left over for the local government within the CDB. This position requires government action in order to direct the restructuring and changing of its role and power. With this in mind the role of municipal and state government must also be considered. Municipal governments do not open CDBs; they support the creation and consolidation of the same. From the legal standpoint, the legislative has a great importance in creating the tools that would enable actions such as public funds amongst others.

The duality quality vs. quantity is ever present in the drafting and execution of public policy, considering that results are measured based on the number of beneficiaries, initiatives, trainings provided etc. The difficulty in coming up with the tools that could solve such

²⁷ Since 2011, several decrees and guidelines have made it increasingly difficult to establish partnerships between federal government entities and civil society organizations.

problems would require a different space to be properly discussed. Moreover, we have the issue of scale, which in Brazil becomes an even bigger challenge because of the large geographical size of the country, the regional differences, and mostly an enormous social and economic inequality. This inequality constitutes a context of exclusion which demands integrated actions with the perspective of driving significant qualitative changes in the short term, as well as breadth and scale. Is it possible to think in terms of scale for public policy when discussing Community Development Banks? Yes. The issue of scale must be thought of through the lens of the territory, in other words, linked to its capacity to increase the potentialities of the territory, its reach and its local governance as well as a universalization not to be understood as a centralization or homogenization but as a localized association of networks. It is important to reconsider that CDBs will only work properly in communities which had already acquired some level of organization and participation. Other social policies, including those linked with the Solidarity Economy, can and should be offered and stimulated in these communities, but trying to create CDBs before some level of organization is present and some leadership has arisen would probably be frustrating. To think of CDBs as public policy means that such policies must have a long duration and must, above everything else, look to foster the local organization of the community. Thus, the challenge becomes to understand what the local arrangements are and strengthen the actions of the CDBs.

The connections between the public sector and the actions of CDBs are essential in building effective actions, in order to create an integrated community development. However, solidarity finance initiatives cannot be seen by the public sector as agents that simply take government actions to the field. In fact, they are institutions that result from grassroots and community organization and produce innovative arrangements linking the local history and culture to the construction foundation of its own development. It is a political action which puts communities back in the driver's seat of writing its own history, thus, rejecting the role of silence recipients of government policies or mere passive operators of their actions.

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