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## **Social currency for common goods:** *The case of the Palmas currency*

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# "Social currency for common goods: the case of the Palmas currency"

By Camille Meyer<sup>1</sup>

Key words : social currency, common goods, community bank Palmas, Brazil

## **ABSTRACT**

This article aims to analyze the social currency Palmas issued by the Community Development Bank Palmas in Brazil. This currency is part of a comprehensive local development strategy combining various economic instruments (microcredit, correspondent banking, micro-insurance) and non-economic (professional training and support, cultural activities, forums of collective deliberation). As a first step, we analyze the management system of the social currency using the analytical framework developed by Elinor Ostrom on the principles of design and governance of the commons. In a second step, we study the flows of money to determine the cycles of monetary circulation. Finally, we briefly review the expenses related to the monetary system.

## **1. INTRODUCTION**

Banco Palmas is a local community development institution operating in the solidarity economy. Now functioning mainly in the areas of microfinance and vocational training, it is rooted in collective action and social mobilization in the Conjunto Palmeiras, a poor neighborhood in the city of Fortaleza in Brazil's Northeast. Banco Palmas constitutes an alternative banking model contributing to the local economy and the social development of the area. It thus fulfills the characteristics of Community-based enterprise as defined by Peredo and Chrisman (2006).

Born in 1998, the Banco Palmas was originally a project of the residents' association of Conjunto Palmeiras (ASMOCONP). The ASMOCONP itself emerged in 1981 to attempt to resolve the extremely precarious situation the first inhabitants of the area were in. The public authorities forcibly transferred these people to a desolate and marginalised land, where the district is found. Faced with destitution, people helped each other to build makeshift huts in which to shelter. Over the years, they continued to help each other to solve their collective problems, and decided to form an association (ASMOCONP) responsible for mobilizing local players and to challenge the government. This inquiry was realized mainly in the form of struggle and social movement to have access to basic public services (water, electricity, public transport, schools, health posts, sewers and so on). With 32,000 people gathered in 8,000 families, these political collective actions, as well as mutual original, created a strong social capital and a culture of solidarity in the neighborhood.

Despite the improvement of living conditions in the area, poverty remains endemic. Also, the ASMOCONP decided to develop microcredit so that people could start new activities generating income and employment. It was the mission of the Banco Palmas. Today, the Banco Palmas has grown considerably and has developed a range of financial and non-financial services: microcredit for production and consumption, micro-insurance, correspondent banking, social currency, vocational training, support and financial education, trade shows... The Banco Palmas tends to simultaneously meet social, economic, cultural and environmental needs. The public expresses these during public meetings in a local forum, forming a space of collective deliberation nearby. Named FECOL (Local Economic Forum), this space is designed by the ASMOCONP and Banco

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Palmas and determines the main directions of the Community institutions.

Due to the success of innovative and pluralistic methodology within the Banco Palmas, many other outlying communities have expressed interest in creating new community development banks. In this context, the Banco Palmas has established a new institutional structure (called Palmas Institute) responsible for disseminating the methodology applied in the Conjunto Palmeiras. More than 105 community development banks now exist in Brazil, according to this model. To strengthen its community instruments and develop its model in other jurisdictions, the Palmas Institute (IP) has established numerous partnerships with the federal government (including the National Secretariat for Solidarity Economy - SENAES), public banks (including BNDES for easy access to financial capital) and private companies.

As part of this popular community initiative that has been rich in success and diversity, we will introduce the social currency device designed by the Banco Palmas (BP). As a first step, we analyze the management and governance of this resource using the analysis framework of common resources institutions developed by Elinor Ostrom. In a second step, we will present the flow of money to determine the cycles of monetary circulation. Finally, we briefly review the expenses related to the monetary system.

## **2. A SOCIAL CURRENCY AS A COMMON GOOD**

In *Governing the commons* (1990), Elinor Ostrom states that Community institutions manage effectively and sustainably natural goods while developing a set of formal and informal rules vis-à-vis the governance of these resources, and when their rules are managed by members of the community. These institutions, based on the characteristics of self-management and self-governance, ensure the management of these assets in order to guarantee access to all members of the community, while preserving the common resource. To do this, these institutions share eight design principles. We will analyze the social currency Palmas with these principles.

### **2.1. Clearly defined boundaries**

The common monetary resource is limited as such by the notes that make up the stock. Today, the money supply is at close to 46,000 Palmas (P\$). All individuals and households wishing to use this shared resource are free to do so. The system is open to all, including tourists, and no prior membership is required. The appropriators are encouraged to use the common resource. To do this, there are different ownership rules (Melo and Magalhães 2005 Borges 2010a).

### **2.2. Rules regarding the appropriation and provision that are adapted to local conditions**

There are two ways of appropriating the Palmas currency, through the direct emission of the social currency (SC) by BP (1), or by receiving already issued money (2).

Direct ownership of monetary transmission can be achieved in the following ways:

- 1) appropriator<sup>2</sup> seeking a consumption loan in Palmas. He or she will be forced to use this credit in the area, thus promoting the formation of a community demand.
- 2) appropriator can exchange Reais for Palmas in BP, in order to receive a discount when purchasing.

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2 In the terminology of Ostrom, the appropriators are people who collect resource units.

- 3) appropriator may receive a portion of his/her salary in Palmas. This is the case for all employees of BP, which usually get between 10% and 20% of their salary in P\$.
- 4) appropriator can receive Palmas when he or she is training in the BP school of social economy "Palmatech". If training includes a fellowship, 40% of it is paid in Palmas.

The consumption credit is intended to help families when they are in financial emergency. The most emblematic examples are, for example, if cooking gas ends, or if they must buy medicinal supplies or household staples. The loan is issued only in Palmas and cannot be spent outside the area. It is limited to 50 P\$ for the first credit and can reach 300 P\$ if the person pays on time. The repayment period is 30 to 60 days (Borges 2010a). The asking must not have material guarantee for access the loan, and contracts it immediately. This appropriation is free, that is to say, no interest rate is applied: the drag of the benefits of monetary emission is illegal and could generate significant criminal problems with the Central Bank of Brazil. However, an administrative fee of 1% is applied to cover part of the cost of management.

**Changes in the number of people who received credit in social currency and the number of businesses accepting Palmas.**

<i>Year</i>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<i>Number of persons who have received a consumer credit</i>	70	97	170	310	340	109	127
<i>Number of businesses accepting the currency Palmas</i>	90	99	130	180	240	240	250

*Sources : Banco Palmas (no date), Instituto Palmas (2011b) and Ansorena (2011).*

The consumer receives a discount when he or she makes his/her purchases in Palmas. This rebate, called *desconto*, varies between 2 and 15% of the purchase value when applied<sup>3</sup> (Kennedy et al. 2012). This system aims to make the SC more attractive to users (Singer 2009) and to reduce the cost of living for residents. This *desconto* allows for the strengthening of the purchasing power of the poorest people, and is therefore suited to local conditions (França Filho et al 2012.).

Traders carry the appropriation of "second hand", that is to say the money already emitted. However, this appropriation is not made without BP control as companies must normally be registered with the bank in order to take ownership in a commercial setting. Once registered, BP offers them a small sign on which is written: "we accept Palmas". Traders must display the sign in order to properly signal the acceptance of the SC. In addition, registration with the BP gives them the right to exchange their Palmas for Reais (R\$). Only businesses can barter their P\$ for R\$ as they carry out trade relations with the outside. They therefore need Reais for supplies outside of the district, new stocks and pay their suppliers. The exchange for Reais is usually a last resort, when the contractors fail to find what they need in the neighborhood (Melo and Magalhães 2005). They can also pay their bills Palmas, using correspondent banking, including bill payment (allowed for all appropriators uses).

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<sup>3</sup> If, in a normative perspective, business must apply a discount (it's part of the contract with BP), in practice they do not always do.

### 2.3. Collective-choice arrangements that allow most resource appropriators to participate in the decision-making process

The operational rules of the currency Palmas were established in the early 2000s and can be changed in the local economic forum (FECOL). The FECOL is supposed to represent and put together the people for the enactment of the rules concerning the issue and circulation of SC. Meetings that take place are part of the "construction of social ties and learn[ing] a form of citizenship through discussions and debates on the internal rules of the game group" (Blanc 2006, 179). These discussions are part of a logic of democratization of the economy because it is the users themselves who develop their own rules and publish their agreements. Therefore, the meetings allow appropriators to exercise greater control over their economic decisions, and remember that money is a joint creation "steeped in the collective mind." In other words, "a community currency is simply a medium of exchange, the volume [and rules] does only depend on the participants' willingness to exchange" (Hart 2006.139).

As Sandra Magalhães recalls, the democratic ownership process is initiated in all communities who implant a new Community Development Bank (CDB):

"When we go to a municipality or community, we talk with the people of the meaning of money, why we work with a social currency, what are the benefits and challenges of working with money. From there, there is one thing that I find fascinating is the process of defining, how it will be called, why, what design it will be ... "

Money, considered a social institution, is indeed defined by the community itself through collective deliberation. In addition, SC acquire their Community status in onomastics and iconography:

"The definition of the name of the Bank and the Currency usually leads a discussion on what characterize the community, what differentiates it, what makes it unique. This process impulse building a common identity and memory in which appear the most important battles, heroes and heroines, challenges and conquests. [...] The result of this collective construction [...] must express an identity, belonging and sense of pride. "(Instituto Palmas 2011a, 13).

The Palmas name clearly refers to the Conjunto Palmeiras territory, initially planted with palm. It thus echoed in the name of the BP and its history, its struggles and conquests. Locals commonly use the name "Palmas" to refer interchangeably to ASMOCONP, BP, IP and the SC. The ornamentation of money is quite simple: this is the face palm "Palmas"-symbol of BP and IP- with monetary value, and the back are a cornucopia, the bar code and the numbering of the post, as a small text recalling the role of the SC. The Palmas, the first CDB's SC, now appears to have a fairly simple iconography. Latest CDB's SC is more representative of local cultural characteristics. There may appear natural elements (a crop, a specific bird ...), popular festivals or persons who participated in the construction of quarter. Therefore, the currency itself is a very strong social and community symbol, as noted by Sandra Magalhaes:

"The ability to create yourself your own money, to have this power, that it is here because we decided that it would be like this, is great. And after you take this money and go buy the trade, this is a fantastic thing! We feel that people are surprised with this power. "

### 2.4. Effective monitoring by monitors who are part of or accountable to the appropriators

The Palmas currency is a trustee and manual currency to be issued centrally by the BP. It is the

latter that is responsible for ensuring control of the money supply relative to the emission, circulation and convertibility of the currency. If monetary emissions are conditioned by consumer loans, voluntary conversion and wages of employees, BP must balance supply of SC in the area depending on the capabilities of spending users. To this end, the gradual accession shopping system has just broadened the spending capacity of appropriators through diversification of products available.

First, BP has control of the money supply, save the companies receiving the SC. The registered shops can come to the BP to convert their Palmas for Reais if they must purchase goods and services outside the area of monetary circulation. Only registered shops can do this. Unregistered business, as any user of the currency, can use this money as a medium of exchange to consume. Any holder of the currency can also use the Palmas to pay bills through the bank correspondence BP or repay a loan issued by BP. Monetary uses are manifold. If BP monitors the issuance process, it cannot monitor the entire traffic of the SC in the community. Indeed, it has no ability to control the kin-exchange (gift of money to another user) and intra or inter enterprises (payment of wages, purchasing other companies).

Then employees manually operate the management of input and output in the monetary flow BP. They classify emissions and money withdrawals monthly on common spreadsheet software that is not tailored specifically to the SC. In this regard, it should be noted that the IP has ordered the Indian IT company Mahiti a software incorporating a dual currency accounting system suitable for operations of BP and CDB. In anticipation of this software, managers calculate the changes in the money supply according to monthly credits and debits. It is indeed necessary to carefully monitor these fluctuations since the BP must ensure full convertibility of the national currency for SC. Its architecture includes a monetary system of partial convertibility of the balances in SC. The money supply is fully covered by a reserve official currency.

The dialogue between the two currencies is even more reinforced that the SC is in parity with the Real. This facilitates the function of unit of account since neither merchants nor consumers have to make a mental shift to calculate prices in SC. In return, the SC does not reduce inflation present in the national currency, but feels symmetrically. This national reserve currency, which is a guarantee for the value of the SC in movement, is called *lastro* in Portuguese (Vasconcelos Freire 2011).

In addition, the SC incorporates some security features. The Palmas are printed on a clean paper money with a specific texture, design watermark and adjusting, making it difficult to reproduce color. The ticket printing also includes a serial number and a bar code. Finally, a small sticker with the image of the BP Palma is leaned against BP.

## 2.5. Mechanisms of conflict resolution that are cheap and of easy access

There are mechanisms for resolving disputes relating to the common currency. An example is of a person has recovered from the trash a selection of old notes burned by BP. A few tickets remaining in good condition were used in trade. Traders who received these tickets were compensated and received the equivalent in Real (Instituto Palmas 2011a). The appropriators had fast and efficient means to solve any money problem and resolution was made amicably between stakeholders.

Besides this example, conflicts between appropriators and BP relating to operating rules are resolved within the FECOL. However, there are conflicts in the form of a lack of confidence among users. These conflicts are generally met by the trustees' social currencies (Vasconcelos Freire 2007). As we show in the following table, the BP and FECOL have been relatively successful in solving these problems of mistrust.

Resolution of trustees' social currencies specific difficulties.

<i>Type of difficulty</i>	<i>Resolution in BP</i>
<i>Lack of lastro to initiate the movement of SC</i>	The Palmas has all the necessary lastro. The lastro is not a specific account for this effect, but rather provided by all the financial resources available to BP and IP
<i>Fear of producers and traders to lose money in the event of invalidity of the SC</i>	An awareness and dialogue work was conducted towards the traders and entrepreneurs in order to reassure the convertibility of the balances in SC
<i>Few companies are willing to enter the system (and the consumers do not have options to spend SC)</i>	BP awarded the community of the economic advantages of the SC and Traders Association has argued in the process. There are now more than 250 companies that accept SC, offering a wide variety of products
<i>The people are afraid that the SC is falsified</i>	BP guarantees the SC. No cases of formal falsification has emerged
<i>Producers and consumers do not understand the benefits of the use of SC and prefer to work in national currency</i>	Most people do not understand the advantages of SC. It lacks a certain awareness, even if they have changed their habits (see next section)
<i>The majority of people are not aware of the existence of the SC</i>	The majority of people are aware of the currency but have never used. So even if they are aware of it, there is no formal ownership, due to limited transmission means
<i>The SC may be associated with a political issue</i>	This is not the case with the Palmas. It never received any political support
<i>Operational difficulties : a sufficient stock of dual currency, lack of signage businesses that accept MS ...</i>	All operational issues are effectively managed by BP

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