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Microfinance and common goods: A study of Brazilian community development banks

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A study of Brazilian community development banks

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Abstract

Inclusive financial sectors are essential in terms of poverty alleviation. While microcredit can be governed as a private good, self-managed civil society organizations propose an alternative way of managing financial services. Brazil's Community Development Banks (CDBs) are a growing and dynamic manifestations of these nonprofit organizations. Based on field research in Brazil, this article uses the Elinor Ostrom's design principles of successful self-governing common-pool resource institutions to analyze CDBs' microcredit system. Our results suggest that the characteristics of private goods could be reconsidered when they are governed by community self-managed enterprises. They become hybrid goods by mixing the characteristics of private and commons goods. Thus, specific institutional arrangements and the creation of public spaces make it possible to strengthen the community properties of nonprofit microcredit services and distances them from their characteristics of private goods.

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1. INTRODUCTION

Financial exclusion is prevalent in many countries. Since the 1970's, various actors, including many nonprofit financial institutions, have been urging financial inclusion as a way to alleviate poverty (Beisland and Mersland, Forthcoming). Thanks to Muhammad Yunus and the Grameen Bank, providing financial services to the poor has even been recognized by the Nobel Committee as a tool for development and peace. Community Development Banks (CDBs) are a major phenomenon in the Brazilian nonprofit financial sector (Neiva & al., 2013). According to the definition of the Brazilian CDB network (Melo & Magalhaes, 2006), these banks offer financial services of an associative nature in order to create employment and income and restructure local economies. They offer an alternative financial model built by civil society (Melo, 2009) and they participate in the embeddedness of economic activities within the community. CDBs also exist in other countries. For instance, American CDBs also provide financial services to financial excluded communities (Minsky & al., 1993).

These nonprofit institutions are booming in Brazil and are now active in 103 suburbs and poor territories. The scientific literature on CDBs is quite limited, however, with the exception of some national publications (França Filho et al, 2012; Neiva & al., 2013). Commonly owned by community members, CDBs are self-governed and organize the management of financial services in accordance with rules and standards built collectively by the users themselves and their representatives. As self-organized institutions, CDBs share some similarities with commons organizations, since both result from collective action and are common-property organizations.

The study of commons by Elinor Ostrom was mainly confined to natural resources (Ostrom, 1990), or informational resources (Hess & Ostrom, 2003). In her book *Governing the Commons* (1990),

Ostrom has analyzed governance practices in self-managed common-pool resource (CPR) organizations created by civil society. She highlights that certain CPR appropriators have devised their own rules to control the use of CPR and thus developed diverse institutional arrangements for effectively managing natural resources and avoiding ecosystem collapse. More specifically, Ostrom identified a set of eight design principles shared by successful CPR institutions.

Nevertheless, she does not directly analyze microfinance institutions, or financial services more generally. While the literature highlights the role played by various types of nonprofit organizations or civil society organizations in providing global public goods (Kaul, 2001; Te'eni & Young, 2003), no research has determined if nonprofit financial institutions, such as CDBs, are managed as commons institutions. Our two research questions are thus: first, can nonprofit organizations manage microcredit services as commons fulfilling Ostrom's design principles? Second, what is the impact of institutional choices on the properties of microcredit services offered by CDBs?

To analyze whether financial services can be considered as commons, we will first analyze the structure of CDBs using the eight design principles developed by Ostrom (1990). If nonprofit organizations, such as CDBs, follow these eight principles in similar way to CPR institutions, then management and institutional choice might impact the nature of the goods and services. Even if financial services cannot be considered as CPRs, Ostrom's framework will still be useful to the organization of CDBs. Using some of the findings of this comparison, we will then discuss how CDB microcredits fulfill the two definitional elements of CPR, rivalry and non-excludability. Our study is based on field research in Brazil at Banco Palmas, the first and most prominent CDB, and at Federal University of Bahia, in charge of the consolidation of CDBs in northeastern Brazil.

The results suggest that microcredit services only share characteristic features with commons if their provision or distribution is organized through specific institutional arrangements. The classification of goods has historically been controversial (Brudney, 1987; De Moor, 2011).

Although the nature of common goods is fixed, the institutions and the means of allocating them are socially constructed. Therefore, their characteristics may differ according to this construct. In the case of financial services, it could be possible to reconsider their characterisitcs through their social construction (Morvant-Roux et al., Forthcoming). Therefore, microcredit governed following the Ostrom's design principles might be different from microcredit in the traditional banking sector. Self-governed nonprofit CDBs could then modify the characteristics of microcredit services, since they potentially organize them in a manner similar to the way that commons institutions organize theirs resources.

Nevertheless, these results cannot be generalized to all microfinance institutions (MFIs) since many of them are not organized according to commons design principles and thus are not altering the properties of financial services. Two main distinctions can be used to differentiate microcredit management according to private or nonprofit logic: the existence of a public space and the fact of being a self-managed institution. To enhance financial services and make them more inclusive, financial institutions should adopt a participatory structure rooted in democratic values, and governed by collective choices. In this case, their governance transforms the economic and social value of the services, diverting them from being pure private goods and making them a "hybrid" of private and common goods. This article contributes to the literature since it suggests that financial services can differ from private goods if they are governed by the users themselves in self-managed institutions that fulfill the Ostrom's design principles. These findings related to the transformative power of some governance features of CDBs could be extended to the governance of other non-profit or voluntary institutions if they adopt similar structures.

The rest of the paper is divided into four parts. First, we present CDBs and their links with the nonprofit sector. Second, we describe the methodology and data. Third, we analyze the Palmas microcredit system using Ostrom's eight design principles. Fourth, we discuss the results of the analysis.

2. BRAZILIAN COMMUNITY DEVELOPMENT BANKS

CDBs are innovative civil society institutions aiming at meeting a community's economic needs. These institutions, carried by marginalized and excluded communities, are the result of self-organization of civil society and can therefore be considered as third-sector organizations. They are created by private initiatives by individuals wishing to coordinate their action to defend common interests of territorial development through financial inclusion. Financial exclusion is particularly high in Brazil (39.5% nationally) and more in the northeast (52.6%) (Schiavinatto & al., 2011). Public and private banks do not bancarize extremely poor populations, and neither group necessarily meets the specific needs of populations or communities. Similarly to other nonprofit organizations (Weisbrod, 1977), CDBs have emerged as a bottom-up initiative to solve market and government failures.

CDBs are a form of community-based enterprise, defined as a "community acting corporately as both entrepreneur and enterprise in pursuit of the common good" (Peredo & Chrisman, 2006: 310). These enterprises are embedded in a community and rely on strong social relationships fostering cooperation between the actors and creation of networks. Thus, these nonprofit organizations promote a public attitude within the social group or community in which they operate, encouraging its members to think beyond their self-interest (Clohesy, 2003).

Referring to Salamon and Anheier's structural-operational definition of the nonprofit sector (1997), CDBs share the characteristics of nonprofit organizations. The Banco Palmas system is the product of an organization of civil society which has become institutionalized over the years. Initially the system was made up of the association of Conjunto Palmeiras residents (Associação dos Moradores do Conjunto Palmeiras - ASMOCONP), which organized public action in the Conjunto Palmeiras

suburb of Fortaleza. This area, formed in 1973 by forced migration, was completely desolate and abandoned by government. During the military dictatorship, such residents' associations flourished in the poorest neighborhoods of large Brazilian cities and represented one of the most convincing demonstrations of civil society and nonprofit organizations in the country (Landim, 1997). In 1997, despite significant results in terms of territory planning, ASMOCONP organized 96 community meetings to determine with local actors what action to take to alleviate poverty (Melo & Magalhaes, 2008). These meetings showed that ASMOCONP had to support local development by creating the local microfinance institution Banco Palmas.

The CDB philosophy is that there is no inherently poor territory, but that local citizens are impoverished by losing their money and savings. So, poor as territory may be, it has the potential for generating endogenous development (Melo & Magalhaes, 2006; Melo, 2009). To restructure local economies, CDBs provide various financial services, such as microcredits, social currency, and non-financial services. Their aim is to change the structural conditions of poverty by building internal and regulated markets.

Between 1999 and 2002, the Brazilian government created the legal concept of Organização da Sociedade Civil de Interested Público (Public Interest Civil Society Organization - OSCIP), which regulates partnerships between the government and nonprofit civil society organizations (Alves & Koga, 2006). With the appearance of the OSCIP regulatory framework, ASMOCONP set up the Palmas Institute in 2003. This institutional change gave the Palmas system the capacity to forge partnerships with public and private entities. .

The financing structure of the system is hybrid. ASMOCONP is based on volunteering and voluntary participation (which is part of the institution's historical logic). Banco Palmas derives its revenues from the sale of financial services to the community. Similarly to traditional nonprofit organizations (Young, 2000), Palmas Institute generates revenues as a service provider for the

government, and also receives donations from foundations to develop non-financial services for the community (such as training, capacity building, and financial education). Banco Palmas and Palmas Institute do not distribute their surplus to members, funders or governing board: they reinvest surpluses generated by the sale of financial services in their own structures. By devoting the surplus to the reserve for future investment, they meet the allocation characteristics of nonprofit organizations (Périlleux & al., 2012). Both institutions are organized around a common governance structure represented by the local economic forum, which acts as a body for collective deliberation between the various local stakeholders. These deliberations cover the various policies to be applied in the area, and possible socio-economic projects to be developed by Palmas system.

3. METHODOLOGY AND DATA

Ostrom's research (1990) sheds light on the management and governance of commons institutions. The author tends to make a distinction between collective institutional arrangements and common goods. Nevertheless, governance is frequently related to the characteristics of goods. As argued by De Moor (2011), the definition and particularities of commons are frequently debated across disciplines. The boundaries between governance and typology are not so clear, which is why it may be useful to study the long-term developments of common institutions and understand their particularities rather than stick to concepts. This is why we will analyze these two aspects of the Palmas system.

To test if private goods can be governed as a common resource, we will first examine the credit management system of Brazilian CDBs, using the eight design principles of successful self-

governed CPR institutions. Ostrom's eight design principles (1990, 90) are the following :

“1) Clearly defined boundaries; 2) Congruence between appropriation and provision rules and local conditions; 3) Collective-choice arrangements; 4) Monitoring; 5) Graduated sanctions; 6) Conflict-resolution mechanisms; 7) Minimal recognition of rights to organize; 8) Nested enterprises [For CPRs that are parts of larger systems]”.

Second, using findings from the analysis of design principles, we will discuss how financial services can come close to commons.

Based on field research, we will conduct an empirical analysis of the management system at Banco Palmas. Our analysis is based primarily on qualitative data collected in Brazil during six months in 2011 and 2012. Direct observation research was carried out firstly at Banco Palmas, and then in the Technology Incubator in Solidarity Economy of the Federal University of Bahia. This field research made it possible to gather different sets of qualitative data. We conducted semi-structured interviews with eight Banco Palmas directors and managers, and two university researchers active in the development of CDBs. These interviews were transcribed and analyzed. In addition, our analysis is based on secondary sources composed of the available literature on the Palmas system. This consists of primary sources published by the institution itself (Melo, 2009; Melo & Magalhães, 2008, 2006). In parallel, we studied the academic literature on the Palmas system (França Filho & al, 2012), including national research published in Portuguese (Borges, 2010; Vasconcelos Freire, 2011). Our analysis is thus based on triangulating the data collected through direct observation, interviews and written documentation.

4. FINDINGS: HOW PROCESS IMPACTS THE CHARACTERISTICS OF PRIVATE

GOODS

The analysis of the findings will be structured in two parts. We will first analyze the governance of Palmas microcredit system using the Ostrom design principles of sustainable CPR institutions. Second, we will use these findings to analyze how this governance system modifies the characteristics of financial services.

4.1 A nonprofit financial institution governing microcredit as CPR

In this section, we will conduct an institutional analysis of the Palmas microcredit system, applying Ostrom's eight design principles of sustainable CPR institutions to the Palmas system.

4.1.1 Clearly defined boundaries

The limited financial capital available to Banco Palmas show that CDBs' resource have defined boundaries. The microcredit resource consists of a capital of more than three millions reais (R$) that finances the various resource units. However, the capital available cannot be considered as a pure common resource insofar as it derives from contracts with public banks as well as repayments of former loans and the related interest. Banco Palmas' legal status prevents it from taking savings deposits. All 32,000 residents of Conjunto Palmeiras, are eligible to obtain a loan and therefore withdraw a resource unit. This rule has evolved because, with the increase in capital, Banco Palmas lends to people from Conjunto Palmeiras and other neighboring suburbs. Nevertheless the access boundaries are still clearly defined.

4.1.2 Rules regarding the appropriation and provision of common resources that are adapted to local conditions

Rules of ownership of the common resource are strongly linked to local conditions. First, they are inclusive and do not exclude persons in registered the national repayment default system, SPC, who are excluded from the Brazilian formal credit system. Given that the poorest people are often subject to an SPC restriction, the fact that they have access to the services shows how the credit system has adapted to the needs of Conjunto Palmeiras inhabitants. Second, loans do not have to be guaranteed, since borrowers are poor. All loans below R$ 500 are specific in that they are granted immediately upon application for a microcredit. The borrower is asked simply to provide ID and proof of residency. The notion of trust weighs heavily in credit allocation. Third, the eligibility requirements for loans of more than R$ 500 are based on local conditions since proximity and neighborly relationships are central to the credibility of the borrower. An external credit officer visits the applicant to see if the information provided in the pre-analysis is true and questions people in the neighborhood about the client's reliability. Thus, control has an important social dimension: the honesty of the customer and the views of the neighborhood network are crucial pieces of information.

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

The Palmas system's arena of collective choice is represented by the socio-economic local forum FECOL. This collective deliberation body does not have the explicit goal of changing the operational rules relating to the provision and ownership of the common resource. It is more of a public space for close interactions between different stakeholders of Conjunto Palmeiras, where economic and social issues relating to Conjunto Palmeiras are discussed. This local forum impacts

the governance and policy-making of these institutions. It therefore changes both constitutional and collective choice rules, two key levels of rules according Ostrom (1990: 52). FECOL allows the broad economic guidelines for Banco Palmas to be decided in a public space, while helping to strengthen social cohesion and civic engagement. All residents can participate in the monthly meetings. FECOL keeps democratic control over Banco Palmas and has a social control over Banco Palmas, prompting it to respond to the social and economic problems of the community. This forum system and strong collective choice arrangements are not the norm in the microfinance industry, or even for many nonprofit institutions.

4.1.4 Effective supervision by monitors who are part of or accountable to appropriators

Operating with resources from other institutions, Banco Palmas must rigorously monitor defaults, since reimbursements are crucial for the sustainability of the institution. In this context, it is necessary for appropriators to comply with the rules of ownership in order to ensure the renewal of the common resource. To do this, Banco Palmas has developed a monitoring system for controlling the behavior of appropriators. The system incorporates mechanisms of moral suasion based on social relations and supervisors employed by the bank, who themselves are also appropriators. In practice, monitoring is exercised by credit agents who interact daily with the community. The appropriators' behavior is controlled by these agents, who apply graduated sanctions if community rules are violated.

4.1.5 A scale of graduated sanctions for resource appropriators who violate community rules

In the case of intentional default, Banco Palmas applies a set of graduated sanctions. If the client has not made payment in the days following the monthly payment date, the loan officer calls

him/her to remind them of their commitment to Banco Palmas. If repayment is not forthcoming within 15 days, the external loan officer pays a reminder visit to the client and suggests that he/ she should go to Banco Palmas to pay off or possibly renegotiate the loan.

If, after several visits the borrower has not paid, he/she is sent a reminder letter urging them to settle the situation by going to Banco Palmas within 48 hours. If the client does not show, the officer informs the neighborhood that the borrower has defaulted and is unwilling to resolve the situation. Thereafter, the person's name is disclosed in local forums and networks, including FECOL. Finally, if at the end of this process no agreement is reached, Banco Palmas adds the person's name to the SPC. These gradual sanctions allow for high rates of compliance with the rules of ownership.

4.1.6 Mechanisms of conflict resolution that are cheap and easy to access

Individual conflicts caused by non-repayment of debt are subject to other mechanisms. Conflicts mainly occur with the appropriators of the resource around the actual payment of the debt. If an appropriator is in default, he/she must go to Banco Palmas to discuss the situation with a loan officer. Access to conflict resolution mechanisms is fast and cheap: it is sufficient to go to Banco Palmas and renegotiate the repayment terms. The new conditions are analyzed case by case, and renegotiation is based on trust. Thus, Banco Palmas distinguishes those that who wish to pay their debts but cannot do so on time, and clients refusing to pay in bad faith. In the first case, Banco Palmas shows solidarity to the extent that it will negotiate agreed repayment terms, for example by rescheduling the debt. In the second case, it applies monitoring mechanisms and sanctions.

4.1.7 Self-determination of the community recognized by higher-level authorities

The self-determination rights of Banco Palmas were not immediately recognized by the Brazilian

authorities. The central bank has actually sued the CEO of Palmas, Joaquim Melo, when the institution opened in 1998. The reason given was that Banco Palmas could not provide banking services because it was not a financial institution. The central bank lost the case but sued Banco Palmas again in 2003 for creating the Palmas social currency. Indeed, the issuance of paper money used in the social currency is forbidden, since only the central bank can issue and control the money supply (Vasconcelos Freire, 2011). The central bank lost also this suit because social currency had "at no time [...] affected the normal circulation of the Real" (Vasconcelos Freire, 2011: 81). After conducting studies on social currencies, the Central Bank formalized a beginning of legal recognition in 2009 through the development of a technical note cosigned by the SENAES. CDBs are now included in public policy for financial inclusion and poverty alleviation.

4.1.8 Organization as multiple layers of nested enterprises

Thus, the Palmas system consists of three organizations that are more or less institutionalized: the residents' association (ASMOCONP), the CDB Banco Palmas, and the OSCIP Palmas Institute. However, the borders between these three organizations are porous and each plays an active and cross-sector role in the system. Inter-linkages among the different organizations are substantial and deserve clarification. ASMOCONP created Banco Palmas as one of its community development projects, but today, the inhabitants' association exercises social control over the actions of Banco Palmas. This control is mainly carried out through FECOL and tends to underscore the social mission and community ownership of Banco Palmas. Banco Palmas provides the operational administration of financial products and monitors the actual repayment of loans by applying the sanctions regime discussed above. Formed in 2003 for legal reasons, Palmas Institute is responsible for disseminating the social finance model in other communities and developing partnerships with public and private institutions. Through agreements with financial institutions, Palmas Institute has

a capital fund that it makes available primarily to Banco Palmas. In addition, the Institute is the formal legal entity to which the bank reports. The multiple linkages between these three enterprises show that they are closely nested.

4.2 Microcredit as a community resource

Table 1 summarizes the major findings of our analysis of the microcredit governance in the Palmas system, which showed that CDBs' microcredit management is comparable to the management of self-governed CPR institutions. The analysis suggests that the Ostrom design principles for CPR institutions apply neatly to the Palmas microcredit system. These findings will help us clarify the properties of financial services when they are managed by collective action institution.

INSERT TABLE 1

Ostrom's classification defines common goods as rivalrous and non-excludable (Ostrom, 1999), while private goods are rivalrous and excludable. One may consider that the nature of common goods is fixed, no matter how they are governed. Nevertheless, we will argue in this section that the CDBs' institutional choice, as well as their management and administration process, alters the nature of this good. At first sight, all credits could theoretically be considered as private goods or even toll goods. A high level of financial exclusion suggests that no financial institution is theoretically obliged to grant a loan, which may make microcredit exclusive. It would thus be difficult to consider financial services as commons. Nevertheless, the means of allocation and the

institutions that support them fundamentally change the nature of goods, thus varying institutionally the characteristics of rivalry and excludability. CDBs nonprofit management system, which is more collective, makes it possible to reconsider this type of goods, since the characteristics of microcredit evolve through the CDB management process.

First, CDB microcredit is a rivalrous good, that is to say its consumption by one user prevents simultaneous consumption by other consumers. Traditional financial institutions generally do not lack financial resources to provide loans to their customers. This would then make credit non-rivalrous and hence, potentially, a toll good. Nevertheless, this is not the case for many nonprofit institutions involved in collective action. It is indeed well-know that MFIs generally need external financing and thus may face harsh budget constraints (Hudon & Traça, 2011). Thanks to legal recognition (design principle 7), Banco Palmas' financing comes from partnerships with public banks. We could therefore consider that the resource is rivalrous because sources of financing are clearly limited (design principle 1), which is the case of many nonprofit actors. Indeed, microcredit can be granted only when additional funds are given by public banks or after previous microloans have been repaid. Since 2010, Palmas Institute has partnered with the Brazilian Development Bank (BNDES), which provides the system with a capital of more than three million reais[1]. These funds constitute the resource system of the CDB Palmas, that is to say the stock generates flows of resource units. Second, microcredit can supposedly be excludable since access rules could deny access to a loan. However, a deeper analysis of Banco Palmas microcredit process suggests that the bank's administration is similar to that of sustainable common-property institutions. In fact, the self-organized Palmas system provides financial services suited to the local socio-economic characteristics of marginalized Brazilian populations, and it is governed by a structure of collective choices (design principles 2 and 3). By means of monitoring through social control and application

[1] US $1= R$2.30, September 2013.

of graduated sanctions (design principles 4 and 5), CBDs manage to achieve high repayments rates, which contribute to the sustainability of the common resource. These institutional arrangements for collective action tend to change the management of the services and transform their characteristic and properties for more sustainable financial inclusion.

Even though it is possible to deny someone access to microcredit, the financial services offered by CDBs could be considered as a collective resource. Indeed, since one of Banco Palmas missions is financial inclusion, it is difficult to bar an inhabitant from access to its financial services. CDBs provide a large number of microloans, even to very poor people who are traditionally excluded. For instance, through the Projeto ELAS, women beneficiaries of the Bolsa Familia cash transfer program have privileged access to credit and also to a set of financial education activities. These microloans for the poor represent more than half of Banco Palmas portfolio. Person can be excluded from the microcredit system. Nevertheless, cheap conflict resolution mechanisms (design principle 6) tend to resolve a large number of conflicts for maintaining community members inside the system. Palmas' policy is line with global campaigns against financial exclusion, where various stakeholders are opposing financial exclusion, considering exclusion to be undesirable or even illegitimate.

Thus, the management of financial resources through collective action institutionalized in nonprofit organizations, such as CDBs, blurs the boundaries for this type of goods. Today the concept hybridity is frequently associated with institutions combining different goals or institutional logics, such as MFIs that aim to achieve both developmental and financial objectives (Battilana & Dorado, 2010). The collective actions of these institutions would thus also impact the nature of the goods, making them hybrid.

The classification evolves since financial services could be considered more inclusive, and hence more non-excludable. But at the same time, financial services have some of the characteristics of

private goods – for example, they can be measured and priced – and it is still possible to deny access to non-payers. Thus, it is not easy to classify financial services, since they cannot be considered as pure private goods or as pure commons. The boundaries are thin and hazy. Accordingly, the provision of financial services through collective management leads to hybridization of financial services that may combine the characteristics of both private goods and commons. In that case, the type of financial services we have studied are similar to quasi-public goods, which have characteristics of both private and public goods.

5. DISCUSSION

The discussion will be organized into two parts. We will first discuss the potential generalization of the main findings concerning collective governance in financial institutions. Then, we will analyze the policy and management implications of our results.

Findings for the microfinance and nonprofit sector

This analysis based on Ostrom's design principles points out some singularities of nonprofit management, making goods and services provided by nonprofit institutions more inclusive. The findings on the role of design principles in transition from private to hybrid goods can be generalized into a logic model. To this end, Table 2 presents a logic model illustrating the role of design principles in the transition from private to hybrid goods. Logic models serve to understand the relationships between resources, activities, outputs and program outcomes (McLaughlin &

Jordan, 2004). This model shows that design principles are present at both input and activity levels of CDBs' institutional choices. We can separate the activity level in two parts: governance and monitoring. Both activities have a crucial impact on providing inclusive and suitable services for community members, and for guaranteeing efficient control for sustainability. This logic model is relevant for illustrating what occurs through the management of grassroots microfinance institutions and, in a broader sense, nonprofit organizations.

INSERT TABLE 2

The compliance of Banco Palmas with the third design principle, "collective-choice agreements", seems to be one of the key criteria in the transition from private to hybrid goods since it coordinates the community appropriation of those goods. This characteristic of grassroots organizations is also encountered in other nonprofit microfinance institutions, such as credit unions and cooperatives. Nevertheless, it is not encountered in all nongovernmental organizations, since some of them are not self-governed by the users themselves. Compliance with the third design principle permits the local appropriation and the provision of rules congruent with local social and economic conditions. Indeed, the existence of a public space for collective deliberation allows citizens to appropriate financial services for public interest purposes. This opens up the possibility of reconsidering financial services and financial inclusion. The creation of a common space for collective deliberation makes it possible to bring territorial actors together and involve them in a common project.

According to Hannah Arendt (1958), public spaces allow individuals to determine their common concerns, arrive at a consensus and decide on actions to achieve their interests. The construction of public spaces can redefine the resources according to the needs expressed by users and their

representatives. The definition of collective and community rules and norms for access to and use of financial services leads to the introduction of private goods in the social, cultural and political structures of the territory. While financial services are the subject of international deregulation, community redefinition of credit and finance in these public spaces allows them to be embedded in the political process (Polanyi, 1944). Associated entities, who become full actors in the process of allocating financial services, transform the social value of the resource, including through an inclusive incremental learning process (Dedeurwaerdere, 2009). This re-appropriation of economic activities by civil society is often seen as an essential component of the social economy (Laville & Nyssens, 2001; Lemaître & Helmsing, 2012).

Moreover, it seems possible that the administration of self-managed and self-governed organizations by local staff transforms external resources, which come from partnerships with other institutions, into collective resources. In CDBs, private resources from state-owned banks modify their characteristics because they are governed and managed by an independent civil society entity and through public and collective deliberation. With this particular form of management, the CDB does not act as a mere intermediary of public banks with whom it has partnered. It is this passage through the community organization that modifies the characteristics of financial services. This process plays a determining role in changing the management logic from private to hybrid goods.

Nevertheless, it is highly important for sustainability that grassroots institutional arrangements respect the seventh design principle by being recognized by the government. For instance, rotating saving and credit associations have the same characteristics as the self-organization and common-property regime but are not recognized by the government.

Some actors may however argue that collective action is not necessary for converting private to hybrid goods since the cumulative action of the various MFIs operating in a region could make the sector less exclusive. This can be the case, for instance, when governments promote inclusive

lending to certain groups, even the poorest. This kind of inclusion program can have an impact on the institutional characteristics of microcredit goods since they construct these goods following a nonprofit and inclusive logic. Nevertheless, it would be hard to say that we face the same type of hybridization, since government programs do not include collective deliberation or local public space. The community appropriation of the goods is thus reduced compared with bottom-up organizations. Then, public institutional choice would produce a hybrid good between both private and public goods, i.e., a quasi-public good.

Thus, it seems appropriate to interpret the nature of the good in light of different institutional situations. Indeed, this analysis is not generalizable to all financial institutions. Grassroots and nonprofit institutional arrangements seem more efficient for modifying the characteristics of financial services for more common goods. But this consideration can be extended in a broader way to nonprofit management and institutions provided that the characteristics of collective action and collective-choice arrangements are respected. In this case, institution choices have a “transformative” power not only on financial goods but also on private goods, such as food.

Policy and management implications

The regulation of grassroots initiatives is an important issue since it impacts their development. Although CDBs do not yet have a regulatory status adapted specifically to community management, they have been increasingly recognized by regulators. Since 2003, Palmas Institute has had the regulated status of Public Interest Civil Society Organization (OSCIP). Despite having won its trials with the Central Bank and despite the issuance of a government technical note recognizing the CDBs' social currencies, regulation is still an important issue since Palmas Institute has a general nonprofit status that prevents it, for instance, from collecting deposits.

However, as an OSCIP, Palmas Institute can partner with public and private institutions and thus coordinate with other public initiatives. It thus works with three public banks to scale up and diversify its financial services (Meyer & Leal, 2013). Starting in 2005 when it participated in the Oriented Productive Microcredit National Program launched by the Ministry of Employment, Palmas Institute has constantly partnered with public banks, ultimately increasing its financial capital to R$ 3,000,000 through a partnership with BNDES. It has also diversified its financial products through two partnerships with the public banks Banco do Brasil and Caixa Econômica Federal for correspondent banking, meaning that Banco Palmas provides financial services (such as withdrawals or account opening) on behalf of these two. In 2012, Palmas made 436,190 transactions on behalf of the public bank Caixa, for a total of R$ 64,083,913.39. Therefore, coordination with public policy and enterprises has been crucial for increasing Palmas' access to financial services and thus ensuring financial inclusion of inhabitants.

On the one hand, these partnerships reflect the ability of the nonprofit organization to be effective and provide a favorable environment for its development (Balser & McClusky, 2005; Stone & Ostrower, 2007). But on the other hand, the partnerships can potentially clash with the community character of the institution, and affect the community component of management. The interaction with public banks led to the integration of a sense of accountability in the CDB agenda. Indeed, the Palmas system is accountable for repaying the money it borrowed from public banks. So, the control system needs to be efficient, a situation that is well-known to be challenging for MFIs (Gutiérrez-Nieto & al., 2007; Gutiérrez-Nieto, & Serrano-Cinca, 2010).

There is however a risk of mission drift (Armendáriz & Szafarz, 2011). As demonstrated by DiMaggio and Powell (1983), nonprofit organizations modify their management structure based on a degree of institutional isomorphism. The organizations tend to standardize their behavioral criteria to follow the private and public stakeholders working in the same organizational field, which affects the internal governance. Thus, interacting with public and private institutions, the Palmas system

could transform microcredit management and change gradually to become compatible with the dominant features of the environment. Until now, isomorphism has been restricted because the institution's historical leaders are integrated into the board, and the inhabitants' association exercises oversight. The Palmas system remains attached to its social mission and puts financial inclusion before all economic considerations. Nevertheless, experience from other types of collective institutions, such as savings and credit cooperatives in Western Africa, suggest that it is difficult to keep high levels of democratic practices while scaling up (Périlleux, 2013). Mission drift is a traditional concern for MFIs (Mersland & Strøm, 2010: Hudon, 2011), especially if they are growing.

6. CONCLUSION

Can financial services be considered as common goods? To answer this question, we applied Ostrom's design principles for the study of governance to Banco Palmas. Our analysis suggests that the properties of financial services such as microcredits are modified by a self-organized institution through a local public space. This area of deliberation makes it possible to create collective rules and norms for managing and governing a resource system. This proximity provides tailor-made services for the public concerned. In this case, financial nonprofit organizations could constitute institutional forms that are potentially favorable to the creation of community resources. With this analysis, we discussed the two defining elements of a microcredit private good. Even if financial services cannot be considered as pure common-pool resources, the deliberation arrangements in self-organized institutions modify their properties. Indeed, they become hybrid goods by mixing the characteristics of private and commons goods, like quasi-public goods, which have characteristics of both public and private goods.

CDBs' system of self-management through collective action modifies the traditional management and properties of financial services by applying a governance system similar to that of CPR institutions. These lessons are also relevant for other economic non-profit or voluntary institutions. While the management of financial services by traditional market mechanisms is increasingly called into question, the financial alternatives developed by nonprofit organizations have considerable potential for citizens to re-appropriate finance. The inclusion of a public space in self-managed economic initiatives can also transform private goods, such as credit or currencies, into new types of goods. In this dynamic area, it is necessary to refine the analysis and enhance the knowledge of financial service governance by third sector and community enterprises.

The policy implications of this study lie at two levels. First, we reflect on financial subsidiarity. Indeed, CDBs are a good example of partnerships between financial nonprofit organizations and public banks. Facilitating capital access to nonprofit organizations makes it possible to scale up their activities and make a bigger impact at local level. The fact of being organized by the users raises keen awareness of the needs of local population. This has made it possible to develop financial products that respond to daily necessities, and thus to make financial services more inclusive. Moreover, this partnership did not reduce CDBs' freedom of action. Second, CDBs have been included in national public policy on financial inclusion. While CDBs were originally not officially recognized, the Brazilian government eventually chose to support this financial system and partner with Palmas Institute to develop its methodology at national level. This local and civil society initiative has been judged by government efficient for alleviating poverty through financial inclusion. So, it is possible that a self-organized initiative can turn into an important element of national financial inclusion policy, but it will need the support of policy makers.

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Table 1: summary of Ostrom's eight design principle analysis of the Palmas system

Ostrom's design principles	
Clearly defined boundaries	Main financial resource comes from three millions reais of equity in public banks. Access is limited to the inhabitants of Conjunto Palmeiras and neighboring suburbs.
Rules regarding the appropriation and provision of common resources that are adapted to local conditions	Rules are adapted to local conditions since access is facilitated for poor households, the loans are immediately or rapidly disbursed and approval is based on social relationships for loans above R$ 500.
Collective-choice arrangements that allow most resource appropriators to participate in the decision-making process	Resource appropriators can participate in decision-making through a local public space (FECOL), and by sharing their remarks and suggestions by going directly to Banco Palmas.
Effective monitoring by monitors who are part of or accountable to the appropriators	The behavior of appropriators is monitored both by Banco Palmas (which checks the actual monthly payments) and by external credit agents (who visit borrower).
A scale of graduated sanctions for resource appropriators who violate community rules	A process of graduated sanctions (neighborhood informed of the default, listing in the SPC, etc.) is implemented, potentially culminating in exclusion of the system
Mechanisms of conflict resolution that are	Conflicts may appear regarding the terms of repayment. If the borrower has difficulties, he

cheap and of easy access	or she can go to Banco Palmas to program a rescheduling.
Self-determination of the community recognized by higher-level authorities	The Palmas system is a fully self-determined and independent institution. Partnership with public banks and the government help to strengthen its institutional structure and financial system. Nevertheless, CDBs are not regulated, and the only appropriate legal status that exists is a technical note issued jointly by the government and the central bank.
Organization in the form of multiple layers of nested enterprises	Three nested enterprises organize resource management. ASMOCONP exercises social control over the Palmas system and is involved in organizing local forums. Banco Palmas organizes and monitors resource unit ownership, and resolves conflicts. Palmas Institute organizes the supply of resources.

Table 2: Logic model on the role of design principles in the transition from private to hybrid goods.

CDBs' inputs	CDBs' Activities		Outputs	Outcomes
	Nonprofit governance	Nonprofit social monitoring		Short term
Limited financial (external) resources obtained through partnerships with publics banks (design principle 1)	Collective action for institutional choice through forums (3)	Monitoring through social control (4) and application of graduated sanctions if fraud (5)	Provision of microcredit and non-financial services	- Community management of external resources - Financial inclusion of beneficiaries through access to microcredit
Legal recognition by authorities through OSCIP status (7)	Appropriation and provision rules adapted to local needs of community members (2)	Easy-access mechanisms of conflict resolution (6)	Efficient control for sustainability	Medium term - Improvement of individual socio-economic condition
Local staff from the community	Setting up of three nested enterprises (8)			Long term - Local development - Financial inclusion of all community members