

The Microcredit Impact:
The Evaluation and Effects of Microloans on
Caboclos Communities of the Tapajós River

Robert Chew
Oberlin College
Department of Environmental Studies and Department of Economics

Advisor: Marcio Halla
Projeto Saúde e Alegria

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Abstract:

In 2002, Projeto Saúde e Alegria, an NGO dedicated to improving the health, education and socio-economic situation of rural caboclos communities of the greater Santarém region of Pará, began a microcredit program to facilitate the creation of alternative sources of income and poverty reduction within the communities. Three years later in 2005, the program was cancelled indefinitely due to low repayment rates. The following study attempts to identify and analyze what problems occurred within the microcredit program that led to the project's eventual failure. Additionally, speculation into whether the program helped certain communities reduce poverty will also be investigated to facilitate discussion about whether microcredit is an appropriate poverty reduction tool for the area. The difficulties the program encountered include but are not limited to the use of the loan money for consumption rather than assets, environmental restrictions and lack of penalty for unfulfilled contracts. Furthermore, the program did not seem to significantly help borrowers combat poverty in the communities studied.

Resumo:

Em 2002, Projeto Saúde e Alegria, um NGO dedicou a melhorar a saúde, educação e situação socio-econômica de comunidades de caboclos rurais perto de Santarém de Pará, começou um programa de microcredito para facilitar a criação de fontes alternativas de renda e redução de pobreza dentro das comunidades. Três anos depois em 2005, o programa era indefinidamente cancelado devido a baixas taxas de reembolso. O estudo seguinte tenta identificar e analisar que problemas aconteceram dentro do programa de microcredito que conduz ao fracasso eventual do projeto. Adicionalmente, especulação em se o programa ajudou para certas comunidades a reduzir também será investigada pobreza para facilitar discussão aproximadamente se microcredito é uma ferramenta de redução de pobreza apropriada para a área. As dificuldades que o programa encontrou incluem mas não são limitadas ao uso do dinheiro de empréstimo para consumo em lugar de ativos, restrições ambientais e falta de penalidade para empréstimos não pagado. Além disso, o programa não parecia ajudar significativamente para os prestatários a combater pobreza nas comunidades estudadas.

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Introduction:

Brazil is a country of contradictions. Though it is world renowned for its rich abundance of natural resources, profitable financial centers, and thriving culture, Brazil is also plagued by widespread poverty and inequity. Poverty, the condition in which a person or community is deprived of, and/or lacks the essentials for a minimum standard of life, is a universal problem affecting nations of all sizes, geography, and socio-economic structure. A problem of huge proportions, the effects of poverty shape the lives of a majority of the world's population. In 2000, the United Nations estimated that almost half the population of the world lives on less than two dollars a day¹ while countless more suffer from problems due to lack of material and social resources. Such numbers are startling when the effects of poverty are identified. The World Health Organization predicts that approximately one third of all deaths, about 18 million people a year or 50,000 per day, are due to poverty-related causes². If not a cause of death, poverty is also linked to poor nutrition and physical health and may increase the risk of infectious disease, mental illness, and drug dependence³. In addition, poverty has been correlated to a number of social ills including low birth weight of infants, violence in families, increased physical illness, stress, and depression⁴. Because of the negative effects of poverty upon society and the underprivileged and the ethical implications of ignoring such effects, poverty reduction is a paramount goal of governments and relief organizations worldwide.

Unfortunately, poverty reduction does not have a simple solution. Poverty reduction efforts often take massive amounts of money and resources which must be taken away from other worthwhile programs (national defense, environmental protection, road maintenance, etc.) or from the general population in the form of supplementary taxes. In addition to being politically hard to sell, there are no guaranteed solutions to ending poverty and many of the proposed solutions are long processes that do not reap

¹ Annan, Kofi. Speech. The United Nations. New York. 17 Oct. 2000. 6 Nov. 2007
<<http://www.un.org/events/poverty2000/messages.htm>>.

² Jamison, Dean T., Andrew Creese, and Thompson Prentice. "The World Health Report 1999." World Health Organization (1999).

³ "Poverty," Microsoft® Encarta® Online Encyclopedia 2007
<http://encarta.msn.com>

⁴ CliffsNotes.com. *Causes and Effects of Poverty*. 9 Nov 2007
<<http://www.cliffsnotes.com/WileyCDA/CliffsReviewTopic/topicArticleId-26957,articleId-26882.html>>.

immediate benefits (improving education, improving nutrition, etc.). Lastly, and maybe most distressing, there is no singular working definition of poverty, making it monumentally difficult to create effective poverty reduction policies.

Definitions of Poverty

Governments, international relief agencies and academic circles have long debated what criteria should constitute poverty, yet there is still no solitary, universally accepted standard. The difficulty in defining poverty lies in the situational differences between national and geographic areas. For example, should underprivileged urban populations in the United States who live off welfare checks be considered poor if the checks allow them to buy food, clothing, and other necessary material resources but does not provide for healthcare, education, or a safe neighborhood? Should rural farmers in India be considered poor if they can produce enough food to sustain themselves but are not able to generate enough income to protect their farms during the monsoon season? Should only severe cases of starvation or malnutrition warrant poverty? Although it might be unfair to compare the severity of different cases of poverty, governments need to define poverty in order to fight it. Out of this need, two overarching definitions have arisen to help distinguish between cases.

The first type of poverty is absolute or extreme poverty, a situation where a population or section of a population is able to meet only its bare subsistence essentials of food, clothing, and shelter in order to maintain minimum levels of living⁵. The World Bank defines people living in extreme poverty as those whose consumption levels are below US\$1 a day⁶. Such international organizations as the United Nations have also adopted this threshold and use it as the basis of their poverty reduction policies. For example, as a Millennium Development Goal, the United Nation member nations vow to “Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day⁷”. Though the World Bank threshold has been deemed by some as arbitrary

⁵ Todaro, Michael P, Economic Development in the 3rd World: 3rd edition, White Plains, N.Y: Longman Inc, 1985

⁶ "Measuring Poverty." The World Bank. 3 Nov. 2007

<<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY>>

⁷ "Millennium Development Goals." United Nations Statistics Division. United Nations. 6 Nov. 2007

<<http://unstats.un.org>>.

and ill defined in judging the characteristics of poverty⁸, the assumption behind the standard is not that people who consume greater than US\$1 a day have all the material resources needed for life, but rather that that no one earning less than one US\$1 a day will have the financial capital to be able to provide for these necessities. As of 2006, Brazil has approximately 13.6 million people or 7.5% of its population earning less than US\$1 a day⁹. While Brazil's absolute poverty rate is not severely high by world standards, millions of Brazilians still suffer from starvation, malnutrition and other issues related to extreme poverty.

The second recognized type of poverty is relative poverty, a condition in which a person or community has significantly less than the amount of resources that the average citizen of their country has. A person in relative poverty may technically have the necessities vital to live, but may still lack key social resources that distinguishes them from the broader population. Essentially, the amount of relative poverty is synonymous with amount of economic inequality. While absolute poverty is less common in developed nations, relative poverty is present in both developing and developed nations alike.

Relative poverty in Brazil is among the most substantial in the world; the richest 10% of the population controls 48.9% of the nation's wealth¹⁰. A skewed distribution of this degree, in addition to the countries large population, means that despite Brazil's relative affluence, it has the largest number of impoverished people in Latin America¹¹. High economic inequality means that there are more poor people at any given income level and that the poor will benefit relatively less by economic growth than in a more equitable society. According to the Instituto de Pesquisa Econômica Aplicada, "There is increasing evidence that high inequality adversely affects growth and health outcomes, undermines social cohesion, and increases crime"¹².

In addition to the definitions of extreme and relative poverty, governments usually establish their own standards of poverty to determine who qualifies for government

⁸ Reddy, Sanjay G., and Thomas W. Pogge. How Not to Count the Poor. Columbia Univ., 2005.

⁹ World Bank 2006. World Development Indicators 2006. CD-ROM. Washington. D.C

¹⁰ Nitcher, Simeon, Lara Goldmark, and Anita Fiori. "Understanding Microfinance in the Brazilian Context." (2002), Page 6.

¹¹ Ibid

¹² Velez, Carlos E., Ricardo Pachs De Barros, and Francisco Ferreira. Brazil Inequality and Economic Development. Instituto De Pesquisa Econômica Aplicada. 2003.

assistance programs like welfare. National poverty lines exceed the standards of extreme poverty adopted by the World Bank because the costs of living and goods differ substantially across countries. Governments establish national poverty lines at levels they believe best reflect the realities of their poor and target the poverty criteria that are most important to them. National poverty lines will be higher in wealthier nations where the expected standard of living is also higher.

Though the number of people living below the government's established poverty line in Brazil has diminished significantly in the past three years¹³ as of 2006, approximately 36 million people or 19.31% of the of the Brazil population earn below the poverty threshold¹⁴. If only labor supplies are included in the calculation instead of incorporating all sources of income, the percentage of Brazilians living in poverty rises to 64.9 million people or 34.8% of the population¹⁵. Though these numbers give a good estimate of the national poverty line, because of differing surveying and extrapolation techniques, the percentage of people below the poverty line may differ depending on the institution performing the study. Other sources have cited the national poverty line for Brazil to be low as 17.4%¹⁶ or as high as 31%¹⁷. Additionally, because of the arbitrary nature of establishing a poverty threshold, most people marginally above the poverty line almost certainly share the same qualifications of a life of poverty as those marginally below the line, increasing the number of poor noticeably.

Poverty in the Amazon

Although the number of poor in Brazil in absolute terms is diminishing, relative poverty is still high as ever¹⁸. Nowhere is this more apparent than in the Brazilian Amazon, a region where economic policies of unstructured growth have given incentives for groups to decimate the region's complex ecosystems with only questionable benefits

¹³ "Poverty, Inequality and Income Policies: Lula's Real." Centro De Políticas Sociais. Fundação Getulio Vargas. 3 Nov. 2007 <<http://www3.fgv.br/ibrecps/RET3/engl/index.htm>>.

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ "Economic Indicators - Brazil." Earth Trends. The World Resource Institute. 5 Nov. 2007 <http://www.earthtrends.wri.org/country_profiles/index>.

¹⁷ "Brazil." CIA - the World Factbook. 1 Nov. 2007. 5 Nov. 2007 <<https://www.cia.gov/library/publications/the-world-factbook/geos/br.html>>.

¹⁸ "The Development Challenge for Brazil." DFIC - Country Profiles. UK Department for International Development. 6 Nov. 2007 <<http://www.dfid.gov.uk/countries/caribbean/brazil.asp>>.

to the region's poor population (The percent of people living below the national poverty line in the state of Pará, where extraction policies are still practiced, is 25.78% compared to 9.94% and 11.84% for the wealthier states of São Paulo and Rio de Janeiro who often benefit from the resources of the North¹⁹). Whether it be the rubber barons of the late 1800's or the military government of the 1970's, large foreign agro-business or international development banks, outsiders of the Amazon have used the natural resources of the region as a tool for economic growth while rarely recognizing the needs of the poor. Arguably the most severe of these government policies to the social, economic and environmental well-being of the area was the Amazonian land grab of the 1970's.

When Brazil's military government took power in 1964, one of its first policy initiatives was land reform. The movement of rural migration to urban areas worried many in power because of its increasingly rapid growth. The perceived problems of this trend included, "congestion, pollution, and other social problems; conflicts over land as holdings become more concentrated; and a perception that agricultural production was too low"²⁰. Land redistribution to small landholders seemed to be the perfect solution; land reform would stop the rural exodus, settle land conflicts and increase agricultural output.

Though early land reform policies were originally intended for transplanting the poor to the central of Brazil by expropriating private lands, the issue of compensation to the large landowners became too complicated and so instead, the government began emphasizing the settling of public land in the Amazon instead. Developing the Amazon region "not only guaranteed Brazilian sovereignty over the region, an issue very dear to the military ideology, but also made it possible to tap into its potential wealth, thereby contributing to rapid economic development and modernization of the country²¹". Thus began the campaign to connect "people with no land to a land with no people".

¹⁹ "Poverty, Inequality and Income Policies: Lula's Real." Centro De Políticas Sociais. Fundação Getulio Vargas. 3 Nov. 2007 <<http://www3.fgv.br/ibrecps/RET3/engl/index.htm>>.

²⁰ Alston, Lee J., Gary D. Libecap, and Bernardo Mueller. Title, Conflict, and Land Use: the Development of Property Rights and Land Reform on the Brazilian Amazon Frontier. Ann Arbor: University of Michigan P, 2002.

, pp 39

²¹ Ibid. pp 42

If this exodus of people to the Amazon had reduced poverty for the multitude of poor who attempted to settle there, the environmental consequences may have been somewhat justified. Unfortunately, the government reversed its policy of land reform in favor of private rather than government colonization and stressed upon attracting large-scale agricultural and cattle enterprises. The government had not anticipated the massive influx of poor that arrived looking for land and could not demark plots, confirm property claims, provide titles and guarantee the other social programs in which it promised including education, infrastructure and health care. This new selective policy in favor of large land holders, promoted by government fiscal incentives, devastated the region's poor. As Latin American history professor Elizabeth Doan explains, "As large capital entered the region, first wave settlers either moved to the edge of the frontier, clearing new lands for themselves, sought work as wage laborers on larger ranches, or returned from whence they came, often poorer than before²²".

This policy of expansion has set in motion an alarming rate of deforestation in a region whose biodiversity and potential for carbon storage is among the greatest in the world. Deforestation rates have grown to "15 percent of its (the Amazon's) total surface area of 4,005,082 square kilometers" which "has been cleared in the Amazon since 1970, when only 2.4 percent of the Amazon's forests had been lost²³". Most of this deforestation is done by burning forested areas to clear the land for agricultural production. Burning woody biomass releases CO₂ into the atmosphere, a greenhouse gas that has been linked to causing climate change, and furthermore, contributes to the degradation of soil health if used unsustainably as a method of crop fertilization. In addition to the initial burning of land used for clearing by large argo-businesses, the practice of slash and burn agriculture is also a popular farming method adopted by many of the more than five million people dependent on subsistence agriculture for livelihood in the Brazilian Amazon. Although slash and burn agriculture can be sustainable "holdings would need to be at least 50 ha in size to sustainably support typical households" while "almost half of all rural families in the Brazilian Amazon have

²² Dore, Elizabeth. "Capitalism and Ecological Crisis: Legacy of the 1980's." Green Guerrillas. Comp. Helin Collins. London: Latin America Bureau, 1996. 13.

²³ Rainforests of Brazil." Mongabay. 5 Nov. 2007 <<http://rainforests.mongabay.com/20brazil.htm>>.

holdings of less than 20 ha²⁴” (Toniolo, 1995). There are alternative practices that can be used by small-scale farmers that offer advantages to slash and burn methods “in terms of productivity, net returns, and job and tax generation²⁵” (1995), but “the capital available to initiate these more intensive activities is considerable and frequently not available to small producers²⁶” (1972).

The knowledge and technology is emerging to help poor rural farmers farm sustainably and generate greater income, but the initial sunk costs of such methods are prohibitive. Families all over the world are similarly engulfed in such dearth, but since their familial income is used to cover current consumption, they have no way to pay for assets that could help them exit poverty. The poverty cycle continually worsens as large landholders who do have the resources to prosper continue to get richer while the poor who have no resources get relatively poorer.

Microcredit

Recently, a proposed answer to poverty reduction has arisen not from the government but from the financial sector. Microcredit, the awarding of loans of small denominations (anywhere from \$20 to \$5000 American dollars) to poor entrepreneurs who do not have access to traditional loans because of a lack of collateral, steady employment or a verifiable credit history, is growing as a powerful tool in fighting poverty. The idea behind microcredit is that the poor live in poverty not because they are incapable, but rather because they are not given access to the resources to better their situation. If the poor are not given access to financial services, then how can they be expected to save or gain money in the same way that the wealthy do? Microcredit upholds the old proverb “it takes money to make money” to a new level; by granting loans to the poor, the hope is that families will use the loans to generate a source of self-income, which will then help them exit poverty.

Microcredit has challenged the conventional stereotype of the poor as bad credit risks. Through a system of solidarity lending that utilizes communal support and peer

²⁴ Toniolo, Angelica, and Uhl, Christopher. “Economic and Ecological Perspectives on Agriculture in the Eastern Amazon”. 1995. page 959

²⁵ Toniolo, Angelica, and Uhl, Christopher. “Economic and Ecological Perspectives on Agriculture in the Eastern Amazon”. 1995. page 959

²⁶ Ibid. Page 972

pressure by members of solidarity groups; many banks report an average of 90% repayment rate or higher. Table 1 lists some of the larger microfinance institutions and their corresponding reported borrowing rates. These rates of return are startling when compared to return rates of 50% by agricultural development banks²⁷. Critics have charged that these higher return rates are artificially high because of the less strict definition of overdue loans that microcredit programs have when compared to conventional banks. Though this is true, “Even when the Grameen Bank's repayment rates are recalculated using a stricter definition of overdue loans that is more consistent with regulated banking practice, the repayment rate between 1985 and 1994 was 92 to 95 percent, and it has been slightly higher since then²⁸”.

Table 1

Organization	Repayment rate	Source
FINCA International	99%	www.villagebanking.org
ACCION International	97%	www.accion.org/netcommunity/page
Grameen Bank	98%	www.grameen-info.org/bank/bank2.html
SKS India	98%	www.schwabfound.org/india

Microcredit lending has experienced tremendous growth within the past decade and a half; as of 1999, the members of the World Microcredit Summit had reported over 21 million borrowers globally with a 50% increase of borrowers just between the years of 1998 and 1999. Of those 21 million, 12 million live on less than the World Bank poverty threshold of \$1 per day²⁹. These numbers have only increased as microcredit has become increasingly popular both in the international community and the public eye. The world has not let micro credit go unnoticed; the United Nations declared 2005 “The International Year of Microcredit” while Dr. Muhammad Yunus and the Grameen Bank

²⁷ "Microcredit: Effects on Rural Poverty and the Environment." *FAO Corporate Document Repository*. Food and Agriculture Organization of the United Nations. 7 Nov. 2007 <<http://www.fao.org/docrep/x4400e/x4400e06.htm>>.

²⁸ Ibid.

²⁹ "Microcredit: Effects on Rural Poverty and the Environment." *FAO Corporate Document Repository*. Food and Agriculture Organization of the United Nations. 7 Nov. 2007 <<http://www.fao.org/docrep/x4400e/x4400e06.htm>>.

received the 2006 Nobel Peace Prize for their extensive work in the expansion and development of microcredit since its infancy.

Despite microcredit's growing popularity and despite the fact that Brazil possessed the first microcredit program in Latin America (ACCION International started giving small loans to the poor in Recife as early as 1973³⁰), Brazil has only recently started actively expanding its microcredit sector. New legislation now requiring all commercial banks in Brazil to offer microcredit services has helped the spread, but the majority of microcredit programs are still organized by local Non Government Organizations (NGO). One such NGO that is experimenting with microcredit in the Amazon region is Projeto Saúde e Alegria based in Santarém, Para.

Projeto Saúde e Alegria (PSA), an NGO focused on improving the social and economic difficulties of Caboclos communities of the Tapajos region, concluded a three-year micro-credit program entitled "Jovem Empreendedor" in 2005. Projeto Saúde e Alegria, created by Dr. Eugenio Scannavino Netto in 1987, was originally an effort to help caboclos communities of the Santarém region fight illness and health complications due to poverty. Since then the project has extended to providing services in seven major categories: Community Management and Organization, Health, Agroforestry, Women's Issues, Education and Culture, Popular Communication and Youth, and Community Infrastructure³¹.

The "Jovem Empreendedor" program hoped to replicate the achievements of other successful microcredit programs by awarding small loans to members of the rural communities with ideas for small businesses. Unfortunately, the program ran into problems. By the end of the third year, only 40.91% of the expected worth of all loan payments had been returned to PSA, a loss of over R\$ 35,180 for the NGO³². In addition, 37 out the total 80 borrowers paid back less than 25% of their loan balance with 22 borrowers not returning any money at all. Projeto Saúde e Alegria was giving out money for loans, but little of that money was being returned.

³⁰ "ACCION's History." ACCION International. 6 Nov. 2007
<<http://www.accion.org/NETCOMMUNITY/Page.aspx?pid=797&srcid=506>>.

³¹ "History." Projeto Saúde e Alegria. 1 Dec. 2007 <Projeto Saúde e Alegria>.

³² Projeto Saúde e Alegria, "Microcredit repayment charts". Santarem, Brazil: 2005.

Objectives:

- 1) Identify and analyze the problems with PSA's microcredit experiment. Was the problem an aspect of microcredit that did not work in the context of the caboclos communities or was it an operational fault of PSA?
- 2) Speculate if the loans helped the borrowers fight poverty. Even though the project was not successful from the view of PSA, the money still may have been used to better the livelihoods of the borrowers of the program. Since the main goal of microcredit is poverty reduction, if the program helped in this way, then on some level, it was successful.

Methodology:

To analyze the problems that face PSA's microcredit program, two questions were focused on:

- 1) Are there difficulties within the caboclos communities that prohibit the effectiveness of microcredit?
- 2) Are there difficulties within the operation and structure of PSA's microcredit program that prohibit the effectiveness of microcredit?

To answer these questions, first a background of the caboclos people and the "Jovem Empreendedor" program was constructed to understand the context in which to talk about and analyze these institutions. This information was taken from books, journal and news paper articles, websites and discussions with people involved in the two groups.

Next, a total of 22 semi-structured interviews with members of the caboclos community were conducted to understand what problems they personally encountered and what problems the program posed upon them. The communities of Pedreira and Acaratinga were chosen as communities to be interviewed because Pedreira had one of the highest numbers of borrowers and Acaratinga had no borrowers. Two different communities were chosen in order to help isolate why microcredit did not work specifically within the caboclos communities (either ideological or technical) and

distinguish those from the problems the PSA program imposed upon the borrowers. In addition, the motivation of why one community decided to participate while another did not will help in understanding some of the deeper problems associated with microcredit loans in the caboclos communities. Also, data and information from prior PSA reports and interviews was used to help in the evaluation process.

To speculate if the loans helped fight poverty, two different definitions of poverty were used: a definition of poverty created by the caboclos people and absolute poverty thresholds based on income. Because using a poverty threshold based on income would only be useful in communities that use, need, and want money, it must first be determined if the caboclos people value money and income generation. A definition of poverty created by the caboclos people will help determine what aspects of poverty the community deems as pertinent to them and find out if microcredit has helped in alleviating any of these characteristics. To find out what the definition of poverty is to the caboclos communities, community members were asked about what things were missing from the lives of the poor and asked to identify if they were missing any of these things. These questions were asked to all people interviewed in both communities.

To answer the absolute poverty question, community members of Pedreira were asked during a semi-structured interview about the amount of income they make. These numbers were compared between families that did not participate in the program and those that did. Questions about income were not asked to people interviewed in Acaratinga to reduce the bias that may occur from different income opportunities available between the two communities. Though Pedreira is only one community, because it is a large community that participated fully in the “Jovem Empreendedor” program, the results from this community were used to give a general picture of what may also be affecting other communities that have participated in the program. *The information created from this analysis should not be considered applicable to all communities, only to Pedreira. Other communities, though while probably facing many of the same problems, will not necessarily have the same levels of income or growth because of the program. This part of the project is mere speculation and an exercise to infer general levels of poverty for the communities.* Additionally, the data was used to

see if any of the families with or without loans had “exited poverty” according to the definitions of absolute poverty determined by the World Bank.

Ideally, a control group whose characteristics are similar to the borrowers in terms of age, village, and socio-economic status would have been also interviewed when the program was occurring and again now to reduce bias. Because of the limited timeframe for this study, time series data on income could not be collected.

Results:

Caboclos of the Greater Santarém region

The caboclos (also referred to as ribeirinhos) are a people of historically mixed Portuguese, Spanish, French, African and Amerindian ancestry who live in fluvial communities along the major tributaries of the Amazon River. These people, characterized by their strong connections to the land and river, have historically been ignored by governments and international relief organizations because of their geographic isolation from the greater community and seeming abandonment of contemporary society. Though they are involved in trading (their main crop sold is manioc while they buy many staple foods including rice, beans, and sugar), they are mostly self sufficient, hunting and fishing for food and building their own homes. Not agriculturalists, not indigenous people, and not a part of the city population, the caboclos people have “within the modernizationist vernacular...(been labeled as) ‘populations’ or ‘migratory trends’ at best, rather than real societies with a stake in the region, and at worst their informal, fluid forms of livelihood are blamed for the backwardness of the region”³³

Caboclos have suffered criticism for their simple lifestyles by outsiders of their culture and community. Because outsiders perceive caboclos people as removed and unproductive members of society, the term “caboclo” often carries the negative connotation of sloth and laziness. According to anthologist Steven Nugent, “Definitions of *caboclo* in Brazilian encyclopedias and dictionaries concur in portraying the *caboclo* as deeply flawed: a coppery mongrel, backwoodsman, half-breed, cunning, traitorous, despicable, a person of dubious origins bred from Amerindians and Africans, a tame

³³ Schmink, Marianne (2003). “No Longer Invisible, But Still Enigmatic: Amazonian Peasant Identities and Cosmographics”. *Hispanic American History Review*, 83:3

Amerindian, ‘the *caboclo* is only here for today’ – an allusion to the unreliability of the laboring Amerindian – a poor and unhappy individual, a perfidious character, a credulous individual, an imbecile, incapable of taking initiative”³⁴. Such characterization has helped fuel detachment if not disgust by many Brazilians and has led to a lack of attention and support for these people and their way of life.

With the only major support for these communities coming from PSA, the caboclos of the greater Santarém region do not have many opportunities for growth and development. This relative lack of prospects has made microcredit an attractive proposal that could provide people of the area with a steady means of income generation detached from the variability of agricultural production. Generally, the caboclos of this region are not able to qualify for loans from most large banking institutions because of their lack of substantial collateral and lack of technical ownership of their land (their communities are located in a National Forest). Because they are considered high risk clients, Projeto Saúde e Alegria decided to experiment with a program that could provide financial services and income to the communities that would not normally receive them.

Jovem Empreendedor

The “Jovem Empreendedors” program, developed by the Agroforest and Education departments of PSA, consisted of two components; one being a micro-credit program while the other was a program entitled “Program to Work”, a set of workshops devoted to teaching young people of the communities important skills (such as repairing bicycles or making products like oils, handcrafts, and hammocks) that they could use to improve their lives and possibly start a small business or enterprise with in the future. While originally geared toward the youth, the microcredit program also allowed adults with ideas for small businesses to apply for and receive loans³⁵. The long term goals of the program were to eventually reach self sustainability in which community members with valuable skills would be able to teach their skills to other members of the

³⁴ Nugent, S. (1996). Amazonian Caboclo Society: An Essay on Invisibility and Peasant Economy. BERG, Oxford, 1996. pp. 20-55.

³⁵ Traverso, Katie. *Civil Society and the Power of Micro-credit: Stopping the Cycle of Poverty in the Brazilian Amazon*. Belem, Brazil. SIT/WLB, 2002

community, and additionally provide avenues for income generation for the young people of the community.

Because there are limited opportunities for young adults within the communities, many young people leave for cities like Santarém or Manaus. This program, along with others like the radio program and the Rede Mocorongo newspaper in the communication department, were developed to spark the creativity of the youth of the community and to give them valuable skills that will be useful to them if they did decide to leave the communities. Additionally, the hope was that it would allow for multiple different types income generation so dependency upon fishing, hunting, and planting manioc would not be so great.

The intent of the program was to offer credit projects that would not distract from the work or school of the participant. The loans would ideally be given to projects where people were familiar with the activity that they were applying for, where they could use materials from the community and environment surrounding the communities (making them more sustainable) and where they would have a guaranteed market³⁶. Originally, the criteria for giving loans were based on six different categories³⁷:

1. Past experience of the applicant with the desired loan activity
2. the use of community and local resources for the products or service
3. the economic viability of the activity to generate profits
4. the applicants participation in community activities
5. the environmental impact of the project
6. the feasible of the project to operate within the community

The plan initially only allowed for the distribution of loans up to the amount of \$600 and contained the stipulation that only persons 16 years of age or older were allowed to receive loans³⁸. Only one loan could be given out at a time to each borrower, though the borrowers were encouraged to continue borrowing and taking out a new loan when they finished paying off the last one. In addition, it was asserted by PSA that

³⁶ Projeto Saúde e Alegria. Como Conseguir Financiamento para montar seu próprio negocio. Santarém, Brazil: Projeto Saúde e Alegria, 2002

³⁷ Projeto Saúde e Alegria. “Seja um Jovem Empreendedor.” *O Mocorongo*. N 18, V XV. Santarém, Brazil: Jan/Feb/Marco 2002.

³⁸ Ibid.

several loans would probably need to be made in order to complete all aspects of their activity³⁹.

Instead of solidarity groups, PSA required the use of an “o fiador” that would be responsible for the borrower if the loans were not paid back in a timely fashion. This person would place up collateral until the borrower was able to repay the payments that he or she had missed. For borrowers under the age of 18, this person could be a parent while for adults, it could be a good friend or a community association. Though there was no penalty for late loan payments, the materials bought with the loan money were considered the property of Projeto Saúde e Alegria until the loan was fully paid off. Additionally, the goods of the business were not allowed to be traded or bartered (only sold for money) because money was needed to pay off the loan⁴⁰.

Those interested in applying needed to submit a short application with information about what their project was about, what prior experience they had with the activity, the materials needed, the people they would be working with (when applicable), how they currently make money, the best payment plan for them, their participation in community events and an estimation of how much money they would need based on prior research of the cost of materials required for the project. They will also need a “certidão de nascimento ou uma licença de matrimônio” for the bank in order to cash the check⁴¹.

Originally, once a month applications were reviewed by a board of PSA members and two delegates from the inter-community council. The inter-community council is a group of representatives from all the caboclos communities that PSA works with. The reviewing of applications took place once a month when the inter-community members came for the inter-community meeting, meaning that it could take up to one month between when an application is submitted and when feedback about the project is received⁴².

After receiving a letter of acceptance, the borrower would come to Santarém to pick up the check. In the future, they would also need to return to Santarém to give

³⁹ Projeto Saúde e Alegria. Como Conseguir Financiamento para montar seu próprio negocio. Santarém, Brazil: Projeto Saúde e Alegria, 2002

⁴⁰ Projeto Saúde e Alegria. Como Conseguir Financiamento para montar seu próprio negocio. Santarém, Brazil: Projeto Saúde e Alegria, 2002

⁴¹ Ibid.

⁴² Ibid.

future payments and would probably purchase some materials necessary for their activity while their also.

Training occurs after the borrowers receive their loan money, principally because PSA members were afraid that the concepts during the training might be too abstract without the borrowers first encountering some of the difficulties themselves. Skills such as basic mathematics and economics, business management and entrepreneur abilities were taught during the training⁴³.

Objective 1#: *Identify and analyze the problems with PSA’s microcredit experiment*

The following are a combination of problems and concerns expressed by the interviewed families and observations made about program from an outsider view. To categorize the findings, the results were sorted into two groups: difficulties within the caboclos communities and difficulties within the structure and operation of PSA.

Table 2

Difficulties within the Caboclos communities
Lack of familiarity with the concept of loans
Use of loan money for consumption rather than assets
Environmental Restrictions
Lack of access and cost of transportation

Lack of familiarity with the concept of formal loans:

Almost all of the interviewees that did not participate in the “Jovem Empreendedor” program, when asked why they did not participate, claimed that they did not know about it. After explaining what the program was about, it was discovered that many families were not familiar with the idea of formal loans in general. Many microcredit programs located near cities have clients who are already familiar with and have experience with loans through the informal sector of the economy. Though a certain amount of loaning probably does take place through lending between relatives within the communities, formal lending with the concept of interest rates and the urgency

⁴³ Projeto Saúde e Alegria. Como Conseguir Financiamento para montar seu próprio negócio. Santarém, Brazil: Projeto Saúde e Alegria, 2002

of monthly loan payments is lacking within the communities interviewed. Such a lack of familiarity with the concept of formal loans could lead to low repayment rates for the same reason that many college students have credit cards with outstanding debt; an understanding of the operations and consequences of loan payments are not yet established within the communities, possibly making the idea of taking out a loan more attractive than it should be.

Use of loan money for consumption rather than for assets:

In order for a microenterprise to be successful, the loan money must be put toward purchasing assets instead of being used for consumption. An asset is anything that generates income or helps in the generation of income. Many items can qualify as both a means of consumption and an asset. For example, if you own a truck, but only use it to drive to the beach, then your truck is not an asset. If though you are a truck driver and your truck is what you use to carry goods from one place to another as a means of income generation, then your truck is considered an asset. Some community members stated that they used some or all of their loan money on consumptive items such as food, clothing, and medicine instead of using them to build assets for the stated purpose of the loan.

What makes consumption a tricky topic is that a certain level of consumption must occur in order to sustain life. If borrowers are using money for immediate consumption instead of using it to build assets, this could mean that there are immediate problems within the family, such as sickness or extreme hunger, which take preference to repaying the loans. Under such circumstances, microcredit loans may not be an appropriate means of development. In particular, illness within the family seemed to be a common reason for not repaying loans or continuing the activities in which the loans were originally made for. Two out of the seven families interviewed who had taken out loans stated illness of a family member as a reason they had problems repaying their loans. This is a common problem for many microcredit institutions and is the largest contributor in preventing loan repayments to the Grameen Bank⁴⁴

⁴⁴ "Grameen- Banking for the Poor." Grameen Bank. <<http://www.grameen-info.org/>>.

Environmental Restrictions:

Among the most popular loan activities are those based on agricultural. Agricultural activities (the most common being casas de farinha), are subject to the variability of nature and the environment that can prevent steady flows of income. Some families interviewed stated that they had difficulty producing enough crops to be able to pay back loans, a significant problem when considering expanding agricultural production encourages deforestation and negatively effects the environment that the communities are dependent upon. Additionally, certain activities, such as fishing, are severely constricted during certain times of the year. During the winter season (inverno), the water level of the river is high and there is a lot of rain, making fishing more difficult and time consuming.

Transportation:

Transportation into the city is essential for many borrowers not only to purchase tools and sell their goods, but also to pay back their loans. Unfortunately, transportation into the city is not easy for most community members. Many are only connected to larger cities like Santarém through the river, which can take hours by boat and is hindered by the expensive price of gasoline, or by bus, which comes to most communities only once or twice a week and is equally expensive (\$10 per trip). Some communities have no access at all to bus services at all and either have to walk or bike to other communities that have bus transportation or borrow a boat, making the trip even more inconvenient. Getting into town, if not prohibitive because of cost, is also time consuming. Though community members do have a fair amount of leisure time, getting into town is a whole day event at the very least. Borrowers with children and other responsibilities at home often times cannot make frequent trips into the city to buy materials, sell their products, or pay loans.

Table 3

Difficulties within the operation and structure of PSA's microcredit program
Training
Loan Selection Process
Frequency of Check-ins (transaction costs)
No penalty for unfulfilled contracts

Training:

Though every interviewee asked about the effectiveness of the training for the microcredit program claimed that it was good, some suggested that the training should have been done before the loan money was disbursed. The few who complained about this stated that they did not realize the full responsibility of taking out a loan before starting the program and felt overwhelmed with the problems they encountered after receiving the money. Giving the training after the loan differs from many large and successful banks such as the Grameen Bank in Bangladesh⁴⁵.

Loan Selection Process:

Many of the problems associated with the program can be linked to the loan selection process. During this process, the PSA staff and community representatives were suppose to reject projects that did not comply with the established guidelines of (1) utilizing local resources for the product or service, (2) being economically viable, (3) being feasible within the community, and (4) having a low environmental impact, while the applicants would be required to have (5) past experience with the loan activity and (6) participate in community activities. Activities that complied with a majority of these criteria were usually successful but many projects failed to meet these measures, especially the factors of economic viability, past experience with the loan activity and feasible within the community.

The profitability of many ventures was mistaken by both the selection committee and borrowers. Certain activities, even after materials were purchased and products were being made, did not make enough money to cover the loan. The low price of certain activities could be due to high supply of the product (farinha), low demand for the

⁴⁵ "Grameen- Banking for the Poor." Grameen Bank. <<http://www.grameen-info.org/>>.

product (pulpa de frutas), or a combination of both factors. Generally, activities that were used to increase the economies of scale of a product that already had low prices (farinha) did not succeed in creating enough of the product to combat the products initial low price. The most profitable projects tended to be those that were service oriented (barbearia, manicure, etc) that could be implemented within the communities (See Table 9 in appendix)

Some activities borrowers participated in required use of specific technical knowledge that they did not possess, such as how to use or fix a certain piece of machinery (motor for casa de farinha) or how to perform a certain task (aviculture). A lack of past experience with the loan activity diminished potential for income growth that could be achieved and provided a steep learning curve for those without the familiarity. The lack of technical skill may be due to the fact that that many of the loan activities were new businesses ventures instead of existing businesses. Many microcredit institutions elsewhere require their borrowers to have a business before applying for a loan.

Frequency of Check-in:

Many of the interviewed loaners wished that PSA would come and check in with them more often. A key concept essential to the operation of many microcredit institutions is close monitoring and communication with its borrowers. Since it is known that many of these people will run into difficulties with their projects or ability to pay back loans, loan officers often make routine stops to check in with their loan applicants. In an urban situation, such stops can be done within the regular routine of the day. Unfortunately, checking in with borrowers is far from easy in the context of the Caboclos communities of the Tapajós, Amazon, and Anjrar Rivers because of the far distances between the city and the communities and the lack of infrastructure for roads and communication.

Though some communities have electricity, neither of the communities visited had telephones, making telecommunication between the communities and the PSA office difficult. Though both communities had radios for direct contact with PSA, they are typically used for more urgent matters and are not suitable for the frequent use that they

might receive if they were used to contact borrowers. Additionally, there is a substantial difference between the effect of contacting someone on the phone and speaking with them face to face. If the borrower is experiencing a complicated problem, explanation over the phone may not be a suitable substitute for being able to show the problem explicitly. Conversely, if a PSA staff member needs to ask someone from the community about their loan payments, the seriousness of the situation can be expressed far more effectively in person rather than over the phone.

Lastly, the staff members at PSA are not loan officers; they have many other duties besides the microcredit program in which they are responsible for. Frequent trips into the communities' takes time away from other work that they have and can be especially restrictive because of the quantity and distance between communities.

No penalty for unfulfilled contracts:

Though stipulated in the original plan that the items purchased with the loan money belonged to PSA until the loan was fully repaid, PSA has yet to repossess any items from those who did not pay. Though repossessing the items would potentially damage the families who did not finish paying the loan, not repossessing the item leaves little incentive for the rest of the community members to repay their loans. Though it is not the goal of PSA to punish the borrowers (nor should it be) being too lenient can be destructive to the overall project scheme if no one is willing to pay money back. Often “when a non-government organization (NGO) that was known in the past for providing grants moves into providing loans, the recipients often see the NGO as a soft target. Loan recipients recognize that the NGO would be unwilling to put pressure on lenders who defaulted and would certainly be unwilling to force the sale of collateral”⁴⁶. An example of this may be seen when looking at the repayment rates of different phases of the microcredit project.

⁴⁶ B. Mishra and Purusottam Nayak, “Limits of Microcredit for rural development: A cursory look” Rural Indebtedness in North East India, Dibrugarh University, Assam, 2004, pp 185-200

There were four subsequent phases of the PSA microcredit program. At the beginning of each phase, the program was suppose to be re-evaluated and adjustments were suppose to be made to improve the program. Oddly enough, at least in terms of repayment rates, the opposite trend seemed to occur. The first phase had the overall best repayment rate with diminishing overall repayment rates thereafter (Table 4) Though this trend could be due to a continuously less qualified applicant pool and/or less profitable projects (though if projects were thought to be unprofitable they probably should have been rejected during the loan selection process), it could also suggest that as time goes by and people discovered that PSA would not re-possess the tools they bought, borrowers had less of an incentive to return loan payments. In fact, during one of the interview conducted, when the question “what could make the program better” was asked, the person being interviewed responded “Nada, voce nao tem pagar! (Nothing, you don’t have to pay!)”. Though it was said in a joking matter, it shows that people realize that there are few consequences in not having to repay their loans.

Objective #2: Speculate if the loans helped the borrowers fight poverty

This section uses two different definitions two help describe if the loans may have helped the borrowers exit poverty. Because poverty is such a multifaceted concept, a definition that uses mainly relative factors (community definition of poverty) and a definition that uses mainly absolute factors (poverty thresholds) were utilized to get a greater understanding of poverty within the communities studied.

Community Definition of Poverty

In order to find out if loans have helped borrowers fight poverty, a definition of poverty must be established. As stated earlier, there are several different definitions of poverty, all of which focus on different aspects of the condition. Since the definition and idea of poverty can vary between cultures, a definition based on the current realities of the poor in question is essential. In order to do this, the families interviewed were asked what things were lacking in the lives of the poor. The following is a summary of the results (for the full data set, see Table 8):

Table 5

Top 5 most cited necessities "lacking in the lives of the poor"	Number of times cited
(1) Money	9
(2) Health	8
(3) Food	8
(4) Work	7
(5) Education	6

Though it would be logical to assume that there was a strong correlation between the people who cited money as an important necessity lacking from the lives of the poor and those people who took out loans (those who are obviously interested in increasing their incomes), there was not a strong connection. Only 29% of those families who took out loans cited money as a necessity compared to 47% of those families who did not take out loans. Additionally, to distinguish between differences in outlook between communities, 71% of families in Pedreria who did not take out loans stated money as a necessity compared to 29% for those families in Pedreria that did take out loans. Though there may be an upward bias of the “money” variable being selected due to the prior questions concerning money (because of the earlier questions, the interviewee might have already been thinking about money), a separate question was asked only about money afterwards (“Is earning money important for your family”) in which all families responded yes. In addition, questions were asked about what things the families buy and what they produce themselves. The families interviewed stated that they bought many products including staple foods (rice, beans, and noodles), cloths, batteries and other things that they do not or cannot produce themselves. This suggests that to at least some extent, money is important for most families and not just those families who take part in the microcredit programs. In general, the necessities selected seemed to be representative of what most people consider the poor to be lacking.

Questions were also posed to the families about if they believed they personally were lacking any of the necessities listed within their definitions of poverty. The hope was that these questions would help in determining if the community members considered themselves to be poverty stricken. Though asking this may seem odd, there is often debate in academic circles whether the measures of poverty developed by westernized countries have significance to the people in which they are judging. When

the families were asked if they were lacking the necessities that they stated were lacking in the lives of the poor, 12 answered “no” while 10 answered “yes”. This suggests that a majority of the people interviewed, while lacking many things, do not lack the things which constitute poverty in their minds. When comparing the families in Pedreria that took out loans with those that did not, 57% of families who took out loans felt that they were lacking things while only 29% of families who did not take out loans felt that they were missing the necessities lacking in the lives of the poor. Though the higher percentage of families who took out loans and felt they were lacking things in life is probably due to sickness (2 families interviewed were unable to pay back loan payments because of illness in the family), the results could suggest a reason for why the families who did not take out loans decided not to take out loans (they may have felt they had all the things necessary to live). Overall, it does not seem that those families who took out loans were any better off than those who did not take out loans according to the definitions of poverty given by the Caboclos communities of Pedreria and Acaratinga.

Income

A second indicator that is often used for poverty evaluation is levels of income. Income is an important indicator for communities that use money because it is needed to purchase many necessary items that are not otherwise available. Because of money’s fungibility, it can be used to improve many areas of the lives of poor including food, clean water, shelter, education and many other necessities. If you have a larger income, you have a greater ability to improve the material necessities that are needed for a good life. Though there are certainly other important aspects of poverty that are equally if not more important than money, money is important in poverty analysis because it is easy to use in calculations and because it is recognizable and familiar with a large number of people. All poverty lines and thresholds use money as its unit of measurement and most use income as the subject of measurement. Additionally, money is probably a valid poverty indicator for the communities studied for no other reason because it was the most cited necessity lacking in the lives of the poor in the definition of poverty conceived by the community members.

In order to infer whether those families who received loans benefited from them, the indicator of income was examined. In order to do this, families interviewed were asked a series of questions about the types of activities that generate income for them, how many products they sold (and in terms of agricultural production, what the volume of each unit sold was), and how often the products were sold. This data was calculated to find the total family income per month. The total family income per month was then divided by the number of people in the family and afterwards categorized into those who received loans and those that did not (Table 10).

The data was then computed into three different statistical measurements: the average, mean, and standard deviation.

Table 6		
Total average	R\$	81.28
Average w/o loan	R\$	80.67
Average with loan	R\$	81.88
Median	R\$	60.82
Standard deviation	R\$	49.29
Standard deviation w/o loan	R\$	46.62
Standard deviation with loan	R\$	55.59

Though the average income/person/month is greater for those with a loan than those without one, the data shows very little difference between the two (a little over R\$1). The median is lower than all the averages, meaning that some outliers are probably increasing the average. The average standard deviation is almost R\$50, meaning that there is great variability among prices within the same data set. There seems to be an even greater variability between those with a loan than those without, again suggesting that there are outliers that are affecting the data set.

In order to deal with these outliers present and to get a better representation of what effects the loans have, the second set of statistical measurements only used those people who had farinha production as their main source of income. The high income jobs of fisherman and teacher were left out to eliminate the contributions they were making to the averages and to reduce bias.

Table 7

Total Average with only farinha	R\$ 66.96
Average with only farinha w/o loans	R\$ 64.12
Average with only farinha w/ loans	R\$ 69.81
Median with only farinha	R\$ 53.57
Standard deviation with only farinha	R\$ 35.74
Standard deviation with only farinha w/o loan	R\$ 17.50
Standard deviation with only farinha w loan	R\$ 49.84

Indeed, just omitting the teacher and fisherman decreased the average by almost R\$20 and helped eliminate some of the variability. In this analysis, there is a slightly more substantial difference between the averages of those who took out loans and those that did not. The median is also closer to all the means than it was in the previous data set. A huge difference is can be seen between the standard deviations of the applicants with loans and those without. The data shows that there is greater variability present still in those with loans while the variability for those without diminished significantly. Overall, neither data set showed a great difference in income between those with a loan and those that did not receive a loan, though for both sets, the group with the loans had a slightly higher average income.

Lastly, to compare the income data to a definition of poverty that uses money as an indicator, the World Bank absolute poverty lines were computed to find if any of averages were above the threshold. The World Bank absolute poverty threshold is stated as consumption below or equal to \$1 a day in 1985 international dollars.⁴⁷ Since 2000, the base year that is used to compare countries PPP's (purchasing power parities) was changed from 1985 to the year 1993. To account for inflation, the new standard used by the bank is actually \$1.08 a day/person in 1993 international dollars. To discover what this poverty threshold is for the current value (actually the 2006 price because national CPI values for Brazil are not yet available for 2007) in reais, there are a few mains steps⁴⁸:

⁴⁷ "Measuring Poverty." The World Bank. 3 Nov. 2007

<<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY>>

⁴⁸ Methods were taken from: Reddy, Sanjay G., and Thomas W. Pogge. How Not to Count the Poor. Columbia Univ., 2005

1. Multiply the \$1.08 1993 international dollars by 31 days to calculate value of consumption for one month in 1993 international dollars under the poverty threshold guidelines (\$32.74 1993 international dollars/month)
2. Next, using the 1993 PPP⁴⁹ exchange rates for Brazil⁵⁰, multiply the \$32.74 international dollars/month by the exchange rate to determine the number of poverty threshold in the national currency. This part is a little tricky when talking about Brazil because of the currency change that occurred in 1994. Following the procedure still works though, even if the number seems initially odd (0.583348224)
3. Since the new number is expressed as the currency of Brazil in 1993, the National CPI⁵¹ for 1993 and 2006 in Brazil must be used to determine its current value in 2006 reais. For this, the following procedure is used: 2006 currency = 1993 currency * (2006 CPI / 1993 CPI). The resulting poverty level for Brazil is R\$ 48.74/month in 2006 reais.

Table 12

Poverty Threshold (in 1993 international dollars)	\$ 1.08
Number of days in a month	31
1993 PPP exchange rate for Brazil	0.0178176
1993 National CPI for Brazil	1.93096
2006 National CPI for Brazil	157.757
Poverty Threshold in 2006 Reais/month	R\$ 48.74

The resulting R\$ 48.74 is lower not only than the total averages for the community (R\$ 81.28) but is it also lower than the averages when just looking at the families who produce farinha as their main source of income (R\$ 66.96), meaning that by

⁴⁹ The Purchasing Power Parity (PPP) is a method used to determine what the relative buying power of different currencies are by seeing how much a set bundle of goods costs in each of the two currencies that are being compared. The PPP's between different years can not be compared.

⁵⁰ "PovcalNet." World Bank. <<http://iresearch.worldbank.org/PovcalNet/jsp/index.jsp>>.

⁵¹ The Consumer Price Index (CPI) is a method to determine the amount of inflation occurring to a currency. The CPI is computed by seeing how much the price of a set bundle of goods changes over time within in a country. Brazil's national CPI's were calculated by the IMF International Statistics Department (<http://www.imfstatistics.org>)

the calculations of this study, the averages both groups, both with and without loans, surpass the absolute poverty threshold. However when looking at individual cases, there were four members interviewed that had calculated incomes/month less than the absolute poverty line, 3 of which received loans and 1 in which did not (table 10). This helps confirm that the loans did not seem to significantly help the borrowers.

The data presented in this last section are only estimates which are limited by the techniques used to collect and calculate them. For example, because there is no documentation on how much income community members generate (no monthly paychecks, bank accounts, etc.), the only way to get an estimate is to do a household survey that asks the people what they earn. Additionally, because agricultural output is variable, the data given were only approximations. The tests are by no means meant to be conclusive, nor were they designed to be and could have a great variability if calculated again using slightly different methods. Still, it is an interesting exercise which allows for basic comparisons using two different definitions of poverty.

Conclusion:

Although the data collected in this study suggests that there were several problems hindering effective microcredit use within in the program and communities and that the microcredit program did not seem to significantly help the members of the Pedreria community who received loans, could and should the program be continued in the future? The first step toward answering this question is to see if there is still demand for the program. If no one wants loans from PSA, then the money and time invested in renewing the program will be wasted. During the interviews, families that did not receive loans were asked if they would like a loan in the future while families that did receive loans were asked if they would like another loan. The responses to the questions are stated in table 11. Of the 22 families interviewed: 6 responded “yes”, 13 responded “no” and 3 responded “maybe”. Of the 6 that responded “yes”, three had already received one loan in the past. It was not determined if those who had previous received a loan would still want to receive a new loan if they had to repay their old loan payments. Overall, it seems that while there is not overwhelming support for more loans, there are still some people who show interest.

If the program were to begin again, steps would have to be taken to prevent the problems that occurred in the past. Possible suggestions for improving upon the program include training reform, increased staff, recruiting community loan officers, group lending and stricter loan policies. Training, instead of only being after the loan is given, could be offered both before and after the loan is given, the former being the main training session and the latter being a brush-up course that would deal with any further problems that the borrowers were experiencing. Increased staff and recruiting community loan officers would make the communication easier and could cut down on transportation costs. Additionally, the community loan officers would help the program become more sustainable and would allow the communities to take an active role throughout the entire microcredit process.

The “o fiador” support system did not seem to be very effective means of reinforcement for loan payments. For communities like Pedreria where families are closer together, group lending could effectively work and create incentives for growth of the program within the communities. In addition, with the information gathered on loan repayment rates, the program can see what activities are more inclined to work and which others do not. This can make the loan selection process more effective in selecting loan activities that will not put the borrower into debt. Though this may conflict with the desire to give the opportunity to receive loans to everyone, it is better to have an only few projects and have those projects be successful than to have many projects and subsequently many people in debt. The original proposed microcredit plan of PSA was very thorough and if it were fully implemented, would probably succeed very well.

Ultimately, an effective microcredit program may be possible, but it would take a great deal of effort and support by both the community and PSA. Such effort may not be worth it if the benefits to the communities are not substantial. Though microcredit is an effective poverty reduction tool for the poor in urban areas, the complications and costs associated with rural microcredit, especially for an NGO in which the poor depend on, are numerous. For this reason, other avenues of poverty reduction that are more suitable to the situation may be a more favorable option.

Appendixes

Interview Questions:

Perguntas pra a comunidade Pedreria (com empréstimos)

- 1) Você ou uma outra pessoa em sua família participa em um programa “Jovem Empreendedor” do Projeto Saúde e Alegria?
- 2) O que você era meta original pra um seu empréstimo?
- 3) Você usa o dinheiro empréstimo para fazer este atividade? (Se sim, numero quatro. Se não, numero onze).
- 4) O que você compra com seu dinheiro empréstimo?
- 5) Ainda, você ta fazendo sua atividade? (Se não) Quando você parou esta atividade?
- 6) Sua atividade ganha dinheiro?
- 7) Quanto custo seu produtos -ao- Quanto você ganha pra sua atividade?
- 8) Aproximadamente, quantos produtos você vende em cada mês -ao- Aproximadamente, quantos os clientes você tem em cada mês?
- 9) O que outras atividades ganha dinheiro pra sua família?
- 10) Quanto dinheiro você ganha com estas outras atividades? (vai para numero quatorze)
- 11) O que você usa seu empréstimo dinheiro para?
- 12) O que outras atividades ganha dinheiro pra sua família?
- 13) Quanto dinheiro você ganha com estas outras atividades?
- 14) O que você compra com dinheiro em geral?
- 15) Se você ganhasse mais dinheiro, o que faria você com o dinheiro??
- 16) Antes o empréstimo, você tem experiência vendendo coisas?
- 17) Antes o empréstimo, você sabe sobre empréstimos?
- 18) Outros lugares oferecem empréstimos aqui?
- 19) Como você acho que o empréstimo faria sua vida melhor?
- 20) Acha que o empréstimo melhorou sua vida?
- 21) O que coisas é faltando em a vida dos pobres?
- 22) Você acha que é faltando qualquer destas coisas? (se sim), O que coisas?
- 23) Está ganhando dinheiro é importante pra você?
- 24) O estágio de “Jovem Empreendedor” foi bom?
- 25) O que pode fazer um programa melhor?
- 26) Você gostaria um outro empréstimo? Por que?
- 27) Quantas pessoas moram em sua casa?

Perguntas pra a comunidade Pedreria (sem empréstimos)

- 1) Você conhece sobre o programa “Jovem Empreendedor” do Projeto Saúde e Alegria?
- 2) (se sim), Por que você não participa em este programa?
- 3) O que atividades ganha dinheiro pra sua família?
- 4) Quanto dinheiro você ganha com estas atividades?
- 5) O que você compra com dinheiro em geral?
- 6) Ganhou-se mais dinheiro, o que é que você faria com o dinheiro?
- 7) O que coisas é faltando em a vida dos pobres?
- 8) Você acha que é faltando qualquer destas coisas? (se sim), O que coisas?
- 9) Está ganhando dinheiro é importante pra você?
- 10) Você gostaria um outro empréstimo? Por que?
- 11) Quantas pessoas moram em sua casa?

Perguntas pra a comunidade Acaratinga

- 1) Você conhece sobre o programa “Jovem Empreendedor” do Projeto Saúde e Alegria?
- 2) (se sim), Por que você não participa em este programa?
- 3) Você é familiar com a idéia de empréstimos? (Você sabe sobre empréstimos?)
- 4) O que atividades ganha dinheiro pra sua família?
- 5) O que você compra com dinheiro em geral?
- 6) Onde você compra estes produtos? Em a comunidade? Em Santarém?
- 7) O que coisas é faltando em a vida dos pobres?
- 8) Você acha que é faltando qualquer destas coisas? (se sim), O que coisas?
- 9) Está ganhando dinheiro é importante pra você?
- 10) Você gostaria de receber um outro empréstimo?

Table 1

Organization	Repayment rate	Source
FINCA International	99%	www.villagebanking.org
ACCION International	97%	www.accion.org/netcommunity/page
Grameen Bank	98%	www.grameen-info.org/bank/bank2.html
SKS India	98%	www.schwabfound.org/india

Table 2

Difficulties within the Caboclos communities
Lack of familiarity with the concept of loans
Use of loan money for consumption rather than assets
Environmental Restrictions
Lack of access and cost of transportation

Table 3

Difficulties within the operation and structure of PSA's microcredit program
Training
Loan Selection Process
Frequency of Check-ins (transaction costs)
No penalty for unfulfilled contracts

Table 4

Phase	Number of projects	Total value of project	general total	percentage returned
1	42	R\$ 25,459.23	R\$ 14,044.72	55%
2	22	R\$ 18,895.00	R\$ 6,410.00	34%
3	12	R\$ 10,315.00	R\$ 3,032.00	29%
4	4	R\$ 4,874.00	R\$ 875.00	18%
Total	80	R\$ 59,543.23	R\$ 24,361.72	41%

Table 5

Top 5 most cited necessities "lacking in the lives of the poor"	Number of times cited
(1) Money	9
(2) Health	8
(3) Food	8
(4) Work	7
(5) Education	6

Table 6

Total average	R\$ 81.28
Average w/o loan	R\$ 80.67
Average with loan	R\$ 81.88
Median	R\$ 60.82
Standard deviation	R\$ 49.29
Standard deviation w/o loan	R\$ 46.62
Standard deviation with loan	R\$ 55.59

Table 7

Total Average with only farinha	R\$ 66.96
Average with only farinha w/o loans	R\$ 64.12
Average with only farinha w/ loans	R\$ 69.81
Median with only farinha	R\$ 53.57
Standard deviation with only farinha	R\$ 35.74
Standard deviation with only farinha w/o loan	R\$ 17.50
Standard deviation with only farinha w loan	R\$ 49.84

Num.	Did you receive a loan?	money	transportation	education	health	food	shelter	work	responsibility	material things	equality	government	opportunity	energy
1	yes	1			1					1				
2	no	1			1	1								
3	no	1				1		1						
4	no					1	1	1						
5	no	1			1			1						
6	yes			1		1								
7	yes	1			1									
8	no	1			1	1								
9	yes		1	1	1				1	1				
10	no	1						1						
11	no			1	1						1			
12	yes				1							1		
13	yes											1		
14	yes			1				1	1					
15	no	1										1		
16	no											1	1	
17	no	1												
18	no		1	1		1								1
19	no					1		1					1	
20	no		1			1								1
21	no													
22	no		1	1				1						
		9	4	6	8	8	1	7	2	2	1	4	2	2

Table 8

Activity	Total amount dispersed	Total value of project	Total Amount Received	Indebted Balance	Percentage Paid
Agricultura	R\$ 160.00	R\$ 170.10	R\$ 0.00	R\$ 170.10	0%
Festival açaí	R\$ 1,200.00	R\$ 1,212.00	R\$ 0.00	R\$ 1,212.00	0%
Roçado	R\$ 650.00	R\$ 687.00	R\$ 0.00	R\$ 687.00	0%
Suinocultura	R\$ 3,168.00	R\$ 3,690.00	R\$ 370.00	R\$ 3,320.00	10%
Marcenaria	R\$ 1,158.00	R\$ 1,335.00	R\$ 188.00	R\$ 1,147.00	14%
Mercearia	R\$ 550.00	R\$ 583.80	R\$ 84.00	R\$ 499.80	14%
Formação superior	R\$ 1,200.00	R\$ 1,350.00	R\$ 225.00	R\$ 1,125.00	17%
Pesca artesanal	R\$ 800.00	R\$ 930.00	R\$ 162.00	R\$ 768.00	17%
Redes	R\$ 1,683.20	R\$ 1,939.20	R\$ 361.00	R\$ 1,578.20	19%
Corte e costura	R\$ 1,529.00	R\$ 1,830.00	R\$ 346.00	R\$ 1,484.00	19%
Polpa de frutas	R\$ 511.00	R\$ 542.01	R\$ 153.00	R\$ 389.01	28%
Barbearia	R\$ 880.00	R\$ 1,017.15	R\$ 297.15	R\$ 720.00	29%
Avicultura	R\$ 2,900.00	R\$ 3,250.38	R\$ 1,022.56	R\$ 2,227.82	31%
Ecoturismo	R\$ 1,571.20	R\$ 606.06	R\$ 196.00	R\$ 410.06	32%
Casa de farinha	R\$ 9,140.85	R\$ 10,588.89	R\$ 3,485.00	R\$ 7,103.89	33%
Padaria	R\$ 1,840.00	R\$ 2,055.51	R\$ 687.88	R\$ 1,367.63	33%
Artesanato	R\$ 4,388.80	R\$ 4,737.20	R\$ 1,850.00	R\$ 2,887.20	39%
Comercio	R\$ 5,297.00	R\$ 5,730.50	R\$ 2,548.72	R\$ 3,181.78	44%
Canoa	R\$ 400.00	R\$ 445.41	R\$ 257.00	R\$ 188.41	58%
Apicultura	R\$ 1,400.00	R\$ 1,605.00	R\$ 933.00	R\$ 672.00	58%
Pesca	R\$ 4,970.00	R\$ 5,489.31	R\$ 4,116.50	R\$ 1,372.81	75%
Cosmetico	R\$ 1,050.00	R\$ 1,114.26	R\$ 874.11	R\$ 240.15	78%
Carroça de boi	R\$ 1,250.00	R\$ 1,397.10	R\$ 1,099.50	R\$ 297.60	79%
Ceramica	R\$ 767.00	R\$ 900.00	R\$ 828.00	R\$ 72.00	92%
Banda de musica	R\$ 1,925.00	R\$ 2,121.75	R\$ 1,984.00	R\$ 137.75	94%
Armarinho	R\$ 1,370.00	R\$ 1,559.50	R\$ 1,505.00	R\$ 54.50	97%
Manicure	R\$ 215.00	R\$ 215.00	R\$ 214.60	R\$ 0.40	100%
Lanchonete	R\$ 540.00	R\$ 573.30	R\$ 573.70	-R\$ 0.40	100%

Table 9

#	Had loan	Income (stated)	Income per month (calculated)	# of members in household	income per person
1	Y	5 sacks of farinha a week. 50 kilo sack	\$1,000.00	6	\$166.67
2	N	2 sacks a week. 50 kilo sack	\$400.00	7	\$57.14
3	N	58 reais per mes (bolsa familia) and 200 per month for work	\$258.00	4	\$64.50
4	n	300 in a month	\$300.00	6	\$50.00
5	y	200 in a month	\$200.00	5	\$40.00
6	n	700 in three months	\$233.33	5	\$46.67
7	y	tucumaru - 6 reais/kilo. Sells maybe 6 kilos a month. Sells 3-4 sacks a month of farinha (50 kilo bags)	\$236.00	6	\$39.33
8	y	1 kilo of fish - 3 reais, sells about 10-15 kilos a day	\$1,080.00	7	\$154.29
9	n	30 kilo/ sack of farinha. 3 a week in a good week	\$360.00	5	\$72.00
10	n	45 reais/ sack. About 2 sacks a week. Plus bolsa familia (112 a month)	\$472.00	5	\$94.40
11	n	900 in a month	\$900.00	5	\$180.00
12	y	300 a month	\$300.00	6	\$50.00
13	y	300 a month	\$300.00	7	\$42.86
14	y	640 in a month	\$640.00	8	\$80.00

Table 10

Table 11

Num.	Did you receive a loan?	Are you missing things?	Would you like a (another) loan?
1	yes	yes	yes
2	no	no	no
3	no	yes	no
4	no	no	no
5	no	no	yes
6	yes	no	yes
7	yes	yes	no
8	no	no	no
9	yes	no	no
10	no	no	no
11	no	yes	maybe
12	yes	yes	no
13	yes	yes	yes
14	yes	no	maybe
15	no	yes	yes
16	no	no	maybe
17	no	no	no
18	no	no	no
19	no	yes	no
20	no	yes	no
21	no	yes	no
22	no	no	yes

Table 12

Poverty Threshold (in 1993 international dollars)	\$ 1.08
Number of days in a month	31
1993 PPP exchange rate for Brazil	0.0178176
1993 National CPI for Brazil	1.93096
2006 National CPI for Brazil	157.757
Poverty Threshold in 2006 Reais/month	R\$ 48.74

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