9. Community development bank

Description

Community development banks (CDBs) aim to generate economic development in low to middle-income areas. They have been widely used in the US, where they have long been institutionalised and the Treasury Department has a fund to support them. The best known example, however, is Grameen Bank in Bangladesh, which was founded by the Nobel laureate Muhammad Yunus and popularised the use of microfinance in the developing world. CDBs can be for-profit or non-profit and take many forms. The case study below highlights a unique model established in Brazil which is managed by the community it serves.

Case study: Banco Palmas (Brazil)

In 1973, municipal redevelopment initiatives in Brazil’s fifth largest city of Fortaleza, in the north-east of the country, displaced around 2,000 families from its coastal areas to a peripheral inland district called Conjunto Palmeira. Displacement to the area continued in the following years, contributing to its impoverishment, high unemployment rates and lack of services. The situation led to the establishment in 1998 of Banco Palmas, a unique community development bank, to provide credit to residents, create jobs and stimulate local development as part of the solidarity economy movement.

Principles of a solidarity economy

Given that the IDPs originally relied on fishing for their livelihoods, they became increasingly impoverished in their new inland and under-serviced area. In response, they came together in 1981 to set up the Conjunto Palmeira residents’ association (Associação dos Moradores do Conjunto Palmeira, ASMOCONP). Over the following years, they instituted a range of community initiatives to build homes and sewage systems, pave roads and install water and electricity supplies in what was gradually becoming a favela or slum. By 1997, the residents and their community organisations had successfully urbanised the area.1

Their vision of economic and social development was based on the principles of a solidarity economy, which encourages local production and consumption networks and job creation, and community investment in education, cultural and social institutions.2 In 1997, ASMOCONP began to organise community meetings, 96 in all, where members discussed the fact that 80 per cent of families spent all of their money outside the community, giving traction to the notion of producing, selling and buying locally.

The social entrepreneur Joaquim de Melo Neto Segundo is a key figure behind Banco Palmas and its innovations. A Fortaleza resident and long-term community mobiliser, he recognised the importance of community-driven finance institutions in the late 1990s. Community members secured a 2,000 real ($615) loan from the local NGO Cearah Periferia and set the bank up in 1998.3 Over the next seven years, it relied on funding from international agencies, NGOs and aid organisations such as the German development agency GTZ, Oxfam, the Ecumenical Service Coordination (CESE) and the Dutch development organisation Cordaid. PRORENDA, a German foreign aid programme that focuses on upgrading slums and “urban management by the poor,” provided some of the start-up funding for ASMOCONP.4

This illustrates how international NGOs and bilateral aid organisations can play an instrumental role in financing community development banks that become sustainable and outline the initial programme. In 2003, ASMOCONP went on to establish Instituto Palmas, a non-profit umbrella organisation that serves as the bank’s parent company. Banco Palmas offers three types of microcredit for production, commerce and services, and it is a unique and innovative venture in many ways. Similarly to Grameen Bank in Bangladesh, which was founded by the Nobel laureate Muhammad Yunus and popularised the use of microfinance in the developing world, it does not demand good credit history, extensive requirements for registration, proof of income or assets as collateral for loans. Instead, neighbours vouch for applicants and social ties are used to both evaluate and enforce the loans.

IDPs in countries where microfinance opportunities are available often still find themselves at a disadvantage because they do not have the same established social ties as the local community. In Conjunto Palmeiras, however, people displaced from the coast make up much of the district’s population and the social ties they brought with them helped to engender two-way trust between the bank and its potential clients, and enable it to provide IDPs with access to credit.

Banco Palmas is not a static institution, but has learned and evolved from its experiences. Two years after its foundation, it launched another experiment when it stopped issuing loans in Brazilian reals and set up a new community or local currency called the “palma” instead. Its value was set at parity with the real to eliminate exchange costs and fluctuations, making both currencies equally attractive to use. Parity also meant local business relationships as the local community. In Conjunto Palmeiras, however, people displaced from the coast make up much of the district’s population and the social ties they brought with them helped to engender two-way trust between the bank and its potential clients, and enable it to provide IDPs with access to credit.

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Housing programs and policies that support durable solutions for urban IDPs

Review of practices and case studies

March 2015 | Home sweet home

Banco Palmas, 1998 to present

Community development banks are an example of a gradual and incremental community-led approach to adequate housing and basic infrastructure. Over the decades since their displacement, they have built homes, water and sewage systems and electricity networks. In 1981, they set up ASMOCONP to promote the concept of a solidarity economy, which encourages the creation of local networks of production, consumption and job creation, and community investment in educational, cultural and social institutions. No such investment was possible, however, without access to credit.

ASMOCONP established Banco Palmas in 1998 as a community-driven financial institution to fund the development of their neighbourhood based on principles of a solidarity economy. The bank adopted credit requirements adapted to its poor clients. No credit history was required, nor were income or assets demanded as collateral for loans. Instead, neighbours vouched for applicants, and social ties were used both to evaluate the loans and enforce their terms. Most IDPs struggled to re-establish social networks lost as a result of their plight, but given the length of time Conjunto Palmeira residents had been displaced such ties were in place.

Banco Palmas offered low interest loans to local people, including those originally displaced to the area. It offered three types of microcredit for production, commerce and services. For the first seven years of its existence, the bank received funding from international NGOs and bilateral aid organisations such as GTZ, Oxfam, CESE and Cordaid, but in 2003 it was transformed into Instituto Palmas, a non-profit organisation that serves as the umbrella organization that includes Banco Palmas and other community ventures.

The bank also introduced the "palma", a local currency that is exchanged with the Brazilian real at a rate of one-to-one and has an economic multiplier effect.

Banco Palmas is a successful example of a community-driven development initiative that incorporates residents’ meaningful participation. The community created an innovative and effective finance mechanism to transform the shape and future of the neighbourhood. Brazil’s government has slowly recognised the bank's success and has facilitated similar schemes in other areas, which constitutes a transfer of knowledge and a change in institutional norms. The practice shows how international NGOs and bilateral aid organisations can play an instrumental role in financing initiatives such as community development banks that become sustainable in their own right and outline the initiative programme.

Community development banks are an example of a gradual and incremental community-led approach. As a result they require sustained engagement, reflection and changes in practices over long periods of time.

Highly committed and engaged neighbourhood organisations and civil society groups.

Donors that are flexible when funding the initial phase, understanding that development impacts can only be measured in the long-term.

National government’s eventual recognition of the concept of community development banks and the use of an alternative local currency.

IDPs living in protracted displacement for long enough to establish social ties.

Merchants even began to incentivise use of the palma by offering discounts on purchases made in the local currency. This use of a local currency meant that spending also stayed local, so that purchases or investments made with Banco Palma funds helped to boost the vitality of Conjunto Palmeira economy and encourage the district’s development. Each loan provides both individual economic benefits to the recipient and wider economic benefits to the district and community.

The approach was not fully accepted by the Brazilian government at first. Between 2000 and 2011, the Central Bank of Brazil tried to bring charges against Banco Palmas for creating a secondary currency that undermined the real. In 2011, however, after a decade of court cases and negotiation, the central bank issued a technical note on the importance of social currencies, community development banks and their role in the poor’s social inclusion. As such, a grassroots initiative became institutionalised at the national level.

Given that the community runs the bank, it promotes self-management and local autonomy and allows it to innovate, adapt and respond to new trends and pressures. It is free to expand into using and developing new financial instruments, as evidenced by its launch of a credit card, the PalmaCard.

Brazil does not have a national legal framework for the establishment of community development banks so Banco Palmas is registered as a public interest civil society organisation (Organização da Sociedade Civil de Interesse Público, OSCIP). It is also part of the Brazilian network of community banks, which provides legal support to secure government recognition.

Instituto Palmas has launched two other innovative programmes. Its projeto fomento or stimulus project relies on community and private donations to build community assets such as schools. The bank estimates the investment value of the project and issues loans in palmas for the same amount. In this way, it “clones” and doubles the community investment. Projeto ELAS targets women who receive social welfare benefits through the national Bolsa Família programme. It works towards women’s social and economic inclusion by offering microcredit loans, professional training and establishing small business incubators for them.

As Banco Palmas has expanded its activities, it has also raised national awareness of the community development bank model, leading to creation of at least 104 such institutions in Brazil as of 2013. Paul Singer, the national secretary of the solidarity economy within the Ministry of Labour, has recognised their importance, and has asked Banco Palmas to replicate its model in other municipalities.

It has also formed partnerships with the Bank of Brazil, the National Bank of Economic and Social Development and the Federal Savings Bank to increase its credit portfolio to three million reals. Between 2010 and 2011, it lent 12 million reals to more than 15,000 people, reaching the poorest and most vulnerable residents in both urban and rural areas. A 2014 impact evaluation of its activities showed that 99 per cent of survey respondents thought Banco Palmas had contributed to improving their living conditions, including improvements in housing, healthcare, employment opportunities and financial security.

Conclusion

This case study tracks the trajectory of a community of coastal residents displaced in the early 1970s by redevelopment initiatives. International NGOs, bilateral aid organisations and national financial agencies have made a number of efforts to assist the Conjunto Palmeira community, but the success of Banco Palmas has largely been a local one.

International development experts cannot simply replicate successful community-driven initiatives. They emerge from a complex, sustained and evolving process of building solidarity in a community, undertaking campaigns to establish basic services, and introducing the principles of a solidarity economy. Forty years have seen the slow but steady growth of a community born out of the experience of forced displacement that has reigned predominately on external organisation rather than external resources to create a finance model that has transformed the shape and future of their neighbourhood.

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Review of practices and case studies

2. Instituto Palmas What is a Community Bank? (O que e Um Banco Comunitario?), http://goo.gl/ZznZY3, last accessed 3 December 2014
3. Melo in Banco Palmas on its 15th Anniversary: Resisting and Innovating, p.24
5. Association of Dwellers from Conjunto Palmeira. Melo in Banco Palmas on its 15th Anniversary: Resisting and Innovating, p.25
7. Central Bank of Brazil, technical note PCBG 38/2011, September 2011
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1. Profiling of urban IDP situations

Description

The general lack of information about IDPs is a major challenge for those advocating for the fulfillment of their rights. Tools such as the urban profiling exercise developed by JIPS are useful ways of collecting baseline demographic data on displaced communities. Given that urban IDPs tend to be dispersed and are difficult to distinguish from the urban poor more generally, the JIPS methodology gathers comparative data on both IDPs and their counterparts in the general population in the same neighbourhood. Since the experiences of different groups can vary, there is a need to better understand the realities of different groups who reside in the same area (e.g., IDPs, refugees, economic migrants and urban poor with different backgrounds).

Profiling provides a comprehensive picture of the target populations, including demographics, indicators of strengths and vulnerabilities, their preferences in terms of settlement options and their degree of local integration. As such, it forms a solid basis from which to determine policies on durable solutions and the development of other strategies addressing problems identified during the profiling exercise. Profiling combines quantitative and qualitative methods at the individual, household or community levels to provide data disaggregated by location, sex, age and diversity. The analysis can be enriched with key informant interviews and a review of secondary data, leading to an extensive profile of urban populations affected by displacement and the local infrastructure and policy environment they face.

Profiling is not, however, limited to data collection. It is a sequence of interlinked steps that begins by building a consensus around the need for the exercise, and ends with the validation of its findings by the profiling partners and target populations themselves and the dissemination of results. It is a collaborative and ethical process based on the principles of transparency, and actively promotes the buy-in of partner organisations and governments at all stages.

By bringing central and local authorities and their humanitarian and development partners together to collect information on demographics, migration patterns, and factors related to the process of attaining durable solutions, including housing, land and property issues, profiling by design aims to ensure that the data obtained is widely accepted and used. It helps to ensure that those working in the same urban setting share a common understanding of the displacement situation, and reduces the need for parallel surveys by different organisations and the costs they involve.

IDPs often face specific challenges in securing housing and livelihoods, ensuring community support and building social networks. In many urban areas affected by displacement, however, the local population live in similar conditions and face similar issues. Profiling aims to understand both the crossover and the divergence between the different communities’ realities, which in turn allows policymakers and practitioners to incorporate them into the development of targeted responses. Profiling works towards durable solutions by creating an evidence base for decision making.

Displaced people, like all migrants, bring with them particular skills and experiences that can benefit their host families and communities, and which, if tapped into, form the foundation for durable solutions. Profiling sheds light on such positive attributes and those of IDPs’ counterparts in the local population (host families and other non-displaced neighbours) as well as their vulnerabilities. By looking at future aspirations, plans and decision-making criteria it forms the basis of a forward-looking response, even in volatile contexts.

Methodology and process

JIPS was established in 2009 to provide technical support and coordination for governments and their humanitarian and development partners in conducting collaborative profiling exercises. Given the rapid rate of urbanization worldwide, the ever increasing numbers of IDPs who flee to towns and cities, and the distinct challenges of data collection in urban areas, JIPS has produced a specific profiling methodology for them. JIPS also specialises in profiling to inform strategies for durable solutions, and advocates for the operationalization of the criteria for durable solutions set out in the IASC’s framework on the issue as the starting point for planning an exercise.

Each profiling exercise uses a methodology tailored to the specific information needs of those who will use the data, and established via jointly agreed objectives. A mixed methods approach tends to be used to capture different types of data and triangulate findings. Consultation with national entities responsible for compiling statistics ensures that the methodology is compatible with existing population data sources such as censuses.

When possible, profiling aims to provide statistically representative information of the target populations acquired through an anonymous sample-based household survey. The surveys may also include individual-level questions for each household member. The quantitative data is...