Banking Correspondents as Social Innovation Network – The Case of Banco Palmas

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ABSTRACT

This paper focuses on the banking correspondent’s network as social innovation NETWORK. We argue that banking correspondents are contributing to achieve societal goals of reducing poverty under conditions of knowledge sharing of microfinance technologies among social relevant groups. More specifically, we are looking at how to propagate bank’s microfinance services within low-income communities through knowledge sharing practices. Financial services access provides critical investment opportunities and liquidity for consumption for the poor who have been traditionally left aside of financial markets (Llanto & Fukui, 2003) and is also one of the most important conditions to improve the chances of self-employed individuals who are close to the poverty line (Abramovay, 2004). Well-applied technology allows for a broader range of distribution channels and increased productivity among microfinance providers (Sanabria, 2006). In combination with greater economies of scales, technologies have resulted in a reduction of the total cost of debt in those places were the microfinance activity has been developed (Sanabria, 2006). Innovations help reduce the MFIs’ transaction costs and risks. They also make it possible for poor households to satisfy their investment and consumption requirements (Llanto & Fukui, 2003). When many agents join in a network to create new combinations of existing technologies, they create an innovation through a social innovation network. Ideas of a group can solve problems of others, but only if connections between solutions and problems are made between groups (Hargadon & Sutton 1997). This paper describes an emerging technological and social innovation network in Brazilian microfinance sector, which are the correspondent banking networks. Correspondent banking arrangements refer to bank partnerships with non-bank entities, such as lottery kiosks, post offices, MFIs and so forth to provide distribution outlets for financial services (Kumar et al, 2006). A set of correspondents connected to a bank and managed by a network integrator form a correspondent banking-network (Diniz, Pozzebon & Jayo, 2009), which is a social innovation network. To shed this argument, we present the case study of Palmas Institute enriched by many of its social actors’ visions. First, we present the Palmas Institute history according to information collected on sites, interviews, documents and academic articles (Diniz, Pozzebon, Jayo & Araujo, 2008). Second, we use a conceptual framework provided by Pozzebon, Diniz & Jayo (2008) to present and analyze the social innovation network. Respondents were selected according to their job, position in the organization and role in the negotiation process. Data were codified in categories, inspired by this study’s conceptual framework. For each category, we have first presented a general view of the results. Then, we compared the results by the different “relevant social groups”. Our main contribution is to present distinctive perspectives about the theme, discussing banking correspondent’s network’s ways of improving the appropriation of microfinance technologies by low-income communities.
INTRODUCTION

This research aims at understanding the conditions for local appropriation of microfinance services with the support of recent technological and social innovation networks. More specifically, we are looking at how to propagate bank’s microfinance services within low-income communities through knowledge sharing practices. In several Latin American countries - Argentina, Brazil, Colombia, Mexico and Venezuela – the regular supply is insufficient to meet the enormous demand for financial services. Financial services access provides critical investment opportunities and liquidity for consumption for the poor who have been traditionally left aside of financial markets (Llanto & Fukui, 2003) and is also one of the most important conditions to improve the chances of self-employed individuals who are close to the poverty line (Abramovay, 2004).

Well-applied technology allows for the design of new products, a broader range of distribution channels and increased productivity among microfinance providers (Sanabria, 2006). In combination with greater economies of scales, technologies have resulted in a reduction of the total cost of debt in those places were the microfinance activity has been developed (Sanabria, 2006). Innovations help reduce the MFIs’ transaction costs and risks. They also make it possible for poor households to satisfy their investment and consumption requirements (Llanto & Fukui, 2003). When many agents join in a network to create new combinations of existing technologies, they create an innovation through a social innovation network. Ideas of a group can solve problems of others, but only if connections between solutions and problems are made between groups (Hargadon & Sutton, 1997).

This paper describes an emerging technological and social innovation network in Brazilian microfinance sector, which are the correspondent banking networks. Correspondent banking arrangements refer to bank partnerships with non-bank entities, such as lottery kiosks, pharmacies, post offices, MFIs and so forth to provide distribution outlets for financial services (Kumar et al., 2006). A set of correspondents connected to a bank and managed by a network integrator form a correspondent banking-network (Diniz et al., 2009), which is a social innovation network.

In Correspondent Banking, microfinance services are provided through a POS (point of sale) device, which allows transactions in real time. Combined with a bar scanner, it scans bills for electronic payments, PIN pads, teller machines and in some case, personal computer interfaces. The connection is made to parent computers'servers with dial-up or satellite connections. All these technology apparatus are not an innovation per si, rather than that the connection it enables among banks, network managers, small retailers and MFIs generates important partnerships and viabilize new kinds of business, which constitutes a social innovation network (Diniz et al., 2009).

This paper draws some lessons from the experience of Palmas Institute (an accredited microfinance institution operating in the northeast region of the country) in partnership with Banco do Brasil (one of the largest and most important public Brazilian banking institutions). Palmas Institute is an emblematic case because it is at the same time, a network integrator, a banking correspondent and an MFI. The case sheds light upon the possibility of being a network integrator and at the same time being part of poor communities providing banking services contributing to alleviate its poverty.

In order to maintain those three distinct statuses, Palmas Institute’s operations relies on a heavy use of ICT infrastructure. As a network-integrator it has to coordinate forty-one correspondents around the country. As a correspondent banking, it has to operate on all customers’ transactions. As an MFI it has to deal with NGO’s, local government’s administrations and different sources of donations.
The paper is structured as follows: section I explains why we see the concept of correspondent network as a technological and social network innovation, section II describes the research approach, III presents the Palmas Institute history, section IV presents the main results; and section V the provisional conclusions.

**Correspondents as a Technological and Social Innovation Network**

An economic innovation is something genuinely new that brings added value to an organization (Haho, 2002; Urabe, 1988). The fully benefit from an economic technological innovation can be achieved by organizations if technological innovation is embedded in social innovation (making technology work through proper organization, dynamic management, upskilling, commitment and involvement of employees, etc.). Sometimes, technological innovation and research are made in large scale (Pot & Vaas, 2008). However, the utilization of new knowledge for innovation of products, services and processes, or the absorptive capacity of organizations is rather weak.

In Europe, social innovation has been applied as a broader concept that includes such things as dynamic management, flexible organization, development of skills and competences and networking between organizations (Pot & Vaas, 2008). Many of these aspects are relevant to the development of the microfinance Brazilian context, but especially the later one. If we look at how our banking correspondents’ system has being evolving, we can see a growing network sustaining it.

The traditional view of one invention is that one person alone creates it and that the discovery occurs in a flash of insight (Mayer, 1995). However, both innovation and invention contain social aspects. In a network society, the combination of knowledge and creativity in a favorable environment may lead to innovation, the creation of which is playing an ever more central role in business organizations and national economies (Kenney, 2001).

Focusing on the social aspects of the innovation process is focusing on the structural competence attributes of the organization that are needed to create an innovation. Organizational culture, communication processes, and shared knowledge are some examples of these competence attributes. Important questions are how does the organization function, what are its culture and value sets like, what type of information is stored and shared between people, and by which mechanisms (Taatila, 2004).

The importance of social networks is widely accepted in business management model, but the role of network in the microfinance activities is still not explored. Castilla, Hwang, Granowetter, E. and Granowetter, M. (2000) claim that the most important individual aspect in the success story of Silicon Valley is its social network. Bhat (2005) has argued that network support from the surrounding society is essential in developing a new technological industry in India. These studies point to the importance of social aspects of the innovation processes but the social dimension of the research is still limited (Taatila, 2004).

In order to shed some light on questions about the technological and social network structure of the innovations in the microfinance activities, there is a need to better understanding the full social processes and the environment that is required for them to evolve. We apply a specific theoretical framework for studying these processes underlying social innovation networks, which we explain as follows.
**THE RESEARCH APPROACH**

**Theoretical framework**

Recent academic studies have highlighted the particular importance of structuration theory to better understand the interaction of ICT and people at different levels (Jones & Karsten, 2008) - individual, group, organizational and macro. In order to extend the structurationist view of technology (explained below) to analyse the adoption, implementation and use of ICT at the community/societal levels, a multilevel framework has been proposed. The framework was developed by Pozzebon et al. (2008) and applied to analyse the Brazilian microfinance context.

The framework is based on three theoretical perspectives: the Social Shaping of Technology (SST), the structurationist view of technology and the contextualism (Pettigrew, 1985). The framework combines four central concepts: relevant social groups, technological frames, negotiation and technology-in-practice. These concepts are linked according to three interconnected dimensions, as posited by contextualism Pettigrew (1985): context, process and content. Adapting context, process and content to ICT, we consider that:

- **Context** refers to the social setting where the ICT application is being implemented and used. It helps define the boundaries of the investigation and includes the identification of different relevant social groups interacting in a given social and cultural setting that makes up the research context.

- **Process** refers to understanding how the IT application is implemented and with what kinds of consequences (intended and unintended). It also includes the identification of occasions, spaces and mechanisms open to negotiation and change.

- **Content** refers to the socio-technical characteristics of the IT application being implemented as used by particular actors at a given level of analysis. The technologies-in-practice resulting from the process of negotiation are considered here.

Each of these concepts, selected to set out the framework, is important for the purpose of this paper for different reasons. First, because the level of analysis of our paper combines individual (e.g., local people coming from a low income population) and social (networks of organizations - banking correspondents, comercial banks, network integrators, NGOs, local government), we look at ways to take into account actors in a multilevel context. The social network, at the group level, are articulated through the key concept of **relevant social groups**, which refer to a set of people who share a common geographical space or share a set of assumptions about a given subject of interest (Sahay & Robey, 1996). Alliances and consensus that they achieve enable knowledge sharing and a variety of exchanges among them, creating the social innovation network.

Second, in the adoption and use of a given technological artifact different social groups attach interests, assumptions and expectations on that. Convergence or divergence, dominance or conflict among technological frames reveals important mechanisms in negotiations among relevant social groups. **Technological frames** refer to basic assumptions, beliefs, and expectations that people hold about a specific technological application (Davidson, 2002), including specific conditions, applications and consequences of that technology in particular contexts (Orlikowski & Gash, 1994). In the case analyzed herein, the technological frame of Bank Managers, network managers, banking correspondents and community has its particularities and social groups need to negotiate to find the best way to achieve their goals.

Third, in the ICT implementation and use, **the negotiation** is the identification **process** of occasions, spaces and mechanisms crucial to the relevant social groups interaction. What
we need to ask in our case is in what arena people are discussing their interests and which are the mechanisms that Banks, network managers and community use to exchange information? Finally, it is important to think about the concept of technology-in-practice (Orlikowski, 2000) as the result of the negotiation process among different social groups, in order to recognize what interests or assumptions have prevailed in the implementation and use of ICT and what are the consequences for the different social groups involved in the process.

The result of combining the four concepts organized in terms of the three interconnected dimensions of the contextualist frame is presented in Figure 1, that will guide our empirical work, mainly the relationships and interaction with the particular context of the case analyzed herein.

**Figure 1 – A structurationist and multilevel framework**


**METHODOLOGY**

We adopted a qualitative approach, which is a proper approach to study issues in depth and detail (Durrheim, 1999), and is particularly orientated toward exploration and discovery (Patton, 2002). The research strategy was the case study, which is able to accommodate a rich variety of data sources, including interviews, archival data, and observations (Eisenhardt & Graebner).

We studied the case of Palmas Institute. First, we present the Palmas Institute history according to information collected on sites, interviews, documents and academic articles (Diniz et al., 2008). Second, we use a conceptual framework provided by Pozzebon et al. (2008) to present and analyze the social innovation network.

We have selected fourteen respondents to be interviewed, according to their job, position in the organization and role in the negotiation process.
We have investigated many documents in order to complete and validate the data obtained through the interviews. That documentation consisted of reports provided by the Palmas Institute and Bank’s members and material from websites. We codified data in categories, inspired by this study’s conceptual framework. For each category, we have first presented a general view of the results. Then, we compared the results by the different “relevant social groups”. Before presenting the categories, we offered a brief history of Palmas Institute (Diniz et al., 2008).

THE PALMAS INSTITUTE HISTORY

The case involves two partners: Banco do Brasil, one of the largest and most important public Brazilian banking institutions, and Palmas Institute, an accredited microfinance institution operating in the northeast region of the country.

Palmas Institute started its operations in 1998 at Conjunto Palmeiras, a peri-urban slum neighborhood of 30,000 inhabitants located in the outskirts of Fortaleza, the capital of the state of Ceará in northeastern Brazil.

In 1981, ASMOCOMP (Associação dos Moradores do Conjunto Palmeiras) was founded. In the late 90’s, many social improvements had been made without a correspondent growth in income and social indicators in the community were reaching more and more critical levels. ASMOCOMP had to find income generation strategies. The microcredit became one of the main Association's priorities and Banco Palmas (nowadays legally nominated Palmas Institute) was created to manage this new financial operation for the community.

Banco Palmas started its lending operations in January 1998, with an initial capital endowment of only 2,000 Reais (US$ 1,800), donated by Cearah Periferia, a local NGO. Additional funds were obtained from other local and international NGOs during the first six months of operation, totaling 30,000 Reais (US$ 17,000) that were destined to microcredit loans as a way of creating income-generating opportunities.

However, due to the lack of professional qualifications among the community members, it was considered that a microcredit strategy in Conjunto Palmeiras would only be sustainable if accompanied by complementary capacity-building actions. Microcredit became thus a central piece of a larger puzzle of activities, with the aim of producing local development. The project's central philosophy consists in creating what is called a "solidarity network" integrating local producers and consumers, in such a way that the greatest possible portion of the local wealth circulates locally, remaining in the community instead of generating income and employment outside. With this purpose, one of the crucial characteristics of the Banco Palmas’ microcredit model is the fact that the loans are issued in Palmas, a proprietary “social currency” that circulates side by side with the official Brazilian currency (Real), and is accepted by the local merchants. Palmas are backed by Reais at a one-to-one parity, which means that for each Palma in circulation there is one Real held in reserves by the Banco Palmas.

The scale of the project, however, was bounded by Banco Palmas' limited access to funds and technology. In this sense, an important development came in 2005, when Banco do Brasil, through its subsidiary Banco Popular do Brasil (BPB), proposed a partnership that brought the correspondent banking model into the Banco Palmas project and empowered the growth of their microcredit operations. BPB provided new technology, enabling the integration of sixteen new community banks to Palmas’ network and funded a 300,000 Reais line of credit.
In 2008, Banco Palmas was renamed “Palmas Institute” and it was turned into a Network Integrator, which centralized all the operations of forty one community banks and enabled the connection between these banks and Banco do Brasil.

MAIN RESULTS

Technological frames

The most important aspects of the microcredit methodology and technology were selected from the interviews as follows: a) the BC’s ownership of the methodology and the commercial bank ownership of the technology; b) the enablement of knowledge-sharing among BCs.; c) The contribution of BCs’ technology to the community income’ increase.

a) The BCs’ ownership of the methodology and the commercial bank’s ownership of the technology

The BCs’ ownership of the methodology refers to the fact that only Palmas Institute masters the way to conduct the implementation of the microfinance operations within the others forty one BCs around the country.

The ownership of the processes’ expertise brings to BCs the need of processes coordination, which means the need of creating many administrative tools such as spreadsheets and text docs. This is the case of the social currency control.

The commercial bank’s ownership of the technology refers to the fact that the commercial bank – Banco do Brasil - owns the controlling technology of many processes in BCs. This technology is the software that Banco do Brasil provides to Palmas Institute to control the cash flow of each one of the forty one BCs.

b) The enablement of knowledge-sharing among BCs

The enablement of knowledge-sharing among BCs refers to the fact that software, hardware and mail services provided by Banco do Brasil enable the BCs network to exchange information, knowledge and hard material. Palmas Institute and the others forty one BCs are not only benefited by the software which allows the cash flow control, but also by Banco do Brasil’s daily express mail logistic structure, which transports many different computer and hardware devices, necessary to carry the BCs routine off: “So normally every day we have ... cancellations to do, eh ... we have a system ... to determine what value the BC has in cash and collect the cash from the store …” (Palmas Institute back-office assistant).

In addition to the logistic support to the BCs’ network, Banco do Brasil’s installs hardware and software in each BC, every time a new BC is created and it provides manuals for training. The Palmas Institute is responsible for installation of the whole infrastructure of each BC and for training employees: “... Here you have training manuals that Banco do Brasil provide us. It is to say how the things work, equipment, procedures...There are the "Manual of Procedure", the "Quick Start Guide", the "Management Handbook"...”( Palmas Institute back-office assistant).

c) The contribution of BC technology to the community income’ increase

The third most important aspect is the credit that households are granted by the Palmas Institute and from the other forty one BCs to build or maintain retail stores, beauty saloons, supermarkets or even to buy consumer goods. The POS (point of sale) and the whole infrastructure provided by Banco do Brasil and maintained by Palmas Institute support the credit operations.
The Palmas Institute’s contribution is not only the money it provides to low-income people, but also the product of few researches made in loco by its credit agents, every year. The Palmas Institute elaborates two kinds of research: the production research and the consuming research. The first one is regarding to the sales amount of each economy’ segment (manufacturing, retailing and services). The second kind of research that is produced by the Palmas Institute is the research about where the consumers are used to buy specific products.

The researches are executed by few agents from Palmas Institute, who go to each residence and to each retail store of the community. After the research is made, the Palmas Institute back-office workers compile the information and edit them. This kind of research is still made only in Palmeiras Community, but managers intend to extend that to other BCs’ communities as soon as possible: “Today we are making products. We have a partnership with people from ONGs, Universities. They have provided a program and we are following it to see the production, consumption, to direct credit to the companies being created in the process.” (Palmas Institute coordinator).

The social innovation network works to optimize the community resources. While Banks provide technology, BCs and other non-governmental organizations provide methodology. This network is being built. The initiatives occur in a fragmentized way. Some of them are between the institute and community inhabitants; others are between commercial banks and the institute. In the end, they tend to link in one big network. These aspects answer important questions as how does the organization function, what are its culture and value sets like, what type of information is stored and shared between people, and by which mechanisms (Taatila, 2004).

Comparison of the results by social relevant group

There is a coincidence of views between commercial banks and BCs regarding to the reciprocal need of each other. BCs are aware that they need the technology provided by the commercial bank. Commercial bank knows that BCs are important to provide its access to the ways that the low-income clients, from inaccessible regions, think and act. However, there is one aspect that only BCs’ agents, but not commercial bank managers, have captured as the most important: it is the relevance of the enablement of knowledge-sharing within the BCs’ network. This is provided by the social innovation network and it is the key of the microfinance services scalability (Sanabria, 2006). This will make BCs proliferate towards the most inaccessible regions across the country with the resources and methodology provided not only by the network integrator (Palmas Institute) but also by the logistic and the technology provided by the commercial banks.

Negotiation process

In order to find out how the relevant social groups have influenced the process using spaces, mechanisms and occasions, we analyze a) the main challenge related to the implementations and use of BCs; and b) the main mechanisms, spaces and occasions that facilitates the implementation and use of BCs.

a) the main challenge related to the implementations and use of BCs

The main challenge related to implementation, selected from the interviewers answers, is raising the number of BCs in the network. Currently the Palmas Institute BCs’ network sum forty one in the country. Even though they are geographically concentrated in Northeast part of Brazil, they are starting to appear in other parts of the country as in the southeast region, with four new BCs started their activities in 2009. This project is bounded by the BCs’ lack of
financial and human resources. All of the employees in each new BC should be trained and only few workers from Palmas Institute are able to provide this training.

The first condition to create a BC is that the community requires its creation to the municipality, which should foster the initiative, alone or in conjunction with NGOs. However, this is not always the case. Many times, the municipality does not foster the new BC and Instituto Palmas does not have enough funds to create a new project without local support. At this point, the social innovation network shows its vulnerabilities. There are still roles in the network which should be filled by other resources providers:

The criterion for us to opening a community bank, which later can became a BC is that it has three components: someone to funding the development, i.e. who pays us to go there, make the effort, training, deploying the process, often ... the second component is to have a small community organization there to do the process. The third is a local actor who keeps and funds the community bank for at least three years. (Palmas Institute Manager).

Comparison of the results by social relevant group

All BC’s managers and coordinators have suggested that the main challenge is increasing the number of BCs. This challenge reflect objectives of expansion of the BCs in terms of focus or in terms of infrastructure. This might be explained because managers and coordinators are aware about the credit needs of low income people and BCs need to grow in order to attend those demands. BC’s managers engage with this commitment because they are not only managers but also leaders and part of those communities.

b) The main mechanisms, spaces and occasions that facilitates the implementation and use of BCs.

The main mechanisms, spaces and occasions that facilitate implementation and operations of BCs are political, economical and societal. We explain each of them as follows.

Political: The growth curve of the bank correspondents’ quantity accelerated after 2003, with the flexibilization of the regulations by Central Bank of Brazil. Since then, the financial institutions, which offer consumer credit regulated by the Central Bank and generally associated with commercial banks, also expanded their action as banking correspondents. The range of products and services that banks are authorized to provide through their correspondents is very wide and does not differ much from those offered by conventional branches: opening deposit accounts, withdrawal, billing and bank slip collection, payment of public benefits and retirement pensions, and several others, including credit.

Economical: After the partnership with Banco do Brasil in 2005, Banco Palmas started to assume many activities typical of a Network integrator, which contributed to others BCs operational processes flowing. Therefore, in 2008, Palmas Institute assumed its new function as a Banco do Brasil’s network Integrator.

…for us, then one day we decided here, first we can not go along with subdelegation of other network integrator as we were, because the network manager can not follow us, and put what we want, with the speed, in fact, with attention we give to the client, they do not operate on Saturdays… (Palmas Institute Manager).

Societal: Palmas Institute is not only a network integrator or an MFI, but also an institution with many social projects. One example is its “Productive enterprise network” project. This project is a set of small production units, formal and informal, funded by the Palmas Institute.
Their production attends the local demand and the staff of the Palmas Institute controls it daily.

**Comparison of the results by social relevant group**

BCs and Commercial Bank managers saw the legislation change as an opportunity. The first ones visualized the opportunity to be a commercial bank intermediate. BCs’ managers consider the Palmas Institute intermediation as an opportunity to expand its network and to provide microfinance services to very remote communities.

Commercial banks saw the new law as an opportunity to improve profits and many of them hired retail stores, pharmacies, supermarkets and lotteries to be their BCs. These retail stores, by their side, had the opportunity to profit from the service.

Sometimes, technological innovation and research are made in large scale (Pot & Vaas, 2008). However, the utilization of new knowledge for innovation of products, services and processes, or the absorptive capacity of organizations is rather weak. To connecting with BCs and building a network with them is an alternative that commercial banks have to improve profits and, at the same time, to contribute with the income generation in low income communities.

**Technology-In-Practice**

Technology-in-practice refers to the consequences of the negotiation process. Now, we present the results about the perceptions of clients (residents and retailers) on how their lives have changed. It involves a) community income growing, b) hired workers in financed enterprises, c) credit enhancement, d) the commitment of the community, e) banking the “unbanked”

**a) Community income growing**

Since the Palmas Institute started its activities at Palmeiras Community, its income has been growing as its history shows. The obtained resources from BPB and from all the government and non-government institutions crossed the frontiers of Palmeiras Community and reached other remote places. This is the result of efforts of Palmas Institute to control the level of loan default. As clients continue to pay, Banco do Brasil continues to provide funds and the community continues to improve the possibility to enhance its credit.

The Palmas Institute’s clients can see this growing in their business and in the entire community:

... And what I felt here at the Palms was a boom. I'm seeing that the neighborhood is growing as my trade is growing. Got it? ... And we have enough business, we have good trades today. Today you do not need to go out to buy, you can buy here. Ten years ago, I saw people coming down from the bus with bags, people sacrificing things tore. Today I do not see anyone doing that anymore, because the Palmeiras Community has quality and price ... (Store owner).

**b) Hired workers in financed enterprises**

There is an apprentice’ program in the community. This program requires that a retailer hires a young person and as a result, both the retailer and the young apprentice receive incentives from Palmas Institute. Many retailers within the Palmeiras Community already
hired many young boys and girls and this experience is being transferred to other communities.

Young people had a benefit to work for local entrepreneurs and entrepreneurs had another benefit, provided by the Palmas Institute, to accept these young people. Before that we had these same young people begging inside our stores. Now, I have the pleasure of having these young people working for me in my business (Supermarket owner).

c) Credit enhancement

The credit amount released to each client depends on its history of payment and default. As soon as the credit agent visits the client’s businesses or houses, he becomes able to confirm the client’s capacity of payment. If the credit agent verifies that the client will not be able to pay or that the client has a history of default, his/her credit amount is not enhanced. In general, clients say that since Banco Palmas started its activities there, their credit amount has been enhanced and the community has been living in better life conditions: “I have got and paid 6 to 7 loans, amounting to 2600 Reais... My credit is increasing. Today's in 2600 ...” (Beauty salon owner).

A group of clients of other network’ BC – Banco Paju – stated that they have had the amount of credit they need to live: “... I had a box and an umbrella, which I used to sell my skewers. Now I have my business in a store and I also have a cart to sell my products ... all with the money the bank lent me…” (Paju BC ‘client)

d) The commitment of the community

The community residents and retailers seem to be committed with the Palmas Institute objectives. The retailers share their experiences in order to convince others about the need to adopt the social currency as a payment method. Many clients already have signed the social currency adoption form:

... When this thing of social currency started, we were most unwilling. Today everyone is wondering what works ...- I bought, I called my neighbors who did not receive, bought and paid for with palms. I bought pizza at one night, paid in Palmas and the owner said: how can I receive money from this paper? I said: whoever comes with it in my supermarket can buy things. (Supermarket owner).

Other retailers do not agree that the social currency is circulating enough. If most of community’ residents would use “Palmas” as a currency, they would contribute to make the income flows within the community: “Unfortunately ... in my view, the population is not yet focused much in Palmas. ... If they used their minds, they would make their money flow…and it could improve the community.” (Drugstore owner).

e) “Banking” the “unbanked”

Many small retailers and residents in the poor communities where the BC’ network is sited, did not have access to a financial institutions; they were what has come to be called “unbanked”. When they become clients of Banco do Brasil through the intermediation of Palmas BC’s network, they were granted bank accounts, which gave them the right of applying for a loan, subscribing to a life insurance and accessing other microfinance services. Another consequence is that the community residents and retailers do not have to travel long distances to receive money or to pay bills anymore. Now, they are able to do that kind of activities inside the community. They feel comfortable entering in a place where they know all the workers and that is familiar to them. BCs are very simple places:

... People receiving money from Banco of Brasil no longer need to take the bus to go to the center of the city. They can get it there in the Banco Palmas, which is within the
community, it is close, you can pay water, electricity, everything, a service for the community at home (Supermarket owner).

Comparison of the results by social relevant group

The consequence that appears to affect all the relevant social actors’ lives is the community income growing. Managers and coordinators realize that the community income is growing because that many BCs’ clients pay their loans on time and consequently they have been granted with more credit. The credit agent, the clients and back-office agents also pointed out that aspect because they are the ones who deal with the credit and the ones who can feel the effects of income growing on their quality lives. Commercial Bank Managers think it is important to support these communities income growing in order that the low-income people could be integrated into the consumer society.

By the time people leave the margins of society and can insert the child in school, buy medicine and food, they begin to be able to work, build a new enterprise in the community…. We need to organize it to improve the social level of this population. (Commercial Bank manager).

The increasing in the number of hired workers have been mentioned by BCs managers and coordinators because they created it and stimulated its implantation with the cooperation of local retailers.

The other consequence largely mentioned was Banking the "unbanked". This could be explained because BC managers, coordinators, back-office assistants and clients belong to a community where the majority used to have difficulties to obtain credit before the BC creation:

This woman, five years ago, she could not stand. She had not credit anywhere. She could not enter in the store next door because he was in debt. Today she is earning some money. These people were in Banco Palmas all the time, seeking for credit and they have (Supermarket owner).

The Commercial Bank Manager (Banco do Brasil’s manager) think that banking the “unbanked” is important to promote a better quality of life to community residents. Besides, he added another important detail to his discourse. To him, it is possible to create another version of the traditional banking products, one that should be a cheaper and easy to manage version. Recently this idea was translated in products such as a simple version of banking accounts: “Strictly speaking, what we need to do is have a business model with costs appropriate to offer the product at a low price.”(Commercial Bank Manager).

Banking the “unbanked” can not be translated in an activity of just opening an account for a person and give him the right to make deposits or withdraws. It is necessary that the person effectively use the account. Therefore, the statistics of Central Bank should be questioned when it shows the quantity of unbanked in Brazil. A question must be done: from all the people who open an account, how many effectively use it? “... When the guy has a bank account that he does not use, the bank gives him three months. After that, the bank itself cancels that ...”(Palmas Institute manager).

The clients require the credit enhancement. Of course, that this is a demand, but BCs’ Managers and Coordinators do not see that as an immediate need because there is already a process to approve credit for those who are good payers and for many others who need credit and still do not have it. This is a way to avoid the concentration of the scarce resources and instead, driving that resources to others who also need credit. The CBMG sees the possibility of credit enhancement as a way of improving his business and as a way of fostering the community self-sustainability, but as well as the BC’s managers, he is aware of the need of spreading the resources to as many community clients as possible.
On the other hand, the credit agent does not appear as one who considers that the credit should be enhanced. This could be explained by the fact that he is aware of the need to share the resources among the community because he knows every inhabitant life.

Therefore, providing a greater amount per loan seems to be an accurate process, even though it is relatively informal and uses the credit agent experience and knowledge to provide information for credit enhancement or to grant a new credit.

The commitment of the community is a consequence of the benefits that people can feel, but it is necessary to say that it is a continuous process that should be fostered by resources and ideas from many different institutions like NGOs, government agents, commercial banks and others.

Consequences of the negotiation process above related are demonstrations of how a social innovation network can work in small networks to arrange and rearrange with other actors and other networks in order to achieve the community objectives. Local retailers hire local people strengthening the community capacity of generating income, BCs credit agents analyze community inhabitants’ payment history in order to provide them the resources from commercial banks, community retailers use the social currency in order to avoid that the local resources go to other localities. New combinations of existing technologies create innovations through a social network (Hargadon & Souton, 1997). In this way they build not only a local force, but also a network with many nodes in different places and with different innovation capacities.

Additionally, these network arrangements of technologies generates economies of scales, resulting in a reduction of the total cost of money (Sanabria, 2006).

FINAL CONSIDERATIONS

The partnership between Banco do Brasil and Palmas Institute improved the knowledge sharing among the Palmas network formed by forty one BCs and has proved to promote the development of scattered and distant areas. By the application of Banco do Brasil’s technology and Palmas Institute’s methodology all the communities with BCs linked to Palmas’ network enhanced their consuming and production standards.

Since the seventies, the community life standard has been increasing as a consequence of Palmas Institute efforts in growing its social network making alliances with NGOs and government agents in order to achieve their collaboration for the community infrastructure’ improvement.

The breakthrough was the changing of Palmas Institute role from a simple BC to a network integrator for all the BCs that Palmas already coordinated informally until 2008. In its new condition, Palmas Institute started to count on Banco do Brasil support to provide the needed technology to the network operation. Since then, Palmas Institute could also use the logistics support provided by Banco do Brasil to transport hardware and information among all the BCs network members. We consider that this change could improve not only the already existing relations but also could contribute to BCs creation around the country.

As a consequence, the residents from remote localities consider BCs as an opportunity to reach a better status on their lives. The BCs’ network presence in a neighborhood represents not only the possibility of credit for new businesses or for consumption raise, but also an opportunity for people to be trained in new activities, to acquire new skills and to change his/her quality of life.

The commercial banks are aware about its relevant role to change the context, but they are also aware that they could profit if they rescue people from the impossibility of consuming and producing, providing them resources to rise socially.
Alliances of government, NGOs, commercial banks, MFIs and BCs’ agents could change the reality of many “unbanked” people, but this integrated effort is only possible with the vision and with the participation of those relevant social actors in a process of negotiation to change the low-income context.

All of the alliances among Palmas Institute, Banco do Brasil, its BCs, NGOs and governmental agencies constitutes a social innovation network, which contributes to the emergency of new practices and bring new technologies to banking the unbanked and alter their life quality, providing not only more financial resources, but changing their aspirations and perspectives.

The most important aspect is that it is a process of technology-in-practice in constant mutation among many different actors in the network. The process does not stop and occurs among small networks, such as between clients and credit agents; commercial banks and BCs; NGOs, BCs and municipalities and among many others arrangements inside and outside the network, contributing to improve the innovation process.

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