

Microcredit and Innovative Local Development in Fortaleza, Brazil: The Case of Banco Palmas

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Introduction

Microcredit is increasingly perceived as a powerful instrument for poverty reduction and income generation for low-income population segments in developing countries. The United Nations' proclamation of 2005 as the International Year of Microcredit, as well as the Nobel Peace Prize awarded in 2006 to Muhammad Yunus, are both clear signs of this recognition.

Within this international context, and beginning in 1999, the Brazilian government launched a number of regulatory measures aimed at promoting microcredit. As a result, in recent years, an incipient Brazilian microcredit industry has started to flourish, with a variety of microcredit programs being led by NGOs, by for-profit organizations, and even by mainstream banks.

However, as the country does not have a strong tradition of microcredit or know-how in the area, most of these newly emerged operations are based on the implementation of microcredit “best practices” or methodologies imported from other countries. No matter how successful such practices might have been in their original settings, the extent to which their simple replication can achieve satisfactory results in such a complex geo-economic environment is a question that still calls for debate. So far, despite almost ten years of policy efforts, Brazilian microcredit penetration rates still rank among the lowest in the world.

This paper describes one particular Brazilian microcredit initiative which, unlike most of its counterparts, has developed a local, home-grown methodology to scale microcredit and foster social development. The experience, called *Banco Palmas*, was initiated about ten years ago by ASMOCONP (*Associação dos Moradores do Conjunto Palmeiras*), the neighbourhood association of “Conjunto Palmeiras,” a peri-urban slum district of 30,000 inhabitants located on the outskirts of Fortaleza, the capital of the state of Ceará, in North-Eastern Brazil. What mainly differentiates Banco Palmas from conventional microcredit initiatives is its preoccupation with sustainable territorial development, rather than with the success of individual microentrepreneurs. In technical terms, while virtually all Brazilian microcredit organizations adopt what is called a “minimalist” model of microcredit, Banco Palmas has developed a more “integrated” approach (Ledgerwood 1999; Nitin and Tang 2001; Woller and Woodworth 2001).

The aim of this paper is, therefore, to provide a concrete illustration of a socially and historically situated microcredit initiative that, due to its innovative nature, we believe is worth studying as a possible model for Brazilian and Latin-American microcredit organizations and policymakers. Our research question consists in identifying how the Banco Palmas’ “integrated” microcredit approach was historically developed, how the project is currently applied, and how it affects the local community of Conjunto Palmeiras.

The paper is organized into five sections. First, a brief overview is given on historical aspects of microcredit in Brazil, from its beginnings in the 1970s to the present, and refers to the historical and regulatory environment in which the Banco Palmas project emerged. Second, a comparison is made of two different conceptual approaches for microcredit that have been discussed in recent literature: the *minimalist* approach, which is by far the dominant approach among Brazilian microcredit institutions, and the *integrated* approach, which was adopted by Banco Palmas. Third, the research methods used to develop the case are described. Fourth, ASMOCONP’s trajectory is described since its beginning, emphasizing the microcredit initiative developed through the Banco Palmas project since 1998. Finally, comments are given on the results of, and current developments in, the Banco Palmas project.

Microcredit in Brazil: Origins and Current Situation

Microcredit in Brazil is not a recent activity. The first initiatives in the field date back to 1973, preceding the foundation of the Grameen Bank in Bangladesh, which is recognized worldwide as a ground-breaking microcredit experience. However, contrary to what happened in Bangladesh and other parts of the world, the Brazilian microcredit activity never reached a significant scale. From its origins to the late 1990s, the activity was performed by a very limited number of NGOs, and never became a matter of public policy. Although some microcredit initiatives in Brazil have been successful on an individual scale, in practice the aggregate industry size has remained insignificant, or “almost inexistent” (Barone et al 2002: 8).

Only in recent years has the Brazilian microcredit industry received a more sizeable impulse. This is due to a series of governmental measures aimed at adjusting the activity’s legal environment. This set of regulations was labelled “PNMPO – *Programa Nacional de Microcrédito Produtivo e Orientado*” (National Program for Oriented and Productive Microcredit), and came as a result of a series of studies undertaken by the Brazilian government between 1995 and 1999 in order to create microcredit incentives and to attract new players to the market (Soares and Melo-Sobrinho 2007). The impacts of this policy on industry structure were noteworthy: in a short period of time, many new suppliers entered the market, including not only traditional non-profit organizations, but also a variety of for-profit businesses, such as specialized microcredit societies (SCMs - *Sociedades de Crédito ao Microempreendedor*) and commercial banks.

Despite these changes, microcredit activity in Brazil has not yet achieved significant growth. Estimates are that fewer than 200,000 low-income Brazilian microentrepreneurs have access to microcredit loans, out of a total of 8 million eligible clients. The microcredit penetration rate (ratio between the actual and potential number of clients) remains steady at approximately 2%, ranging among the lowest in the world (Christen 2001; Nichter et al 2002; Monzoni-Neto 2006). Some intrinsic factors of the Brazilian economy seem to create obstacles to more effective growth of the microcredit industry. These include the continental dimensions of the country and the heterogeneous distribution of its population, raising the costs of traditional microcredit operations (Diniz 2007). Additionally, the fact that Brazil has highly developed financial markets in comparison to many other developing countries represents an obstacle to the allocation of private local capital to microcredit, given the existence of a variety of other, often more profitable and easily available, investment options (Christen 2001). Finally, as pointed out by Nichter et al (2002) and Diniz (2007), the lack of previous, successful microcredit experiences and methodologies that could exert a “demonstration effect” and encourage new ventures, also plays a role in limiting growth.

Microcredit Approaches: The *Minimalist* versus *Integrated* Debate

In regard to microcredit methodologies, Soares and Melo-Sobrinho (2007) document that, in the studies that led to the elaboration of the new regulatory framework in the late 1990s, two alternative approaches were considered by the Brazilian government for regulatory and incentive purposes: the so called *minimalist* (also known as “finance-oriented”) and *integrated* (or “development-oriented”) approaches.

Indeed, the debate over these two approaches has been a source of much discussion in the academic literature on microcredit in recent years. The differences between the two schools of thought are explored by authors like Ledgerwood (1999), Nitin and Tang (2001), and Woller and Woodworth (2001), among others. The main point of contention is whether microcredit suppliers need to focus on delivering financial services *only*, or whether they should also provide complementary, non-financial services to their clientele. The minimalist approach considers the access by low-income individuals to credit as the only piece missing for income generation and, therefore, sees the providing of microcredit loans as a development strategy *per se*. On the other hand, the integrated approach emphasizes the importance of providing not only credit but a range of development-oriented services to the poor in order to attack the structural causes of poverty. Typically, these non-financial services should include educational programs, community-based development programs, business and capability-enhancing training, and so on. In terms of economic sustainability, operating costs incurred in the minimalist approach are obviously much lower than those of integrated microcredit programs. Minimalist programs often adopt specific risk-managing and credit analysis methods that demand some degree of social intermediation through the use of loan officers, but avoid the costs of additional development-oriented services or policies (Figure 1).

As remarked by Soares and Melo-Sobrinho (2007), the Brazilian policymakers ended up adopting the minimalist approach as a model for regulatory and official incentive purposes. The higher operating costs of integrated operations, as well as the success and international reputation achieved by the Grameen Bank in providing minimalist microcredit, were taken into consideration. As a result, practically all the microfinance institutions that currently operate in Brazil offer what can be termed minimalist microcredit. Their methodologies consist basically of replicating, with little adaptation, a microcredit model that has proved successful in Bangladesh and other developing countries.

Having developed, since 1998, an innovative microcredit program that goes against the dominant current of minimalism, Banco Palmas, however, stands as a remarkable exception in this panorama. Banco Palmas’ experience is considered one of the most promising cases of a community-based development strategy in Latin America (Toscano 2002; Lima 2003), and represents a valuable opportunity to study the potentialities of an *integrated* microcredit approach for generating local development.

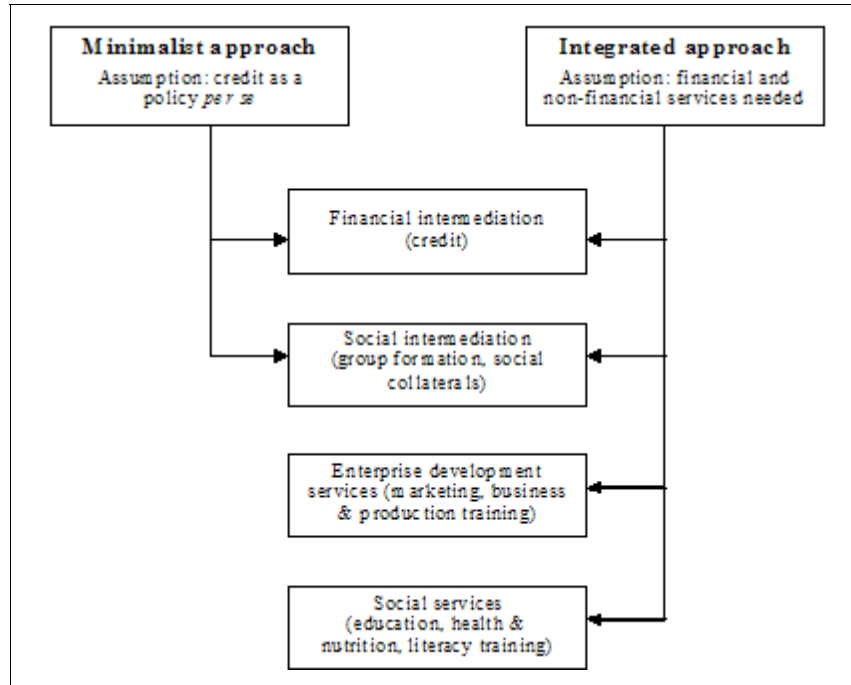


FIGURE 1 Minimalist and Integrated Approaches of Microcredit (Adapted from Ledgerwood 1999)

Research Method

To answer our research question – *How was the Banco Palmas “integrated” microcredit approach historically developed, how is the project currently applied, and how does it affect the local community of Conjunto Palmeiras?* – the fourth section of this paper focuses on the trajectory of the Conjunto Palmeiras community from its beginning in 1973, and emphasizes microcredit activities that have been developed since 1998 through the Banco Palmas project. To do so, we adopted a qualitative case-based approach, which is deemed one of the most appropriate research strategies for conducting empirical work on process-oriented research (Glesne 1999). We followed Stake’s (1998) concept of the instrumental case study: a particular case is examined in order to provide insight into a research issue. The particular case of Banco Palmas was selected due to its unique and exceptional characteristics (Eisenhardt 1989), which make it an unparalleled, one-of-a-kind initiative of integrated microcredit in Brazil.

One of the advantages of case-based research over other methodologies is the opportunity to use multiple sources and types of evidence to achieve triangulation. In our case, the main sources of data were interviews and archival research. With regards to archival research, we had access to a variety of documents from which we learned about the past history and current context of ASMOCONP, the

neighbourhood association of Conjunto Palmeiras, as well as about the Banco Palmas project. Additionally, we performed both face-to-face and phone interviews, and visited the research site on three different occasions: July 2007, December 2007, and January 2008.

For data collection and analysis, we adopted a *historical approach*, as proposed by Mason et al (1997) and applied by Pozzebon and Van Heck (2006). As stated by Mason et al, historical research methods offer a valuable perspective for understanding contemporary problems – how they arose, how their characteristics unfolded, which solutions have worked, which have not, and why – as well as their economic and social implications. We proceeded through the six research steps suggested by Mason et al (1997), as follows¹. After identifying our research question (step 1), we specified a domain of inquiry with well-defined spatial and temporal boundaries (step 2). With reference to the domain of inquiry, our primary unit of analysis is ASMOCONP, the neighbourhood association that carried out the project. As for the period being investigated, although our targeted timeframe begins in 1998 with the creation of the Banco Palmas project, the previous history of the Conjunto Palmeiras community was considered important for understanding the context.

Step 3 of Mason et al's (1997) historical approach involves the gathering of documents and written records. Our data collection included academic papers, articles in the media, research notes from visits to the actual site, and transcripts from interviews. From January 2007 to January 2008, we performed a total of eight interviews with the Association's managers and staff, as well as with members of the community. Two types of interviews were carried out: face-to-face and by-phone. All the interviews were tape-recorded with the consent of the interviewees, and transcribed for analysis. Step 4, as proposed by Mason et al (1997), involves the critical evaluation of empirical material, using analytic processes like basic logic in order to assess the overall coherence of the data.

At the data analysis step (step 5), the research turns from mainly empirical to inductive. As the outcome of a historical approach is more than a mere chronology of facts, the task of the researcher here consists of assembling and interpreting facts in order to assess their meaning and logic (Mason et al 1997: 315). Finally, the result of this analysis takes the form of a historical narrative (step 6), which is presented in the following sections.

The Banco Palmas Case

Fortaleza, the capital of the state of Ceará, is a major tourist destination in Brazil. With a population of 2.5 million, the city receives around 2 million visitors per year, attracted by white-sand beaches, blue-water ocean, warm temperatures, and an exciting nightlife. A modern, complete tourist infrastructure is set all along the seaside, in the wealthiest part of the city. However, this has not always been the

1. Although for analytical reasons these steps are presented as a sequence in time, in research practice they can overlap, or follow an iterative logic.

case. Until the 1970s, parts of it were occupied by *favelas*, the Brazilian term for shantytowns or urban slums. In 1973, with the growth of tourism and the process of urban land valorization, the local municipality started a policy aimed at driving the slum residents (or *favelados*, as they are called in a slightly deprecating way) out of the area. This urban policy, executed by an agency called *Fundação para o Serviço Social de Fortaleza* (Fortaleza Social Service Foundation), consisted basically in transferring low-income inhabitants from the central, privileged districts, to suburban and undeveloped areas of the city.

It was in this context that Conjunto Palmeiras was born in 1973, as a result of the displacement of 1,500 low-income families that were no longer desired in the tourist areas. The original settlers, forced to abandon their central slum habitations, were assigned land portions in a vast, empty area located 22 kilometres away from the seashore. While aligning the city more closely with tourism, the urban policy neglected to deal with any of the structural or social problems that affected the displaced residents. Quite the contrary, the new area was far from jobs, schools and all urban facilities, with precarious access to urban transportation, and without a water supply, sanitation, or electricity.

The history of Conjunto Palmeiras can be divided into three distinct phases. The *first phase*, which lasted from 1973 to 1981, was characterized by the arrival of the original inhabitants, as well as significant population growth through settlement by migrants coming from the country's interior. Within a very short period of time, Conjunto Palmeiras had turned into a peri-urban slum of 30,000 inhabitants. As is typical of Brazilian *favelas*, the community grew in a context devoid of a basic infrastructure or social services, and amidst dreadful living conditions and very low levels of human development.

A *second phase* started in 1981, lasting until 1998. The early 1980s were a period of gradual redemocratization of Brazilian society after several years under an authoritarian regime. Civil associations and community activism movements, which had been banished or inhibited for many years, flourished energetically. It was in this context that a neighbourhood association called ASMOCONP (*Associação dos Moradores do Conjunto Palmeiras*) was founded in 1981 by local community leaders. Initially supported by progressive sectors of the Catholic Church and by local and international NGOs, ASMOCONP immediately started working for a series of infrastructural improvements.

The results achieved by ASMOCONP's organized actions were noteworthy, though not immediate. Only in 1988 did the neighbourhood gain access to a public water supply, an achievement that is still considered one the most difficult in the Association's history. In the meantime, outdoor lighting made an appearance on neighbourhood streets and electricity arrived in every house in the community, as a result of ASMOCONP's lobbying of authorities. Asphalt and sanitation, however, would not arrive before the 1990s, and were only possible thanks to international aid. A partnership between ASMOCONP and GTZ, a German government-owned corporation specializing in sustainable development projects, provided funds and technical assistance for the construction of a sewage system and other urban improvements such as pavement and drainage. By the end of the

1990s, as a result of almost two decades of continuous effort, the former *favela* was finally urbanized.

However, despite these urban improvements, the socio-economic conditions of the community members did not increase at the same pace. On the contrary, they deteriorated to critical levels. An informal census carried out by ASMOCONP revealed that, in 1997, most of the residents were unemployed or held precarious jobs. Ninety percent of the families lived on less than two minimum wages per month.² Seventy-five percent of the adult population was illiterate, and at least 1,200 children of school age were not in school. To make matters worse, it became evident that a considerable number of families had started to put their houses on the market and leave the community, because they could not afford the public fees, i.e., for electricity and water, which came with the new urban infrastructure. Since the infrastructural improvements had been made without a corresponding growth in income, the neighbourhood was driving out its own residents. As related by Joaquim de Melo, one of the community leaders and manager of ASMOCONP, “this was happening to many families back then: the husband wasn’t working, the kids were sick, the house was the family’s only asset and they couldn’t afford all those taxes, so the result was to sell the place and move away, since you cannot sell your husband and kids to keep the house”.³

These circumstances led ASMOCONP to redefine its priorities. With most of the physical, infrastructural problems now out of the way, it was now urgent to find strategies for income generation that could help reduce the high social risk faced by the community. This shift in the Association’s priorities would inaugurate a *third phase* in the history of Conjunto Palmeiras, one in which microcredit and the Banco Palmas project would play a central role.

Banco Palmas was founded in January 1998, with an initial capital endowment of only 2,000 Brazilian reals (\$1,800 US), donated by Cearah Periferia, a local NGO. Additional funds were obtained from other local and international NGOs during the first six months of operation, totalling 30,000 reals (\$27,000 US) that were earmarked for microcredit loans as a way of creating income-generating opportunities.

However, due to the scarcity of professional qualifications among community members, it was considered that a microcredit strategy in Conjunto Palmeiras would be sustainable only if accompanied by complementary capacity-building actions. Microcredit thus became a central piece of a larger array of activities, with the aim of producing local development. The project’s central philosophy consists of creating what is called a “solidarity network,” integrating local producers and consumers, in such a way that the greatest possible portion of local wealth circulates locally, remaining in the community rather than generating income and employment elsewhere.

2. The minimum wage in 1997 was R\$ 120 (Brazilian reals) per month, and the exchange rate was around R\$ 1.10 per US dollar, meaning that 90% of families lived on less than approximately \$218 US/month, or \$7 US/day.

3. João Joaquim de Melo Neto Segundo. Interview, July 7, 2007.

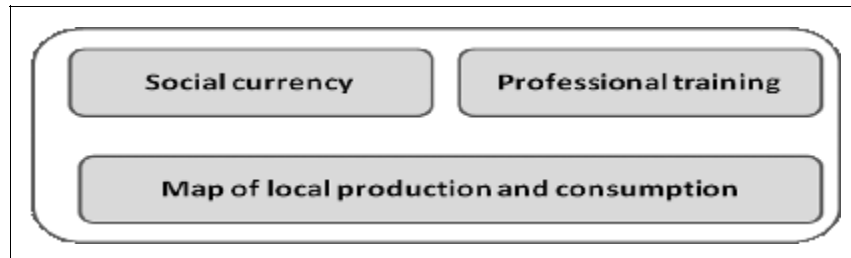


FIGURE 2 The Three Pillars of ASMOCONP's Developmental Strategy

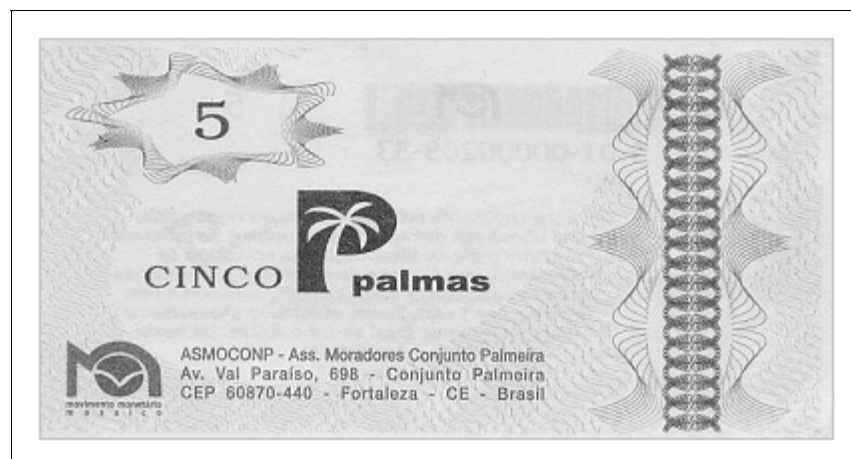


FIGURE 3 Palmas are Issued on Security Paper to Prevent Forgery

To articulate this philosophy, three instruments were designed to be used in combination with credit: a “*social currency*,” intensive *professional training* and a *map of local production and consumption* (Figure 2).

First, to encourage local spending, ASMOCONP created a local, alternative *social currency* called “Palma,” which circulates side-by-side with the official Brazilian currency (the real), and is accepted by the local merchants. The Palmas – printed on special paper with security coding to prevent forgery (Figure 3) – are backed by reals at one-to-one parity, so that for each Palma in circulation one real is held in reserve by the Association. When getting a loan from the Banco Palmas project, individuals receive Palma notes instead of reals. As the alternative currency is good only within the boundaries of the neighbourhood, borrowers tend to spend these resources on local purchases. Conversion into reals is possible at any time at ASMOCONP, although it is discouraged, thanks to a two-percent administration fee.

The aim is to promote a production and consumption cycle within the community, in a way that ensures that the multiplicative, income-generating effects of the microcredit loans remain in the local economy. In this sense, two lines of microcredit are offered in Palmas: one that finances producers and

merchants, and another that finances local consumers. In either case, to obtain a loan, one is not required to produce any documents or formal guarantees like those required by formal credit institutions. Rather, the system is based simply on the borrower's local reputation, with neighbours giving assurance that the person applying for a loan is responsible and truthful. Additionally, loans issued in the social currency do not carry any interest.

Second, to address the lack of qualifications among local workers and producers, a variety of *professional training* courses and workshops have been offered by Banco Palmas, since the project's beginning. The aim is to provide the members of the community with specific professional and business skills that will help them to take advantage of microcredit loans. And herein lies one of the most important premises of the developmental philosophy behind ASMOCONP's actions: to promote financial support without triggering conditions which allow people to become true agents of their emancipation as citizens and entrepreneurs is a recipe for failure.

Part of this task is accomplished by a number of *empreendimentos solidários* (solidarity businesses), which are small production units founded by ASMOCONP and run as part of the Banco Palmas project. The most important of them are PalmaFashion (a small sewing factory), PalmaLimpe (producing cleaning materials), PalmaNatus (natural soaps) and PalmArte (handicraft products). Each initiative is an independent, financially sustainable business operation, although all are installed within the physical space of the Association in order to reduce operating costs. Their purpose is to "incubate" local workers, who are temporarily employed and trained in specific professional and business skills, enabling them to work for themselves or for local businesses.

This policy is complemented by a variety of training-oriented projects, sustained through partnerships with development agencies, NGOs and universities. One of them, called *Bairro-Escola* (Neighborhood School) is a training program aimed at residents aged 16 to 24. The program offers young people the possibility to learn a skill through a three-month internship in a local, formal or informal, business. Both the trainee and the business owner receive small grants during the program, and in many cases the trainee ends up being hired on a permanent basis after the internship. This project, which is funded by the Inter-American Foundation, was initiated in 2005 with the aim of training 1,000 youths in the first three years.

Another such project, the *Academia de Moda* (Fashion Academy) - taught by graduate and undergraduate students from two accredited fashion colleges in Fortaleza - is oriented towards young women, who are offered courses in sewing, tailoring, fashion design and marketing. Upon course completion, participants are eligible for microcredit loans from Banco Palmas to start their own sewing businesses.

Finally, the third and leading characteristic of Banco Palmas' methodology, and perhaps the one which most distinguishes it from all other Brazilian microcredit initiatives, is its annual "*Local Consumption and Production Map*," a detailed research operation which provides up-to-date information about how much of each different item typically consumed in households is being produced

and consumed in the community. Such information is collected through an extensive door-to-door survey carried out by young people from the community. The information allows Banco Palmas to better evaluate which kinds of investments should be promoted, and which should not, according to how much each particular item (product or service) needs to be supplied. The idea is to adjust the quantities being produced to the local demand. By doing so, Banco Palmas is able to make a more rational use of its microcredit and professional training mechanisms, focusing specifically on those sectors or activities that will satisfy existing needs. This allows the project to finance local businesses while looking not only at the needs and capacity of individual microentrepreneurs, but also considering community development as a whole, on a territorial basis. This helps to overcome a weakness often attributed to minimalist microcredit programs that finance individual micro-businesses, whereby local markets may end up saturated, therefore causing existing competitors to collapse or be displaced.

ASMOCNP also promotes a monthly meeting called “*Fórum Econômico Local*” (Local Economic Forum), where microentrepreneurs, residents and all others concerned with the local economy have the opportunity to discuss new kinds of businesses to be promoted. Based on the premise that each community member, despite his/her educational level or economic situation, is an agent who can bring solutions to local problems, the neighbourhood association believes that sustainable and local development can be reached in any territory, depending on the degree of self-management and thoughtful cooperation that can be instilled among residents.

One example of how investments can be directed towards the needs of the community, rather than to an individual entrepreneur, is the creation of a computing school inside Conjunto Palmeiras. After determining that many young people in the community had to spend hours travelling back and forth to more developed areas of the city in order to acquire the computer knowledge and expertise necessary to gain access to better jobs, it was decided in a *Fórum Econômico Local* meeting that Banco Palmas would support the creation of a computer school within the neighbourhood. As no merchant had any experience with this kind of business, they convinced the one with the largest infrastructure, the owner of a small market, to assume the computing school business, since he would be best equipped to expand to a totally new area of activity. This is how the local grocery owner also became a successful computer school manager.

Results and Recent Developments

Using a historical approach, we were able to identify the most important steps by which Banco Palmas developed an integrated and powerful microcredit approach, how the project is currently applied, and how it affects the local community of Conjunto Palmeiras. Combining three mechanisms in an innovative and integrative way – social currency, professional training, and local consumption and production mapping – over the last ten years, Banco Palmas has developed a microcredit methodology focused on generating income, wealth and social development on a

territorial basis, in contrast to the dominant, minimalist methodologies which favour individual results. By means of intensive professional training, as well as local production and consumption mapping and other participative instruments, ASMOCONP has been able to provide the community with a variety of services, in addition to credit itself, that justify characterizing the project as an “integrated” approach to microcredit (Ledgerwood 1999).

Being aimed at local development rather than at individual results, the project’s results must be measured in terms of its overall impact on the community. Ten years after the Banco Palmas project was initiated, and despite the difficulties due to a lack of financial resources, especially in the initial years of operation, ASMOCONP estimates that 1,600 people have been capacitated thanks to the project, and 700 direct and 2,500 indirect labour posts have been created. Local merchants have registered an increase of 30 to 40% in their sales, indicating the success of the program in terms of increasing circulation of local wealth within the community. According to what could be inferred from our interviews, the project is widely recognized by community members as a legitimate way of attenuating poverty and promoting jobs and income, by generating solidarity and integration among community members and creating new social and economic dynamics. In addition to this, by the time of our research, a total of 13 other poor districts or municipalities, not only in North-Eastern Brazil but also in other regions of the country, were receiving training from ASMOCONP in order to start similar projects in their own communities.

A new development in the Banco Palmas project came in 2005, when Banco do Brasil, the largest banking institution in the country, proposed to partner with ASMOCONP in order to develop a shared microcredit operation in Conjunto Palmeiras. Far from being an isolated action, the Banco do Brasil initiative was a result of governmental regulations aimed at promoting microcredit in the country, which led several mainstream banks to start strategies so as to enter the microcredit activity (Diniz 2007). In the case of Banco do Brasil, the strategy involved establishing partnerships with accredited institutions already operating in the microcredit business, thereby taking advantage of their know-how and methodology in delivering microcredit. The logic grows out of exploring the particular strengths of each partner in the microcredit business. On the one hand, the bank has extensive access to funds, as well as technological tools and back-office systems to support large scale credit operations, but lacks knowledge of lending methodologies for microcredit clients. Conversely, institutions like ASMOCONP possess expertise in microcredit practices and methodologies, but have limited access to funds and technology.

The partnership involved an initial allocation of R\$ 270,000 (around \$160,000 US) by Banco do Brasil, to be employed by ASMOCONP in offering microcredit to local residents. The bank charges ASMOCONP a monthly interest rate of 2%, which has to be transferred to the microcredit loans. On the one hand, this resulted in a huge increase in the amount of funds available for microcredit, which grew tenfold, from R\$ 30,000 (\$18,000 US) to R\$ 300,000 (\$180,000 US). At the same time, in accordance with the bank’s operational policies, microcredit loans originating from its funds had to be issued in reals. Although other aspects of

ASMOCONP's lending methodology remain unchanged, this specific requirement represents a significant shift from the original principles and philosophy of the Banco Palmas project, since interest rates have to be charged and the use of the social currency is constrained.

The consequences of this shift are yet to be assessed, but the risks are not negligible. Nevertheless, by becoming a banking correspondent of Banco do Brasil, ASMOCONP gains access to other sources of revenue: each account opened, payment received, insurance sold or government benefit delivered represents a fee paid by Banco do Brasil. Although such fees currently amount to a very small part of ASMOCONP's total budget, as the range of services and the number of clients grow these figures can be expected to play a prominent role at Banco Palmas. The discussion that arises is how this merger with a commercial bank will impact Banco Palmas in the near future: Is it compatible with the integrated developmental strategy (hitherto based on three pillars – social currency, professional training, and production and consumption mapping) that the Association has pursued since the project's outset? Can the scale of microcredit delivery be increased without sacrificing a rather inclusive microcredit approach and without threatening the developmental philosophy? These are questions that still cannot be answered with the data currently available, and remain to be explored by further research in the near future.

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