Polycentric governance and institutional change: lessons from community-led microfinance organizations in Brazil

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THIS IS A WORK IN PROGRESS ARTICLE.

Abstract

Community-led social enterprises provide solutions to societal problems, such as poverty, inequality and development. These organizations are widespread in the microfinance industry. However, defining what institutional conditions can promote the establishment and growth of community microfinance organizations remains an important issue in the industry. Based on an extensive study of the nationwide network of community banks in Brazil, this article sheds light on how community new organizational forms self-organize for scaling and consolidating their activities. I use a polycentric approach for determining how inter-organizational collaborations between community and bridging organizations participate in institutionalizing their activities. The results contribute to the new institutional theory by defining the conditions for nonprofit collective institutional entrepreneurship. Organizational collaborations are fundamental in constructing networks at national and state levels for consolidating the activity of community organizations. Acting collectively permits to pressure and influence public banks and governments to change product design and regulatory norms. In defining how nonprofit collaborations impact the institutional conditions for their development, this article sheds light on the complex relationship between collaborations and institutional change.

Key words: institutional entrepreneurship, polycentric approach, community social enterprise, public policy, Brazil.

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1. **Introduction**

Access to finance is often defined as an important variable for poverty alleviation and income generation. However, with two billions adults without access to a bank account in 2014 (Demirguc-Kunt et al., 2015), the question of how to provide inclusive financial service remains an important development issue. For addressing this concern, the microfinance industry increased over the last decade, mainly in developing countries. While non-governmental organizations or shareholder firms are prevalent in the sector (Périlleux et al., 2012), cooperative and community organizations present an alternative management of financial resources. Two well-known examples are self-help groups in India and tontines in Sub-Saharan Africa (Balkenhol & Gueye, 1994; Satish, 2014).

Cooperative and community enterprises have spread all around the world (Doherty et al., 2014). These new organizational forms provide solutions to societal problems, such as poverty, inequality and development (Huybrechts & Nicholls, 2012). Ranging from pure nonprofit to market-based ventures (Peredo & McLean, 2006), social enterprises pursue a dual mission of financial sustainability and social/environmental value creation (Battilana & Dorado, 2010). Often having their origins in social movement initiatives, community-led social enterprises are not-for-profit organizations that are managed by communities for responding to needs that are unmeet by private and public sectors (Haugh, 2007). Peredo and Chrisman define these organizations as collective business ventures in which communities act “corporately as both entrepreneur and enterprise in pursuit of the common good” (2006).

The structuration and institutionalization of such new organizational forms remains an important issue since little research has been carried for determining which institutional conditions promote their establishment and growth (Doherty et al., 2014). The purpose of this article is to analyze the institutionalization process of novel microfinance practices promoted by social movements and grassroots community organizations. What is at stake is to understand how inter-organizational collaborations can contribute to policy and institutional change for poverty alleviation. I pose the following research questions: How does a social movement self-organize for creating a public action at national level? How does this collective action impact institutional field for creating a bottom-up public policy?

We explore this question through an in-depth qualitative study of an extensive solidarity finance network in Brazil composed of 103 community development banks (CDBs) and five nonprofit bridging organizations (Melo & Braz, 2013). Over the last 15 years, CDBs became an important phenomenon of solidarity finance in Brazil (França Filho et al., 2012). The CDBs network structuration followed an ongoing process of adaptation motivated by the desire to realize their core policy beliefs of civil society and community provision of financial resources. For doing so they responded to constraints and opportunities of the solidarity economy subsystem in which they are situated.

The results suggest that CDBs act as collective institutional entrepreneurs for implementing a solidarity finance policy. For doing so, they promote policy change and reforms in existing institutions. Such collective action is organized through a self-organized polycentric network incorporating community and nonprofit bridging organizations. Collectively, they design institutional arrangements for implementing a public action of financial services provision to and by deprived communities. Simultaneously, they advocate institutional change at federal and state levels for sustaining their activities. The CDB network participates in the co-construction of public policies of solidarity finance, and contributes to its formulation, implementation and reformulation. Similarly, it influences public banks for accessing financial services and deliver them to communities. Therefore, such advocacy coalition deals with multiple policy cycles and accumulates expertise for impacting their policy subsystem or field.

This study provides information on the creation process of a solidarity finance policy at national level. It makes two contributions to the literature. First, I theoretically add to research on institutional entrepreneurship by examining the conditions for nonprofit collective institutional entrepreneurship. Institutional entrepreneurship theory analyzes how organizations influence their field by creating new institutions and changing existing ones (Battilana et al., 2009). In this paper, I analyzed the collective structuration process of nonprofit organizations and defined how inter-organizational collaborations participate in institutionalizing new organizational forms in a field. The results suggest that collective action can have a strong impact in shaping institutional conditions favorable for the growth of community-led organizations. I argue that field transformation occurs at two levels. First, nonprofit organizations create new collective institutional arrangements for consolidating their activity. Second, collaborations permit to pressure and influence public banks and governments to change product design and regulatory norms. In defining how nonprofit collaborations impact the institutional conditions for their development, I shed light on the complex relationship between collaborations and institutional change.

Second, this study applies a polycentric institutional analysis on a grassroots and community organizations network. The concept of polycentricity provides an analytical structure for the study of complex social phenomena (Aligica & Tarko, 2012). According to Vincent Ostrom (1999: 53), “a polycentric order is defined as one where many elements are capable of making mutual adjustments for ordering relationships with one another within a general system of rules where each element acts with independence of other elements”. This concept has been applied to a wide range of settings, such as the production of local public security (Ostrom et al., 1961), and international environmental governance (Ostrom, 2010; Galaz et al., 2012). In this study, I used this concept and applied it to new empirical setting: a community-led organizations network. The results show the importance of nonprofit bridging organizations in constructing networks at national and state levels. It therefore gives elements on how community and nonprofit organizations can jointly create their own policy in a bottom-up dynamic.

The remainder of the paper proceeds as follows. First, I present the theoretical frameworks of the analysis. Second, I expose my methodology. Third, I present the findings of the study. Fourth, I discuss the results of the analysis and conclude.

1. **A polycentric approach for understanding institutional change**

How to create a bottom-up policy has drawn considerable scholar attention. The advocacy coalition framework (ACF) provides a theory of policy change and learning (Sabatier & Jenkins-Smith, 1993). The ACF has been widely applied for more than 20 years to a sheer variety of topics in many geographical areas (Weible et al., 2009). An advocacy coalition “consists of actors from a variety of public and private institutions at all levels of government who share a set of basic beliefs […] and who seek to manipulate the rules, budgets, and personnel of governmental institutions in order to achieve these goals over time” (Sabatier & Jenkins-Smith, 1993: 5). Coalitions are organized around common beliefs and mobilize resources for achieving a shared objective. Their ability to influence governmental programs depends widely on their material and immaterial resources, such as finance, expertise, supporters and legal authority. Such resources evolve over time.

Advocacy coalitions elaborate collective strategies for influencing a political subsystem. Subsystems are composed of sets of actors involved for resolving a specific problem, and are composed of legal, social, and economic institutional features. Stable and dynamic external factors, such as the effects of new governing coalition, strongly impact policy change by providing “opportunities and obstacles” to coalitions. Indeed, such factors can impact the beliefs system of institutions. According to Sabatier and Jenkins-Smith, policy elites beliefs system relies on three hierarchical categories for political decision making: “[1] a deep core of fundamental normative and ontological axioms, [2] a near (policy) core of basic strategies and policy positions, [3] a set of secondary aspects comprising a multitude of instrumental decisions” (1993:30). Change in institutions belief system is critical for understanding policy-oriented learning. Policy-oriented learning can be defined as “changes over time in the distribution of beliefs of people within a coalition or within a broader policy subsystem” (Sabatier & Jenkins-Smith, 1993:42).

Exploring how actors shape organizations and influence existing institutions is the purpose of institutional entrepreneurship theory (Garud et al., 2007). This theory analyzes the introduction process of novel practices into an organization or a field. Institutional entrepreneurs are change actors “who initiate divergent changes, that is, changes that break the institutional status quo in a field” (Battilana et al., 2009: 67). Even if changes can be promoted by individual actors, inter-organizational collaborations influence logic frames of groups of actors and modify institutional fields (Ansari et al., 2013; Phillips et al., 2000). Bridging organizations play a key role in this process. They create institutional arrangements for developing local associations and influencing national policy (Brown, 1991). They often contribute in inter-organizational collaborations and impact the dynamic of institutional fields (Phillips et al., 2000). As such, by influencing existing institutions or creating new ones, social enterprises act as institutional entrepreneurs (Tracey et al., 2011).

A polycentric approach may help in understanding how advocacy coalitions and institutional entrepreneurs organize. The concept of polycentricity explains complex systems in which several organizations self-organize and make mutual adjustments for reaching a common objective (Aligica & Tarko, 2012). This concept has been applied to a wide range of situations and institutional arrangements. Polycentric systems assume different forms and configurations depending on the degree of information sharing, coordination of activities, problem solving mechanisms, and internal conflict resolution between organizations. According to Galaz and colleagues (2012: 24), polycentric orders are characterized by the following features: (1) “Polycentricity is a matter of degree, ranging from weak coordination to strong polycentric order”, (2) “Degrees of polycentric order are defined by features such as communication dynamics, degree of formalization, and network structural patterns”, and (3) “External and internal tensions affect the ability of actors to maintain a certain degree of polycentric order”.

Aligica and Tarko (2012) explain that a polycentric logical structure is based on three principal attributes: multiplicity of decision centers; institutional and cultural framework; and spontaneous order and evolutionary competition. First, a polycentric order is a system where several organizations organize governance mechanisms at differing scales for a common goal. Actions and ideas are implemented into practice by more than one unit, which are independent and exercise autonomous decisions. Polycentric order can therefore be at a local, regional, national, or international level, or can be transversal and organize at multiple levels. Second, the institutional framework of a polycentric order defines the overarching rules of the system. These rules can be designed by agents directly involved or by outsiders (i. e. by a mediator or government) and have territorial dimensions or not. Third, a polycentric order has to be “spontaneous”, that means it is self-organized, and entry and exit should be possible and well-defined. Polycentric orders are then organizational forms that tend to structure and shape cooperation and collective action. In this case, a polycentric network can act as collective institutional entrepreneur and advocacy coalition, since they collectively organize for impacting policy and institutional change.

1. **Methodology**

My exploration on grassroots institutional arrangements for constructing a solidarity finance policy is grounded in a qualitative study of community development banks in Brazil. A qualitative approach was appropriate because my goal was to build theory about how grassroots social enterprises affect their institutional field for scaling and sustaining their activities. CDBs represent an extreme case of self-organized grassroots innovation acting for a bottom-up policy change. The CDB polycentric network acts as an advocacy coalition for defining financial exclusion as a political problem and directly provides services to communities. This qualitative case study meets the four premises required for applying the advocacy coalition framework (Sabatier & Jenkins-Smith, 1993). First, as the first CDB Banco Palmas was launch in 1998, CDBs network meets the time perspective of a decade or more required for understanding policy change. Second, the polycentric network interacts with a variety of nonprofit, public and private organizations that constitutes a policy subsystem concern by financial inclusion and poverty alleviation issues. We can mention the participation of community and nonprofit organizations, universities, governments, public banks, and Central Bank. Third, such subsystem includes a strong intergovernmental dimension and involves actors from federal, state and local levels of government in Brazil. Finally, CDBs public policies and programs incorporate implicit assumption and beliefs that civil society actors and community-led organizations provide an adequate and adapted solution for achieving financial inclusion objectives.

1. **Context**

CDBs are microfinance organizations that follow the example of Banco Palmas. Resulting from a strong community social movement, Banco Palmas has been founded in 1998 by an inhabitant association in the deprived suburb of Conjunto Palmeiras in the city of Fortaleza in Northeastern Brazil. The inhabitants decided to create their own microfinance institution for restructuring the local economy and generating employment and income. For doing so, they engaged a reflection on the role of finance in local development and implemented social finance services, such as microcredits and community currencies (Fare et al., 2014). Such services are delivered in an inclusive fashion by integrating low interest rate and social mechanisms in loan allocation. CDBs are managed by community members that are collectively chosen (Hudon & Meyer, 2013). Their governance is often ensured by a collective-choice arena shaped by a public forum in which all community members can share its preoccupation. The 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.

Banco Palmas and its methodology gained great visibility in the early 2000’s and appeared to be a successful and promising grassroots solution to poverty. Therefore CDBs emerged spontaneously firstly in the state of Ceará, where Banco Palmas is situated. Facing the interest of other communities, Banco Palmas’ association set up the Palmas Institute in 2003 for implementing CDBs in other territories. Hence, from 2004 onwards, other communities established their own CDB. Gradually, bridging organizations incubated CDBs in their own state. Over the years, CDBs structured into a national network encompassing five bridging organizations and 103 CDBs. CDBs are implanted locally and organize the provision of these services to beneficiaries, while bridging organizations provide them technical and managerial support and serve as interface with financial and public institutions. This development has been facilitated by several partnerships with federal, state and local governments, such as with federal and state banks.

1. **Data collection**

The study employed a qualitative approach with a strong empirical emphasize. A preliminary research has been conducted during six months in 2011 and 2012 in two bridging organizations for understanding the nature of CDB activities, the national network and the relationships with public and private sectors. A second field research was realized for five months in 2014 and 2015 for studying the five national bridging organizations and five CDBs active at national and state-levels. The organizations studied are present in five Brazilian states: Bahia, Ceará, Espírito Santo, São Paulo, and Pará. I stayed from two weeks to one month in each state for studying both a bridging organization and one CDB in each state. In addition, I went to Brasília and Rio de Janeiro for interviewing federal government and public banks representatives.

I identified five key actors in the field: community-led organizations (CDBs), bridging organizations (nonprofit organizations, universities, and NGO), government (at federal, state and local levels), regulatory institution (Central Bank), and financial institutions (public bank at national and state levels). In 2014-2015, 58 semi-structured interviews were held with representatives of these actors (20 from community-led organizations, 23 from supporting organizations, 5 from governments, 3 from Central Bank, and 3 from financial institutions), as well as 4 external experts (key informant scholars and social scientists) who had observed the evolution of finance and solidarity economy fields over time. These interviews lasted 30 to 210 minutes, with an average of 80 minutes.

Interviews followed a protocol that evolved with the research project. The discussion guide provided a loose but continuous structure throughout data collection, though the interviews varied in terms of emphasis on particular topics. The discussion guide included five broad topics: (a) the chronological identification of major historical events that marked the evolution of policy and institutional changes, (b) a description of the organization of national and state-level CDB networks, (c) the process and motivation for structuring and coordinating activities, (d) the influence of CDBs and regional coordinators in policy change, (e) the evolution of the relationships with public financial institutions. Also included were specific questions adjusted to the background of the interviewee. For example, technicians working in coordinating a CDB regional network were asked to describe their jobs. In reporting the interview data, I identify participants by assigning them a number between 1 and 58 and include the prefix E for employee and M for manager in community-led and supporting organizations, G for government and Central Bank representative and FI for managers of financial institutions.

The interview data were augmented by participant observation. I witnessed firsthand to series of events that underpinned CDB network development: a policy benchmark meeting between two state governments, two CDBs state network meetings, and one CDB national coordination meeting. I also observed two meetings with other solidarity finance organizations at national and state-levels. In parallel, I collected secondary data, such as meeting reports, and I regularly engaged in conversation with CDBs employees and managers during the research immersion.

1. **Data analysis**

The first step in my research process approach was the chronological identification of major events that marked the evolution of the CDB movement. I began with the creation of the first CDB Banco Palmas in 1998 and ended in 2015. These historical events allow defining the evolutionary process of internal and external institutionalization of these grassroots practices. Figure 1 presents a chronology of major events impacting the construction of CDB polycentric order.

INSERT FIGURE 1

In the second step, I coded the interviews with a specific focus on themes that related to CDBs’ organization building and their relationships with public governments and financial institutions. My coding structure is depicted in Figure 2. I applied a systematic approach (Gioia et al., 2013) and connected empirical themes to conceptual categories and theoretical dimensions (Miles et al., 2013). On the one hand, the gradual structuration of the polycentric order is determined by three attributes: multiplicity of organizations and decision makers, multilevel governance, and degree of formalization of practices. On the other hand, institutional change is defined by both policy change and inter-organizational collaboration, mainly focusing on public banks.

INSERT FIGURE 2

1. **Findings**

The analysis of the findings will be structured in two parts. I will first analyze the internal and progressive structuration of CDBs into a polycentric order. Second, I will determine to what extent this polycentric order influenced its field for sustaining and developing its activities.

1. **Civil society organization: Constructing a polycentric network**

CDBs network encompasses a multiplicity of decision centers that are autonomous but inter-related in constructing a public action for providing financial services in deprived communities. Over the last decade, the network evolved from a spontaneous and scattered order to a polycentric system organized by bridging organizations. The communication dynamics, degree of formalization and structural patterns strongly progressed and density of collaborations institutionalized informal inter-organizations relationships.

**Multiplicity of centers**

The CDB polycentric network is composed of both CDBs and bridging organizations. Bridging organizations are in charge of creating CDBs and consolidating their activities. Such consolidation includes institutional support and network articulation, mainly through access to financial resources and technical and juridical support. Three categories of bridging organizations structure the network. First, two grassroots bridging organizations result from the institutional evolution of CDBs. Palmas Institute and Ateliê de Ideias are nonprofit organizations that ensue from Banco Palmas and Banco Bem CDBs. Second, two university organizations –one solidarity incubators (ITES-UFBA) and one foundation (NESOL-USP)- work with communities for implementing CDB. Third, Instituto Capital Social da Amazônia, a non-governmental organization incorporated lately the network. These three categories of bridging organizations have common and shared goals regarding the development and institutionalization of CDBs. They combine these shared goals to individual objectives related to their structure and missions. For example, Palmas Institute and Ateliê de Ideias implement new development projects for their own communities, and university incubators work on research projects. Characteristics and role of bridging organizations in the network are summarized in Table 1.

INSERT TABLE 1

The 103 CDBs are created and managed by communities. In charge of providing financial services, they are autonomous from bridging organizations for defining their management structure. As such, they develop the organizational arrangements that fit best their territorial necessities. Certain CDBs innovated in creating financial products for cultural promotion or environmental goals. They often partner with local governments for benefiting from public support and implementing municipal public policies for local development and poverty alleviation. The municipality of São João do Arraial, for instance, use Banco dos Cocais social currency for paying a part of public servants income. The objective of the municipality is to promote territorial development by inciting community members to consume within the community. Four CDBs have been selected for participating in defining the national CDB strategy because of their institutional robustness and dynamism. Despite their institutional diversity, CDBs and bridging organizations share common values of solidarity economy and a vision of social change for inclusion and poverty alleviation.

**Network structural patterns and territorial expansion**

Network structural patterns evolved deeply over the last fifteen years. By scaling from a single grassroots experience to a national network, CDBs shaped collaborative institutional arrangements for organizing this territorial expansion. First, CDBs and bridging organizations emerged spontaneously in a grassroots and local perspective. Inter-organization relationships were based on informal collaborations. National CDB network meetings permitted to create a common organizational cultural. Some bridging organizations emerged but did not have formal relationships between them.

From 2010 onwards, these grassroots informal arrangements of collaborations have been influenced by federal government who selected five organizations in charge of creating and consolidating CDBs in four Brazilian macro-regions. The territorial perspective expended for reaching national scale and each bridging organization was in charge of a certain number of CDBs in a defined area. Public support helped in structuring communication dynamics between CDBs and bridging organizations. Network meetings had more resources for being organized, and forged a stronger community of practice. A national committee for CDB has been designated and includes the five bridging organizations and four consolidated CDBs –one for each macro-region. During these meetings, actors define collective strategies for maintaining CDB development and constructing a common agenda, in terms of influencing legal framework or access to financial resources via public banks.

Simultaneously, CDBs network naturally evolved and emancipated from the framework imposed by federal government. Each network highly relies on the state situation, depending on the implementation of public policies from governments. Three formal and informal networks exist in the states of Bahia, Ceará, and Espírito Santo. Bridging organizations are crucial for creating and articulating these state networks since they articulate communication space for CDBs and advocate policy change to local and state governments. For example, the state governments of Bahia and Espírito Santo provide financial support for meetings and equipment. The municipal government of Fortaleza is also co-constructing a CDB policy in partnership with Palmas Institute. However, network strategies can overflow the state borders for including CDBs in several states. This strategy deeply depends on the territorial context and the historical relationships between coordinators and CDBs.

Figure 3 summarizes the polycentric organization and multilevel governance of the CDB coordination. The five bridging organizations are part of the national coordination of the CDB network, as well as four CDBs. Four bridging organizations are in charge of creating and consolidating CDBs in a defined area; three of them implemented and articulate a CDB local network. Moreover, four CDBs are part of the national network coordination.

INSERT FIGURE 3

**Increasing communication and formalization of practices**

The inter-organization collaborations conducted to a formalization of grassroots practices and an increase of communication dynamics. Such process participated in policy-oriented learning within the CDB polycentric network. First, bridging organizations play a key role in building a CDB community of practice. They create and articulate communication spaces at national and local levels in which CDBs exchange experiences and find solutions for organizational difficulties. Such interaction areas permit to build new bonds and new institutional collaborations. Some variables influence the creation of exchanges, such as geographical proximity between the CDBs (often at state scale) or disposing of financial resources for organizing meetings.

To scale and reproduce grassroots new organizational forms in communities required a certain systematization of practices. By essence, new practices and organizations are not very well defined. CDBs actors demarcated what belongs to a particular context and what is commonly shared. All the organizations of the polycentric order defined a common understanding of what CDBs are and which elements should be present in all of them. Defining practices is then an incremental process that goes beyond regional and local situations (which are highly different in the continental scale of Brazil).

Facing a wide diffusion of the CDB methodology in different territorial contexts, it appeared to be important to define and formalize the CDB methodology. As such, the first meeting of the national CDB network was held in 2006. The network gave a first definition: CDBs should follow the principles of solidarity economy for providing financial services in an associative and community nature in order to generate employment and income for poor communities (Melo & Magalhães, 2006). Although these conditions constitute the CDB model and methodology, each CDB is self-managed, elaborates its own organizational arrangements, and may create specific financial services. This first formalization of the grassroots methodology created a common understanding of the grassroots innovation functioning.

Incubation practices have also been formalized between bridging organizations. Inspired by the Banco Palmas benchmark, they differed on minor aspects according the culture of the bridging organizations. Then the first government national support of CDBs included the systematization of the Palmas Institute incubation methodology. Bridging organizations received visits of the Palmas Institute. This action participated in increasing communication dynamics and systematization the incubation and supporting methodology. It is worth to mention that the methodology is still adapted locally since territorial realities are sensibly different at the Brazilian scale, and affected by local cultures and mentalities. Then the systematization is somehow limited to some characteristics of the CDBs, also for respecting the independence and autonomy of each CDB. The CDB organizational form must be flexible and adaptable to territorial dynamics and the community-led organizations that develop them.

**Cross-organization collaboration in solidarity finance**

Alongside the self-organization and consolidation of CDBs at national and state levels, there exists a cross-organization collaboration movement with other solidarity economy organizations. CDBs articulate their actions with credit cooperative and rotating solidarity funds networks.The three solidarity finance organizations developed a tradition of dialogue during the different national forums of solidarity economy. Being in the same committee of solidarity finance, they already defined collective strategies for advocating public government to support them. Solidarity finance organizations share common values of solidarity and cooperative structures. However, from 2013, they look for new ways of articulating and complementing their activities. This articulation is relatively new what means that these three organizational forms firstly had to build trust and know better each other.

Despite commons elements, they have significant institutional differences. Credit cooperatives are institutionalized and manage important portfolios while CDBs are self-managed by communities and rotary funds are often supported by NGO. The regulation of these organizations is also deeply different: cooperatives are regulated by Central bank while CDBs and rotary funds are not and often informal. The collaboration between solidarity finance organizations is organized firstly at national level, but can also be implemented at state level. For example, the government of Bahia promotes the collaborations at state level. Such collaborations aim to find synergies in terms of access to finance, and provision of financial services. For example, CDBs and rotating funds could benefit from credit cooperative capital and lend it to their communities.

1. **Impacting institutional environment for polycentric development**

CDBs polycentric network is a sub-system that is part of the solidarity economy field. This political system has been highly impacted by the Lula presidency which deeply changed the dynamics relationships between public institutions and civil society. Such policy change impacted the belief system of public institutions and the way government constructs public policies. This field configuring event had an impact for the solidarity economy sector, and direct implications on CDBs networks.

***Public support for CDB creation and emergence***

Defining how CDB polycentric order interacts with public authorities is a key assumption for understanding its development, since federal and state governments highly support CDBs and participate in shaping the network institutional arrangements.

**Recognition of solidarity economy as a political issue**

Solidarity economy “emerged” in Brazil in the last 1990’s. The first World Social Forum in Porto Alegre in 2001 gave a political consistency to this social movement that carried the political project of implementing a new economy, based on values of solidarity, cooperation and self-management (Lemaître & Helmsing, 2012). Solidarity economy encompasses a sheer diversity of organizations, ranging from factories recovered by workers to fair trade and family farming. Solidarity finance organizations are just one of the many solidarity economy organizations in Brazil. The election of the left candidate Lula Inácio da Silva at the head of the Brazilian state in 2002 permitted to give institutional representation of this social movement. For doing so, Lula first government created the National Secretary of Solidarity Economy (SENAES) in 2003, with Paul Singer, a historical figure of the movement, as Secretary. Attached to the Ministry of Work and Employment, SENAES elaborates and develop public policies related to solidarity economy. The creation of SENAES is a turning point in the recognition of the solidarity economy social movement. Indeed, the Brazilian state recognized for the first time such bottom up concepts and organizational forms from civil society.

**Co-constructing public policies**

From 2003, SENAES creates a new politic as much in the contents as in the shape. Indeed, the solidarity economy movement actively participates in the construction of public policies through new forms of civil society participation in government programs. As such, the action program of SENAES is defined by solidarity economy actors. Every four years, solidarity economy actors gather at the national conference of solidarity economy for determining the necessities and priorities of the field. This conference is a key moment in policy construction since it defines the strategy and future policy programs at federal level. Practically, solidarity finance organizations act as advocacy coalitions. CDBs national network meetings allow defining their needs and the manner that government could respond to. After discussing internally, CDBs representatives work in the solidarity finance thematic groups at solidarity national conference and expose their priorities. Then, the solidarity finance group proposes its recommendations to the executive committee of SENAES, who defines its public policies according to the decisions of the movement. Then, the participation of CDBs in national forum is crucial because it induces a policy co-construction.

The participation in forums is also important at state level. Some states are indeed particularly active in creating institutional arrangements that allow civil society to participate in policy construction. The left-wing former government of the state of Espírito Santo created a new public agency for supporting small solidarity economy enterprises. This agency consulted the solidarity economy organizations present in the state for better knowing their needs. The CDB state bridging organization mentioned the needs of CDBs present in the state and received equipment and financial support for consolidating the existing CDBs and creating new ones. With the influence of the coordinators’ spokeswoman, the government also constrained the state public bank to create a specific microfinance product for CDBs. This state public support had a strong impact on the consolidation of CDBs in Espírito Santo. It also appears to be a benchmark for other state implementing public strategies for supporting CDBs. As such, the government of Bahia recently visited this state government for creating its own public policy based on the Espírito Santo successful experience.

Moreover, employees of SENAES and state governments are key elements for the implementing an adequate support to solidarity economy organizations. They often come from social movements and have prior experience in solidarity economy organizations. This element had an effect on the public support provided and how to construct public policies.

**Policy learning and decentralization of public policy**

We acknowledge a policy learning process at federal and state levels. SENAES programs evolved from supporting only the Palmas Institute in 2005 to the national network. In 2010, it created a call for request for both CDBs and rotating funds, but separately, without thinking about an integration between the two networks. In 2013, SENAES increased the support to credit cooperatives and wanted to foster synergies between solidarity finance networks. The institutional perspective evolved to more collaborations and territorial articulations. Moreover there exist mutual learning processes since federal government acknowledge the benchmark practices of the states and vice versa. For instance, Bahia implemented the same policy as created at federal level of supporting all solidarity finance networks and synergies across them. Nevertheless such policy can be implemented in the state of Bahia because it has the three organizations in its territory. For example, Espírito Santo does not have rotating funds and credit cooperatives in the state. However, its policy support to CDBs is a bench at federal level and Bahia government visited Espírito Santo policy makers for exchanging good practices. Therefore, public policies highly rely on local contexts, what stands for a polycentric and diversified approach for CDBs support.

However, the multiple partnerships between CDBs and public governments cannot be considered as a public policy. Indeed, in Brazil there is a clear distinction between a state and a government policy. The first one is acknowledged and formalized by law. As such a public policy can survive to governments and still be implemented. The latter one is not an official policy and depends on governments for being implemented. The SENAES policy supporting solidarity economy is a government policy, what means that if federal government changes, SENAES or its policy creation process including civil society may disappear. This is the reason why the solidarity economy sector advocates for the creation of a law of solidarity economy. This law would recognize the solidarity economy sector and engage the state in supporting such organizations, independently of the governing majority. If such law does not exist at federal level, the Bahia and Espírito Santo states created a state law for solidarity economy. Such laws facilitate partnerships with solidarity economy organizations and CDBs.

Moreover, some municipalities incorporated CDB and their social currencies in local public policies for development projects.

**Unstable legal recognition of CDBs**

CDBs are not regulated by the state but have been recognized by the Brazilian Central Bank as legitimate for providing financial services in a poverty alleviation optic. Actually, CDBs are often under the legal form of an association and, more institutionalized ones, as nonprofit organization. Then, they are not under the supervision of Central Bank. However, the Central Bank was rapidly solicited to assess Banco Palmas for the issuance of a community currency. The Central Bank stated that CDBs could issue such currencies since they did not threaten the circulation of the Real national currency. After this, the Central Bank issued a note jointly with SENAES attesting the social utility of CDBs community currencies. Since 2015, ten CDBs are included in a financial education program implemented by the Central Bank.

***Resource strategies- collaborations with public banks***

If public governments partnerships provide resources for creating and consolidating CDBs, they do not include financial resources for capitalization. Then, CDBs set up several types of collaborations with financial institutions. Collaborations with public banks encompass basically three types of financial and banking services. First, public banks allocate a loan for a bridging organization. CDBs use this loan for increasing their liability and lend to communities’ clients. Second, CDBs can act as financial intermediaries for public banks. In this case, they propose public banks lines of credits. The allocation conditions can be defined by the public bank, or the client situation assessment is realized according to the CDB criteria. Finally, CDBs can act as correspondent banking for public banks. Widely used in Brazil (Diniz et al., 2014), this technology permit to CDB to provide financial services on behalf of banks, such payment facilities or bank account opening. Such partnerships played a crucial role in scaling CDBs activities, but also in professionalizing CDBs practices in terms of financial management and accountability.

The intensity of institutional collaborations highly depends on the characteristics of each public bank. The implementation of such collaborations has not emerged naturally: CDBs had to conform to existing public bank programs or directly influence them for new product design. First, CDB integrate existing programs related to federal government initiatives. For example, Banco do Brasil partnership was linked to the National productive microcredit program implemented by Ministry of Labor and Employment. However, such change occurred at secondary aspect beliefs and did not consistently change the for-profit bank behavior for social dimensions. Similarly, the creation of a new department of solidarity economy in the Brazilian development bank BNDES was impulse in the context of Lula presidency and its concerns for social issues. This department responds to the social development mission of the bank and then constitutes a change at near core beliefs. However, BNDES assesses CDBs partnership with the same accountability indicators they use for for-profit organizations, which shows a not adapted institutional change for community and grassroots enterprises.

Second, CDB network pressures for and influences new design of financial products for CDBs. On the one hand, change in design product can derive directly from the collective action of CDBs and a co-construction process between CDBs and financial institutions. This is the case with Caixa Econômica Federal, the public bank providing federal social programs. This bank changed its fundamental policy position by considering CDBs as a major partner for financial inclusion of excluded communities. It therefore created new internal guidelines for the implementation of correspondent banking in CDBs. Such change results from a learning process of years of collaborations with CDBs. However, this structural alteration of guidelines has been effectuated at central level, while the final decision for agreements is decided locally by local agencies of Caixa. In many cases, local agents do not understand how CDBs work, what make difficult partnerships.

On the other hand, CDBs state networks co-construct public policies with state governments. In this frame, CDBs can enhance government to incentive and pressure financial public banks to create new financial products for state CDBs, or other forms of solidarity finance organizations. As such, the Espírito Santo state bank DANDES created a financial intermediation credit service for CDBs clients. However, such change resulting from external pressure does not impact the public bank and its for-profit logic: problems resulted from the not effective implementation of the new product by local agencies, which try to make profit from CDBs clients. Nevertheless, the new product designed for CDBs is nowadays used by other microfinance organizations in the state.

1. **Discussion**

The discussion will be organized into two parts. I will first discuss the main findings concerning the construction of grassroots polycentric order in the nonprofit microfinance sector. Then, I will analyze the policy implications of the results.

**Theoretical contribution**

The advocacy coalition framework integrates concerns of political scientists for understanding policy changes. It similarly provides elements for institutional entrepreneurship theory since such framework analyze the conditions for policy change and learning. By persuading institutional actors of the validity of their claims, advocacy coalitions act as collective institutional entrepreneurs within a political subsystem or an institutional field. In this article, I explore such process by determining how a grassroots polycentric coalition self-organizes its institutional arrangements for influencing public institution programs and policies at federal and state levels. Such inter-organizations collaborations permit to legitimate innovative community organizational forms and give them a national resonance.

I used a polycentric approach for understanding how advocacy coalitions organize at multiple scales. The results define some conditions that are necessary for the constitution of a grassroots polycentric order: multiplicity of decision makers, coordinated but decentralized governance, and a systematization of practices. Such system makes continuous adjustments in accordance with the number of actors involved and the organizational and institutional innovations they developed. By self-structuring and coordinating, these new organizational forms legitimate their actions and can have an impact on their institutional environment, such as influencing policy change and norms in financing institutions.

**Implications for public sector and the microfinance industry**

Developing public policies in the microfinance industry is a pervasive question (Balkenhol, 2007). A debate in the sector focuses on the allocating smart subsidies for starting-up microfinance organizations (Morduch, 2005). Such public financial support should not be extended over a long period, but can help in settling new microfinance organizations. As such, the empirical case of CDBs attests of the importance of smart subsidies for supporting emerging community organizations at an early stage. Financial resources helped CDBs is settling their polycentric institutional arrangements. The network structuration includes the consolidation of both community and bridging organizations, in terms of financial management and accountability, and the drawing of a common strategy for financial diversification (through partnership with public banks and collaboration with other solidarity finance organizations). Smart subsidies are therefore equally important for crowding in other donors funds and investors, since partnerships with government gave strong legitimacy and visibility to community organizations.

The community implantation of CDBs permits them to reach financially excluded populations. Such community-led organizations are recognized by governments for their strong “capillarity”, which means that they are well established in difficult to access area, and are strongly embedded into communities. Supporting CDBs therefore participates in democratizing access. If we consider, as some scholars do (Hudon, 2009), that access to finance be a right, than the intervention of public support should be legitimated for expanding this right. Such hypothesis would support smart subsidies for CDBs, but also advocate for new public-community partnerships. Considering the high financial exclusion and the inadequacy of public and private sectors to solve it, community organizations may constitute an innovative solution for reaching geographically and socially excluded populations. As such, they could be contracted by public government for providing financial services, such as microcredit, banking and payment services, social benefits. If it would offer new incomes for CDB, such policy should respect the community independence and self-management.

1. **Conclusion**

Grassroots organizations create solutions and new organizational forms for resolving societal problems. Understanding how these organizations cooperate and involve field actors with different logics is important for determining the potential of these civil society solutions. The identification of their institutional and organizational arrangements permits to define how self-organizations structure at multilevel scale for scaling and sustaining their activities.

In this article, I analyzed how Brazilian microfinance grassroots organizations self-organized for consolidating their activities and influencing institutional change. First, I determined the structuration process of community development banks into a polycentric order. I studied how several nonprofit organizations made mutual arrangements and coordinated their actions and activities for the provision of financial services to poor communities. I found three conditions that are necessary for the constitution of a grassroots polycentric order: multiplicity of decision makers, coordinated but decentralized governance, and a systematization of community practices.

Second, I studied how CDBs influenced policy change and public financial institutions. By self-structuring and coordinating with each other, they legitimized their actions and impacted their institutional environment. Institutional changes influenced by CDBs are in line with broader changes occurring in Brazilian society and institutions. The reforms of the early 2000’s permitted to support solidarity economy organizations in the framework of public institutions. This change in core values of public institutions allowed CDBs to participate in the co-construction of public policies. Moreover, collectively organized CDBs acted as institutional entrepreneurs and influenced existing financial institutions in changing their norms and rules.

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Appendix

Figure 1: Historical Events Impacting and Structuring the CDB Polycentric Order

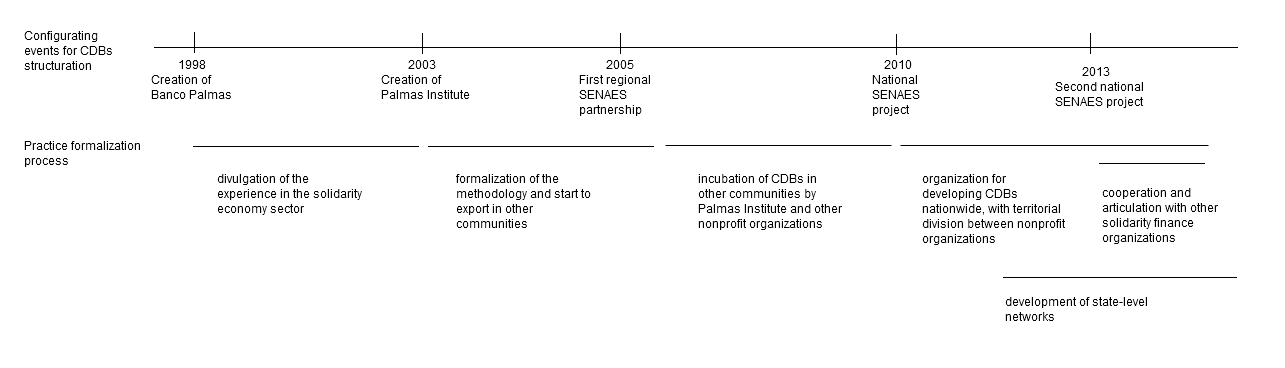


Figure 2: Overview of Data Structure

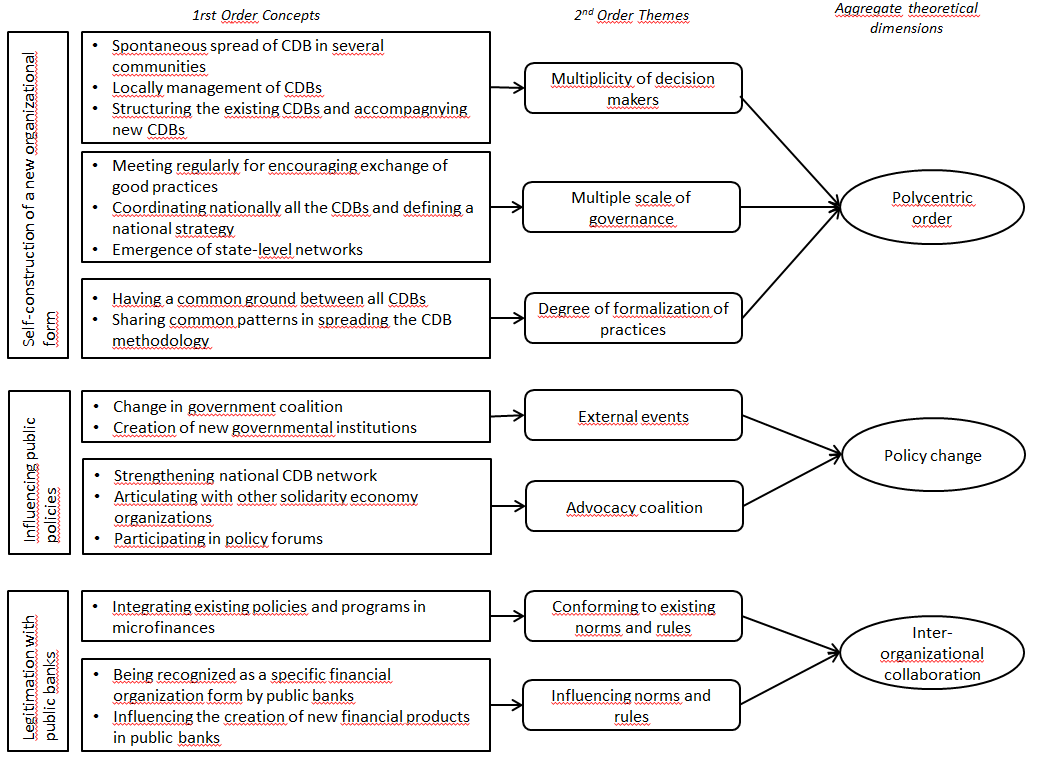
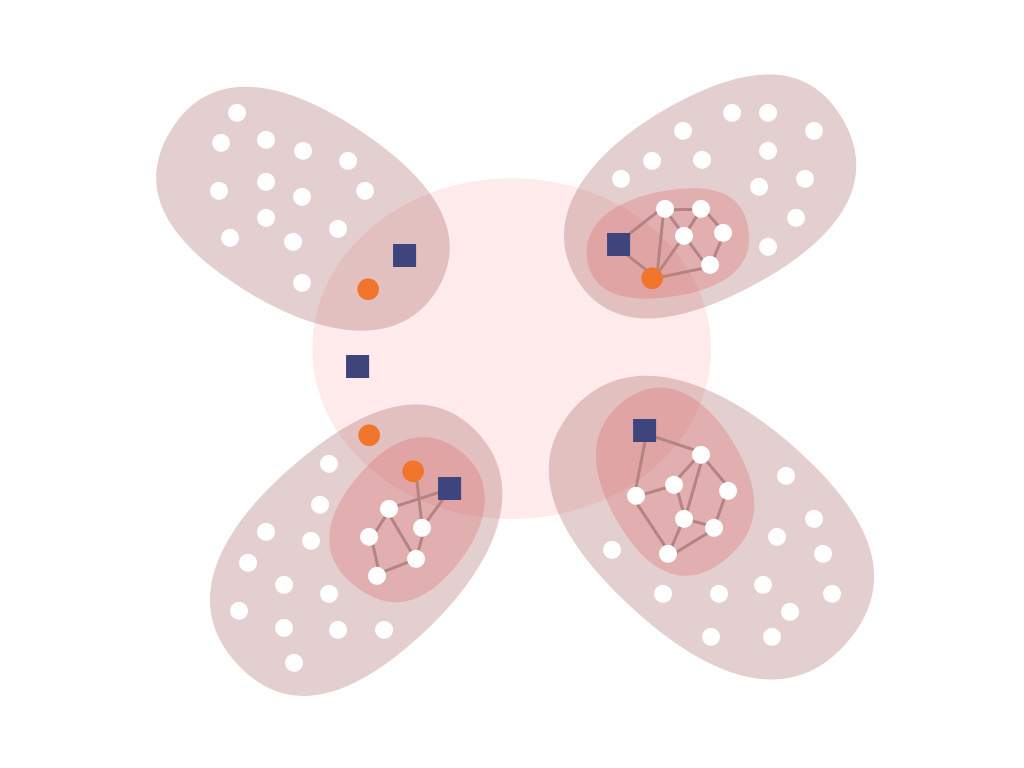


Figure 3: The CDB Polycentric Order



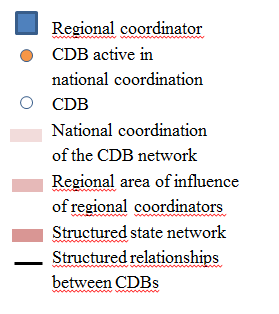


Table 1: Characteristics and functions of bridging organizations

|  |  |  |
| --- | --- | --- |
|  | ***Origins and organizational structure*** | ***Task in the CDB network*** |
| ***Instituto Palmas*** | Palmas Institute is the nonprofit organization resulting from the institutional transformation of Banco Palmas, which emerged from a community social movement  At local level, Palmas Institute creates several development programs for the community, and especially focuses on creating new finance technologies (such as mobile applications and virtual money). Several cooperations with international universities | Since 2003, it replicates the CDB methodology in other communities. Primarily confined to the state of Ceará, it gradually supported CDBs in other states, and passed the CDB incubation methodology to other bridging organizations.  Through partnerships with public banks, it provides financial resources to 13 CDBs in Ceara. It also articulates a local network of CBDs in Fortaleza and the CDB network in the state of Ceará. Moreover, Palmas Institute has strong institutional relationships with CDBs outside of Ceará. |
| ***Ateliê de Ideias*** | Ateliê de Ideias is the nonprofit organization resulting from the institutional transformation Banco Bem CDB. Created in 2005, Banco Bem emerged from a project of a local NGO in a suburb of the city of Vitória.  At local level, Ateliê de Ideias organizes several development projects for the community | Since 2010, Ateliê de Ideias supports the implementation and consolidation of 30 CDBs in Southeastern and Center western regions.  Since 2012, it articulates a network of 11 CDB in the state of Espirito Santo. |
| ***ITES*** | ITES is the Solidarity Incubateur of Federal University of Bahia. It comes from a student movement that created their incubator for dealing with social issues in management and participating in development projects with communities. The incubator works on several research projects in solidarity economy. It also works on other development projects in communities | ITES was the first organization to support CDBs outside of Ceara, in 2005. It supports the implementation and consolidation of CDBs in Northeastern region and articulates the Bahia network of 8 CDB. |
| ***NESOL*** | NESOL is the department of solidarity economy support of the University of São Paulo founded by Professor Paul Singer in 2002. It promotes methodologies to incubate solidarity enterprises in universities. NESOL also diffuses solidarity economy through research and teaching | It started to incubate CDBs in 2009 in the State of São Paulo. In 2010, it created and consolidated CDBs in the Southern region. From 2012, apart from some local projects, its institutional mission is to articulate administratively the institutional consolidation of solidarity finance organizations |
| ***ICSA*** | ICSA is a NGO created in 2000 in Belém (Pará) | ICSA started to incubate CDBs in 2010 with the first call for request of SENAES. It supports the implementation and consolidation of CDBs in Northern region (Amazon) |

Table 2: Financial institutions change

|  |  |  |  |
| --- | --- | --- | --- |
|  | ***Name and characteristics of the bank*** | ***Event configuring change and partnership with CDB*** | ***Intensity of belief change and institutional reform***  ***Difficulty*** |
| ***Federal level*** | *Banco do Brasil*  Mixed capital bank acting as for-profit organization | Created a subsidiary for only for lending to microfinance organizations.  From 2005 to 2012, Palmas Institute took a loan for financing Banco Palmas and other CDBs under its support.  Some CDBs act as correspondent banking | *Temporal minor change in policy belief*  The bank subsidiary acted in the frame of a national program of productive microcredit policy. |
| *BNDES*  Brazilian national development bank. Public bank that finance long-term economic and social projects. | Created a department of solidarity economy in the early 2000’s for lending and granting solidarity economy enterprises  From 2011, Palmas Institute took a loan for financing Banco Palmas and other CDBs under its support. | *Sustainable minor change in policy belief*  BNDES accounting system applies the same indicators for CDBs than they apply for for-profit and more institutionalized organizations. Then, CDBs have to adopt new organizational behavior, in terms of accounting and financial management, for responding to BNDES exigencies. |
| *Caixa Econômica Federal*  Public bank financial and delivering federal social programs | From 2006, an increasing number of CDBs act as correspondent bank for Caixa. In 2013, the public bank created special guidelines for CDBs as a distinct category of operator. 25 CDBs provide financial services on behalf of this bank. | *Sustainable medium change in policy belief*  Bottom-up dynamic  Distortion between the central administration that creates the norms and rules, and their implementation by local agents |
| Others (private banks) | CDBs localy partner with private banks for correspondant banking activities | No change in belief system |
| ***State level*** | *DesenBahia* (project)  Bahia state public bank | Government agency governor of the state invited Bandes to design a capital service for CDBs. | Still in project |
| *BANDES*  Espírito Santo state public bank | New governor of the state invited the state public bank Bandes to design a capital service for CDBs. It created the Creditar  Creditar program: CDBs allocate Creditar loan according to their own rules, and the client receives the loan at a Banestes agence. | *Minor change in policy belief*  Creditar product designed for CDBs of Espírito Santo. Nowadays other microfinance organizations use it  In many cases bank agents refuse to give the loan or constrain clients to buy other financial products. |
| *Banco da Amazônia (BA)*  Mixed capital bank of Amazon region | Banco Tupinambá allocates some BA loans according to their own rules, and the client receives the loan at a BA agence. | No change in belief system |