

Project “Fomento Fortaleza”

Final Report

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Contents

Background of the project

A. Implementation Report

1. Activities

- 1.1 Preparation phase
 - 1.1.1 Training of the Promoter Group from Banco Palmas (PG BP)
 - 1.1.2 Motivating the whole community through the activation of weekly markets with local currency
 - 1.1.3 Designing and producing support material and tools with the participation of local actors
 - 1.1.4 Selection and training of the *Fomento Promoter Group* (FPG) within the close community of Banco Palmas
 - 1.1.5 Selection and training of the first *Fomento Leader Group* (FLG) with participants from small businesses from the community
- 1.2 Micro Demonstration Project: *Fomentinho*
 - 1.2.1 Description
 - 1.2.2 Resources
 - 1.2.3 Results/Lessons from *Fomentinho*
- 1.3 Launching the Project
- 1.4 Implementation Phase
 - 1.4.1 Introducing the Palmas
 - 1.4.2 Creating confidence in the local currency
- 1.5 Post-project activities

2. Personnel / Means

- 2.1 Persons involved in the activities of the project
- 2.2 Means used to implement the project activities

3. Conclusion

B. Assessment Report

1. Introduction
2. Research method
3. Objectives of the project
4. Outcomes and Results
 - 4.1 Short term objectives
 - 4.2 Long term objectives
5. Analysis
6. Concluding comments

Annexes

1. The multiplier effect of a Fomento project in comparison with a similar project in national currency
2. Report of interviews, prepared by Jeova Torres.
3. Articles about the Fomento project

BACKGROUND OF THE PROJECT

The MoMoMo (Movimento Monetário Mosaico) is a movement whose mission is to unite efforts to create awareness to the problems and deficiencies of the market economy and the current monetary system among the society and show the potential of different forms of social and economic organisation. The MoMoMo project is supported and coordinated by Instrodi, the Strohalm Institute for Integral Development, a non-governmental organisation, internationally connected to the Strohalm Foundation.

The Fomento project in Fortaleza was the first practical implementation of the methodologies supported and disseminated by the MoMoMo movement. Other activities include publications, the maintenance of a website (www.momomo.org) that disseminates the message of solidarity economy and the participation in forums and conferences.

In April 2001, a Strohalm/MoMoMo delegation attended the International Meeting on Social Currencies in Santiago de Chile and met again with representatives of Banco Palmas. It was in this forum that the fundamentals were laid for what in time would lead to the implementation of the Fomento project in Fortaleza, Brazil.

In January 2002, during the II World Social Forum, Banco Palmas and Strohalm decided to join forces in a partnership for the elaboration and implementation of the pilot project in Conjunto Palmeira, Fortaleza, in which the Fomento method would be tested. It was agreed that Banco Palmas would present a proposal for the construction of the “Palmatech School of Solidarity-based Economy”, to be entirely built according to the Fomento method.

During the first months of 2002, the project was formulated by Banco Palmas in partnership with Strohalm. Banco Palmas was considered the ideal partner for the realization of a pilot project, because it has experience with three important elements of the Fomento method:

- Social, community-oriented projects;
- Microcredit; and
- Local currency.

Conjunto Palmeira is a neighbourhood in the periphery of Fortaleza, the capital of the Ceará State in northern Brazil. It is located in one of the poorest areas of the city. Conjunto Palmeira was founded in 1973 as a settlement of many poor fishermen that had lost their jobs. Deprived from water, electricity or sewerage system, the residents of Conjunto Palmeira decided it was time to organise themselves and take fate into their own hands. In 1981, the ASMOCONP (Association of the Residents of Conjunto Palmeira) was created. Thanks to the mobilisation of the people and some beneficial partnerships, the construction and urbanisation of the neighbourhood were executed. From the urbanisation until the revolutionary system of economic management implemented by ASMOCONP, everything in Conjunto Palmeira is achieved from the cooperation and solidarity between its 30.000 inhabitants, a true example of what can be called a “solidary economy”.

After having improved the basic infrastructure of the neighbourhood in the 1980s and early 1990s, the next step was to fight the severe poverty of the community members. In absence of formal employment opportunity, most community members make a living (for themselves and their families) through micro businesses, as streetsellers and as handicraftsmen, mainly producing for the informal market. Some 90% of the population in Conjunto Palmeira lives on a family income of less than 2 minimum salaries (around 120 Euro) and 80% were unemployed.

To contribute to the alleviation of the economic problems, in January 1998, Banco Palmas was created. It is administered by community leaders and supports local production, commerce and services. The profile of the average client of Banco Palmas is that of a low-income household, without any access to other credit facilities. The microcredit loans are granted at a relatively low interest rate. The guarantees are generally social.

The Fomento method aims to:

- Increase the local economic effect of a grant for a social community project by:
 - Using money as backing for a **local currency**, which is used to finance the community project;
 - Lending the money that is saved in this way in the form of a microcredit,
 - Accepting the local currency as a repayment for loans;
- Strengthen the local economic activities because the local currency can only be spent locally;
- Eventually, give continuity to the local currency by sustaining a **permanent local mean of exchange** which also are being used for the creation of a credit line.

This latter goal can not be expected to be achieved within the framework of this pilot project, given its small size and short duration.

The Foment method has been described extensively in the Project Proposal, as well as in several publications of Strohaln.

The Foment method mobilises grant funds for local development projects, combining microcredit with the introduction of a local currency. Within the community, the local currency can be used between local businesses and local consumers to handle transactions: goods and services can be paid for using local units, salaries can be paid and debts repaid using the local units.

Because the local units are only valid within the community, the demand for locally produced goods and services is favoured. This would lead to higher income and purchasing power within the community.

In the specific case of Fortaleza, the project combined three main activities:

- Construction of the Palmatech school: the Community School of Socio-Economic Solidarity (240m² surface), paid as much as possible with local currency;
- Issue microcredit loans in Reais that may be repaid in local currency (administered and executed by Banco Palmas);
- Evaluate the impact of the project.

The expected impact on the local economy, in the medium term, was:

- access to loans in both money and local currency for small, local entrepreneurs;
- increased income (and employment) through local spending;
- strengthening of mutual relations within the community.

The project was elaborated and a request of funding sent to ICCO. The proposal was approved and received a grant of 60.000 Euro, which covered construction costs, training, advisory and evaluation of the pilot project.

The project would not have been possible without the close and open collaboration between Strohalm and Banco Palmas. The experience of many years of research and methodological development allied to the confidence of the public in a cooperative bank with a profound local engagement like Banco Palmas, seemed to be favourable conditions for the setting up a successful pilot-project.

IMPLEMENTATION REPORT

The focus of this Implementation Report is on the implementation of the work plan, as stated in the summary of the project.

1. Activities

1.1 Preparation Phase

As opening note to this section, it is important to mention the pioneer nature of the project here being reported. The novelty of the new currency has forced the people in charge of the project to dedicate a great deal of their resources to a serious awareness and sensibilization campaign. As with all campaigns of this kind, the results are not easy to measure in the short run. It is our belief, however, that the Fomento Project in Fortaleza has opened ground and sown the seeds to a future program, of wider scope of intervention and longer duration, that can consolidate the dynamization and development efforts that have now been initiated.

The actual activities of the project were initiated in August 2002 with the first preparational activities developed by the Strohalm/Instrodi's consultants.

August, 1st - September, 14th, 2002

The activities of preparation of the field activities in Fortaleza have been accomplished by the Consultant Team integrated by Camilo Ramada, and Janaina Carneiro, from INSTRODI (Porto Alegre) and Heloisa Primavera from Red de Trueque Solidario (Buenos Aires), and Joaquim Melo and Sandra Magalhaes, from Banco Palmas, through email.

The preparation consisted mainly of the elaboration and execution of a survey on the capacities of production and consumption of the local community - Conjunto Palmeira. As Banco Palmas disposes of an extensive community survey conducted by the institution (SEBRAE), information from this investigation has been used to guide the launching of the Project.

September, 15th - October, 14th, 2002

The field activities at Conjunto Palmeira were initiated in September 2002, by the time of the mission of Project Coordinator Heloisa Primavera to the local community, during the referred period.

1.1.1 Training of the Promoter Group from Banco Palmas (PG BP)

A group of 15 professionals previously active at Banco Palmas was trained as the leading group of the process. The workshops and training reflected over the consequences of using formal currency and the advantages of the Fomento method. The activities consisted of collective workshops (three hours a day), interviews and visits to neighbours and local business, as a practical extension of the training process. All were invited to participate actively in the weekly markets with a previous

local currency.

1.1.2 Motivating the whole community through the activation of weekly markets with local currency

In order to extend the use of local currency to more people in the community, a weekly market was organised, to which many people were specifically invited with the purpose to come into contact with the system. These markets of “exchange clubs” were organised, with step-by-step comments and using a pre-existing social currency- the *Palmares*.

Besides these special markets, some artisans started accepting the local currency in a Saturday ordinary market for up to 100% of the price of some articles. This fact increased the curiosity of new neighbours that were invited to the weekly market with local currency.

The campaign towards local businesses and producers was, moreover, actively complemented with individual visits and contacts with the entrepreneurs about the economic and social advantages of the methodology. In every visit, the goals of Fomento project were explained and the building of PALMATECH school was mentioned as one of the main result.

1.1.3 Designing and producing support material and tools with the participation of local actors

Some didactic materials were developed to inform, motivate and instruct the community members and local producers about the operation of the new system. Especially for this purpose, a fable about the function of money was written, adapted to the local conditions and tradition: “*The money ring*”. Also, a brochure, texts and a poster were designed to be used in the local Fomento Project, both for the Promoter and Leader Groups (see 1.1.5).

The format and characteristics of the new social currency to be used was decided. The name chosen was *Palmas*. The *Palma* paper currency for the project was designed in Fortaleza (Brazil) and produced in Mendoza (Argentina). A didactic tool was designed to build the consensus within the different groups.

1.1.4 Selection and training of the *Fomento Promoter Group (FPG)* within the close community of Banco Palmas:

Fifteen members were selected as the Promoter Group and trained in different activities: group workshops, personal interviews and follow-up, participation in cultural activities taking place in the community. As a result of the process, a good comprehension of the project was achieved and the different roles within the team were assigned.

1.1.5 Selection and training of the first *Fomento Leader Group (FLG)* with participants from small businesses from the community

The efforts of sensibilization of the community and the direct contacts with the local entrepreneurs made by the Promoter Group has derived in the prospect of 35 local

small and medium size businesses participating in the project, by accepting Palmas.

1.2 Micro Demonstration Project: “*Fomentinho*”

1.2.1 Description

As a practical exercise of the training and the awareness campaign, a project of short duration, zero-risk and great visibility was executed: the *Fomentinho* (“little *Fomento*”). The project consisted of the construction of a chicken run to raise organic Caipira chicken in the neighbourhood (Palmorico 1).

For the realization of the *Fomentinho*, the following procedures were required:

- Selection of the location to build the project, using the social impact on Conjunto Palmeira as criteria;
- Meetings with the family benefiting from the construction of the project on the importance of *Fomento* for the community;
- Elaboration of a budget for the costs of the work;
- Training of the workers in the project on the *Fomento* method.

1.2.2 Resources

The resources budgeted for this small demonstration project were spent according with the plan below:

Table 1
***Fomentinho*: Construction of the “Palmorico” (Chicken house)**
(direct costs of the construction, except promotion and administration expenses)

Item	Cost (in Reais)
Construction materials	1.090,00
Labour	515,00
Total	1.605,00

Table 2
***Fomentinho*: details of labour expenses (in Palma and Reais)**

Name	In Palmas	In Reais	Total
“Master” of the work (3.5 days at 30 R\$)	84	21	105
2 stoneworkers (7 days at 25 R\$)	140	35	175
3 helpers (9 days at 15 R\$)	108	27	135
Painter	80	20	100
Total	412	103	515

Table 3
Fomentinho: details of construction costs (in Palmares and Reais)

Items	In Palmares	In Reais (R\$)	Total
Construction material	837	253	1.090
Labour	412	103	515
Total	1.249	356	1.605

Table 4
Fomentinho: Loans

Businesses	Value in Reais (R\$)
Joana Darque	300
Aurineide Alves	200
Pedro Alves	150
Raimunda Lemos	150
Workers of the construction	250
Total	1.050

1.2.3 Results/Lessons from *Fomentinho*

- The methodology was easily assimilated by both the workers and the local shopkeepers;
- The social currency was well accepted and circulated easily between the intervening parties;
- A considerable amount of the social currency was concentrated in the deposit of construction materials as all the materials were purchased there.

As a conclusion, we can say that, in order to make the *Fomento* viable, a strong local agent, with strong credibility next to the population (Association, Bank, NGO), is required. This is important to assure the users of the system that, in case of any problems or “setbacks”, their interests will be safeguarded.



Photo: "Feeding time" at Parmorico's Chicken farm

1.3 Launching the Project

On October 14th 2002, the most visible part of the *Fomento* project - building Palmatech, the school for economy of solidarity - was launched in the Conjunto Palmeira, Fortaleza, Ceará, Brazil. At the ceremony, local community, popular leaders of several neighbourhoods in Fortaleza and representatives of the local authorities were present. In particular, the Secretary of Planning and Budget of the Municipality of Fortaleza attended the inauguration of the project. On this occasion, Mrs. Heloisa Primavera, the project Coordinator, explained the *Fomento* methodology and provided some information on how the Palmatech school would be built, making use of the social currency.

In that same ceremony, the chicken-run (“Palmoricó”) was inaugurated and, as a symbolic act, the workers assigned to build the Palmatech school have gathered their hands in a cement stone, the “fundamental stone” of the work. The event had the presence of the local press, which has helped to bring information about the *Fomento* methodology to the city¹.

1.4 Implementation Phase

The *Fomento* project in Conjunto Palmeira was realised through the construction of the Palmatech school, worth R\$ 55.000. The costs were paid, as much as possible, in Palmas. The official currency (R\$) that was “saved” this way was used to grant microcredit to local enterprises.

The construction of the school was initiated in October 14th, 2002. The financial resources have been donated by ICCO, through Strohalm and the local management of the project was responsibility of the team of Banco Palmas. The period of most intense activity (construction of the school, the payment in Palmas of the construction workers and material suppliers, and the allocation of loans in R\$) took place from October 15th 2002 to January 31st 2003.

The strategies chosen to support the implementation of the project will be presented in this section. In general terms, the first efforts were oriented towards the sensibilization of both construction workers and local businesses in order to achieve their comprehension and collaboration in the project. After the sensibilization phase, the *Palmas* were introduced (by paying construction workers and local businesses), and loans in Reais were granted to local businesses. Parallel to these efforts, the construction of the Palmatech School was being executed.

1.4.1 Introducing the Palmas

All *Palmas* were introduced in the form of a payment for a service or product that was required to build the Palmatech School. Two groups can be distinguished: (a) construction workers and (b) suppliers of building materials.

¹See in annex the articles in “Diário do Noreste” of October 14 and October 15, 2002.

(a) Through construction workers

Eleven workers, residents in Conjunto Palmeira, were involved in the construction of Palmatech. A workshop was initially done with these workers in order to explain the methodology and discuss the details about the form of payment to be agreed upon, for the duration of the work.

It was agreed at the meeting that workers would be paid on a weekly basis, **80% in social money (Palmas)** and **20% in Reais (national currency; R\$)**. The workers argued that the 20% in Reais were necessary to cover personal costs with public services (water, electricity, telephone) and to purchase some basic goods that are not produced or sold in the community. From the aggregated number we can conclude that in practice 78% of the labour costs were covered by payments made in Palmas (P\$), the local currency.

The following table gives an overview of the persons that have received Palmas as a payment for their services in the construction of the Palmatech School.

Table 5
Persons that received *Palmas* through the construction process

Function	Number
Architect	1
Master of work	1
Brick layers	3
Helpers	4
Carpenter	1
Electrician	1
Welder	1
Total	12

It is worth mentioning that after finishing the construction of the School, Banco Palmas has continued issuing *Palmas* in the form of payments to personnel and as payment of goods and services acquired by the bank. The funds that back the value of these issuances are held by the institution. Conversion of Palmas into Reais is possible and free of charges. At the same time, Banco Palmas continues accepting *Palmas* when clients repay their loans issued. In this way the cycle continues, although in a smaller scale.

(b) Purchase of construction materials

Banco Palmas has decided to negotiate the purchase of almost all of the construction materials using Palmas, and at the same time offering loans in Reais to the companies involved. This means that these loans were effectively no part of the Fomento since it was known that they would be redeemed immediately. But even if they were, in fact, realized outside the Fomento-program they still helped to create confidence in the new local currency.

(c) Summary

The following table gives a summary of the different cost categories of the Palmatech School Construction Project, the way these items have been financed (with *Palmas* or Reais) and the expenditure pattern in time (table 8). 37% was necessary for the purchasing of building materials in a non Fomento way (see (b)). The rest of the Palma expenditure was done in a Fomento-way, which corresponds to 51% of the total construction costs.

Table 7
Total Construction Costs of Palmatech School

Investment	Reais (R\$)	%	Palmas (P\$)	%	Total
Labour	6.337	23%	20.442	77%	26.579
Construction Material	550	3%	20.034	97%	20.584
Preparation building site and drainage	----	-----	5.111	100%	5.111
Water system, sewers and other sanitary works	----	-----	3.000	100%	3.000
Total	6.887	12.4%	48.587	87,6%	55.474

Graph 1. Proportion of Palmas and Reais expenditure in total construction costs

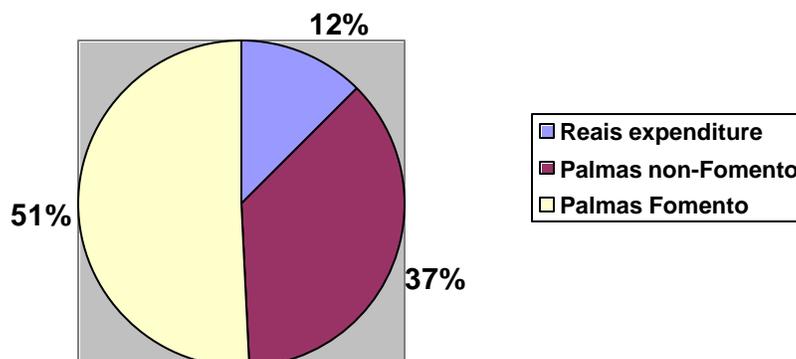


Table 8
Expenses of Banco Palmas, in Reais and in Palmas, in the Fomento project

Month	Value in R\$	Value in Palmas (P\$)
November '02	1.335	4.163,50
December '02	2.374	17.296,00
January '03	2.380	19.127,00
February '03	798	8.000,00
Total	6.887,00	48.587



Photo: View in the interior of the Palmatech School.

1.4.2 Creating confidence in the local currency

One main characteristic of the Fomento methodology is the fact that development aid funds can be used twice, both as capital available for micro credit and to realise the development project. An additional advantage surges if the money would circulate longer within the community. In other words, the use of a local currency would increase the multiplier effect, in comparison with the same impulse given in national currency. The multiplier effect measures the overall income increase caused by a certain financial impulse in an economy. The longer the local circuit (i.e. the number of “stations” that the *Palmas* pass until they return to Banco Palmas in the form of a loan repayment) and faster the circulation of *Palmas* within the community, the larger the multiplier effect. To achieve this, it is important that as many economic actors as possible trust the new local currency and accept it in exchange for products and services.

In order to create confidence in the Palmas, three main strategies have been followed: (a) a promotion campaign for the general public, (b) promotion with individual enterprises and (c) issuing loans in Reais that may be repaid in *Palmas*.

(a) Promotion campaign for the general public

Trust and reputation are the fundamentals of any generally accepted exchange medium. This confidence can be built and broken “in the street” where the locals exchange their opinions. As will be argued in the Assessment Report, the factor that has most contributed to the trust that the general public has shown in the new currency, is the good reputation of ASMOCONP and Banco Palmas. Part of this reputation is due to the accurate communication ASMOCONP has always realised around their activities. In this project, this was achieved by means of a promotion campaign in order to give confidence a further boost and to make the initiative known within the community,

In this campaign the following instruments were used:

- Promotion in programs of local, community radio stations;
- Inauguration of the project with presence of important members of the community;
- Clearly visible logo in local commercial businesses stating the acceptance of *Palmas*;
- Illustrative poster inside the businesses indicating the acceptance of the *Palmas*.



Photo: Pharmacy accepting Palmas (logo at bottom).

(b) Promoting individual enterprises

A strategic aspect of the operation of the *Fomento* project is the acceptance of the local currency by local businesses. To achieve this, it was considered necessary to include in the *Fomento* circuit a broad variety of goods and services that can be bought using *Palmas*. Enterprises from all existing sectors (production, commerce and services) have been mobilised.

The most effective instrument appeared to be individual visits to the businesses, which resulted in the adhesion of 40 local enterprises that agreed to accept the local currency. Some of these enterprises were recipients of loans from Banco Palmas; some were not. Among these enterprises are: pharmacies, small supermarkets, butchers, an ice cream salon, clothing manufactories, deposits of construction materials, kitchen gas selling points and others.

The complete list of participating businesses is reproduced in Table 9.

Table 9
Businesses accepting Palmas

#	Business/ Entrepreneur	#	Business/ Entrepreneur
1	Pharmacy FARMAVITO	21	Rations for animals
2	Commerce of Cereals	22	Clothing confection
3	Bakery PÃO QUENTINHO	23	Clothing confection
4	Commerce of Cereals	24	Commerce of Cereals
5	Commerce of Cereals	25	Commerce of Cereals
6	Commerce of Cereals	26	Commerce of Cereals
7	Commerce of Cereals	27	Clothing Confection
8	Commerce of Cereals	28	Clothing Confection
9	Commerce of Cereals	29	PALMAFASHION
10	Production of biscuits	30	Clothing confection
11	FUXICO	31	PALMALIMPE
12	REDES DE NAYLON/TANGA	32	Accessories shop
13	Commerce of Cereals	33	Refrigerators

14	Commerce of Cereals	34	Beauty Saloon
15	BOMBONERIE SÃO FRANCISCO	35	Supermarket
16	DEPOSIT	36	Grocery shop
17	DEPOSIT	37	Bar
18	RARE LANCHE	38	Bar
19	HAMBURGÃO	39	Deposit of drinks
20	Ice Cream Salon	40	Deposit of drinks

(c) Granting of microcredits

As part of the *Fomento* methodology, microcredits (in Reais) have been granted to local businessmen. The funds for these microcredits derive from the national money saved by paying a large part of the construction costs of the Palmatech School in *Palmas*. By granting loans in Reais that can be repaid in *Palmas*, a demand for *Palmas* is created (broad acceptance), thus boosting overall trust in the new local currency. The total amount granted as loans by Banco Palmas under the *Fomento* scheme is 52.664 R\$ (see next table).

Table 10
Amount in R\$ lent, each month

Month	Value in R\$
November	34.130
December	8.039
January	6.395
February	4.099
Total	52.664

The fact that the total amount of loans (52.664) is higher than the amount of liberated Reais in the construction phase (48.587; see table 7) can be explained by the “recycling” of Reais repayments: some enterprises cancelled their loans in Reais instead of *Palmas*, leaving an equivalent amount of *Palmas* in circulation. These Reais were again lent to the participating enterprises that could repay with *Palmas*.

The methodology used to issue loans under the *Fomento* scheme was the same as for normal credits issued by Banco Palmas: the client can repay its loan in a maximum of 6 payments. One difference was the possibility for the credit holders to repay their loans in social money, or using both currencies (*Palmas* and Reais). Another difference concerns the interest rates that have been reduced from 2% (as practised by Banco Palmas) to 1% a month.

In order to be eligible to receive a *Fomento* microcredit loan, one must be a member of ASMOCONP/Banco Palmas, recognised by his neighbours as responsible and trust-worthy and sign a contract agreeing to buy products produced within Banco Palmas’ network. The majority of the recipients of a *Fomento* credit can be characterised as a micro and small entrepreneurs, attending both formal and informal markets, with an average income of 1 minimum salary (in 2002, the minimum salary was around R\$189.43 (approximately, €60)).

It is important to clarify that not all loans were granted at the same time. Some businesses received a second, third or even more loans. The following graph gives an impression of the time lag between granting of the Reais-loans and the repayment of these loans in *Palmas*.

Graph 2 - Time lag between issuance of loans (R\$) and repayment in Palmas (P\$)

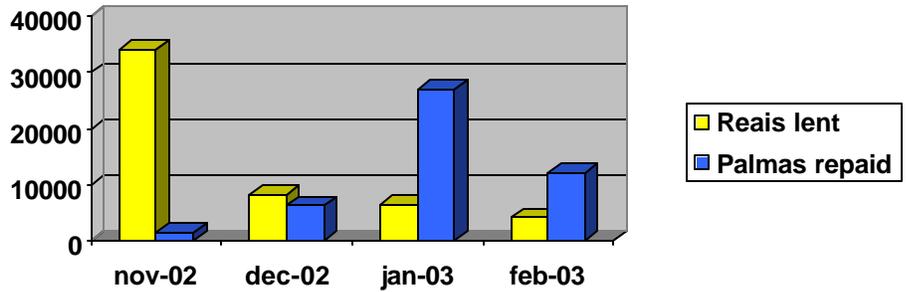


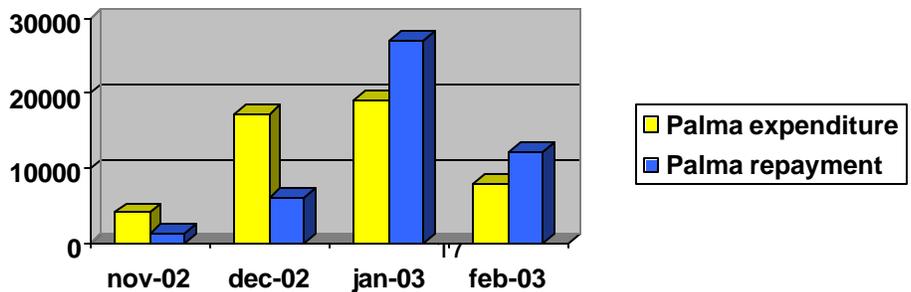
Table 11.
Amounts received by Banco Palmas, each month, in Palmas (P\$) and Reais (R\$)

Month	Value in R\$	Value in P\$
November '02	-----	1.414
December '02	1.407	6.198
January '03	714	27.062
February '03	1.059	12.225
March '03	1.447	-----
Total	4.627	46.899

Comparison of table 11 with table 7 learns that of the 48.587 Palmas that were brought into circulation during the construction phase, 46.899 had returned by the end of march 2003, leaving 1.688 Palmas in circulation. This can be caused by several factors such as: people who have lost or destroyed *Palmas*, people who keep the Palma bills as a collectors item, people who hold the Palma bills (inside or outside the Conjunto Palmeiras area) but with the intention to spend it later.

The following graph gives an idea of the average time that the *Palmas* has been in circulation: the major part of the construction expenditure in *Palmas* has been done in December and January, while most of the loan repayments in Palmas took place in January and February.

Graph 3 - Time lag between Palma expenditure (P\$) and Palma repayment (P\$)



1.5 Post-project activities

Although the Fomento project ended with the construction of the Palmatech School and the repayment of the loans that were issued, it is interesting to see how Banco Palmas has given continuity to the Palma circulation. It has to be emphasized that the post-project activities have been realized by Banco Palmas largely without follow-up of Strohmalm. In this section only an overview of the activities will be given; in the Assessment Report certain strategic choices will be evaluated, especially in terms of sustainability.

After ending the construction of the Palmatech School, Banco Palmas decided to continue the circulation of Palmas in the community. It did so by paying *in Palmas* part of its staff's salary, services contracted by Banco Palmas (e.g. painting of the building), gratification for university students and other, smaller expenses. A small amount of *Palmas* is continuously brought into circulation this way.

The Reais that are saved by spending *Palmas* are not used to grant loans, as is the idea in the Fomento method. Instead, Banco Palmas reserves the Reais in a special fund with which it guarantees 100% convertibility from *Palmas* into Reais, without posing any conditions to the holder of the *Palmas*, or charging any fees. Of course, Banco Palmas, also accepts the local currency as a repayment for all loans granted (which equals to an internal conversion of *Palmas* into Reais).

The advantages for Banco Palmas of continuing the *Palma* circulation are clear: part of the *Palmas* that are brought into circulation are not redeemed or not used to repay loans, because people collect them (e.g. tourists), lose them, (accidentally) destroy them, etc. If the *Palmas* have a limited validity, than the reserves that backed these "lost" *Palmas* can be considered as an income for Banco Palmas ("collectors' effect"). Another advantage is the "free" publicity and the image of social commitment that Banco Palmas obtains when its *Palmas* circulate through the community.

The arguments that Banco Palmas used to introduce the convertibility were:

- a) To avoid the problem of imbalances between holders of *Palmas* and the persons who need them to pay their debts (see point 5(d) in the Assessment Report). Imbalances present themselves as accumulation of *Palmas* among certain participants, who – of course - complain. The advantage is that the *Palmas* are not left "unused" in the hands of anybody. Convertibility eliminates this problem immediately.
- b) Broader acceptance of the *Palmas*. If *Palmas* are convertible, also businesses and persons who do not hold a credit or have **not** been involved in the training and awareness process, will accept the *Palmas*.

Apart from these advantages for Banco Palmas, the introduction of convertibility has also important drawbacks. These will be dealt with in the Assessment Report.

2. Personnel/Means

2.1 Persons involved in the activities of the project

15 persons were directly involved and committed to the main activities of the Fomento project. Of these 15 persons, 10 were volunteers. Over 1500 people have participated in different activities related to the Fomento project, for example, the Saturday weekly market where the local currency was used and the diffusion of the Fomento project.

About 70 % of the first two groups were women aged between 30-45 years, living in the Conjunto Palmeira community, mostly with primary education. 11 men have worked directly in the construction of the Palmatech school and agreed to be paid in *Palmas*.

It is estimated that an average of 200 people participated in the weekly markets where the *Palmas* circulated and around 300 local consumers/prosumers used *Palmas* in their daily transactions.

In addition, 40 small and medium size local entrepreneurs have agreed to accept the local currency as a means of payment in their establishments. 34 local businesses and producers have received loans from the Fomento's microcredit program. The average credit holders were small producers and shopkeepers of the neighbourhood, with an average income of one minimum salary.

2.2 Means used to implement the project activities

In the previous section, the means used to develop and implement the activities of each phase have been mentioned. In general terms, the project has been executed through lectures, workshops, videos, visits and personal interviews with the local residents and entrepreneurs.

The project also organised closed and open markets in order to create familiarity and confidence in the local currency and inform the participants about the Fomento methodology.

The means used in the implementation of the project were funded by ASMOCONP (Associação de Moradores do Conjunto Palmeira), Banco Palmas and ICCO/Strohalm.

During the entire period of implementation of the project, the distant follow-up to the Promoter Group of Banco Palmas, who was in charge of the execution, by Instrodievaluation team in Salvador and Porto Alegre was intense and perceived as positive by both parties. The most relevant methodological decisions were taken jointly, although the translation of these decisions was left to Banco Palmas itself. For example, the evolution of loans and the circulation of *Palmas* after the launching of the construction of Palmatech.

3. Conclusion

The implementation of the activities of the project largely have taken place according to the plan, without any major problems or obstacles. The construction of the school has been executed in 3 months (October – December 2002) and the microcredit program has lasted around 5 months, excluding repayment of the latest “recycled” loans (after March 2003).

The main adjustment to the project’s plan was the decision by the local partner not to execute the last phase of the project: granting loans in local currency as they felt the necessary conditions had not been gathered.

The assessment report will give a deeper analysis of the results obtained and lessons learnt from this project.

ASSESSMENT REPORT

The focus of this Assessment Report is on the realization of the project objectives according to the Co-Financing Agreement.

1. Introduction

The execution of the Fomento project was not limited to the construction of the school but also expected to generate several effects within the local economy of Conjunto Palmeiras. First of all there is the increased purchasing power that results from the construction of the Palmatech School. Secondly it is expected that the local production capacity will increase thanks to the additional microcredits that have been granted. Finally, the Fomento program was designed to also stimulate the circulation of the local currency within the community and multiply the benefits of that circulation among the local economic agents. This phenomenon is generally known as the “circulation effect” or “multiplier effect”.

The increase in the volume of purchasing power available within the community was achieved once the new jobs for the construction of the school were created and remunerated in *Palmas* and Reais. Purchasing power also “flowed in” via the credits granted to local businesses. Both are “one time” contributions that would cease once the school was built and the loans repaid. The first (increased purchasing power) would also occur in case the project would have been executed using conventional money national currency; the second (loans) is clearly a merit of the Fomento method.

In the long run, the Fomento method seeks to generate a dynamic of development within the community: support for local production, lower costs for local producers, more employment, increased sense of community. This dynamic of development will last beyond the program’s duration in a self-reinforcing “virtuous circle”.

2. Research method

In order to evaluate the results of the project, the Instrodi team in charge of the project contracted the Federal University of Bahia, more specifically, the NEPOL - Department of Studies on Local Power and Organisations to do a research on the results of the Fortaleza Fomento project. A study was elaborated by Jeova Torres, student of the Master Program in Administration of that department, under supervision of both Instrodi and personnel of the University.

The study was conducted by means of interviews to residents of the community of Conjunto Palmeira. The sample was composed of 30 residents: 5 entrepreneurs who accepted *Palmas* as payment, 5 entrepreneurs who did not accept *Palmas*, 5 workers of the Palmatech school, 5 people/service suppliers who received *Palmas* and 5 people who did not receive *Palmas*. Finally, 5 workers of a previous project (“Incubadora Feminina”), were interviewed.

The overall idea was to establish a comparison between the construction of the Palmatech, according to the Fomento methodology and another project, of similar

dimensions, in what concerns local impact of the investment and circulation of purchasing power

The method to gather information consisted of verbal interviews; following a questionnaire that included questions over expenditure patterns, awareness over the Fomento project, acceptance/rejection of the Palmas and position towards the microcredit program. The interviews were carried out in January 2003. The results of this research will be frequently mentioned in this Assessment Report, as a support for our analysis.

Apart from the study of Jeová Torres, this report is based on data provided by both the Instrodi team and the personnel of Banco Palmas. The analysis of the data has been largely the responsibility of Stroholm.

3. Objectives of the project

In the Project Document the following objectives were formulated for the Fomento project in Fortaleza:

- Short term Objectives

The project pursues three short time objectives:

1. Construction of the Palmatech School (where courses shall be given);
2. The granting of additional micro-credit loans to local entrepreneurs;
3. Increased local trade transactions, in local currency.

- Long term objectives

In the longer run, it is envisaged to dynamize the local economy, expected to result in higher turnovers and lower financial costs for small, local entrepreneurs, leading to higher incomes and more employment opportunities.

4. Outcomes and Results

In general, the project has succeeded in achieving the following results:

- Increased solidarity relations between local businesses deriving from the credibility of the currency;
- Increased turnover for local businesses;
- More loans granted by Banco Palmas;
- Strengthening of the local economy through a more intensive network of economy of solidarity through the commercialization of local products;
- Increased local production capacity;
- Increased visibility and credibility of the Residents Association (Associacao de Moradores do Conjunto Palmeira) and of Banco Palmas.
- Confidence in the new local complementary currency.

In the following point we will analyse, in detail, the outcomes and impact of the project and assess to which extent the goals proposed in the Project Summary have been carried out.

4.1 Short term objectives

The strategic short term objectives set for the Fomento project in Fortaleza were fully achieved: the Palmatech school was built and equipped, additional loans were granted through microcredit program and local trade was stimulated as a result of the introduction of the local currency (Palmas).

In the Project Document the following output-indicators were formulated:

- *At least 70% of the construction cost should be paid for in Palmas.*

The total costs of the construction of the Palmatech School were of 55.474 Reais, 88% of which was paid using local currency (*Palmas*). This percentage exceeds the initially forecasted 70%. In particular, 77% of the total labour costs were paid for in Palmas and 97% of the construction materials were acquired using local currency. For the latter was foreseen that, since the neighbourhood has no factories producing building materials most of the money for the construction materials would have to be spent outside the community.

- *Quantity of markets where local currency was used and number of visitors/participants : 2 times a week and 5.000 visitors per market.*

In reality a local market was held weekly. On average 200 people participated in those markets, including consumers as well as sales(wo)men. In the preparation phase of the project, these markets were chosen as a privileged place to set up a sensibilization campaign and also a demonstration of how the *Palmas* could be used to perform transactions. Later on, the circulation of local currency in those markets (as well as in other shops of the community) was an ordinary, daily event. The number of visitors per market has been as stated in the indicator (5.000) has proved to be unrealistic.

- *Money allocated to the microcredit program and proportion of repayment*

The total amount of credit granted by Banco Palmas through the Fomento microcredit program was of 52.664 Reais (108% of the Palmas' construction costs of the school). The difference between this number and the 48.587 Palmas spent in the construction of the school corresponds to a part of the repayment of the loans that was received in Reais and "recycled" by Banco Palmas into new loans.

According to the numbers in end February 2003, a total value of 50.080 Reais were returned to Banco Palmas, of which 3.180 in national currency and 46.899 in local currency (*Palmas*). This means a 95% total rate of repayment. 94% of the total repayment was made in *Palmas*; the remainder in Reais. These amounts do not include interest payments but do include the loans that were given to the suppliers of the building material.

Summary of the short-term objectives and indicators

Short term objective	Indicator	Goal	Realization	% realized
Construction of Palmatech school	School constructed	100%	100%	100%
Promote the use of the local currency in markets	Number of markets where <i>Palmas</i> circulate	2x per week	1x per week	50%
	Average number of participants per market	5000	200	4%
Create confidence in the local currency	% of <i>Palmas</i> in total construction cost	70%	88%	125%
A significant amount of microcredits have been issued and repaid	Quantity of loans in Reais that have been issued	70% of construction cost	88% of construction cost	125%
	Repayment rate of the loans	90%	94% To be confirmed	104%

4.2 Long term objectives

The long term objectives are intrinsically related to the dynamisation of the local economy of Conjunto Palmeira. The creation of a development dynamic is often difficult to quantify. The community sense and cooperation between the residents is probably even harder. Nevertheless, thanks to the research of Jeová Torres, conducted through interviews to residents of Conjunto Palmeira and to the report of Banco Palmas over the project's activities, some of these aspects have been analysed.

- Strengthening of the mutual relations within the community based on economic specialization and cooperation

A total of 40 local businesses have agreed to receive local currency as payment. This number is less than the expected 100 enterprises, but was sufficient to give the consumers the feeling that the currency had real spending power. In the Torres' report, 89% of the interviewed stated that everything that could be purchased locally in national currency could also be purchased in *Palmas* (Torres report, page 6). This is a good indicator of the variety of products offered by the shops that accepted *Palmas*.

The list of the participating businesses is rather diversified, from pharmacies to bakeries, from bars to accessories shops (see Implementation Report). Since these enterprises accepted *Palmas* for all their products, the total amount of different products that could be purchased exceeded the intended 200 a lot.

Banco Palmas reported approximately 300 consumers/prosumers to have used *Palmas* in their transactions, which is in line with the expected 250 pro/consumers. If these prosumers could have functioned during a longer time within the local currency system, many different economic specializations could have developed. In practice, however, the research was finished after the first Fomento had completed its cycle.

- Expansion of mutual trade transactions

The increased amount of purchasing power available within the community has generated an increase in the value of local transactions and, consequently, an impulse on local economic activity.

Evidence of this additional economic impulse are the results of the income effect calculations that have been realized by Strohalm/Instrodi consultants (See annex). The data show that an impulse of 100 Reais generates (after 10 rounds) an accumulated income effect of 209,52 Reais. On the other hand, 91 Palmas and 9 Reais (also after 10 rounds of transactions) generate an accumulated income effect of 240,37 Reais, an increase of almost 15%. It is fair to expect that this effect will rise in the future as confidence in the local currency will grow and more local economic actors will accept (and spend) *Palmas*. A higher confidence in the local currency in the future can be achieved in two ways: (a) new Fomento's in the same community and (b) loans in Reais or *Palmas*, of which (part of) the interest is payable in *Palmas*.

In conclusion, an economic impulse via the Fomento method generates a stronger stimulus to local economic activity than the same impulse using the national currency.

The explanation for this "increased multiplier effect" is of course a change in the expenditure pattern within the community, thanks to the introduction of the *Palmas* that can only be spent locally. Before the *Palmas* were introduced, of each 100 Reais that would enter the community, 54 Reais would be spent inside the neighbourhood and 46 Reais outside the community, thus reducing the liquidity available within the community. After the introduction of the *Palmas*, this distribution has been inverted: the percentage of external (non-local) expenditure in Reais rises from 46% to 68% while at the same time the local expenditure in Reais drops from 54% to around 32%.

Even more, 100% of the people interviewed who have received *Palmas* admitted having changed their consumption patterns, replacing external products for products produced within the community (see Torres Report, page 6). The preference for consumption within the community is precisely one of the key factors to create an internal dynamic for development.

The Reais received are mainly used for payments of public services/taxes and for the purchase of products that cannot be acquired within Conjunto Palmeira (which means that they cannot be bought in exchange for *Palmas*). The flow of Reais circulating internally has diminished, being compensated by the volume of *Palmas* that now circulates within the community.

These figures, collected by Torres in his research, are a clear indicator of the level of trust of the public in the *Palmas* that was achieved in a relatively short time-span.

- *Social and Community Orientation*

The implementation of the Fomento method in Fortaleza has mobilised a considerable amount of energy and social capital. The awareness campaign has enabled that 83% of the people interviewed by Torres were aware of the program and of the local currency, the *Palmas*.

The solidarity relations among the residents of Conjunto Palmeira were strengthened from the moment the workers of the construction of the school and entrepreneurs in general have put their trust in the local, social currency and have trusted their “trade relations”- selling their goods with local currency - to the belief that other businesses would also accept it. Thanks to the awareness campaign, enterprises that accepted *Palmas* were considered by a large part of the public as socially responsible businesses that care for the development of the community. This created a special bond between consumers and businesses.

Another indicator of the strengthened solidarity between the members of the local community was the increase in the number of associates of ASMOCONP (the association of residents of Conjunto Palmeira) of around 5% in the period from October 2002 to January 2003, which is higher than the normal growth rate of ASMOCONP. Also the attendance of the local population to the monthly meetings that ASMOCONP organises was significantly higher during the execution of the project than normally.

- *More transfer of knowledge and capabilities*

The construction of the Palmatech School has increased the possibilities for organising courses, workshops and forms of knowledge transfer. Since its opening in February 2003 until the presentation of this report (July 2003), the following courses were organised, making use of the new installations of the Palmatech School:

Description	# of courses	# participants per course	Total # of participants
Training for Promoters of Solidarity Economy	4	30	120
Training for Promoters of “Solidary Tourism”	1	30	30
ABC of Solidarity SocioEconomy	6	25	150
Adult literacy	3	28	84
Training in Textile Design*	1	25	25
Training for cleaning workers*	1	25	25
	16		434

.* These courses were attended by 100% women.

- *Increase of the local purchasing power*

The indicator formulated in the Project Document for this specific objective was the proportion of the construction cost that has been realized locally. As mentioned before (see graph 1 in Implementation report) 51% of the construction costs of the Palmatech School could be brought within the Fomento methodology, contributing directly to a increase of the local purchasing power guaranteed directed to the community. The construction of the Palmatech School through the Fomento-method has also contributed to the search for local suppliers instead of external suppliers.

Apart from this one-time increase of the local purchasing power, also the total income (or multiplier)effect of the Fomento project has been determined. As explained earlier, the income effect was 15% higher than for a comparable project implemented with national money. This translates directly to a 15% higher local purchasing power. It must be clear that this figure would rise if the local currency

gets a more permanent character. The present pilot was too small and too temporary to create sufficient confidence for a sustainable local currency.

- Confidence in local currency

The confidence of local consumers and entrepreneurs in the local currency has been measured in various ways and has brought some interesting insights to the light.

71,11% of the entrepreneurs and workers interviewed by Torres have stated their main motivation for accepting Palmas was the confidence and trust in the leaders of the ASMOCONP and Banco Palmas, 11% felt they were driven by need and lack of alternatives (because they were unemployed). Only 11% said they accepted Palmas because there were places to spend them. These figures suggest that the good reputation of the implementing agency is the main factor for building trust.

23% of the interviewed have experienced a rejection when they tried to spend their Palmas. The two main reasons for this rejection were:

- (a) the unfavourable proportionality (for the receiver) of local currency and national currency (50% of the rejections). For example, for the workers of the school the proportion was a P\$ 8 / R\$ 2.
- (b) Lack of confidence (50%).

Regarding the possibility of accepting a loan in local currency, 53% off the interviewed indicated to be willing to accept a loan in *Palmas*. Factors that increase this willingness are: giving part of the loan in Reais (27%) and lower interest rates on *Palma*-loans (17%).

Although publicity was not a specific objective of the project, the Fomento experiment has attracted attention from several media. The good relations of Banco Palmas with the press are an explaining factor. The media attention has resulted in several articles in local and national newspapers and magazines², as well as attention on national and local radio and television. The project also drew attention from researchers, social movements and other institutes, who have mentioned the Fomento experience in their publications. Finally, the project has been mentioned and discussed in several workshops at the World Social Forum in Porto Alegre, Brazil, in January 2003. Although it is difficult to measure, this media attention has certainly contributed to the reputation of the project and hence the confidence in its currency.

Finally, the continuing use of *Palmas* also after finalising the active intervention of the Fomento project is a clear indicator of the trust that has been generated (see also 5(f)).

² Such as "Diário del Norte" that is read in the northern Brazilian states, "Isto é" which is one of the largest national weekly magazines with millions of readers and "Revista Sebrae" (Brazilian support service for small and medium enterprises with 4500 employees in all of Brazil's 27 states) which attends a nation-wide audience. See Annex 2 for a copy several articles.

Summary of the long-term objectives and indicators:

Short term objective	Indicator	Goal	Realization	% realized
Strengthen community relations based on economic specialization and cooperation	Number of enterprises accept the local currency	100	40	40%
	Number of pro/consumers that use local currency	250	300	120%
	Number of products and services available for <i>Palmas</i>	200	>200	>100%
	% of interviewed that the local purchasing possibilities of <i>Palmas</i> is the same of that of Reais	No goal defined	89%	N/A.
Increase of trade activity	Weekly market is held where <i>Palmas</i> are accepted	1x per week	1x per week	100%
	Number of enterprises that accept <i>Palmas</i> on that market	25	Not measured	n.a.
	Additional trade thanks to <i>Palmas</i> introduction	No goal defined	15%	n.a.
Social and community orientation	Number of key persons that state that community involvement has increased	5	Not measured	n.a.
	Growth of membership of ASMOCONP	No goal defined	Higher than normal	n.a.
	Attendance of meetings of ASMOCONP	No goal defined	Higher than normal	n.a.
More transfer of knowledge thanks to the construction of the Palmatech school	Number of courses given in the new building	Goal not quantified	16 (until July 2003)	n.a.
	Number of participant in these courses	Goal not quantified	434	n.a.
Higher local purchasing power	Percentage of total construction costs that are paid for in <i>Palmas</i>	60%	88%	146%
	Multiplier effect	No goal defined	15% higher than in case of 100% Reais impulse	n.a.
Confidence in the local currency	Percentage of enterprises that are willing to accept a loan (partially) in local currency	75%	53%	71%
	Amount of <i>Palmas</i> in circulation by the end of the project	15.000 <i>Palmas</i>	1.688	11%
	Amount of <i>Palmas</i> issued as a loan	No amount mentioned	0	0%

5. Analysis

The project has produced a considerable amount of valuable data and testimonies, which have been analysed for the purpose of the development of the Fomento-methodology. The results are presented in this section in the form of factors that have influenced the success or failure of the project.

(a) Short duration and small magnitude of the project

The execution of the Fomento project in Fortaleza had a duration of approximately 3-6 months (depending on the definition of “implementation phase”) and introduced an amount of approximately 50.000 *Palmas* in the community. This short period and relatively small amount (for a community of 30.000 persons) has proven not to be sufficient to create on enough scale confidence in the new local currency in order to give loans in *Palmas*. The granting of loans in *Palmas* was considered as a possible outcome of the project, but given the limited spending possibilities of the currency after ending the project, this was no solid option.

On a small scale Banco Palmas has given continuity to the Palmas circulation by paying *in Palmas* part of its staff’s salary, services contracted by Banco Palmas (e.g. painting of the building), gratification for university students etc. A small amount of *Palmas* is brought into circulation this way on a monthly basis. Banco Palmas, in return, accepts the local currency as a repayment of the loans granted and guarantees convertibility of *Palmas* into Reais.

Lesson: The benefits that derive from a one-time, short-lasting Fomento project do not outweigh the costs of creating awareness within the community, training the implementing institutions and promoting the new currency with enterprises. In order to be sustainable, the Fomento must form part of a broader and permanent strategy to activate the local economy.

Lesson: The size of the Fomento must be in proportion with the size of the target group. Small Fomento’s should be linked to closed circuits in small communities or small populations within a larger community.

(b) Insufficient matching of time between supply and demand of *Palmas*.

The granted loans were to be paid in 6 months. Nevertheless, the construction of the school was concluded after 3 months. The quantity of *Palmas* in circulation during these first months was superior to the quantity that borrowers needed for their monthly repayments. This means that large quantities of *Palmas* would be in excess in somebody’s possession during a certain amount of time. If the process of construction of the Palmatech School would have lasted longer, the accumulation of *Palmas* in the hands of a few participants could have been reduced and the internal circulation more efficiently stimulated. This also avoids degradation of the confidence in the local currency.

Lesson: management instruments are necessary so that local counterparts can balance independently the supply and demand in time. This could be done by training managers in the registration and interpretation of important data. This

training could take place with the aid of a computer simulation.

(c) Short circulation circles of Palmas

In several cases, the circles realized by the Palmas in circulation were very short. The indicators lead to believe that some participants have accumulated just enough Palmas to repay their loans and did not, in fact, contribute to the “circulation effect” by using the Palmas in further transactions.

One example is formed by the distributors of construction material that had received a payment in *Palmas* for the materials supplied. At the same time, they received loans in Reais under the microcredit program of the Fomento project. Logically, almost 100% of the Palmas received for the construction materials were used directly to cancel the credit. No local circulation resulted. This was known on forehand, but nevertheless Palmas were used here to contribute to the trust.

Lesson: The loans to the direct suppliers of the Fomento project should be limited to a minimum. A detailed study of the existing commercial relations within the community makes it possible to identify the “suppliers of the suppliers” and horizontal spending. By offering loans to second or third line providers or suppliers with horizontal relations, the multiplier-effect of the Fomento can be enhanced considerably.

(d) Accumulation / shortage of local currency of certain enterprises

The evidence shows that, despite a 14,7% higher increase in the income in comparison with conventional finance methods (the Fomento increases the local “multiplier”), the internal circulation of the local currency was still far from being optimal.

In some specific shops and businesses of the community (big food producers, supermarkets) the phenomenon of accumulation has occurred. These shops have accumulated too many *Palmas*, an amount even superior to the amount of the loan they had been granted. As most of the inputs of these businesses are purchased outside the community, the accumulation of too many Palmas, without being able to spend them, could compromise the sustainability of the business. Once one business stops accepting the local currency, this can have a domino effect in terms of reducing the confidence of the public in the new currency.

In many cases, the excess of *Palmas* (and insufficiency of Reais) has been compensated with a second or, in some cases, a third loan by Banco Palmas. In some cases, the loans were used not for productive investments that would benefit the local economy but to solve mere “liquidity” needs. This is an efficient way of removing excess local currency from circulation, but does not contribute to increase the multiplier effect.

Of course, parallel to the accumulation of *Palmas* in some of businesses, others experienced a scarcity of local currency. Some producers, mainly

manufacturers and handicraftsmen, have received loans in Reais but were not able to receive enough *Palmas* to repay their loan, because of the difficulty to sell their products to the persons who held the *Palmas* (mainly end-consumers). Apparently, the “accumulators” and the “shortage”-enterprises did not find each other automatically.

Lesson: In the initial phase it is necessary that the enterprises (especially shops that sell directly to the public) receive guidance from the implementing agency in estimating their capacity to spend (and thus receive) *Palmas*. It is preferably that a hairdresser accepts initially 25% local currency in its payments and later (when he proves to have sufficient *Palma* spending possibilities) 50%, than the other way around.

Lesson: The smaller the Fomento project, the less one can trust in the market mechanism as a regulatory force to link automatically supply and demand. In small Fomento's, the highest impact can be reached if the *Palmas* follow “predetermined” circuits, that can be detected from a economic community survey: all participants know exactly where to spend their *Palmas*. On the other hand, it is unclear if it is cheaper to implement a larger Fomento without an intensive support program, than a small Fomento with a comprehensive community survey, personal support to businesses, etc. Basically this dilemma can be reduced to a choice between “outreach” and “depth”. To answer this question further investigation is required.

(e) Fast outflow of purchasing power from the community

The evidence in Fortaleza shows a fast “draining” of the purchasing power that has been “pumped” into the community thanks to the Fomento loans (in Reais). The loans (in Reais) that businesses received were spent in some cases almost entirely on external (i.e. not locally produced) products that were later sold on the local market. This effect has internally been designated as “supermarket effect”, since it were generally the supermarkets that showed this behaviour.

This tendency is closely linked with the previous (d) and (c). The holders of the *Palmas* preferred to spend their *Palmas* in shops. If the link between the shops and the manufacturers was (and is) rather weak, this results in a sub-optimal circulation of the local currency and problems in case of receiving more *Palmas* than are needed to repay the loan (see (d): “accumulation”).

Lesson: The enterprises that receive loans in Reais preferably have strong provider-links within the local economy. In that way, it is more probable that the *Palmas* received are not directly used to cancel loans, but continue circulating within the community. For this purpose, previous detailed information about the community's economy would be of great value. This information can be obtained through an inventory of the consumption and production pattern of the local community. By including the elaboration of a chart of the money flows realized within the community as part of the preparation activities, the “supermarket effect” can be avoided.

(f) Introduction of convertibility

As described in 1.5, Banco Palmas spends *Palmas* to cover its own expenses (salaries, painting of buildings etc.). The *Reais* that are saved this way, are set apart and used to guarantee 100% convertibility between *Palmas* and *Reais*. If Banco Palmas had consulted the convertibility issue in time with Strohalm, the advice would have been negative. Strohalm acknowledges the advantages for Banco Palmas and also for the local economy (a convertible local currency is better than no local currency at all). The very purpose of the Fomento method is to boost confidence in a non-convertible local currency that offers a certain degree of independence from the national monetary system.

Introducing convertibility for a formerly non-convertible currency is like building a high-speed railway for an old steam locomotive: the introduction of a convertible currency can be done in a much simpler way than through a Fomento. Moreover, once people are used to the convertibility, it may be difficult (though not impossible) to reverse this measure. This reversal might be necessary in case of future Fomento's or other methodologies that work with a non-convertible local currency.

(g) Confidence in partner = confidence in currency

The indicators show (see section 2 of this Assessment Report) that in a relative short time-span the project has achieved a considerable degree of confidence among the public in the new local currency. The interviews show that this confidence is for a large part (71%) based on the confidence of the community dwellers in the local counterpart organisation (ASMOCONP and its microcredit program Banco Palmas).

Lesson: The local partner choice is a first and very important step towards building confidence in the local currency.

6. Concluding comments

The Fomento project in Fortaleza has answered some of our initial questions, while at the same time many new questions have risen. The analysis shows that the introduction of a local currency in general and the financing through a Fomento in particular can increase the benefits of development aid. We also saw that the Fomento method (especially if the community project is small) preferably is imbedded in an overall local development strategy, which starts off with an exhaustive survey of the economic relations within the community. The confidence in the new currency is determined by many factors, among which figure the reputation of the executing agency, the capacity to avoid accumulation of *Palmas* and matching supply and demand of *Palmas* in time.

Questions that remain unanswered or new questions that have risen during the implementation of the project are:

- What is the minimum size and duration of a Fomento project (or, preferably, several) in order to create sufficient confidence in the local currency, so that enterprises accept loans in local currency?
- The choice between outreach and depth: is it better to reach many people for whom the *Palma* is of little economic importance? Or is it better to reach a few for whom the *Palma* is an essential income source?
- What would have been the impact if enterprises that are higher in the production chain (“suppliers of suppliers”) had received the loans?
- The introduction of convertibility facilitates the acceptance process. What impact does the elimination of the convertibility have on the acceptance of the currency? Which method of creating confidence is more efficient: initial convertibility which is lifted in a later phase) or a broad awareness and support program?

The experiment clearly indicates that if **social** and **microcredit programs** cooperate and take into account the (potential) internal economic relations of the community, they can both significantly increase their impact (in terms of raising the income of their target group). The introduction of a local currency is an excellent instrument to create awareness among local economic actors about these (potential) economic relations and therefore increases the impact even more.