

Innovative Finance Inclusion

Teaching Notes

Banco Palmas

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Synopsis

The practice of micro-finance doesn't limit itself on the Asian continent, Latin America in that regard has a quite active role. While Bangladesh remains the pioneer in the field of microfinance and has the most famous experience, we often forget other countries which had experienced microfinance even before Bangladesh, Brazil is a striking example. Brazil, who is a pioneer in the field, started micro-credit activities even before Bangladesh. From the early 1970s, Latin America, particularly Brazil started adopting micro-credit initiatives as a tool to fight poverty.

The teaching note is for professors and aims at helping them guide the students into explaining the some key microfinance concepts through a dynamic presentation of the Palmas Bank study case, giving them the possibility to learn, understand and act in the right direction in order to raise awareness about sustainable finance and find durable solutions to the tackle poverty.

The Palmas Bank is focused on fighting poverty in its community and improving local development. The bank is guided by principles of *solidarity socio-economy*. Practically speaking, one of the main goals of Palmas Bank is not profiting but to develop the local community where the decision-making process was shared in the community. The main activities of the Bank are Production loans to foster local business and Consumption loans, this one in the local currency, to improve internal transactions in the neighbourhood.

After the consolidation of Palmas as a local currency, the Bank also started to expand its purposes to other SDGs such as gender equality with the women's incubator and education with the creation of the Institute Palmas Bank where students could access the internet and attend extra courses such as English or to prepare them for the exams to enter in the University (vestibular).

Target Audience

The way the study case was structured to be presented can be directed to graduate students with zero or low knowledge of microfinance or sustainable finance's concepts.

Case Study Objectives

1. The students will learn some key concepts of Microfinance through a dynamic study case presentation.



2. The students will be able to connect the Agenda 2030 with sustainable finance.
3. The students will be able to use the knowledge shared during the lecture in their community.

Recommended Lesson Structure

1. First Module - Why are we poor?

Total time: 15 minutes

The lecturer will introduce the context of As Palmeiras community (unemployment, poverty, absence of governmental aid for local development, violence) and the creation of the Association to indicate that there was already a notion of community there. The initial scenario was a group of fisherman's displaced from where they used to live their whole life and sent to a place far from the sea, where they could not work. They did not have any help from the local government. They created a neighbourhood's Association to manage the construction of houses and implement some basic infrastructure in the place, a favela called Conjunto Palmeiras. After building the community, they faced a high rate of unemployment that led to violence in the region. They organised a meeting to tackle social issues within the community and asked themselves: *Why are we poor?*

Call to action: To ask the students the same question the community made to themselves: *Why are we poor?* And check their answers of what they think it was the answer.

The answer was "*because we have no money*" and this was the starting point to track where the little money they had was going and why the community wasn't growing. The tool they used to do that was the "Production and Consumption Map". The local priest, João Joaquim de Melo, with the help of other members of the Association, carried a survey to track the production and consumption. The "Production and Consumption Map" showed that they had money. However, the money was spent in other regions of the city instead of fostering local production. There was a need to change the local mindset that there is no money, but that the money, even if little, was used outside the neighbor, and there was no economic development within the community. However, if everyone started to use their small amount of money inside the community, buying locally, for example, would make the local economy grow.

The members of the Association realised that to improve their lives within the community, they needed to start and end the cycle within the As Palmeiras neighbourhood.



In order to help local producers, the Association got a donation of 2000 reais (around 300 euros) to provide the first loans as a credit portfolio and created their local currency, "Palmas". The idea was to use Palmas to increase the consumption locally, increasing the fidelity between customer and business. Also, the ones who decide to pay with Palmas would get discounted products.

2. Second Module – Solidarity Socio-Economy: How does it work?

Total time: 15 minutes

The lecturer will explain some basic concepts such as *Solidarity socio-economy*. The concept itself was created by Paul Singer and Socio-economy means that the main goal of the activity is not financial profit, but *social profitability*. In the case of Palmas Bank this is the local development that they target. The concept of Solidarity socio-economy can be considered an alternative economic framework grounded on mutual aid and cooperation.

Palmas Bank was also one of the first *Community Development Bank (CDB)* and it has this label because all the decisions regarding the bank are taken considering the will of the community and also their main tool for defaulting clients is social control, which means, exposing the person who got a loan and did not pay. These type of banks can be described as the ones responsible for offering banking services under the control of the community in which it is inserted in. The main goal of Palmas Bank is to increase consumption and production in the local level. As community development bank, Palmas bank is focused on increasing production and consumption at the same time by granting loans to entrepreneurs and costumers. The lecturer is invited to show the graphic presented in Banco Palmas website, translated to English by the authors (Appendix1).

Call to Action: What does the students understand as local development and what could be some examples of strategies/activities that Palmas Bank could implement to foster it?

According to the OECD, local development can be defined as building the capacity to improve the quality of life in a region It is an important contribution to national economic performance because, if effective, can reduce disparities between rich and poor places. It pursues the increase of coherence and confidence among the economic local strategy, and can lead to a more robust strategy assessment.

The main idea behind the creation of Banco Palmas was to induce fidelity within the community reinforcing the idea of buying local. The tool selected was the creation of their own currency (Palmas) that would be valid only inside the community



and would give discounts and smaller interest rates in case of loans. They realised that the majority of entrepreneurs in the Conjunto Palmeiras were women. For this reason, they created a "women's incubator" with courses for sustainable production and collaborations with NGOs and other institutions to connect those women. In the words of João Joaquim de Melo: *hybridisation of the economies* is a work of communicating solidarity economy with capitalist economics (Palmas, 2014, min: 15:53).

3. Third Module - Summary

Total time: 5 minutes

The lecturer is invited to use the STAR methodology (S – situation, T – Task, A- Action, R – Results/Reflection) to give a summary of the activity. In this way, it will be easier to students to understand that the final results is not a richer community, but a developed one. The money that they were able to raise from the bank's activities were essential to improve local development with initiatives to empower women's entrepreneurs, education and development of small and medium businesses. For this reason, the Palmas Bank define themselves as "more than a bank: it is an integrated system of credit, production, trade, consumption and human happiness".

SITUATION – Poor community in Brazil

TASK – To reduce violence, unemployment, poverty

ACTION – Creation of Palmas Bank and their own currency, Palmas.

RESULTS/REFLECTION – Improvement of solidarity and local development

4. Fourth Module – Challenge

Total time: 5 minutes

As a proposed activity inspired by inquiry-based learning, which places experiential knowledge and problem-solving at the forefront of its teaching and learning practices. The central idea of this challenge is to connect students with the study case through a global example. Even if students never heard of Banco Palmas, they know about social media such as Facebook and they can better understand what was explained creating correlations between them.

The challenge would be to ask the students do a short research about Facebook's idea to create their own currency "Diem" and to compare similarities and differences between As Palmeiras Community/Palmas and Facebook Community/Diem. The goal is to check the



understanding of the students regarding the scopes of the Palmas Bank. Even though the principle of the idea is the same, to create a special currency that would be available only within the community to increase money circulation there, the rest is completely different.

If it's not possible to compare the results in the next lecture, the lecturer is invited to share with the students the possible answers for this challenge through an official channel.

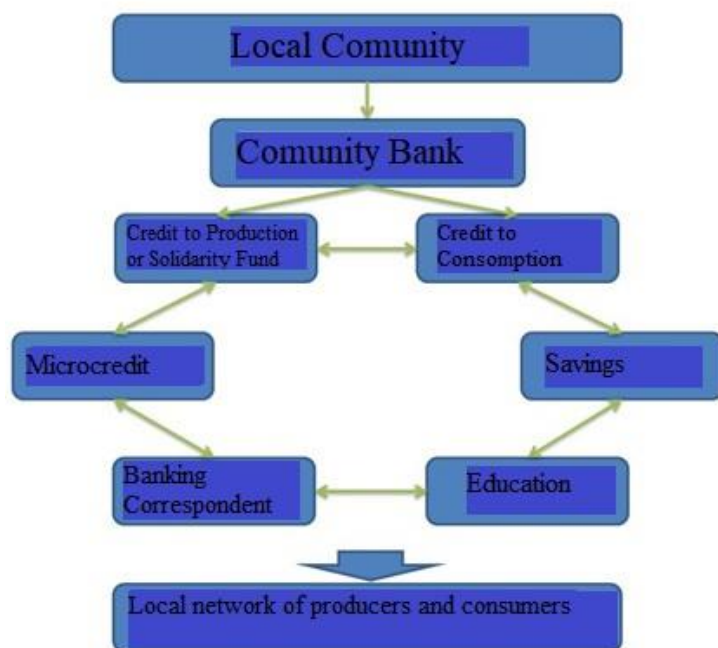
Group	Facebook	As Palmeiras
Community	Online	Offline
Coverage	International	Local
Currency	Diem	Palma
Objective of the original currency	Fidelity	Fidelity
Value	Average value of a basket of foreign currency	Fixed (pegged to the local currency)
Profit	Facebook can earn a profit in the arbitrage (buy/sell DIEM at a price different from the real market value) and charging commission to the seller	Cannot earn any profit from its currency



Appendix

Can be used to present slides, charts, etc.

1.1 Appendix1: How does Banco Palmas work?



1.2 Appendix2: Power Point presentation

The PPT prepared will be shared in a different pdf document.



References

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