2008

Microfinance in Bolivia: Gateway for Change or Pit of the Status Quo?

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MICROFINANCE IN BOLIVIA:
GATEWAY FOR CHANGE OR PIT OF THE STATUS QUO?

Sydney Boling
Proudian Honors Thesis
A.Y. 2007-8
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Introduction

Since the creation of Muhammad Yunus’ Grameen Bank in Bangladesh in 1983, microfinance has been championed as an effective means to reduce poverty, empower women, and as an overall development strategy that can be implemented not only in developing countries but also in poverty-stricken areas of industrialized economies. Microfinance has recently reached such a popular point that the United Nations named 2005 the “year of microfinance” and in 2006 Muhammad Yunus was awarded a Nobel Prize. Microfinance has had a growing presence in many countries, although certain countries, such as Bolivia, have attracted more attention than others because of the number and quality of the microcredit organizations that have been evolving there since the 1980s. Yet, even with such preponderant presence of microfinance institutions, Bolivia continues to be the poorest and one of the countries with the highest inequality of income in South America. Is it so despite or partly because of such large presence of microfinance? This thesis is an inquiry into the complex roles that the availability of credit to the very poor has or has not played in the last twenty-or-so years of the Bolivian socio-economy.

According to Elisabeth Rhyne, a scholar of the evolution of microfinance in Bolivia, the introduction of these institutions in Bolivia must be interpreted as a response first by activists and later by business people --because of the success of the institutions--, to the high rates of unemployment caused by the economic crises of the 1980s and the subsequent neo-liberal structural adjustment programs (1985) that have been viewed as

1 Armendáriz, Beatriz and Jonathan Morduch. 2005. Pg. 11.
some of the most rigid in the region.\textsuperscript{2} The reforms moved Bolivia away from state
capitalism and towards the privatized, neoliberal economy promoted by the World Bank,
the International Monetary Fund, and the United States. One of the most immediate
effects consisted in massive layoffs of workers, in particular in the state mining and oil
companies. Many people turned to the urban informal sector for employment.\textsuperscript{3} The
Bolivian urban informal sector, the way we know it today, is a product of the late-
twentieth century: it was the land reform of 1952 that, by erasing the possibility of
making a living through farming and mining for a large portion of the population, created
a general incentive for dispersed people to migrate to the cities and enter the urban
informal economy. Such dynamics was further reinforced by the neoliberal reforms of the
1980s. One important question this thesis addresses is whether the availability of
microfinance assisted or counteracted the incentives supposedly created by the reforms
for people to acquire appropriate skills and education to access formal sectors of the
economy, and so whether microfinance can be considered in some way responsible for
the failure of the reforms to bring Bolivia into a path of orthodox development. At the
same time, microfinance allowed the large, very poor segment of the Bolivian society to
survive through the drastic neoliberal policies by supporting traditional ways of living,
and so may be considered a powerful means to allow traditions, culture, and indigenous
social roles to “resist” the market pressures for international homogenization.

The Bolivian structure of microfinance itself offers insights into the difficulties of
providing clear-cut answers to these questions. Since the 1980s microfinance has become
an important aspect not only of the Bolivian cultural and social landscape, but also of the

\textsuperscript{2} Rhyne, Elisabeth. 2001. Pg. 40.
\textsuperscript{3} Ibid.
Bolivian economic and financial sectors. Even though most Bolivian microfinance institutions began as non-governmental organizations, many of them have more recently moved into the regulated financial category created in 1994 by the Superintendence of Banks for microfinance institution and called Fondos Financieros Privados (FFPs). The Bolivian microfinance market is well-known for being both innovative and competitive: many institutions are now financially self-sufficient FFPs, and Bolivia is home to BancoSol, the first commercial bank specifically created to offer microfinance services.

As is true internationally, microfinance in Bolivia tends to be presented as an institution able to achieve important development goals. Various impact analyses of different microfinance organizations in Bolivia (and internationally) have been published.

Yet, although some studies have brought forth indications as to the impact of microfinance on incomes, empowerment of women, poverty alleviation and so on, the extent to which microfinance has lived up or can live up to claims of success in terms of socio-economic development is still widely debated.

Because microfinance institutions have been and continue to be an evolving presence in Bolivia, the identification of what microfinance has achieved or might achieve in the country is not straightforward. Causes and effects often overlap. These institutions are still a part of the wider transition from the natural resource based state capitalist economy, and of the redefinition of the Bolivian economy that began in 1985. The most recent policy emphasis seems to concentrate on job creation in small and medium sized businesses in an effort to create greater employment opportunities for the poor majority of the population, and microfinance institutions could play an important role in the creation of a more inclusive market economy. Yet, as mentioned above, they
could also play the opposite role of maintaining conditions that allow a great number of people to “get by” with traditional lifestyles that do not respond to market incentives, opening the question of whether development has to imply the elimination of certain traditional activities.

Influenced both by my work with the microfinance organization Pro Mujer (April and May 2007), and by an extensive review of published and unpublished literature, my argument in this thesis questions the following aspects of the Bolivian experience with microfinance: the impact of microfinance on job creation, its effects on the empowerment of women, and its actual and potential economic role for the majority of the Bolivian population.

The thesis begins with a review of the socio-economic and regional breakdown of Bolivia, followed by a review of recent political-economic history. The first chapter concludes with a survey of the Bolivian economy that highlights both the formal and the informal sectors, thus providing a picture of Bolivia which is essential for the rest of the thesis. The second chapter contextualizes microfinance by briefly reviewing its history and basic characteristics, and by discussing the possible impacts of microfinance on job creation, empowerment and overall development. The third chapter then looks more specifically at the current microfinance market in Bolivia focusing on three important and yet different institutions: Prodem, BancoSol, and Pro Mujer. Pro Mujer is an NGO that works with urban and semi-urban women at the subsistence level; Prodem is an FFP that works mostly with rural clients; and finally BancoSol, which grew out of Prodem, is a commercial bank that targets urban and semi-urban areas. These are three of the most prominent Bolivian microfinance institutions and reflect the diversity of the market and
methods of operation. A look at these institutions as well as a review of data I collected on Pro Mujer lead into the final chapter of the thesis, which attempts a critique of microfinance in Bolivia. The last chapter is the culminating analysis of the presence of microfinance since the 1980s in terms of job creation, the empowerment of women, and the overall implications of the role of microfinance in an evolving Bolivian development paradigm. Thus, this chapter and the conclusion contain my own analysis and evaluation of microfinance in Bolivia, inspired by the time I spent living and traveling in the country, meeting people involved in economic and social initiatives, and working with Pro Mujer.

It is my hope that in the following pages the reader will have the opportunity to acquire a down-to-earth, realistic picture of these important aspects of the presence of microfinance institutions in Bolivia.
Chapter 1: The Bolivian Economy

1.1 Bolivian Geo-Politics

Bolivia is the poorest country in South America with 64% of the population living below the poverty line in 2004. Poverty is extensive throughout the country although rural poverty is more pervasive than urban poverty with 83.5% of the rural population and 53.9% of the urban population living below the poverty line. Poverty extends over all of the nine Bolivian departments, and even the departments with overall lower poverty rates have pockets of extreme poverty. Bolivia ranks amongst one of South America’s most unequal countries with a Gini coefficient of .6 and a minority wealthy elite receiving most of the income while the majority of indigenous poor population sees little. The large disparity between the two groups is in part due to the exploitation of natural resources and to the uneven land ownership inherited from colonialism and the subsequent land reform.

Bolivia has the largest and most diverse indigenous population in South America with 30% of the population Quechua, 25% Aymara, 30% mestizo, and 15% European descent. The Quechua and Aymara are the dominant indigenous groups and populate the western Andean side of the country; the Guaraní which make up an estimates 1% of the population and other small indigenous groups populate the eastern side of the country which make up less than .5% of the population.

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4 CIA World Factbook. www.cia.gov
5 Aris, Omar S. and Magdalena Bendini. 2006. Pg. 2.
6 World Bank. www.worldbank.org
7 CIA World Factbook. www.cia.gov
8 US Department of State. www.state.gov
Bolivia is culturally as well as geographically diverse: the western and eastern sides are often referred to as representing the two faces of Bolivia both geographically and politically, although these divisions are not exactly east to west and the country can be broken down into further geo-cultural regions. The altiplano region is a high plateau between the north-south Cordillera Occidental and the Cordillera Oriental. This region is mostly populated by Aymara farmers, herders and miners. East and north of the altiplano are inter-mountain valleys populated by Quechua and mixed blood mestizos partaking in agriculture and herding. The foothills and low plains in the southwest are populated by Guaraní farmers, hunters and ranchers. To the east of the mountains are the tropical lowlands populated by thirty seven ethnic minority groups that speak thirty different languages and many Aymara and Quechua that have moved to the area.9

One of the most crucial geo-political and economic divisions within Bolivia includes the gas- and oil-rich departments of Pando, Beni, Santa Cruz, and Tarija on the eastern, north-south side of the country (the so-called “media luna,” that is, “half moon”), while the other includes all the remaining departments. Such division grew to an all time high during the gas wars of 2003, when the departments of the “media luna” challenged the concept of “national” resources by claiming exclusive entitlement to the revenues from gas and oil on the basis of the location of the reserves within their geographical boundaries.10 The social unrest ended with the decision of the first indigenous president of Bolivia, Evo Morales, to nationalize the country’s oil and gas reserves, but the fundamental political and economic conflict of interests between the resource-rich

9 Healy, Kevin. 2001. Pg. 6
10 Saavedra, Ismael. 2007.
(eastern) and the resource-poor (western) parts of the country clearly persists. What has improved since the 1970s is the level of solidarity among indigenous groups\textsuperscript{11}.

Most of the Bolivian rural population resides in the Andean altiplano and consists of subsistence and small-scale commercial farmers. The traditional means of land tenure based on communal land was disrupted with the hacienda system of large landowners that was implemented during colonization. Now land is held individually and families divide land among their children, making farming plots increasingly smaller. The hacienda system also disrupted the traditional means of reciprocity between rural Andean communities, and within communities of the eastern lowlands, thus altering the traditional Andean lifestyle. Many indigenous people have subsequently moved to cities because of lack of land.\textsuperscript{12}

In the eastern side of the country is the city of Santa Cruz that has become the largest and most modern city in Bolivia. Santa Cruz was historically described as a small cowboy town, and has more recently gone through rapid growth. This growth was largely supported by the government through the promotion of large scale agro-business.\textsuperscript{13} “Bolivia’s rural majority of mountain-dwelling Indians has been unable to stop the lion’s share of national financial resources and international development aid from going to Santa Cruz commercial farmers, ranchers, and agro-businessmen (Bolivian elites who pride themselves for their pure white Spanish heritage and lack of Indian blood).”\textsuperscript{14}

\textsuperscript{11} Healy, Kevin. 2001. Pg. vii.
\textsuperscript{12} O’Briend, Caitlin. 2006. Pg. 3.
\textsuperscript{13} Saavedra, Ismael. 2007.
\textsuperscript{14} Healy, Kevin. 2001. Pg. 7
1.2 Brief Political-Economic History

Colonialism and natural resources have shaped modern Bolivia and “the legacy of colonialism has created one of the most extreme cases of economic dependency in Latin America (Galeano 1975; Malloy and Gamarra 1988).” In 1545, after the Spanish conquest, the world’s richest silver deposits were found in the department of Pototsí in the southwest of the country, with consequent exploitations of land and people. Many Europeans migrated to this area because of the amount of silver and this boom made Pototsí one of the richest areas in South America. This continued until the silver mines stopped providing silver: foreign investors mostly abandoned the area, and Pototsí became one of the poorest areas in South America. Silver mining generally fell during the 18th century, and the combination of indigenous uprisings and consequent lessening of the Spanish control reshaped the Andean society into smaller communities.

Bolivia won independence from Spain in 1825, although to this day, “[Bolivia] has struggled to establish internal cohesion and a national identity in the face of considerable ethnic and geographic diversity.” In fact, not much changed for the indigenous populations even after independence was achieved: they continued to be exploited with more and more of their communal land taken away. The economy continued to be one of boom-and-bust, with economic growth and recessions dependent on the ups and downs of the market for natural resources. For example, Bolivia developed a prominent tin industry in the beginning of the 20th century. However, tin

\[15\] Farthing, Linda and Benjamin Kohl. 2006. Pg. 34.
\[16\] Cortes, Jorge. 2007.
\[17\] Farthing, Linda and Benjamin Kohl. 2006. Pg. 59
\[18\] Ibid. pg. 40.
prices collapsed in the 1920s and 1930s, and the declining external demand for tin hit the economy hard.\(^{19}\)

Bolivia entered into the Chaco War in 1932, which may have been used as a distraction from the economic crisis.\(^{20}\) This war between Bolivia and Paraguay for the Gran Chaco region, which was thought to be rich in petroleum, led to major land losses for Bolivia in this region, and paved the way for political transitions that culminated with the rise to power of the National Revolutionary Party (MNR) in 1952, the nationalization of mines, and the agrarian reforms of 1953.\(^{21}\) The land reform broke large landholdings and some land was returned to the original indigenous land holders. The land reform was more successful in the Andean region, and was largely not enforced in the eastern Beni and Santa Cruz departments. By centralizing power and nationalizing resources, the MNR consistently worked to promote an overall Bolivian identity.\(^{22}\) At the same time, the shift implemented by the MNR to state intervention and direct ownership of production facilities, nationalization of resources, and protection of domestic markets from foreign competition, reflects the overall trend of implementation of Import Substitution Industrialization (ISI) policies common to Latin America from the 1950s to the 1980s.\(^{23}\) The MNR was overthrown in 1964, and various military rulers ran Bolivia until 1982. During these years human rights were typically denied, and ISI policies initially continued with the support of high levels of foreign aid by the United States.\(^{24}\) Tin became profitable again in the 1960s and 1970s, although corrupt management

\(^{19}\) Hudson, Rex A. and Dennis M. Hanretty. 1989.
\(^{20}\) Farthing, Linda and Benjamin Kohl. 2006. Pg. 45.
\(^{21}\) Ibid. pg. 46.
\(^{22}\) Ibid. pg. 47. And Cortes, Jorge. 2007.
\(^{23}\) Ibid. pg. 49.
\(^{24}\) Ibid. pg. 50.
became problematic. The nationalization of petroleum during this time also brought some, even though short-lived, economic prosperity.\(^{25}\)

In the early 1980s, grave economic issues come to the surface. Many government loans had been given to agro-businessmen in the eastern lowlands of Santa Cruz in an attempt to modernize farming and promote export markets; many of these entrepreneurs had connections to the government and defaulted on loans. Corrupt leaders continued to rule the country, and state-controlled mining, oil, and gas companies became less and less profitable. In 1981 a transitional government was put in place and Bolivia experienced five years of economic turmoil with negative growth in GDP and large amounts of foreign debt. This was a fate that, with minor variations, hit the whole South-American continent during these years (the so called “Latin American debt crisis” of the 1980s).

In 1985, extreme neoliberal policies, which had become popular with international financial institutions, exchanged rescue from international debt with “market-friendly” policies that embraced free trade and privatization of formally state-run industries.\(^{26}\) Bolivia implemented all of these elements of neoliberal reform, and while from the outside the experiment was seen as successful, internally many people, especially miners, were experiencing lack of jobs and hope. Even though a social emergency fund was introduced by the World Bank to cushion the effects of the economic crisis and of the drastic reforms, the two “sectors” that actually boomed out of the crisis were the coca and cocaine industry, which deteriorated the relationship with the United States, and the mostly urban informal sector, which paved the way to the establishment of microfinance institutions.

\(^{25}\) Farthing, Linda and Benjamin Kohl. 2006. Pg. 50.

\(^{26}\) Ibid, 61.
Economic fluctuation and political corruption continued to plague Bolivia and the country has been unable to provide for the entirety of its population. "Like many resource-rich, low-income countries, the Bolivian export economy has always relied on raw materials produced by a fraction of the workforce. But this income has never supported the country's population, about half of whom live on a combination of subsistence and market agriculture..." 27 Social and economic reforms such as equal rights for indigenous populations and the partial nationalization of the oil and gas companies under Morales's government, have been obviously championed by indigenous populations, while criticized by much of the middle class and the elite. 28 Bolivia remains a divided country and "small farmers are scrambling to stay afloat in an economy molded for more than 18 years by neoliberal economic reforms. Under these reforms, Bolivia has become one of the most socially and economically unequal societies in Latin America." 29

1.3 A Brief Survey of the Current Bolivian Economy

Oil and natural gas are still a major sector in the Bolivian economy, with 6.5% of GDP made up by oil and natural gas and with the mining sector accounting for an additional 4.4% of its GDP. Oil and natural gas make up half of the country's total exports earnings, while mining makes up 19.5%. The manufacturing sector accounts for 18.7% of GDP and 27.2% of total export earnings, and includes mostly small scale, labor intensive operations. Agriculture represents 16% of the GDP. Industry and services

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27 Farthing, Linda and Benjamin Kohl. 2006. Pg. 62.
29 Healy, Kevin. 2004. Pg. 4
make up the rest of the GDP. Bolivia, with a population of 9.1 million and a GDP of $11.2 billion US dollars can be compared with Guatemala, a Latin American country with a similar indigenous makeup and a GDP of $35.3 billion dollars and 12.9 million citizens (for the sake of comparison, Argentina, one of the wealthier Latin American countries, has a GDP of $214.1 billion dollars and 36 million citizens). 

Bolivia is a member of the Andean Community of Nations, which is a trade agreement among Bolivia, Ecuador, Colombia, and Peru, and is an associate member of MERCOSUR, which is a regional trade agreement between Argentina, Brazil, Uruguay and Paraguay. Bolivia is also a member of the Andean Trade Promotion and Drug Eradication Act (ATPDEA), which is a temporary agreement between the Andean Community of Nations and the United States that has been renewed on March 3rd of 2008. The US Department of State states that, “almost two million people in these four countries have jobs today as a result of the ATPA…ATPA contributes directly to the development of a stable and prosperous region, and is in the national security interest of the United States.” Bolivia’s main outlets for exports are the European Union and NAFTA, which includes the United States, Mexico and Canada. These trade agreements have opened up export opportunities for traditional Bolivian markets such as apparel, furniture, and jewelry. For instance, ATPDEA has increased the United States’ imports of Bolivian goods by 6% from 2005 to 2006. The top import was jewelry (28% of US imports from Bolivia), followed by apparel (21% of total US imports from Bolivia).

30 EIU ViewsWire. 2007.
32 US Department of State. www.state.gov.
Some businesses in the apparel industry explicitly cite ATPDEA as responsible for their success in the market.33

1.4 The Informal Economy

Like many developing countries, Bolivia has a large informal economy. The informal economy, which describes any income generating activity that occurs outside of the state regulatory framework, has become a common term since it was coined in 1973 by the International Labor Organization (ILO).34 Previously, the unregulated sector had not received significant attention. The nature of informal activity since 1973 has been highly debated and analyzed by a wide range of academics, politicians, economists, sociologists, anthropologists, and international agencies.35

The informal economy represents 50-69.9% of total Bolivian employment36, which makes Bolivia a country with one of the highest percentages of informal employment in Latin America and the Caribbean. The informal economy includes a wide spectrum of economic activities that range from subsistence work such as street vendors and domestic workers to unregistered microenterprises, which often employ a family member or two and sometimes a worker outside of the family. This informal work may or may not generate an income above subsistence levels. These informal activities are present in every region of Bolivia, and are both rural and urban. They are categorized differently depending on the source. Elisabeth Rhyne cites a breakdown of the sector proposed by the Center for the Study of the Development of Labor and Agriculture

36 Ibid
(CEDLA), which divides the informal economy into the semi-entrepreneurial and the family sectors. The semi-entrepreneurial sector has a small number of paid employees whereas the family enterprise involves only one person or may also have unpaid family labor.\(^{37}\)

Informal economic activities in developing countries such as Bolivia are often attributed to the lack of formal economic opportunities. Lack of opportunities to partake in the formal economy has been especially apparent after the neoliberal reforms. The unemployment rate was 8\% in 2006, which may be a low estimate when seasonal and temporary subcontracted labor is taken into account.\(^{38}\) In Bolivia, “...not enough jobs are created for all those seeking work, forcing people to find employment or to create their own work in the informal economy.”\(^{39}\) The informal economy is generally the sector that low-skill laborers turn to, especially when skills demanded by formal sectors don’t match the skills of the majority of the population: if the formal sector does not offer jobs that are appropriate for the skills of the average Bolivian, the average Bolivian will inevitably turn to some informal activity in order to generate some form of income. Other important reasons for which Bolivians partake in the informal economy in such large numbers are the low level of wages and the lack of job security in the formal economy.\(^{40}\) It has been found that people in the informal economy, mainly the self-employed, may earn more than unskilled or low-skill employees working in the formal economy, although this is not representative of the majority of those working at subsistence levels.\(^{41}\) One study

\(^{37}\) Rhyne, Elisabeth. 2001. Pg. 46.
\(^{38}\) CIA world factbook. www.cia.gov
\(^{40}\) Claure, Bernarda. 2007. Pg. 3.
\(^{41}\) Tannuri-Pianto, Maria et al. 2004. Pg. 1.
done by Maria Tannuri-Pianto, Donald M. Pianto, and Omar Arias found that about 44% of the employment in the top one-fifth of Bolivian earning levels is comprised of informal workers. Thus, high levels of informal activity may sometimes reflect preferences for informal work, and not necessarily the inability to acquire formal employment.

Bolivians may also turn to the informal sector as a means to supplement income earned in the formal economy. For instance, wages in the state sector are often too low to support a family. If one household member has a job in the formal economy, other family members may rely on the informal sector as a means to supplement the household’s income. A family member may enter the informal economy if the household is experiencing economic hardship. Also, many Bolivians may sell goods in the streets or at markets according to seasonal agricultural patterns, or whenever they have a particular good to sell or service to offer. Taxi driving is an example of an informal service that may be offered when necessary. Many Bolivians simply place a taxi sign on their car and offer taxi services when desired.

The ease of entry and exit from the market—when compared with the complex bureaucracies of “official” businesses, is another fundamental reason for which so many Bolivians choose to be active in the informal economy. Many people do not find it worthwhile to formalize their activities, especially if their economic activities are only utilized here and there. “Burdensome business and labor market regulations discourage innovation and smaller companies from fully participating in the formal economy, scaling

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42 Tannuri-Pianto, Maria et al. 2004. Pg. 1.
up, and improving productivity. A taxi driver or a micro or small business owner in the informal economy may not think it worthwhile to undertake the legal and institutional requirements that may take up to two years of waiting time in order to “formalize” her/his position. It is however important to mention that in some urban areas there are regulations imposed also on street vendors, mostly in terms of where they can operate, and fines are levied in case of non-compliance. There are also informal costs for street vendors who may have to pay off officials whose job it is to regulate informal businesses. However, often both the official and the informal worker enjoy this compromise in that the bribes paid to the officials are less than the taxes that would be levied, and officials like the small but regular payoffs!

Flexible working hours, especially for the self-employed, represent another appealing characteristic of informal activities. Self-employed workers often operate inside their homes. This mostly applies to those individuals who sell food in the street or in a market, but sometimes it holds true also for services: there may be shops or restaurants operating in a room of a home. This flexibility of location and time may be especially attractive to women who end up not only with fulfilling family roles but also with providing the household primary or supplementary income. In the study done by Maria Tannuri-Pianto, Donald Pianto, and Omar Arias, 70% of self-employed workers interviewed who work less than 20 hours a week are female.

Many rural citizens seek employment in urban areas. Indigenous people from rural areas, regardless of gender, experience discrimination and thus may not be able to

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43 Aris, Omar S. and Magdalena Bendini. 2006. Pg. 5.
44 Tannuri-Pianto, Maria et al. 2004.
45 Ibid. pg. 4.
find formal work, or may feel uncomfortable in a formal setting. To avoid discrimination or greater difficulties some may prefer to work independently. For instance, many indigenous women immigrate to urban areas at young ages looking for work, especially as domestic workers.

Many informal income-generating activities are rooted in traditional occupations and productions, and in fact the term “informal economy” is often considered synonymous with “traditional economy.” This includes artisan work and traditional agricultural activities. Regionally specific artisan work has been performed for hundreds of years by indigenous communities and its products are currently sold mainly at markets directed at tourists. Intricate weavings are sold in shops where alpaca and llama sweaters are sold. Sweaters, hats, and socks are also found at any Bolivian market and are often sought out by tourists. Products sold informally such as produce and meat are instead purchased by the majority of Bolivians. Shopping at open-air markets for fruit and meat, for example, is part of the day-to-day life for urban and semi-urban Bolivians, as is buying bread from the woman on your street corner after work. In rural areas, participation in the informal economy may include buying cheese made by your neighbor. Many Bolivians also purchase a snack from a food stand during a work break, and frequently eat lunch at a small informal eatery. They might also buy a candy bar or a newspaper from a small stand on the way to catch the bus. Day-to-day life inevitably crosses paths with the informal economy.

Thus, informal activities are embedded in Bolivian culture. Many of those participating in the informal economy do so because they have followed the footsteps of an older family member. A person may learn an informal trade at an early age: often
times a child will drop out of school in order to financially help his or her family. Informal skills are sometimes seen as more important than those that may be learned in school, because they generate an immediate income. High opportunity costs in terms of family income and low returns to education discourage poorer families from keeping their children in school. In these situations, it is economically more beneficial to have an extra hand to help out with money generating activities and household work rather than the potential future benefits of a child receiving a formal education. Returns to education are so low that six out of ten high school graduates are at risk of being in poverty.

Those from poor families experience even lower returns to education, mostly because of the difference in the quality of education that poorer children receive. Education plays a role in the likelihood that a child will enter into the informal economy: the higher the number of years in school is, the less likely employment in the informal sector is. However, there are some people who have received a university education that work in the informal sector. This may be due to lack of formal jobs in specific areas of study, forcing college graduates to take up work in the informal economy.

Those that partake in the informal economy at a young age, whether full or part time, may be more likely to work in the informal economy as adults. The specific informal activity may continue to be a source of employment for the person because of skills learned as a child. The passing down of income generating skills applies to many economic levels; from subsistence levels of activity to profit generating micro-enterprise levels. In this sense, the informal economy is a means of maintaining tradition. A child

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47 Omar, Aris A. 2006. Pg. 3.
48 Tanurri-Pianto, Maria et. al. 2004. Pg. 5.
that learns how to make salteñas, which is a savory Bolivian pastry, and sells them with his or her mother, may continue to make and sell salteñas later in life. This will help maintain the Bolivian tradition of eating them every day at 11:00. This is also applicable to artisan work in that if a child grows up helping his or her mother with weaving, he or she is likely to partake in the trade for the rest of his or her life. 49 Thus, many informal activities are continued generation after generation. If these activities are based on traditional Bolivian trades, then these activities may play a role in maintaining culture. If women in certain regions continuously make and sell weavings, they are maintaining this cultural practice. This is true in terms of agricultural practices as well as many of the crops farmed in the Andean region of the country have been grown in mostly the same manner since Incan times. People continue to grow what has been grown for thousands of years.

Traditional rural economic activities that are passed down through generations may also preserve traditional indigenous rural lifestyles. By traditionally farming Andean crops, the Andean cosmo-vision, which is largely based on a rural existence, is maintained to a certain extent. 50 Sporadic informal activities—such as selling food or cheese—allow rural Andean citizens to partake in a flexible market, while maintaining traditional lifestyles. This may be particularly important for rural Andean women who are often viewed as the main upholders of Andean tradition. Indigenous Andean women, unlike most indigenous Andean men, still wear traditional clothing. They cook all of the meals, care for the children, and help with farming. 51 As discussed above, informal

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50 Huanacui, Fernando. 2007.
51 Ibid.
activities are a good way for women to bring in an income while still being able to care for young children and maintain certain gender roles.

Lack of security and support are the most important deterrent from the informal economy. According to the International Labor Organization, for instance, risks of being informally employed include the possibility of being fired without a reason, the inability to develop a “career,” the lack of protection against accidents, security in getting paid regularly and appropriately, and security of being represented if something dangerous or unjust happens while on the job.\textsuperscript{52} These are some of the reasons that make the creation of formal jobs the ultimate goal of mainstream economic development.

Economists see the transition of informal jobs to formal ones a powerful means of creating a stronger and wealthier economy. The informal economy, which is such a large and diverse sector of the Bolivian economy is a sector comprised also of entrepreneurs participating in a wide range of activities. Economists hope that informal micro and small enterprises, when successful and growing, may “survive” into the formal sector. If a micro or small informal enterprise grows, it may hire workers outside the family. The sector of micro and small enterprises “…provides the foundation of modern private companies.”\textsuperscript{53} In this sense the informal economy is subordinate and connected to the formal economy which is superior when formalization is the ultimate indicator of economic success and stability. But what to say of global homogenization and loss of cultural, historical identity? How does one compare higher job security for some, and the disappearance of traditional activities and ways of living?

\textsuperscript{52} International Labor Organization. 2002. Pg. 4.
\textsuperscript{53} Green, Christopher J. et al. 2006. pg. 1
1.4 Concluding Remarks

Informal work has traditionally been thought of as inferior to formal work and “...is seen as the repository of jobs for less-advantaged workers rationed out of a superior formal sector...”\textsuperscript{54} It is apparent that this view of the informal economy is a simplified version of the Bolivian social, political and economic landscape. In addition,

“There is no simple relationship between working informally and being poor, and working formally and escaping poverty. But it is certainly true that a much higher percentage of people working in the informal relative to the formal economy are poor, and even more true that a larger share of women relative to men working in the informal economy are poor.”\textsuperscript{55}

For many academics and policy makers who connect formality with economic development, having the majority of economic activity occur in the formal sector is the ultimate goal. Growth of the formal sector must then be encouraged by government policies aimed at increasing formal employment and at encouraging transition of informal work into the formal sector. However, “increasingly popular in Latin America (and among bilateral and multilateral aid agencies) is the notion that informal activities might be a necessary stage or long-term component of developing market economies or even a potentially cost-effective path to ‘genuine’ economic and social development.”\textsuperscript{56} The Bolivian informal economy is an integral component of everyday life for nearly every Bolivian, regardless of socio-economic levels, and reflects a dynamic entrepreneurial sector of the economy. The Bolivian government has recently begun to address the informal economy in this way while “…endeavoring to learn about and support these workers from the informal sector of the economy who have become a major part of the

\textsuperscript{54} Tannuri-Pianto, Maria et. al. 2004. Pg. 1.
\textsuperscript{55} International Labor Organization. 2002. Pg. 3.
\textsuperscript{56} Rakowski, Cathy A. 1994. Pg. 31.
work force.”\textsuperscript{57} The government has been making efforts to support small and micro businesses operating in the informal sector, which have traditionally been neglected, and has been working to erase the negative connotation of the informal economy because this sector may hold the greatest promise for economic development.

Financial access for people engaged in informal activities has been mostly provided by microfinance institutions. Thus, the next chapter introduces the world of microfinance, in general and later more specifically in Bolivia, to this thesis, with the general goal of gaining an understanding on which development paradigm microfinance tends to serve best: the “orthodox” idea of development as demise of the informal economy, or the “progressive” idea of nurturing the informal, creative, flexible, culturally dense aspects of traditional economies.

\textsuperscript{57} Claure, Bernarda. 2007. Pg.1.
Chapter 2: Microfinance

This chapter introduces microfinance in general, and reviews work written on the impact of microfinance on those key factors I have chosen to focus my inquiry on, which are job creation, the empowerment of women, and the overall potential of microfinance to work as a development strategy. I believe it is important to become familiar with the microfinance market as well as with work that has been done on the impact on these factors, to then approach the Bolivian microfinance market discussed in chapter three.

2.1 What is microfinance?

Microfinance consists of small loans and financial services offered to poor citizens who otherwise would not have access to these services. The terms microfinance and microcredit are often used interchangeably, although microcredit refers only to loans whereas microfinance includes other financial services such as savings, insurance, or marketing assistance.

Modern microcredit began in the 1970s and became well known globally with the work of Dr. Muhammad Yunus, who began giving small loans to poor populations in Bangladesh during a famine in 1974 and opened the first microcredit bank—the Grameen Bank—in 1983. The Grameen Bank mostly targets women, and aims at providing them with the means to not only survive but also begin to accumulate capital and create work opportunities.\footnote{Claure, Bernarda. 2007. Pg.1.} Since that time, microfinance organizations have opened throughout the world: they currently vary to some degree in the financial services offered, but the methods of the Grameen Bank continue to be the most commonly practiced.
The strategy of the Grameen Bank allows borrowers to act as guarantors to one another by receiving loans within a small group. Members repay their loans with the other members of their group during a meeting. If one member of the group cannot repay his or her loan, the other members of the group are responsible for his or her payment if any of them is to borrow again in the future. Thus, group lending is based on the idea that if clients take out loans in a group setting, peer pressure increases the likelihood of debt repayment. Group lending in different forms is still the dominant form of micro lending, especially in organizations targeting women. Microfinance institutions use variations of the group-lending method: for instance, the so-called “village banking” method consists of a loan given to a group, that then becomes responsible for subdividing the money among its members. Other microfinance institutions focus instead more on individual than group loans.

The size of a loan taken out by a microfinance client usually starts at around US $100 and may increase to US $3,000; some institutions have recently begun to offer even larger loans. The loan is usually repaid over a certain period of time that ranges from four months to two years. Some microfinance organizations have their clients repay portions of the loan on a monthly or bi-monthly basis. The intended purpose of the micro loan is to start or improve a business activity owned by people that are generally excluded from the commercial credit market for lack of identification papers or collateral. Micro loans are characterized by relatively high management costs—also given the very small size of the loans—and thus have high interest levels. Bolivian interest rates for

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60 Conning, Jonathan et. al. 2003.
micro loans are usually 24 to 30 percent when a loan is taken out in US dollars, and may be more like 36 to 40 percent on a loan taken out in Bolivianos, the Bolivian currency.\textsuperscript{61}

### 2.2 Expectations from Microfinance: Development, Job Creation, and the Empowerment of Women

Microfinance has received increased attention globally as a strategy to alleviate global poverty and as a development strategy. Part of the quickly gained popularity of microfinance is due to its appeal to people of various economic and political opinions, as “advocates who lean left highlight the ‘bottom-up’ aspects, attention to community, focus on women, and, most importantly, the aim to help the underserved...Those who lean right highlight the prospect of alleviating poverty while providing incentives to work, the nongovernmental leadership, the use of mechanisms disciplined by market forces, and the general suspicion of ongoing subsidization.”\textsuperscript{62}

The lack of clear-cut ideological and political biases in regard to microfinance is partly responsible for the paucity—and sometimes superficiality—of the arguments in favor or against it. In some ways, this reflects the same range of attitudes politicians and economists may have displayed in regard to philanthropic activities: while such activities \textit{per se}, as does financial credit, encounter general support, opinions about their use are more subject to nuances about implementation than ideological affiliation. Neoliberal economists are divided about microfinance initiatives, as are economists of more Marxist leanings. Thus, support and lack of support for microfinance are not so much based on

\textsuperscript{61} Rhyne, Elisabeth. 2001. Pg. 20.
\textsuperscript{62} Morduch, Jonathan. 1999. Pg. 2
one’s ideology or political belief; one’s opinion of microfinance cannot be directly tied to her/his general political and economic views.

Many governments and organizations support microfinance initiatives because they are straightforward and relatively easy to implement. Microfinance has certainly already shaken up the world of international development, even though opinions still vary on the extent to which microfinance has already benefited and will benefit in the future the economically marginalized throughout the world.

Although there are numerous success stories such as those reported by the Grameen Bank, success of microfinance is difficult to measure. The first difficulty is the actual definition of “success” itself. The complications of analyzing the various impacts of microfinance are well described by Beatriz Armendáriz and Jonathan Morduch: “relatively few rigorous studies of impacts have been completed, and the evidence on statistical impacts has been mixed so far. There is not yet a widely acclaimed study that robustly shows strong impacts, but many studies suggest the possibility.”63 As mentioned earlier, in this thesis success of microfinance is evaluated in terms of its ability to bring people out of poverty, empower the poor, especially poor women, and create sustainable job opportunities.

Differences in the operating regimes of microfinance institutions (different types of loans and services, different types of clients, and so on) imply a corresponding variety of priorities and impacts of their activities. Thus, the analysis of the impact of microfinance on job creation, empowerment and overall development cannot be homogenous across institutions.

Employment creation is not always a direct goal of microfinance institutions, even though it is usually addressed at least indirectly in their mission statements. In addition, the extent to which employment opportunities can be enhanced and new jobs can be created is not easily measurable. The effects on employment may also be hard to identify because changes might be quite subtle, such as the “small” transitions described by Bernd Balkenhol in his work on the impact of microfinance on employment:

“Whatever happens to employment in a household-enterprise largely escapes the attention of the MFI, whether it is the transformation of a seasonal job into a permanent, or of a paid job held by a person from outside the family to an apprentice, or of children attending school to children working at home or even away from home. Creating, transforming, maintaining and terminating employment occurs largely out of sight and reach of the MFI.”

These changes are significant, although they are not sufficiently straightforward to allow for a determination of the number of jobs created as a result of the availability of microfinance. Although microfinance institutions find it important to support micro-entrepreneurs and the self-employed, most institutions have little idea of the actual economic activities of their clients beyond the fact that they are involved in some kind of business activity.

In their work “Can Micro-Credit Bring Development?,” Christian Ahlin and Neville Jiang describe a progression of productivity that starts in the informal sector with subsistence work and grows though self-employment and entrepreneurship as the most productive upper part of the informal economy. Subsistence work is seen as the least productive, self-employment is the next stage of this transition, and entrepreneurship is

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64 Balkenhol, Bernd. 2006. Pg. 3.
the ultimate goal. Subsistence level activities are those which generate enough income to support oneself and one’s family without any further income left. Self-employment is characterized by the use of capital and one’s own labor, whereas entrepreneurship requires more capital and the employment of wage laborers outside unpaid family workers. The transition from self-employment to entrepreneurship is termed the graduation rate and may be achieved either when the self-employed has been able to save enough money to buy some capital stock and hire additional workers, or when the increased market demand for the goods produced makes the overall activity more profitable. Ahlin and Jiang can link microfinance with becoming self-employed beyond subsistence levels, but cannot directly connect it effects with increased entrepreneurship.

In this sense, microfinance may first have an effect on self-employment and unpaid family labor, and only later may lead to further employment creation:

“...in the beginning of a MFI-client relationship when the first loan has just become available, unpaid family labor is likely added to the work force, then - with repeat loans and a secured and continuous flow of credit- non-family labor may be brought in, usually at very low wages, until eventually workers may be recruited from outside the family, and paid at market rates.”

Job creation outside of family labor is ideal in this sense. However, Bernd Balkenhol, the author of the excerpt above, also suggests that these transitions are difficult to measure for a microfinance institution. In his article “Microfinance and Poverty in Bolivia,” Paul Mosley suggests that richer borrowers experience greater impacts from microfinance

67 Balkenhol, Bernd. 2006. Pg. 4.
institutions. This implies that the ability of microfinance to create jobs might depend on the level of economic activity of the client when she or he first receives credit. Thus, the kind of clients targeted by an institution affects the potential to generate employment. “MFIs with a predominant micro-enterprise portfolio...are more likely to make a difference to job creation than MFIs which cater to clients operating at the subsistence level, where the household dominates the enterprise dimension.” A client that has an established enterprise when first receiving financial services may have a better shot at entering into the entrepreneurial sector and thus create more and better quality jobs than someone who begins with a household enterprise. BancoSol of Bolivia, whose services emphasize enterprise development, will most likely have more of an impact on job creation than Pro Mujer, which emphasizes empowerment and works mostly with clients at subsistence level. And yet, one can’t generalize. In his article, “Microfinance Among the Maya,” Bruce Wydick reveals results from his work with 239 Guatemalan borrowers. He found that initially even low-level borrowers were quick to hire a few extra laborers outside of the family. Yet, few borrowers continued to generate external labor and only a small portion of those interviewed continued to grow beyond the initial expansion. Morduch suggests that ultimately “credit from microfinance programs helps fund self-employment income for borrowers rather than drive fundamental shifts in employment patterns. Microfinance rarely generated new jobs for others, and success has been especially limited in regions with highly seasonal income patterns and low population

69 Balkenhol, Bernd. 2006. Pg.5.  
densities.” In this sense, microfinance may bring clients from subsistence activities into self-employment, as was discussed by Ahlin and Jiang, but will rarely bring clients to the entrepreneurial and most dynamic portion of the informal economy, which has the potential to generate the most employment.

The “fundamental shifts in employment patterns” referred to by Morduch imply employment outside of the client’s own family, although whether this employment should take place within the formal or the informal sector remains ambiguous. The implication of “shifts in employment” would plausibly eventually lead to formalization. Mosley expresses the relationship between graduation through the informal economy and formalization in that, “if the risk pays off and income increases again, and further investment in fixed capital is possible, this may, in the event of spectacular success, enable the borrower to ‘gravitate’ to a formal financial sector institution or even to finance her business expansion out of retained profits, thus terminating her existence as a microfinance borrower.” Wydick, however, suggests that many borrowers are hesitant to formalize because they are intimidated by the bureaucratic prospects.

Women have been the main target of microfinance and make up 80% of the clients of the thirty-four largest microfinance institutions in the world. Some institutions only offer services to women, while others offer services also to men but maintain a majority of women in their clientele. There are reasons for which microfinance institutions may be more popular or may target more women than men. Microfinance institutions may seek to work with more women than men because they have better

71 Morduch, Jonathan. 1999. Pg. 42.
73 Wydick, Bruce. 2002. Pg.16.
Women also have to work harder to find loans and thus are more willing to work with organizations like Pro Mujer that require attendance at meetings and loans taken out within groups.

In addition, many organizations target or have an overwhelmingly female clientele because women are the majority of those working in the informal sector.

"Formal-sector commercial banks tend to favor men, mainly because men run the larger businesses that commercial banks favor..." whereas microfinance institutions are "...about small businesses which most often involve self-employment in the informal sector, and women make up a large and growing segment of informal sector businesses." Women are the natural targets for microfinance institutions that emphasize informal micro-enterprises.

Women are also an important target for those institutions that have strong social concerns and focus on the poorest populations. From some institutions’ viewpoint women should be targeted because they may have stronger impacts on overall development. Women may have more of a direct concern with the wellbeing of their children and thus will more fully utilize resources such as health services from institutions like Pro Mujer. And despite studies suggesting that women borrowers are best at bringing benefits of microfinance into the home while male borrowers are better at creating jobs, Wydick found no disparity between women’s and men’s record in creating further employment.

75 Ibid. pg. 180.
77 Ibid.
Women are also considered crucial to current development strategies because they have been excluded from previous development policies and objectives. This idea, however, has been challenged: Pam Simmons in fact discusses the false assumptions that women have not been a part of development and that women in the developing world have not progressed as far as women in the developed world in terms of equality with men. "Implied in the call to integrate women into development is the suggestion that they had previously been excluded. This is blatantly false. What is more accurate is that they were invisible to development planners, policy-makers, government officials and foreign experts."  

She discusses the roles that women have played, such as maintaining crops to support their families while men immigrated to the cities because of lack of work in the countryside.

Most importantly, however, microfinance offers women an opportunity to generate income, which may in turn give them more power within their households. It is argued that being a client of an institution like Pro Mujer should be an empowering experience in itself, because the requirement of participation to meeting brings women out of their traditional household roles. In this sense, institutions that mostly focus on financial services may be less influential on the empowerment of women than organizations that offer services that go beyond the provision of loans. Whether the empowerment impact claimed by microfinance institutions actually does take place within the home is questioned by Susan F. Fainer and Drucilla K. Barker. For instance, they report of situations in which loans obtained by women end up being utilized by the

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78 Simmons, Pam. 1997. Pg. 248.
80 Ibid.
women’s husbands.\textsuperscript{81} However, they also suggest that when a loan \textit{is} actually utilized by a married woman and she begins to generate income autonomously, then she may feel as though she had an equal share in household decisions.\textsuperscript{82} Finally, some say that even in the most fortunate empowerment stories in which change in the household does happen, these changes are not enough. “While microfinance can potentially empower women within the household, there is less evidence that it has been effective in transforming social norms and traditions.”\textsuperscript{83} Microfinance institutions may help women to generate incomes, thus potentially giving them more power within the households, but this does not mean that they aren’t still partaking in traditional activities of the informal sector while men have open opportunities to climb “the socio-economic ladder.”\textsuperscript{84} Thus, the ultimate goal of microfinance institutions that target women should then be to provide women with the means to break from traditional economic activities, or effectively build on them.

\textsuperscript{81} Fainer, Susan K. and Drucilla K. Barker. 2007.
\textsuperscript{82} Ibid.
\textsuperscript{83} Armendáriz, Beatriz and Jonathan Morduch. 2005. Pg. 193.
\textsuperscript{84} Armendáriz, Beatriz and Jonathan Morduch. 2005.
Chapter 3: Bolivian Microfinance

This chapter serves to paint a picture of the Bolivian microfinance market with a brief history of its evolution followed by a look at three of its most prominent institutions: Prodem, BancoSol, and Pro Mujer. These institutions are examined because they are a good representation of the variety of the microfinance market in Bolivia. The chapter concludes with a presentation of data from my own investigation of the economic and empowerment impact of Pro Mujer services on clients I interviewed during April and May of 2007 in Cochabamba, Bolivia.

3.1 Microfinance in Bolivia:

The first microfinance institutions began to be established in the 1980s as non-governmental organizations (NGOs) sponsored by private donors. These organizations were started and run by social-entrepreneurs, or, as Elisabeth Rhyne calls them, "...a special breed of activists." They created microfinance institutions as a response to their view and interpretation of Bolivia’s development problems. Microfinance became popular around the time of the neoliberal reforms that caused increased unemployment and the subsequent growth of the informal economy. In recognition of its absolute need for financial services, microfinance institutions began supporting households and informal activities.

The global increase in popularity of microfinance led to an increase in entrants into the Bolivian market, which furthered competition among existing and new organizations. Institutions offering microfinance services are no longer mostly small

85 Rhyne, Elisabeth. 2001. Pg. 81.
86 Ibid
NGOs dependent on donors, having become either partially or completely financially self-sufficient institutions. A current question in development circles focuses on whether microfinance organizations should be profit-seeking entities or not, which is the same as asking whether it is more important for microfinance to be self-sustainable and not rely on donors, or whether the ability to meet financial needs should overweigh the source of their own financial means. Generally, and understandably, microfinance organizations that work with the poorest citizens and give out the smallest loans find it less important to be financially sustainable enterprises. On the contrary, becoming financially self-sustainable implies emphasizing "...commercial-level operation as a means to achieve sustainable outreach..." 87

The microfinance market in Latin America has one of the highest levels of competition in the world. In addition, the Bolivian microfinance sector has the peculiarity of having been regulated and monitored from its early stages with the creation of Fondos Financieros Privados (FFPs) in 1994. These are formal financial institutions that are regulated like larger commercial banks, but whose minimum capital requirements are lower than those of the "regular" banking sector. The FFP regulation was started as a way to create a more financially sustainable situation for microfinance institutions without affecting their ability to pursue their mission. 88 Bolivia is also home to BancoSol, the first commercial bank in the world to solely focus on microfinance services. The early emergence of FFPs and BancoSol seems to suggest that the Bolivian microfinance sector has actually chosen to emphasize financial sustainability over independence from profits. In fact, the Bolivian microfinance sector distinguishes itself

from the remaining Latin American experience because it “...has had a strong orientation toward commercial-level operations.” According to The Mix, a website that ranks and gives detailed information about the main microfinance institutions of the world, there are currently 20 microfinance institutions in Bolivia. Twelve of them are NGOs, two are commercial banks, five are FFPs and one is a credit union. Since the 1990s, three main forms of micro-lending have become dominant: individual lending, solidarity groups, and community banking. These different approaches reach slightly different client groups and may have slightly different goals. Various loan options may be available from the same institution.

The transition within the microfinance community toward profit-seeking has direct implications on markets of operation and clients. On one hand, certain benefits for consumers are identified with increased competition amongst microfinance institutions. Benefits coincide with free market ideals: increased competition should bring about higher quality services, further outreach to clients, and potentially lowered interest rates. With increased competition, microfinance institutions have to work harder to keep clients. Those that are striving for financial sustainability “...view donor and government subsidies as temporary phenomena, recognizing that the scale necessary to reach the vast potential market can be reached only if microfinance connects to mainstream financial systems.”

The original goals of institutions that becomes financially self-sufficient are not necessarily altered, although some fear that this may be the case. “Until now,

89 Arriola, Bonjour Pedro. 2006. Pg. 4
90 The Mix. www.mixmarket.org
91 Rhyne, Elisabeth. 2001. pg. 10.
92 Ibid pg. 3.
microfinance has been driven fundamentally by development concerns, most importantly higher incomes for the poor. Increasingly, microfinance will be driven by the twin concerns of the competitive marketplace: market share and profits." Many institutions however believe that the most effective way to continue to offer services is achieved through financial self-sufficiency.

3.2 Three Examples

The presence of microfinance organizations can be felt throughout Bolivia. Their presence is the most obvious in poorer regions such as small towns and suburbs: central plazas of many towns and suburbs are lined with competing institutions and banks. Three of the most well know microfinance institutions in Bolivia are PRODEM, BancoSol, and ProMujer. Although three institutions cannot completely describe the world of Bolivian microfinance, these institutions are interesting because they operate in different financial manners and work with a different, even though sometimes overlapping, clientele.

3.2.2 Prodem

Prodem (Promotion and Development of Microenterprises) was one of the first and most successful non-profit microfinance organizations in Bolivia. It was started with the participation of ACCION international, an organization that offers microfinance throughout the world although it was started in 1961 as a student organization working to

93 Rhyne, Elisabeth and Robert Peck Christen. 1999. Pg. iv
94 World Resources Institute Digital Dividend. www.digitaldividend.org
identify the needs of poor urban Latin American communities, Bolivian businessmen, and investors in 1986 as a non-profit micro lending organization. By 1988 Prodem had grown so large that it became clear that it was time to start another similar venture. At this point, Prodem joined with ACCION International again as well as with other investors to start BancoSol in 1992, meanwhile focusing its work more on rural populations, whereas before it had been working in more urban settings. Prodem started operations by offering solidarity loans and eventually began offering individual loans to successful clients, as well as became an FFP. Prodem has been a highly successful institution and has set the precedence for the operation of other institutions as it “...became a solid institution with a vibrant corporate culture and a dense network of support within Bolivia and internationally.” Prodem is widely recognized because of its efficiency and moldable strategies.

Prodem is known for its continuously innovative techniques of offering financial services to micro and medium sized enterprises in the informal sector. It has a portfolio of more than 24 million US dollars and has 47,000 clients. Prodem’s mission is to provide financial services to urban and rural areas through access to credit. Prodem uses both individual and group lending methods, where individual loans are usually offered to clients who were successful in group lending environments. Prodem also offers saving opportunities by starting saving accounts for those with even a very small amount of money to put in.

95 Acción International. www.accion.org
96 Rhyne, Elisabeth. 2001. Pg. 55.
97 World Resources Institute Digital Dividend. www.digitaldividend.org
98 The Mix. www.mixmarket.org
An example of Prodem’s innovation is the development of its smart ATMs. These are ATMs that are accessible through the use of a smart card, which has a digital fingerprint of the customer. The ATMs are located in rural areas for customers who may not be able to get to one of Prodem’s branches to take out money. The smart card can also be used at any branch to deposit money. A client can simply hand over their smart card which contains all of their information, thus eliminating the need to read or write while completing a transaction. “Prodem FFP’s smart ATM design not only takes the customer’s ethnicity into account and is easy for virtually all Bolivians to use, but it also broadens the company’s market.”\textsuperscript{99} The smart ATMs allow Prodem to reach a broader clientele and offer services that other microfinance institutions have not offered.

3.2.3 BancoSol

BancoSol started operation in Bolivia in 1992 and was the first private commercial bank in the world to cater to microentrepreneurs. BancoSol stemmed from Prodem as discussed above. Prodem transferred clients and urban branches to BancoSol as well as important intangible assets such as knowledge of the market and clients in the start-up of the institution. Business people had already begun to see the potential for monetary success in the microfinance market, and thus BancoSol was started with entrepreneurial incentives as well as the goal of further outreach. Although chartered as a private bank, BancoSol has strong altruistic roots. Among its share holders are dominant NGO and donor organizations (75 percent of shares) as well as prominent, successful and

\textsuperscript{99} World Resources Institute Digital Dividend. www.digitaldividend.org
politically influential businessmen (25 percent).” BancoSol operates with an expectation of profit. The bank now has more than 120,000 clients in seven Bolivian cities with 48 branches altogether.

The mission statement reflects altruistic goals by proclaiming itself “...the bank that gives the opportunity for a better future to the lowest income sectors, by giving them high quality and integral financial services.” Women make up 63% of clients and 53% of the loan portfolio. The age of clients is mostly in the 35-40 range, and most have not had very many years of formal education. Many of these clients work within the informal economy.

BancoSol offers a variety of financial opportunities that the bank titles “products.” “Credito Solidario”, solidarity credit, was the first product developed by BancoSol and consists of group lending within groups of 3 or 4 people. Each client within the group cannot receive more than a 2,000 dollar loan and not more than 6,000 dollars can be borrowed by the whole group. These groups are meant to be formed amongst friends and neighbors, but cannot be between family members. “The objective is to start with small loans and gradually build loan size on the basis of a good repayment history.”

BancoSol also offers personal loans such as the “sol individual” which is offered to more established micro-entrepreneurs that have already had experience with taking out micro loans. This loan can range from 50 to 25,000 dollars with a maximum repayment time of 5 years. The client must have a personal guarantor or property as collateral. Other services offered include housing loans, consumer loans that target wage earners,

100 Gonzalez-Vega et al. 2000. Pg. 4
102 Ibid
103 Ibid
vehicle loans, and even loans backed by jewelry for emergency situations. Savings opportunities are also available: they require an initial $30 deposit and can be withdrawn whenever necessary with a debit card or at any of the branches.

3.3.4 Pro Mujer

Pro Mujer is another prominent microfinance institution that was started in Bolivia and now operates in Argentina, Mexico, Nicaragua, and Peru as well. It differs from Prodem and BancoSol in that it aims to reach the very poorest clients and works only with women. “Pro Mujer is an international microfinance and women’s development network whose mission is to provide Latin America’s poorest women with the means to build livelihoods for themselves and futures for their families through microfinance, business training, and healthcare support.” Pro Mujer was started by two women: an American schoolteacher and a Bolivian child psychologist with a grant from the United States government in 1990. It operates with donations from many prominent corporations such as Avon and Nautica as well as financial support from numerous foundations. Pro Mujer has 87,792 clients and a total loan portfolio of US $14,930,000.

Similarly to the Grameen Bank, Pro Mujer is an NGO modeled after a village banking style. Thus, its goal is to work with groups of very poor women to promote on one side holistic development through economic support, and on the other empowerment of women in the workplace and in their homes by furthering their own self-esteem.

104 Pro Mujer. www.promujer.org
105 The Mix. www.mixmarket.org
Village banking was developed by John Hatch of the American NGO Finca, and it involves lending to groups of mainly women who then divide the loans among themselves. Village banking often offers a wider range of services such as classes and health services to help women both run their businesses and become more empowered.

Village banking also uses solidarity groups, although its groups usually consist of 15 to 30 people, and are therefore larger than the solidarity groups of BancoSol and Prodem. Regulations are created within groups, that in turns elect officers who approve and record all of the loans for the women in their group. Like the Grameen model, the women guarantee one another and are responsible for one another whenever a group member fails to repay a loan. If groups are successful in repaying loans, the clients are able to take out larger loans in the future.

Pro Mujer offers services beyond those usually offered by microfinance institutions. It offers business training and support as well as health services and savings opportunities. Pro Mujer mostly works with women in urban and semi-urban areas who sell goods produced in home-based businesses to local markets. The average loan taken out by a client is $187 US dollars although loans can range from $50 to $1,500 dollars and are generally paid back over a four to six month period. Quotas, or portions of the loans, are due every two weeks. Women meet with their groups every 15 days to repay quotas. These women should know each other to a certain extent, although this is

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107 Ibid
108 Pro Mujer. www.promujer.org
not always the case.\textsuperscript{109} The women in a given group appoint a president, a treasurer, a secretary, and a person responsible for health and business classes.

The group's meetings are led by assistants that work for Pro Mujer and help run the financial aspects of the meetings as well as offer outside support to their clients. Pro Mujer often hires successful clients to be assistants, believing that those who have worked within the organization as a client will be able to most effectively support new clients.\textsuperscript{110}

Prodem, BancoSol, and Pro Mujer are institutions that reflect different aspects of the microfinance market in Bolivia. The FFP Prodem and the commercial bank BancoSol, which are both financially regulated, as well as Pro Mujer as a non-regulated NGO, offer different services that have different emphases. Prodem and BancoSol are highly innovative institutions that continuously compete by offering new and varied services and building loyalty with their clients. Whereas Prodem emphasizes rural clients, BancoSol focuses on micro-entrepreneurs and micro-enterprises in urban areas. Pro Mujer, which has no direct intention of becoming an FFP, focuses on reaching the poorest women. Whereas Prodem and BancoSol clients must have some prior experience as micro-entrepreneurs, Pro Mujer offers services to women with and without business experience.

"Pro Mujer...would readily acknowledge the importance of increased income and the empowering effects of the loan itself, while Prodem staff would acknowledge that the very poor can benefit from health, education, and social-action messages (though not necessarily provided through a credit program). They also acknowledge that some people are too poor for Prodem to serve. In fact, Pro Mujer cooperates closely with BancoSol,

\textsuperscript{109} Boling, Sydney. 2007.
\textsuperscript{110} Ibid
using it as the program’s bank and helping its clients move on to BancoSol when they out grow the Pro Mujer group.”

3.4 Data on Pro Mujer

I studied the economic and social impacts of microfinance on Pro Mujer clients during April and May of 2007 in Cochabamba, Bolivia. My investigation entailed visiting different Pro Mujer offices throughout Cochabamba and two offices in semi-urban areas outside of Chochabamba, in Quillacollo and Sacaba. I used multiple methods to analyze the economic and social impacts of Pro Mujer on its clients’ lives. I interviewed 19 women as well as observed many group meetings at the various offices of Pro Mujer. From these interviews and observations I was able to collect data based on questions I had formulated, although the data may have been affected by factors such as language barriers as well as the inability to gain the confidence of some of the interviewees.

I started by asking questions to get an idea of their socio-economic situation such as where they live, where they were raised, and the extent of their education. I then asked questions about their families such as if they have kids and if they are married. Next, to investigate the economic impact of microfinance I asked questions about the kind of work they partake in, for how long they have partaken in this kind of work, and how much they earn monthly. With the information collected, I divided the women into economic groupings which are put into the terms used by Christian Ahlin and Neville Jiang: subsistence level activities, the self-employed, and those at an entrepreneurial level. Those partaking in subsistence activities are those that generate an income that can only be used for immediate consumption. The self-employed are defined as those that

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111 Rhyne, Elisabeth. 2001. Pg. 86.
generate enough income to cover costs of the business without having the sufficient income to allow for investment in capital. Those at an entrepreneurial level are those that are sufficiently productive to invest in capital and accumulate profits. Below is a breakdown of the kind of work and at what level the women are partaking in.

<table>
<thead>
<tr>
<th>Type of Business</th>
<th>Description of the business</th>
<th>Monthly earnings</th>
<th>Level of business</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. sales</td>
<td>Sells meat</td>
<td>$100</td>
<td>Self-employed</td>
</tr>
<tr>
<td>2. sales</td>
<td>Sells food</td>
<td>NA</td>
<td>Subsistence</td>
</tr>
<tr>
<td>3. sales</td>
<td>Sells a bit of everything</td>
<td>$400</td>
<td>subsistence</td>
</tr>
<tr>
<td>4. sales</td>
<td>Sells clothes</td>
<td>$750</td>
<td>Self-employed</td>
</tr>
<tr>
<td>5. service</td>
<td>Sells and offers cosmetic services</td>
<td>NA</td>
<td>subsistence</td>
</tr>
<tr>
<td>6. sales</td>
<td>Sells vegetables</td>
<td>NA</td>
<td>Subsistence</td>
</tr>
<tr>
<td>7. production</td>
<td>Factory of labels for jeans</td>
<td>$2,000</td>
<td>Entrepreneurial</td>
</tr>
<tr>
<td>8. sales</td>
<td>Sells candy</td>
<td>NA</td>
<td>Self-employed</td>
</tr>
<tr>
<td>9. sales</td>
<td>Bakery</td>
<td>NA</td>
<td>Self-employed</td>
</tr>
<tr>
<td>10. sales</td>
<td>Sells cosmetics</td>
<td>NA</td>
<td>Subsistence</td>
</tr>
<tr>
<td>11. services</td>
<td>Small restaurant</td>
<td>NA</td>
<td>Subsistence</td>
</tr>
<tr>
<td>12. sales</td>
<td>Sells TVs at the big market</td>
<td>$50</td>
<td>subsistence</td>
</tr>
<tr>
<td>13. sales</td>
<td>Sells cosmetics</td>
<td>NA</td>
<td>Subsistence</td>
</tr>
<tr>
<td>14. service</td>
<td>Shoe shop (fixes shoes)</td>
<td>$875</td>
<td>entrepreneurial</td>
</tr>
<tr>
<td>15. sales</td>
<td>Sells animals</td>
<td>$100</td>
<td>subsistence</td>
</tr>
<tr>
<td>16. sales</td>
<td>Sells vegetables</td>
<td>$75</td>
<td>subsistence</td>
</tr>
<tr>
<td>17. sales</td>
<td>Sells a bit of everything</td>
<td>$150</td>
<td>subsistence</td>
</tr>
<tr>
<td>18. does not have one</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19. service</td>
<td>Small restaurant</td>
<td>$150</td>
<td>subsistence</td>
</tr>
</tbody>
</table>

The chart shows that the majority of my interviewees are at subsistence levels of sales. There are some that are self-employed in this sector and only two that are at an entrepreneurial level.

After establishing the kind and level of economic activity of the clients I asked further questions to gage the extent of improvements in their businesses since they received the first loan from Pro Mujer. I asked about purchases for the business or for the home, as well as the hiring of employees, although the majority had family members
working for them. The chart below shows the responses I obtained when I asked whether they thought their businesses had grown.

<table>
<thead>
<tr>
<th>Has Grown</th>
<th>&quot; a little</th>
<th>Has not Grown</th>
<th>Did not have a business previously</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>5</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>6</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>7</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>13</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>16</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>17</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>18</td>
<td>Not Applicable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>19</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The women’s responses are varied. This data may be inaccurate in that some women said that they felt their businesses had grown but were unable to pinpoint in what ways. However, this information does have significance in that those that have more developed businesses when they receive the first loan may experience greater impacts on their business than those at subsistence levels. This trend is demonstrated by the specific situations of some of the women interviewed.

Woman number seven is classified as having a business at an entrepreneurial level. She is 44, lives in Cochabamba and produces labels for jeans. She earns about 2,000 dollars monthly, far more than any of the other women’s monthly estimate. She and her husband inherited the business from his parents and they have run it for 12 years.
She learned the trade through the family when she married. Her oldest daughter works full time with her, although she had previously finished school. She has been working with Pro Mujer for four years in order to buy more necessary and expensive capital for her business. Now she says that she is exporting the majority of her products to Argentina because there are more jeans companies there. She identified her business as having grown since her first loan with Pro Mujer. The other woman I identified as having an entrepreneurial level business also thought her business had grown. Those at an entrepreneurial level may have more economic success with microfinance than those at lower levels. This might be due to the fact that they are better able to identify the needs of their businesses, which seems confirmed by my interviews with the two women at entrepreneurial levels.

Woman number nine is classified as being self-employed. She is 59 year old, lives in Cochabamba, and has owned a bakery downtown for five years. One of her daughters was not very successful at school: she dropped out, took baking classes, and then taught her mother how to bake. Woman number nine had always liked cooking, and she and her daughter decided to open a bakery. Some of her other children work at the bakery off and on and recently another worker was hired to help them. She has many goals for the bakery; she would like to be able to take cooking classes herself, improve the appearance of the bakery, as well as buy capital that is necessary to be able to produce larger quantities. Without industrial-size equipment she does not believe her bakery can grow. She says that she invests all that she can in the bakery but is still unable to buy the necessary capital to expand. She believes her business has grown since working with Pro Mujer, although not to the extent desired. In this sense, although this client is able to
identify necessities and has been able to hire an outside worker, she has not been able to build her business to an entrepreneurial level.

Woman number six is classified as having a subsistence level business. She is 47 and sells vegetables on the street in Quillacollo, an outlying town of Cochabamba. She grew up selling various items in the street with her mother. She has five children, two of which sell vegetables with her. She is not married and thus has no other income source, although she says that what she earns is sufficient to support her family. She would like her business to grow, but does not know in which ways this may be possible. She was unable to identify ways in which her business had grown. This woman represents the trend that clients that begin at Pro Mujer at levels of subsistence, especially street vendors, may not experience growth within their activities. This may be because they are unable to use the loan as efficiently as those with more business experience, or because the activities they partake in have little room for growth.

Other factors such as levels of education or length of time since the first loan with Mujer did not seem to be connected to business growth as did the level of economic activity when the first loan was borrowed, although there was not a direct correlation also between these factors. Most women seemed to be directly influenced by the kind of work that women in their lives do, including mothers and in-laws. The kind of business that a woman has, if she has one, when her relationship with Pro Mujer begins, usually correlates with the work of these women, and thus also reveals the socio-economic status of the borrower. The poorest borrowers experience less of an economic impact than wealthier borrowers.
To analyze the empowerment impact of microfinance I asked questions about the role of the women within their homes and businesses. Seven of the women are not married and thus the role that microfinance plays in terms of household dynamics is not applicable. Most married clients answered that they participate equally in decision making within their households and that they alone make the decisions for their businesses, which are strong empowerment indicators. However, it may be that in some cases the women are embarrassed to admit otherwise.

Observations within the group meetings led me to the conclusion that Pro Mujer does empower some of its clients, although not necessarily through the means that it identifies as being empowering. Through my observations and other impact analyses, I found that the business and health classes offered do not happen with regularity and are much less in-depth than I had previously assumed. I observed that business classes on certain occasions were little more than a few sentences before a meeting. In interviews, the women were split between those that thought the classes are beneficial and those that did not.

One of the elements connected to the empowerment of the clients is the dynamic within the groups. Some groups of women have positive interactions and act as supports for one another whereas others argue the whole time and ultimately fail in repaying loans, thus becoming unable to continue borrowing. Some assistants yell at their clients whereas some act more like colleagues. There seemed to be somewhat of a connection between wealthier borrowers and a more positive group dynamic than poorer borrowers, although the pattern did not always prove to be true.
Overall, I found the most empowering aspect of Pro Mujer to be the space provided for women to get away from their homes and be among other women. One of the most empowering aspects I witnessed was the elections of president, secretary, as well as other positions within the groups. Although this was a formality for some groups, others took their positions seriously. Pro Mujer branches may not offer services to the extent claimed, but it still provides women with networks and opportunities for support.

Ultimately, the economic and empowerment impact of microfinance on the clients of Pro Mujer is varied. The socio-economic situation of a borrower seems to be connected to the growth of her business, whereas women at any level may experience empowerment impacts. It may be that these impacts will be more apparent in the second or third generation.
Chapter 4: Critique

The purpose of this chapter is to tie together what has been presented so far into a critique of what microfinance institutions claim they do and what they really have done and may do in the Bolivian context, and to suggest ideas as to how the goals of microfinance can be further achieved.

The claims of microfinance are large and widespread. The potential impacts on job creation, empowerment, as well as the role of microfinance in development have been specifically explored. It has been assumed that microfinance does or can have impacts on these factors. The extent to which this is realistic in a Bolivian context when piecing together the big picture is now examined.

4.1 Impact of Microfinance

In terms of widespread development goals, Paul Mosely’s work and the data on Pro Mujer support the conclusion that microfinance does not reach the poorest of poor and, “the tentative inference we draw is that Bolivian microfinance organizations are relatively effective at reaching the poor but not the poorest, and that other anti-poverty modalities need to be brought into play when attempting to reach the poor.”

Microfinance seems to fail in economically impacting the poorest of the poor. I suggest that there is a certain level of poverty below which it is the government and not the private sector that must play a role in providing financial support and basic services.

Clients working above subsistence levels may have more overall economic benefits from microfinance than those at subsistence levels because, as it has been

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112 Mosely, Paul. 2001. Pg. 28
pointed out, it may be that those starting with a more developed enterprise benefit to a greater degree from the services offered. As Christian Ahlin and Neville Jiang point out, some of the self-employed not at the entrepreneurial level may *graduate* into this sector from a self-employed level.\(^{113}\) This *graduation* may be enhanced by microfinance services by giving clients the opportunity to save more or by simply offering the financial means to buy capital and hire more labor.

The entrepreneurial sector may be the one that has the most potential to benefit from microfinance institutions. These workers are often already making enough money to invest some into their business after paying all costs. Because these clients are not necessarily working to make ends meet, they may be able to more effectively use the loan. This may include hiring workers from outside the family when an enterprise continues to grow. In this sense, microfinance institutions may have the most impact on job creation when working with clients in the entrepreneurial sector of the informal economy. As Bernd Balkenhol suggests, a microfinance institution that works with predominantly clients in this sector of the informal economy, will have the most impact on job creation.\(^{114}\)

The data collected from Pro Mujer reflects these kinds of transitions. The woman who owns the bakery and the woman with the jean labels factory are able to identify what is most important to the growth of their business. Many women that have no real previous experience with business activities may not have a good grasp of entrepreneurial needs and decisions. This means that the poorest women are less efficient at using their loans, while those at entrepreneurial levels may be able to use microcredit to purchase an

\(^{114}\) Balkenhol, Bernd. 2006. Pg. 5.
important component for the business, which may have a notable impact on growth and employment.

Jonathan Morduch, however, doubts that microfinance does much at any level to bring forth real changes in employment patterns. Although there may be shifts in employment, jobs are rarely created for others through microfinance institutions. Microfinance may not even succeed in helping clients graduate within the informal sector: as the data on Pro Mujer shows, many subsistence workers have a harder time progressing even within the informal economy.

I suggest that those that are at such low economic levels to be unable to economically benefit from microfinance should be receiving a certain amount of aid from the government so that basic needs are met. Microfinance institutions may then be able to build upon basic necessities by offering health and empowerment-type services as Pro Mujer does. Microfinance services, no matter how extensive and widespread in urban and rural areas, may still be unable to provide the poorest Bolivians with all of the basic services they need. Thus, microfinance might really only be relevant for those within a certain range of poverty - those above desperate subsistence levels and those at or right below entrepreneurial levels. These limits are not consistent with the claims of widespread economic impacts, especially in regard to the poorest citizens.

The claim that the government should provide for the basic needs of its poorest citizens is not a new one. Social scientists who lean to the left generally support the idea that the government must play a role in providing for the basic needs of the poorest citizens. In the article “Microcredit: False Hopes and Real Possibilities,” for example,
economist Robert Pollin of the University of Massachusetts explains that although microfinance has positive impacts that should not be ignored, the government must continue to play a role in creating a strong macroeconomic policy within which microfinance can function.\textsuperscript{116} It is also my opinion that microfinance should not replace the role of the government in providing for its poorest citizens, nor that it should be considered a way for the government to walk away from its own social responsibilities.

In terms of the empowerment impacts of microfinance, all women clients may benefit from the empowerment components of institutions like Pro Mujer. Business and health classes and services, to whatever extent they are actually available, may benefit these women although the most empowering aspect is that these institutions offer women a place to get away from their homes and be amongst other women. Within the village banking system of Pro Mujer where women elect officials within their groups and work together to make decisions, many women become actors of their own lives, and this may positively reflect also in their household roles (although individual differences seem substantial in this regard).

Women above subsistence levels may benefit from empowerment services in a different manner than those at subsistence levels. For the urban and semi-urban women’s groups I observed, the dynamic within certain groups was more interactive and positive. This seemed to be somewhat connected to the economic level of the groups, and those that had been working together for longer periods of time were able to be more supportive and helpful to one another. Certain groups of women really use the other

\textsuperscript{116} Pollin, Robert. 2007.
members for support, and in Pro Mujer this seemed to be most apparent, although not exclusive, in women above subsistence levels of economic activity.

4.2 Detrimental Impacts

Microfinance may be detrimental in some circumstances. Some women come to Pro Mujer without partaking in any kind of business activity, and the loan they receive will in many circumstances help them generate some amount of income by allowing them to start a self-employment-type activity. It is also true however, that some Pro Mujer clients may never really start any kind of business and lie to the workers of Pro Mujer by saying they have started some form of self-employment activity which they have not. This was the situation for one of the women interviewed at Pro Mujer. In this case, microfinance may simply be providing a cushion for the household’s economic situation.

There are other detrimental aspects of microfinance such as over-indebtedness, when a client takes out loans from various institutions and is then unable to pay them back. For instance, this can occur if a woman receives a loan that the husband will use, when the husband has already borrowed loans from other microfinance banks. Microfinance loans may also cause conflict within the household, if a husband feels threatened by his wife’s higher financial independence which he may try to control.\textsuperscript{117}

Although microfinance may provide more cushion to these subsistence activities, this segment of the women’s population will be less likely to witness economic improvements of any sort. And even if these activities are embedded in the Bolivian

\textsuperscript{117} Fainer, Susan K. and Drucilla K. Barker. 2007. Pg. 2.
traditional life, they present little opportunity beyond plain subsistence, and thus a loan may not have any real impact. In this sense, it is clear that microfinance does not address structural poverty. When targeting these socio-economic groups, microfinance is very limited in its approach, and its presence ends up negating the responsibility of the government towards pervasive socio-economic problems.

4.3 Bandepro: More Jobs or More Unequal Opportunities?

In May 2007, the Bolivian government established the Banco del Desarrollo Productivo (Bandepro) (Bank of Productive Development) with a credit line of $60 million dollars for micro loans with low interest rates.\textsuperscript{118} The bank will target small and medium enterprises and will offer loans up to 10,000 US dollars in an attempt to generate new jobs.\textsuperscript{119}

One of the main objectives of the new bank is to provide for greater coverage of microfinance throughout the country. While this seems to suggest that the government might have chosen to enter in competition with the private sector, there are also reasons to believe that the plan might in fact support already existing non-governmental microfinance institutions.\textsuperscript{120} In an article from \textit{La Razon}, a Bolivian newspaper, Roxana Mercado, the director of Crecer, another Bolivian microfinance institution, clearly indicates that Bandepro would be most beneficial if it worked as complement--rather than substitute--to the existing microfinance institutions. Private microfinance institutions have years of experience and good knowledge of the market, and thus cooperation with them, rather than competition, might offer decidedly higher benefits.

\textsuperscript{118} Ibid
\textsuperscript{119} “Los Tiempos.” 2007.
\textsuperscript{120} \textit{La Razon}. 2007.
Yet, Bandepro brings forth new concerns within and beyond the microfinance community. The Bolivian government has so far been fundamentally uninvolved in the development and evolution of microfinance institutions, and many in the microfinance field now worry that if Latin American governments get involved in the market, there may be a repeat of what had happened with the development banks of the 1970s and 1980s, that turned out to be highly unsuccessful and highly corrupted. The fact that several Latin American governments have been taking a more socialist approach in government, most notably Hugo Chavez of Venezuela, Evo Morales of Bolivia, and Rafael Correa of Ecuador, has led many analysts to ask the question “Will Latin America’s ‘21st century socialism’ end up nationalizing microfinance institutions?”

The question may in fact have good reasons to be asked: the emphasis of Bandepro on job creation by increasing the size of microfinance services to small-to-medium size enterprises does seem to overlap with a good portion of the clientele of the more commercial existing microfinance institutions (such as BancoSol), and Bandepro’s 6% interest rate on loans that may last up to 12 years presents a much lower rate than what’s offered by already existing institutions. At the same time, the establishment of Bandepro might allow for deeper synergies between microfinance—and so the Bolivian credit market—and more expansive development strategies, such as the encouragement of paths of diversification in manufacturing that could take fuller advantage of the existing trade pacts discussed in the first chapter of the thesis. For instance, the extension of competitive loans to the textile, leather, wood, and tourism industries—that are among

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121 Bate, Peter. 2007.
122 Ibid
123 Bate, Peter. 2007.
those targeted on the ATPDEA—could have a substantial impact in creating new jobs. This is exactly the role that the development banks of the 1970s were supposed to have, and so if microfinance in this way becomes the 21st century translation of a development policy that tries to make local industries competitive in world markets, then one could say that microfinance—guided by a centralized, consistent policy—might have promising effects on development per se. And this has not happened yet.

Ultimately, the Bolivian microfinance market has actually failed to meet the needs of the poorest citizens, and has had very little impact in modifying the structural poverty of the indigenous populations throughout the country. In rural areas, the traditional lifestyle has been disrupted since the time of the Bolivian colonization, and the subsequent reforms have done more of the same. Those in rural areas as well as those that have migrated to the cities have “specialized” in subsistence level activities: these poorest, mostly indigenous citizens have adapted to historical and continued economic exclusion through subsistence type activities. Microfinance institutions have not effectively addressed this pattern, have done nothing to alter it. Bandepro will play the same role. The jobs that will be created are not meant to reach those at subsistence levels, as the poorest indigenous citizens’ lifestyles and simple activities are not compatible with the typical, fundamentally orthodox, development objectives.

At the same time, microfinance institutions do play a role in bridging the inequality gaps between relatively poor entrepreneurs and the elite working in the big Bolivian business, a divide that was made worse by the neoliberal reforms of the 1980s and their drastic effects on employment. Revamping the economic activities of those microfinance clients that already belong to the entrepreneurial sector as well as of the
future clients of Bandepro may actually be effective in creating more jobs, which may in turn lead to more of a middle class in the Bolivian society.

A conclusive assessment of the impact of microfinance on gender inequality seems still hard to reach. On one side, it seems that if women in subsistence work continue in subsistence work, gender roles will not be altered in any manner. This would lead to the conclusion that microfinance does not have a positive impact on gender inequality in the poorest ranks of the Bolivian society. However, those above subsistence levels may be able to play a role in effectively reshaping gender roles and most importantly reduce gender inequality. Bandepro itself may play a role in creating stronger incentives for women to leave subsistence level jobs by expanding markets with a strong female presence, such as the traditional textile and jewelry sectors.

The goal of creating export markets not just for primary goods but also for traditional manufactures seems very important not only economically but also geopolitically, in that the conflict between departments (in particular between the “media luna” and the rest of the country) is in large part due to the historical reliance on natural resources. A move away from this emphasis is clearly positive. If Bandepro and possibly other private microfinance institutions target traditional sectors of the poorest departments, economic, political and social disparities among the Bolivian regions could be actually diminished.

Finally, the diversification of export markets based on largely informal activities is also a positive move toward further inclusion of a larger part of Bolivian society. Development rooted on a strategy of “marketization” of informal activities is a real means to bring forth a relatively generalized improvement in living standards while
respecting traditions and culture. This is positive, and yet and again not inclusive enough, as the poorest indigenous citizens continue to be excluded from real economic options.
Conclusion

The Bolivian experience with microfinance indicates that microfinance has indeed played a role in the Bolivian economy since it was introduced in the 1980s, mostly by supporting an informal sector that employs a large percentage of the working population. The variety of services offered by the different institutions has clearly benefited that segment of poor Bolivians who, because of some availability of credit, could progress within the informal economy; there is also evidence of positive effects of microfinance in the empowerment of women of that part of the poor population. The claim that microfinance promotes improvement of the living standards and reduces gender inequality of the poorest layer of population does not find support in either the literature I reviewed or in my own experience with Pro Mujer.

Microfinance is part of larger transitions within the Bolivian economy, and cannot be looked at in a vacuum. What has become clear to me during the process of writing this thesis is that microfinance should not be used as a means to create jobs, empower women, or as a development strategy in itself. Microfinance is a tool and not a strategy in itself; it may be able to achieve some of these objectives only if it is included in a larger, comprehensive set of policies. The government of Evo Morales seems to be working within this framework, by embracing a concept of economic development that will benefit the majority of the population. By emphasizing the importance of small and medium sized business in crucial sectors, employment opportunities that are appropriate for the majority of the Bolivian population can be created.
The strategy of the government to support small and medium sized businesses is crucial especially when coupled with trade deals such as the ATPDEA and may be an important step in the restructuring of the Bolivian economy. The government must however be mindful of past errors, and should not directly compete with the microfinance institutions that have already created an important infrastructure outside of the government. Larger (yet still small) scale initiatives by the government may be able to tap into markets that are internationally competitive, and might be an excellent complement to the activity of the existing microfinance framework. However, these projects do not explicitly target women, and thus may not have the desired empowerment impacts. In fact, so far microfinance has proven itself as a particularly powerful means of empowering women.

The lower interest rates promised by Bandepro will obviously make borrowers more competitive in international markets. But if the lower interest rates will be used to compete with existing microfinance organizations (by overlapping clienteles), there is not much chance for the existing microfinance structure to survive the new “development” bank. This seems the greatest risk the current development strategy of Evo Morales is running: although the government of Evo Morales may be concerned with micro, small, and medium enterprises, future governments may not. If that it the case, the hard work done since the 1980s will be another boom-and-bust experience for Bolivia, in many ways not that different from the boom-and-bust silver mining, the boom-and-bust tin production, and so on. Government credit should be directed at clients whose credit needs are larger than most microfinance borrowers’, and should further support already existing microfinance institutions. The collaboration between government and private
Microfinance institutions could really make a difference, and at the same time reduce the risk that a change in government annihilates the work done so far.

Collaboration between microfinance and government is also of extreme importance in addressing structural poverty, which should not be left at the mercy of the private sector. This thesis has repeatedly showed that microfinance does not reach the structural causes of poverty and underdevelopment—with the most, it allows people at subsistence level to continue to be at subsistence level. The alleviation of poverty is a responsibility of the government: giving it to the private sector is like deciding not to address it.
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