

The emergence of a micro-finance market in the *sertão* back lands of Bahia

A formação de um mercado de microfinanças no sertão da Bahia

La formation d'un marché de microfinances dans le sertão de Bahia

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ABSTRACT

This paper analyzes the organizational and cultural basis on which financial markets in poor regions are built. The action of Christian Base Communities has been especially important in promoting a cultural change process and in the formation of a dense network of organizations that has enlarged the access of farmers both to financial markets and new channels of commercialization. This paper reconstructs the historical processes of constitution of credit unions, underscoring the influence of natural factors like climate on the "*sertanejos*" rationality and the social structures of the new economic organizations..

Keywords: Markets; Micro-finance; Micro-credit; Rationality; Economic sociology.

RESUMO

Este artigo analisa as bases culturais e organizacionais subjacentes à formação de mercados financeiros formais em regiões de baixa-renda. A ação das Comunidades Eclesiais de Base e dos sindicatos de trabalhadores rurais, a partir dos anos de 1970, foi decisiva para promover um processo de mudança cultural e a formação de uma densa rede de organizações que possibilitaram ampliar o acesso dos agricultores ao mercado financeiro formal e a novos canais de comercialização. O artigo procura reconstruir os processos históricos que levaram à formação das cooperativas, revelando-se como fatores fundamentais a influência do clima sobre os mercados, a racionalidade econômica do sertanejo e as estruturas sociais das novas organizações econômicas.

Palavras-chave: Mercados; Microfinanças; Microcrédito; Racionalidade; Sociologia econômica.

RÉSUMÉ

Cet article analyse les fondements culturels et organisationnels sous jacents à la formation de marchés financiers formels dans des régions pauvres du Nord-Est du Brésil. . L'action des Communautés Ecclésiales de Base et des syndicats de travailleurs ruraux à partir des années 1970, a été décisive pour promouvoir un processus de changement culturel et de formation d'un important réseau d'organisations qui ont permis d'élargir l'accès des agriculteurs au marché formel des finances et à de nouveaux créneaux de commercialisation. L'article reconstruit les processus historiques qui ont mené à la formation de coopératives et montre l'influence du climat sur le fonctionnement des marchés, la rationalité économique du paysan et les structures sociales des nouvelles organisations économiques.

Mots-clés: Marchés; Microfinances; Microcrédit; Rationalité; Sociologie économique.

Introduction

An examination of the historical background of the most important experiments and experiences in economic re-organization aimed at inserting low-income rural populations into markets leads to a surprising revelation: among the most successful cases, most of the leaders and members of the organizations have at some time participated in the political and social-religious work of the Christian¹ Base Communities of the Catholic Church.

Something unusual has been introduced into the lives of those communities by the social work associated to religion, namely the forming of a new *ethos* that expresses itself in unusual forms of economic organization. Beginning in the 1970s, the foundations of unprecedented forms of social and economic behavior were laid in the catechism activities, prayer sessions, bible circles, singing and religious festivals that took place. The religious work fostered the emergence of a way of looking at things and of forming relations that made a specific type of economic rationality feasible. That is not to say that at every turn, the decisions taken at meetings and administrative council sessions or that the forms of financial administration of the small farmers involved are guided strictly by religious considerations, but rather, that there is a psychological predisposition that binds the individual to a social commitment in his economic life. It is that social commitment that has its origins in the social work of the church.

What then is the cultural significance of this historical process and what are its connections with economic life as such? There is a historical singularity in these experiences of the greatest importance: the behavior of the individual in regard to the use of his or her own material and financial resources is not based on the autonomy of the economic sphere within the sphere of social life. Quite the contrary, the construction of organizations capable of guiding the behavior of individuals that belong to them is based on the preservation of fundamental values linked to the Church's social doctrine. Principles of solidarity, union, social organization and struggle are no way belittled in relation to the more typically economic considerations like efficiency, balance of accounts, financial sustainability or returns of the credit unions.

An understanding of these experiences shows that ethics and economics, two dimensions of social life that the social sciences separated long ago, are components intrinsically related to the formation of economic organizations and markets. A considerable proportion of contemporary social studies has been dedicated to bringing together what the history of economic thinking treated from the outset as distinct spheres and even considered as endowed with a certain autonomy in regard to social life. In the view of Amartya Sen (1982), for example, the "logistics" and "engineering" approach to economic questions (only concerned with aspects related to efficiency of allocation) and "ethical" approach (more concerned with the Aristotelian theme "how should we be living?") can and should be integrated in a scientific perspective. Albert Hirschmann (1986) follows the same line of reasoning in his works, and in the field of contemporary economic sociology, the markets pay tribute to social structures and public regulation and are not above ethical considerations, as Niel Fligstein's (2001) important work demonstrates.

In the economic organizations that emerged from the grass roots activities of the Christian Base Communities, rational management evolved concomitantly with the formulation of a social and political project that guides its actions. They are two

weights on either side of the same pair of scales, which sometimes leans one way and sometimes the other, in an equilibrium that is always mediated by conflict; but both dimensions are taken into consideration: in individual decision making; in the rules of the organizations and markets; and in the various forms of social control exercised over behaviors.

Another singular characteristic of these economic organizations is that although they are inserted in markets that follow the usual patterns of professional management just like any other modern company, they have a commitment to a social project embedded in their institutions. In that regard the economic organizations of small family farmers, for example, offer an alternative to the polarized opposition so frequently found in the social sciences – and in politics (Abramovay, 2004a). On the one hand there is the idea that the markets are the magic solution for all social problems, somewhat un-social entities that do not depend on the influence of groups, classes or permanent relationships among individuals; and that the more they are over and above society, the better they will work in allocating resources. On the other, there is the completely opposite idea that the markets, being an autonomous sphere of social life, are incompatible with human well-being or essentially human values and ethics. Jean-Paul Marechal sustains the latter view in *Humaniser l'économie* (2000). According to him a market economy is incapable of reconciling economic performance with social progress. ²

Actually there is no lack of examples of experiences in the social movements where a vision of the world forged in liberation theology made it feasible to form markets that managed to unify economic rationality – manifested as rational accounting and an overall calculability of the activities involved (Weber, 2000) – and a permanent effort to foster values associated to fairness and the direct participation of individuals and groups in the management of their own business. In opposition to the polarity whereby the market is either deified or seen as the epitome of Evil, there is a third point of view whereby the markets are seen as social structures and that furthermore they constitute 'fields' (in the sense used by Pierre Bourdieu) and accordingly involve a permanent dispute among different social groups, to dominate them.

What then, is the explanation for such a strong presence of the ideas and actions of the Christian Base Communities in the great majority of economic organizations designed to enhance the value of the work of low-income rural populations? What are the intrinsic elements of the religious work that was done that have unintentionally led to the unforeseen or even undesired consequence of bonding the struggle for social justice to organizations governed by an essentially economic rationality? How was it possible to link a social movement motivated by values like solidarity and a sense of community, to something that organizes itself impersonally around economic calculations, balances, making profits and the need to "balance the accounts" of the organization?

The establishment of a micro-financing market in the rural areas of the interior of Bahia state is one among many examples of this kind of 'squaring the circle'. What is important from the sociological angle, is to understand its singularity: it is a market that resulted from a long drawn out process of cultural and institutional change, in a context where the individual and the typical environments of the rural hinterland tradition underwent profound modification in the process of forming a new vision of the world, a new economic rationality and new institutions. At the base of these new institutions lies the formation of new rational behavior patterns, not only guided by individual interests furthered by coherent and increasingly 'calculative' means (Callon, 1998), but bearing the mark of an ethic founded primarily on cooperation and a commitment to reducing poverty.

The semi-arid climate of the sisal-growing region of Bahia imposes a high degree of financial instability on the lives of families, markets and organizations. The markets are typically traditional monopolies with rules that keep the low-income farmers permanently in debt and subordinated to the economic agents that not only control the main local organizations but also generate a widespread financial circuit, especially involving the sisal traders and the gypsies. To counter that, the poor farmers created their own survival strategies and autonomous structures to finance their production and consumer needs. Founded on historical relations of cooperation, and with their own rules of participation, exchange and control, the traditional community institutions contribute towards making the family units financially viable. However, they are not endowed with sufficient skills to establish relations outside the sphere of the community. From the 1970s on, that original natural, social and cultural context, little by little began to change in response to the work of missionary priests of the liberation theology and militant communists that began occupy labor union leaderships. The Church's actions through the Christian Base Communities and the political commitments constructed around the associations and workers unions were the basis for overcoming that magical vision that formerly tinged the relations between the rural inhabitants, society and Nature; and also the basis for overcoming the traditional relations that guaranteed the permanence of the monopolies in local trade. This new economic rationality combined with the ethical commitments was to be the amalgam that bound together the cooperation networks and the credit unions which in turn made it possible for family farmers to gain access to the new formal financial market. This is a case where precepts of a religious nature lend support to the valuing of economic efficiency, but contrary to the classic situation described by Max Weber, they do not fundamentally involve asceticism or an individualistic ethic. Let us examine the situation more closely.

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The typical individual and context of the rural hinterland 'sertanejo' tradition

O The sisal-growing region is made up of 27 municipalities in the geographic micro-regions known as Piemonte da Diamantina and Paraguaçu in the northeastern state of Bahia. The main source of income for the population is growing and processing sisal and it also provides the basic elements of socio-cultural identity, and regional social and economic institutions. The semi-arid climate with long dry periods and average rainfall figures of 300 to 550 mm a year defines the natural environment in which the productive activities and social relations became established.

A few decades ago, the primary characteristics that enabled an understanding of the cultural and economic universe inhabited by the poor rural population of the sisal-growing region were subordination to traditional monopolies and the existence of a standard system of beliefs (Nee, 2003, p. 4), cultural and religious values, and social norms and institutions, all internalized in the minds of individuals (North, 1990) and governing community financial transactions. Lighthearted religious activities like festivals and homespun rituals created social bonds and together with work made up the ambit and the functioning of a basic unit of social relations.

In the communal economic organizations typical of the countryside of the Brazilian northeast, commitments to God or to the neighborhood group were what nourished reciprocity and solidarity in exchanges and in many places they still do. The survival of each individual in the sisal-growing region does not depend on the individual quest for results, but rather, and above all, on the values and traditions of the community which guarantee collectively, the survival of all. The typical rural inhabitant has a sense of duty towards the community and a life ruled by the fear of God; and a traditional way of looking at things and acting in those markets within the ambit of the community itself. That is how the financial exchanges that address individual needs are consolidated, on the basis of strengthening relations of cooperation and solidarity and thereby expressing the social meaning of money itself (Zelizer, 1997).

The traditional community institutions are ways of organizing community savings, but to ensure the low costs of the transactions, the institutions are guided by different rules according to the nature of their specific purposes. The *mutirões* (communal mutual aid activities) are obligatory, governed by rules of reciprocity, and based on commitment to the community. In turn the *caixinhas* (savings groups) and consortia are guided by principles of voluntary participation and supported on the basis on a relationship of trust within the specific group and a commitment to it. Participation in institutions like the bingos, raffles and campaigns is also obligatory for all community members that have any resources available to help the needy, and are guided by principles of

solidarity and supported on a base of religious commitment. Reciprocity is the main organizing force behind these forms of exchange much more than any idea of individual gain, and that is true even for those institutions where money is the object of the exchanges involved as in the case of the *caixinhas*.

Beyond the boundaries of the community however, reciprocity makes way for subordination and solidarity for exploitation. Economic relations are determined by subordination to the traditional sisal market monopolies, personified (Abramovay, 2004b), in the form of the traders and informal financial agents. The frequent use of imperfect markets (Garcia-Parpet, 2003) with low transaction costs and therefore easily accessible to poor farmers has created monopolies whose historical longevity has been ensured by an enforcement based on traditional conventions and coercion. The existence of traditional institutions like monopolies and such community institutions presupposes that certain psychological and cultural propensities in the individuals sustain this common pattern of mental attitudes inherited from the old customs and beliefs.

The "mão de gato (cat's paw) as the sisal traders are referred to has great power over the financial lives of the sisal growers; a personalized form of direct control in the molds of clientelism. The great concentration of power in the hands of the traders, the difficulties involved and lack of information or any choice of option on the part of the growers have created a powerful monopoly of the agricultural markets and, by association, of the informal financial market that guarantees the financing of production and the commercialization of agricultural products. It is the kind of market referred to as "venda na palha" (sale of the standing crop before reaping) a traditional mechanism which achieves control by inducing indebtedness (Abramovay, 1992).

Another important traditional financial institution in the sisal-growing region is the loaning of money at interest, which is intermediated by the gypsies. Having their own cultural and behavioral rules, they live in close-knit cohesive groups governed by a dense mesh of moral precepts. Fear of them, mistrust and prejudice on the part of the non-gypsies reinforces their power to control financial operations with security. Relations are personalized and the business transactions are undertaken between families, which makes it feasible to keep close control of loan risks and the amount that can be loaned to each individual. Constant pressure, and in extreme cases, violence ensure that repayment is made.

Simple credit in kind (*Fiado*) is a common commercial practice in the small towns of the region especially during the long dry periods. In the same way as happens with the other institutions, interpersonal familiarity makes it possible to evaluate risks of offering credit and of the social pressure needed to ensure the fulfillment of repayment. On the other hand, constantly contracting debts makes each group of consumers dependent on a given trader and that leads to the formation of small monopolies.

With the primary aim of stabilizing their income at any price, the small farmers make use of these high-cost financial markets thereby perpetuating their condition of indebtedness and owing. Personalized ties and connections, family and community commitments and a sense of duty are what impose effective compliance with the rules that constitute such markets. On the other hand, the management of the productive units and households by means of complex strategies involving consumption, savings and credit takes place in an environment of profound uncertainty associated to the climatic conditions that typify the semi-arid regions. The limited social outreach of any economic calculation reduces the liquidity of the assets, especially those in the form of monetary savings, altering the rational meanings behind the way the country people administer their resources; and it also means that the rationality behind their behavior cannot be directed by economic criteria alone. Traditional commitments, reciprocity within the communities and the dependence implicit in the clientelism that structures the market are what govern social and economic life in these regions.

This environment constitutes a social *ethos* that gives no stimulus to innovation, does not facilitate in any way the search for new forms of financial organization and reproduces the longstanding condition of precarious access to markets, to financing, to production and to survival itself. Consequently, what can be seen is that poor farmers are permanently in debt and their conditions of poverty and political and social subordination are permanently maintained.

The conquest of autonomy by an expressive portion of family farmers, their ability to seek out new markets and create organizations that reduce costs, and the improved organization of their financial lives have only become possible in recent times due to formation of a series of organizations among which are the credit unions, representing the apogee of the rationalization process. In keeping with the idea of economic rationality those organizations are the fruit of a long process of disenchantment. What is especially interesting is that the process was constructed step by step by the Christian Base Communities, by the workers unions and by the Bahia Association of Small Farmers (Apaeb is the Portuguese acronym).

Cultural change

Three social processes contributed to transforming the cultural universe of rural dwellers and the way they interacted with the markets: 1) the church fostered a process of change in the traditional patterns of social relations with the markets; 2) later, the organization of community associations and labor unions made it possible for traditional relations to be continued and markets to be accessed under the aegis of a new political culture; and 3) the educative work undertaken by the Apaeb, a nongovernmental organization formed within the ambit of the

Christian Base Communities expanded planning and calculation capabilities in regard to the productive and domestic lives of the people.

The tradition of the typical rural inhabitants of the '*sertão*' hinterlands brings with it cultural traits that have a strong influence on their economic behavior. One of them is their vision of Nature. A magical perspective is perpetuated in an effort to rationalize and direct behaviors, including the planning of production and the financial organization of the household in the face of the physical phenomena of Nature. The Holy Days dedicated to saints with the accompanying celebrations, prayers and rituals are considered to be just as important as any economic decisions. Another feature that is a determinant factor for economic behavior and that springs from their poverty and heavy reliance on those that finance their very subsistence, lies in the circle of social relations of the traditional rural inhabitants and above all in their resignation, subordination, their loyalty to those on whom they are dependent; and the paternalist expectations vested in the State. It also lies in the ethical, religious and affective bonds that tie individuals to a world of obligations under the strict control of the community. Such traditional visions of Nature and society have a powerful influence on an individual's behavior when faced with the rules of the market and the need to make economic decisions.

Why is there such a close connection between religion and the economy? According to Flavio Pierrucci,

[...] it is quite impossible to explain the economy and its diversified developments without seriously analyzing the essential aspects of cultural history above all in the aspect of religious life (2003, p. 179).

Paradoxically, the arrival of a group of Italian priests and nuns in the sisal-growing region in the 1970s was to mark the beginning of an important break with traditionalism. The '*Bible circles*' the collective celebrations and religious festivals were the first and most elementary experiences in the construction of a new kind of social cohesion. The religious practices organized by laymen and community leaders, apart from their proselytizing function, were designed to foster discussions of local reality, the farmers' problems, and the importance of the organizations, and to identify, vociferate and negotiate their complaints (Oliveira, 2002).

The liberation theology was the political-religious foundation for the activities of the Christian Base Communities. The educational strategy of raising social awareness by means of religious faith made use of an educational method that was usually identified by the trio "see-judge-act" which basically meant: first an analysis, then a discussion with the local population in small groups about the most serious local problems.

In that context religious professionals and laymen and women specially prepared and orientated for the role deepened local understanding of the problem from the religious angle tying in the ethical and practical issues with the scriptures and political and sociological explanations. That process then gave rise to the elaboration together with the community of a plan of action and struggle (Novaes, 1987). As one local leader stated:

"[...] at that time I was still blind, I mean I didn't understand anything about unions or associations and it was only through this work with the Italian priests that came here [...] began to get organized and hold meetings with the community, we formed a board and got the labor union out of the hands of the politicians. That was it, the people getting more and more organized, we founded an association here in the community in 85. It was the first association. We struggled for better living conditions in our community. To demand our rights at city hall, from the mayor, just in the name of people from the community it is harder to get heard, but the name of the association gives people more power to get what they want. We asked for wells and various other things that we managed to get at the time (Erenita Leonice de Oliveira, Valente, 2004).

This all goes to show that the liberation theology was not just worried about saving souls but much more about people's lives. The religious interest here is much more orientated towards the 'lower world' which according to Weber was a notable tendency of the western Christian religions, and towards finding solutions for real-life problems and much less towards problems of a transcendent order. Thus the religious work actually revealed a social reality that up until then had been obscure, and gradually led to the substitution of the traditional vision of the world then in force, by a critical and rational vision of reality. Changing the tenet that declared 'The world is the way it is because it has always been so' for another that sees it as "a world that must be changed". However the method used by the Christian Base Communities went beyond changing the vision of the populace: it fostered a confluence of the main philosophical aspects embedded in the attempts to make the religious texts meaningful and the practical needs of the rural workers in their struggle. From that new vision of the world, new organizations sprang into being.

The individual that undergoes the processes of the Christian Base Communities or participates in the labor union struggles has a profound belief that his or her survival depends on the family, community and associative bonds that he manages to establish and preserve. The difference that this formative process of the religious work made was to stimulate the social bonds that formerly were formed around the old community relationships, but now became based on conscious adherence to a body of ideas, a political culture (Abramovay, 1981, p. 135).

In a partnership arrangement with the parochial authorities in the region, the Community Organization Movement (*Movimento da Organização Comunitária*- MOC) began to develop educational work in support of the community organizations and the opposition labor unions.³ Those organizations did not base themselves on traditional community relations alone but on the union of rationally motivated interests that were the fruit of the political-religious work. Thus a combination of tradition and modernity began to reign in the community life of those lands. Unlike other processes in which communities became incorporated into the sphere of the modern economy, the modernization of rural life in this case did not dismantle traditional relations nor did it weaken relations of cooperation. Quite the contrary, it added to the objective of integrating its members into a half-closed society that was associated to the old community relations, a new role for the community associations, namely, to construct connecting links with the external communities and networks. On the basis of the relations of cooperation that guaranteed minimum conditions for survival, associative relations were forged that made new connections with the market feasible. A set of modern forms of organization was incorporated into the informal rules of community relations such as the legal constitutions of the associations, the rational planning of actions, the use of formal accounting in the management of collective resources and the signing of formal contracts between individuals and the organizations. So it was that changes in religious life opened up the way for the formation of a new relationship with the secular world

One of the most important organizations that sprang up as a result of this process of cultural change was the Apaeb and it played a determinant role in forming the economic rationality of the farmers involved. The work of capacity building and technical assistance and the first financial organizations that Apaeb developed led to an important transformation of the farmers' vision in regard to climate and the natural resources of the arid back lands and also caused important changes in the economic behavior of the rural inhabitants.

Apaeb's major contribution however, was the introduction of planning as a regular practice and of technological innovations that served to heighten their ability to manage natural and financial resources. In 1995 the program "Living with Drought" (*A Convivência com a Seca*) was launched and the basic issues it addressed were the re-ordering of the family productive unit, the rational exploitation of the agricultural areas, preservation of the environment, management of activities with the market as a parameter, capture and storage of water, technological innovations for storing foodstuffs (silos, hay making, protein banks), the degradation of the Caatinga vegetation, making use of solar energy, and credit and technical assistance (Oliveira, 2002).

In 2000 the "Prosper" project (*Projeto Prosperar*) perfected the methodology being used, incorporating even more rational diagnostic, evaluation and planning methods in regard to the

production units. In just two years, 1,530 families received technical assistance – diagnosis of social conditions such as the use of family labor, income, family consumption, access to credit, dwelling conditions, sanitation, household goods and the social division of family labor between the sexes. Once that diagnosis is available, technical personnel and farmers, in workshops and field trips carry out production planning and plan improvements to living conditions. On the basis of those plans the activities that are to be financed and implemented are defined for each family. In a partnership arrangement with Apaeb, technical assistance is provided and technologies are disseminated amongst the farming families by agents of the “Living with the Semi-Arid” program. These are farmers designated by the unions of rural workers, churches or other institutions, to undergo capacity building and they receive the accompaniment of the organization’s technical staff.

Over a period of almost thirty years, these three institutions have helped to develop a sense of duty, political commitment and the calculation tools that have come to be the guiding light of individual behavior and created new conditioners of economic rationality. The height of this process of rationalizing the economic organizations of the rural inhabitants in the back lands of the countryside was the creation of the credit unions and the formation of a financial system with features that were specific to the sisal-growing region.

The social structures of the new financial market

Four pilot experiences in financial organization were fundamental to the learning process that eventually led to the creation of the credit unions: the *Poupança Apaeb* (Apaeb Savings), the *Fundo de Investimento* (Investment Fund), the *Fundo Rotativo* (ROSCA, Rotating Saving and Credit Association), and the *Fundo Solidário* (Solidarity Fund). However short-lived they may have been and however small their outreach and limited their results or even in some cases questionable, they nevertheless succeeded in introducing financial services into the economic lives of people in the sisal-growing region. Furthermore, those services were cheaper and more accessible, better suited to local needs and susceptible to formal control mechanisms. It was on the basis of the evaluation of mistakes and successes in the administration of those first financial services that the credit unions were eventually instituted. In short, the protagonists of the original organizations themselves perceived that their institutional formats were conducive to defaulting on payments, and failure to maintain commitments, and that meant that the failure to respect the elementary rules of the contracts became a direct threat to the cohesion that was being sought through the community work. Thus the creation of formal organizations with strict rules presented itself as a way of actually backing the struggle for social solidarity itself. It is also worth noting the

ambiguity of the Church in this regard, all the more so because the experience of the ROSCAs was multiplied in other regions of Brazil: on the one hand they stimulate access to credit while on the other they establish a form of organization that is community based with no coercive measures in place that would guarantee re-payment of the contracted debts. The result obviously was a generalized default on re-payments and the demoralization of collective organizations as such. The Credit Unions however, which sprang from the social movements in Brazil – notably those in the hinterlands of Bahia, but others like the *Sistema Cresol de Crédito Solidário* (Cresol Solidarity Credit System), in the South of Brazil (Bittencourt and Abramovay, 2001; Junqueira and Abramovay, 2005) – are responses to the inadequacies revealed in the early forms of formal community commitment in the face of the specific requirements associated to the formation of a credit market.

Indeed, what was in fact created was much more than an organization; it was a new market that involves a complex network of organizations, information flows and intense financial activity in the form of a variety of savings and credit services. Up until 2004 there were nine credit unions integrated to the Ascoob association (now transformed into a Federation known as Fenascoob) with 14 thousand members and an economic performance comparable to that of the banks, but with social returns that are far superior. According to Brazilian Central Bank statistics (2001), in two municipalities, Araci and Valente, the volume of credit union loan operations is greater than that of the local banks.

How did social leaderships from a low income social base manage to build this kind of financial organization? The answer can be found in the social organization that underlies the sustainability of that market. The analytic categories proposed in Neil Fligstein's (2001) decisive work enable an understanding of the phenomenon. He shows that contrary to the conventional view, the markets do not function on the basis of a permanent auction where the players are always disposed to buy for the lowest price from whoever offers the best quote. That view fails to take into account that the protagonists in a market are concerned about stabilizing their relations with one another in order to reduce the destructive impacts stemming from the unpredictability of the workings of the price mechanisms. That is not necessarily achieved by means of formal contracts as Granovetter (1985) showed very clearly, in his pioneering work. Fligstein's position however represents a theoretical advance over Granovetter's contribution insofar as he does not characterize the generic form of the markets as networks, but sees them in the perspective of a 'theory of action' whereby the individuals are permanently striving to obtain the cooperation of others and establish social bonds that will allow them to dominate, or at least survive, in a given field (Fligstein, 2001).

In this specific field of markets, cooperation is only ever stabilized insofar as four central questions are settled: a) **property rights**, which determine to whom the economic results of the activities carried out in the market will belong; b)

governance structures that establish the modes of operation and the agreements that will be deemed acceptable in a given situation; c) the **rules of exchange** that define currency (exchange rates to be used in a given market, for example); and d) the **conceptions of control** that express consecrated expectations and practices not only on the part of the administrators but also on the shareholders of the companies. No market can ever stabilize without addressing those four fundamental factors.

In the case of Credit Unions, **property rights** are clearly defined and different from those that the farmers traditionally depended on, as they now possess shares that give them the right to certain amounts of credit. The **governance structure** of these new markets involves the submission of the credit union to the formal control regulations of the Brazilian Central Bank which makes them competitors – admittedly very small, but locally important – of commercial banks that operate in that sector of the credit market. Furthermore it is a form of governance that demands transparency before the Central Bank and the associates – a decisive value in the very cultural history of such organizations. The **rules of exchange** in force have been clearly established and are bound up with traditional commitments to honor and respecting the obligations in regard to the formal mechanisms of coercion designed to ensure the recovery of the amounts lent out. The fact that those mechanisms are almost never used (notice of dishonor for example) shows how strong the community bonds are as the basis of the credit unions' functionality. The **conception of control** over the credit union involves a fusion of financial sustainability of the operations with the need to serve a public that is excluded from the formal financial system. Unlike the *Sistema Cresol de Crédito Solidário* in the south of Brazil for example, which is composed exclusively of family farmers, the Ascoob credit unions encourage the membership of traders and even of other categories of farmers (not family-based) embracing a kind of Robin Hood logic; without the presence of bigger farmers and traders, the credit unions would never acquire the necessary financial sustainability to enable them to expand and extend their financial services to the poorest family farmers.

The administration of the credit unions depends then, on the maintenance of stable relations among the credit union members – and in that sense a market that never existed before has been opened up – and on reliable information to ensure that on the one hand, credit risks can be properly evaluated, and on the other, credibility can be transmitted, that is a foundation of confidence and trust so that the credit union members are willing to deposit their savings with it.

The viability of savings among low-income populations has been the target of several recent studies (Abramovay *et al.*, 2004). It is easy to detect the existence of monetary resources in the hands of family farmers in the sisal-growing region by observing the intense flow of finance in the informal market or the surprising volume of deposits made in the credit union. In many

of them the deposits equal or surpass those made in banks. In effect, the reductions of the information asymmetry and of the transaction costs achieved through the establishment of close relations, are the result of the establishment of a dense network of organizations and social relations (Magalhães, 2003).

The social organization performs another function in addition to guaranteeing the financial transactions between the credit unions and the farmers. There is a political project which in this case refers explicitly to two great objectives: a living adapted to conditions of the semi-arid region, and the reduction of poverty. This political project materializes as a 'substantive rationality' in the administration of this market to borrow a phrase of Karl Polanyi's. However, it is fundamental that there should be an autonomous social control mechanism and that it should not be a direct part of the economic system itself. The existence of constant conflicts of interest among the different social groups - boards *versus* managers, very poor farmers *versus* traders - shows that the self-regulated results that could be obtained through the workings of this market do not correspond to the particular interests of each social group. In other words, self-regulation based on price mechanisms alone - in this case interest rates - would not be capable of ensuring a better allocation of credit and savings among the credit union's members. Only the existence of a political space for mediating conflicts of interest is capable of integrating different economic interests in a single organization.

Such a political mechanism exists side by side with forms of administration centered on the observance of tenets of economic efficiency, legality and rigorous control over defaulting on payments. The credit unions are integrated with a system (in this case the Sicoob system) that has regulations to stimulate their financial security and profitability. They are also subject to the regulation and inspection of the Central Bank. Furthermore, they have their own administrative structures like the use of orthodox, transparent accounting, regular audits, control systems, formal methods for risk control, formal contracts to exercise control over transactions, prudence in making financial applications, regular technical opinions issued by the fiscal boards, and the presentation of accounts before a general assembly. What is interesting to note is that adhering to this kind of rationality has not led to the abandoning of those values around which the community has historically constructed its cohesion. The social processes described in this paper show that it is precisely the strong bond between economic rationality and the political culture of the region's social organizations that can explain the social and economic efficiency shown by the credit unions in the sisal-growing region.

Different markets are integrated in the same network of social and economic relations (Granovetter, 2002). Sisal production, carpet manufacture, goat-raising, dairy product manufacturers, hide production and artisans that manufacture their own products are all integrated in a network that has two major points of articulation: the political and educational work undertaken by the MOB, the Apaeb and the rural workers unions

on the one hand; and the financial services coordinated by the credit unions, on the other. An inter-sector network, but one that has a strong territorial identity, is fertile ground for enabling credit unions to take root in the local production systems. Intimate knowledge of the commercial, climatic, technological and managerial conditions of the ventures and of the farmers themselves enables the credit unions to offer financial services that are more suited to their specific demands. That closeness opens the way for an informal exchange of information that is indispensable to the process of reducing information asymmetry and reducing the credit risks.

This network of social relations mediated by financial transactions makes it possible for a constant exchange of information to take place that contributes towards reducing uncertainties and strengthening bonds of trust. In addition to the credit unions, labor unions, traders associations, women's organizations, and community representations all interact very closely and frequently, exchanging information on the moral risks and the financial conditions of each actor. In that way a risk-reducing mechanism is established (Ferrary, 1999), and that in turn contributes to reducing the asymmetry of information and the costs of transactions. The concrete results are lower interest rates and wider access to financial services for the population.

Conclusion

A long drawn out process of cultural change created the conditions for the emergence of new social structures and new institutional foundations for the formation of a micro-finance market in the sisal-growing region. Religious beliefs, traditions and the specific way that rural inhabitants of the region relate to Nature have acquired new significance as a result of political and religious actions. It involved a process of differentiating the various meanings of action (Cohn, 2003) which in the former "world of enchantment" constituted an amalgam of values so intermingled that they confused the means with the ends that guided (and motivated) the actions. With the installation of a rationalization process, the economic finalities became more clearly defined, separated, regulated and formalized, thereby making it feasible to calculate and evaluate production results without however, de-structuring values and traditions of solidarity and cooperation.

The activities of the Christian Base Communities fostered a considerable cultural change that had a strong impact on the economic organization of the population of the sisal-growing region. With the introduction of rationalization, farmers began to try out an increased use of formal rules to regulate their financial transactions. Accordingly, their economic rationality acquired a new pattern as the advent of access to credit meant that production became more directly influenced by prices. This introduction of monetary considerations into the rural

inhabitants' financial lives also led to greater rationality in the management of resources by stimulating an increased use of money, especially for savings purposes. By means of actions involving capacity building and technical assistance for the planning activities of the production units, the farmers began to develop a new ability to manage their resources. Family decisions concerning financial management –how much to save and where, when to sell and how much, and where to take loans – began to be guided by market parameters.

The setting up of credit unions caused a rupture between the local financial market and the traditional institutional environment based on personal bonds and clientelism. That did not mean that economic life acquired autonomy in regard to social ties and their respective cultural substrates. New bonds, and new kinds of ties superimposed themselves on the old ones. No self-regulating market was formed but rather, a market guided by certain ethical principles, among them, social inclusion and environmental sustainability.

Sociological understanding of the formation of micro-financing markets in the sisal-growing regions is of crucial importance to the debate on the economic life of low-income populations and it has implications, not only for policy formulation, but also for the theoretical discussion of the markets. This study shows that policies intended to foster the development of poor regions and populations must take into account the resources that are available to the populations themselves and the institutional conditions that the social groups need to develop in order to gain access to the markets. That is, such access cannot be thought of as just resulting from public policies and the formation of new organizations, but above all, as resulting from cultural and institutional development processes.

As for the theoretical debate, firstly, we have discussed the limits of the individualistic presuppositions of neoclassic economics and the importance of historical and empirical analyses to gain an understanding of the real behavior of the markets. The institutions are the basic conditioning factors influencing individual behavior and the functioning of the market. Economic rationality is the fruit of the conjunction of institutional ambits with individual characteristics and the institutions define the interests socially. An understanding of the specificity and meaning of each configuration of interests and social relations depends on the sociological, anthropological and historical study of cultural patterns, of their transformations and the way that they determine the calculation of economic behavior. The markets are subordinated to social structures that acquire specific characteristics in each territory according to the institutional, natural and cultural conditions.

Notes

1 Just to mention a few examples: Cresol Credit Unions System in Brazil's Southern Region (Junqueira and Magalhães, 2007); Center for Alternative technologies in the Zona da Mata region

of Minas Gerais (Cardoso et al., 2004); Family Agriculture Organization in the Jequitinhonha Valley (Ribeiro et al., 2000); Economic Organization in Gurupá, in the Amazon region (Pace, 1992); Rubber Tappers Organization in Acre (Costa Sobrinho, 1992); Formation of Small-scale Ventures, also in the Amazon (Becker and Léna, 2002); Agro-ecological development in Rio Grande do Sul (Alves, 2004); and Family Farming Organizations in Paraíba (Novaes, 1997).

² Perret and Roustang (1993) also share this view. The book published by Ferrester (1996) is perhaps the most emblematic expression along the same lines.

³ Founded in 1967, with its headquarters in the municipality of Feira de Santana, the MOC is one of the most active Brazilian organizations engaged in the fight against rural poverty and more recently, urban poverty. It was based on its work that the Association of small farmers of the state of Bahia was set up and the latter was responsible for the management of one of the most remarkable economic initiatives among poor populations in the whole of Latin America: the sisal mat factory in the municipality of Valente, which now employs more than six hundred people, plays an important part in Brazilian exports of that product and is owned by the community. The credit unions in the region also have their origins in the work done by the Apaeb . See the site at: www.moc.org.br/.

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Article received in February/2006
Approved in January/2007

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Translated by Martin Charles Nicholl.

Translation from **Revista Brasileira de Ciências Sociais**, São Paulo, v.22, n.63, p. 107-119. Fev. 2007.