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### **Microfinance's Impact on Education, Poverty, and Empowerment: A Case Study from the Bolivian Altiplano**

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# Microfinance's Impact on Education, Poverty, and Empowerment: A Case Study from the Bolivian Altiplano<sup>1</sup>

**Sarah Gibb**

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**Abstract:**

This study explores the impact of microcredits on the economic, educational, and empowerment levels of women from the Bolivian high plains who had acquired microcredits for over three years. Primary research was carried out with the help of a major NGO dedicated solely to microcredits. One hundred in-depth personal interviews were conducted by the author in La Paz and El Alto from February to May 2007. This region was chosen because of the wide extent to which microcredits have been implemented there since the 1980s. The author also created a control group of women who had never taken out a microcredit loan. The study employs the use of an established poverty scorecard to measure poverty levels over time. Using a comparative approach that allows a comparison between the independent control group and the loan group, the study found that while the ownership of goods increased in the loan group, the benefits of microcredits on family educational attainment levels and empowerment were questionable. It is important to note that the vast majority of microcredit research does not use this type of independent control group.

**Keywords:** Microcredit, microfinance, empowerment, development, women, Bolivia.

**JEL Code:** Z13.

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<sup>1</sup> Research was done for a Master Thesis at Aalborg University, Denmark. I would like to thank Danida (Danish International Development Assistance) for the travel grant I was awarded that allowed me to carry out primary research in Bolivia and Pro Mujer Bolivia for letting me interview their clients. A special thanks to the loan officers and administrative staff at Pro Mujer for their time and help in the interviewing process. For questions or clarifications please email me at: sarah797@gmail.com.

## 1. Introduction and Overview

In Bolivia and elsewhere, microfinance institutions have been on the rise since the 1990's. Microcredits have been portrayed as a way to reach women in the development process, meet the UN Millennium Development goals, and as a new innovative strategy for alleviating poverty. Dr. Mohamed Yunus's 2006 Nobel Peace prize brought new momentum and increased publicity to microfinance institutions, which increased the credibility of microcredits as well as funding from developed countries. With this in mind, I traveled to Bolivia to do primary research and discover how the benefits of microcredits played out in developing countries. All of the examples I had encountered portrayed people accessing loans with competitive interest rates to undertake value added economic activity that brought about greater economic well being. These perceptions were challenged during my "time in the trenches" in Bolivia. Due to the fact that microcredits are now at the forefront of international development policy understanding them is paramount. This paper attempts to answer the following questions:

What are the long-term economic effects of repeated microcredits on development? Is a family's education impacted by access to a microcredit? Do microcredits affect a woman's status within her family? Is gender equality affected in the home? All these questions are related to the question of how microcredits impact women and families economically, educationally, and domestically.

This paper was presented in the form of a Master's thesis in November, 2007 at Aalborg University. At that time, the censors were uncomfortable with the study because they said that it went against the work of Nobel Peace Prize winner Mohamed Yunus and because one of them had seen and been impressed by microcredits in South Africa. The author reiterates that this study's findings only extend to the Bolivian Altiplano. The author would also like to point out that her impressions changed dramatically during the four-month field study in Bolivia; had she only been there for a week and received a tour of the organization, she believes she would have walked away with an enamored perception of microcredits. The strength of this qualitative study, however, is that the author was able to gain the trust of those being interviewed so conclusions were drawn, not after only a few days of being shown around the organization by staff members, but after four months and more than 100 interviews with small business owners and conversations with key informant.

The remainder of this paper will be organized as followed. Section 2 briefly discusses the theoretical underpinnings of microcredits and describes how the field study survey was created and carried out. Section 3 gives a brief overview of Pro Mujer in Bolivia and places it within the theoretical discourse. Section 4 analyzes the information from the surveys, namely the long-term effects of microcredits on education, poverty, empowerment and development. Finally, section 5 summarizes the study's major findings and offers suggestions for future research.

## 2. Theoretical Assumptions and Research Methodology

Microcredits, or more generally speaking microfinance<sup>2</sup>, can be defined as offering small loans to facilitate productive economic activity. The founder and director of the microfinance organization Bangladesh Rural Advancement Committee (BRAC) defines microfinance as “small loans offered to poor households to foster self-employment and income generations” (Abad, 2000: 2). Theoretically, the microfinance paradigm takes its roots in mainstream capitalism, the idea that with hard work and access to monetary capital, development is within one’s reach. Microcredits expand access to credit to a poorer cliental than those targeted in traditional regional banks (Karlan and Zinman, 2006). For example, microfinance institutions in Bolivia charge between 2.5% and 4% each month amounting to a yearly interest rate of 31–50 percent. Before microcredits, those without collateral typically relied on money lenders to manage emergency situations. In La Paz, Bolivia, such lenders, usually referred to as sharks, charge between 10 and 20 percent interest a month. Conversely, however, commercial banks without a mission to serve the poor offer 15.5% yearly interest rates to clients who have collateral (Banco Bisa, April 2007).

Microfinance banks and non-governmental organizations (NGOs) claim to target the poor who, fostered by the concept of group lending, have high repayment rates. Social pressure, solidarity groups, and the prospect of future loans if payments are made on time by the entire group all serve as incentives for loan repayment.

### 2.1 Unique Microbanking Concepts

Microcredit institutions can be characterized as minimizing their risks by offering group loans, mandating immediate loan repayment, requiring savings with the institution, and focusing on lending to women.

#### Group Lending

Minimizing risks on borrowed money is an important aspect of banking and one that is carried over into microfinancing. Lending to groups that agree to provide solidarity (peer pressure, or more euphemistically “social capital” and the commitment to essentially co-sign for one another) diminishes the institution’s risk. An institution’s risk is further decreased by the informational advantage that groups formed by women living in the same neighborhood have over loan officers<sup>3</sup>. Theoretically this leads groups to filter out irresponsible or extremely high risk borrowers who are unlikely to pay back their loans. Groups also serve to cover members’ debts in emergency situations (Ghatak and Guinnane, 1999:197; Morduch, 1999). Most importantly, the solidarity group, not the financial institution, pays most of the financial consequences of any unsuccessful loan repayments.. Combined with the market approach paradigm discussed below, group lending represents one of the main pillars of microfinance today. However, it is important to note that NGOs in Bolivia cannot take legal action against borrowers who do not repay their loans as private banking institutions can.

#### Repayment Methods

The solidarity group at microfinance institutions generally meets every two to four weeks and

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2 Microfinance also offers savings accounts and emergency or consumption loans as well.

3 Nonetheless, they also have an incentive to let people into their group: the release of their own money. Groups can only be formed with a minimum of 15 people.

repayments starts immediately after loan disbursements. Early repayment discourages extremely risky behavior, ensures discipline, and may encourage families to have more than one source of income (Morduch, 1999). The quick repayment cycles also keep group members up-to-date on potential repayment problems.

Microcredit institutions use continued access to credit and mandatory savings accounts to help ensure repayment. In the event a borrower defaults on her loan, the money in her savings account is garnished and used to repay the loan. Since savings accounts in traditional banks are unavailable to poor clients, microfinance organizations provide a service that is potentially beneficial for long-term economic growth. Many clients stated that the savings component of their loan was what they valued most about taking out a microcredit.

### **Lending to Women**

Many microfinance organizations predominately lend to women either because of a mission to serve the very poorest, most marginalized, sectors of society or because of the common conception that women spend more money on their children than men do, which benefits societal development (Brau and Woller, 2004: 20). Nonetheless, lending to women also takes on a business motivation. Microfinance institutions have discovered that women are more likely to pay back loans than men and are more responsible in how they use the money. Furthermore, women borrowers are said to be less physically threatening, less arrogant, and less mobile, so they can be found more easily if they do not pay. Carlos Labarthe, the co-CEO of Compartamos, a prominent microfinance institution in Mexico, explained, “It is not a philosophical thing; it is very practical [lending to women]” (Qureshi and Roodman, 2006: 14).

### ***2.2 Microfinance Schools of Thought***

In microfinance literature there are two predominant schools of thought: the market/sustainability approach and the poverty/empowerment approach<sup>4</sup>. The most common and generally accepted school is that of the market approach based on liberal market values and norms. Efficiency, sustainability, and profitability are key components that shape its discourse and policies. The efficiencies group lending provides an institution are valued. Success of an institution is measured quantitatively and individual and market values are highlighted and favored in this paradigm. After capital has been accessed and accumulated, it is expected that wealth will eventually “trickle-down” (Martinussen, 1997: 51). On the other hand, the poverty/empowerment approach to microfinance aims to change structural and community inequalities through solidarity movements and activism (Mayoux, 1995). In this view, the “trickle-up” notion of community well-being as a whole is sought and success is measured qualitatively. Improving community conditions, reaching the poorest people (especially women who are normatively viewed as being oppressed by societal expectations), and changing family and community power structures is how success is measured.

### ***2.3 Methodology for Primary Research***

Research from 96 face-to-face interviews<sup>5</sup> with women who have a business as well as interviews with key informants from Pro Mujer and others with first-hand experience with microcredits was

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4 See Edward and Olsen, 2006 or Mayoux, 2001 for a more detailed discussion of microfinance schools of thought.

5 See appendix 1 for the loan group’s complete survey questionnaire. See appendix 2 for the control group’s survey.

collected, resulting in over 100 interviews. They were conducted over a three month time period in the metropolitan area of La Paz and El Alto<sup>6</sup>, Bolivia. The primary survey consisted of approximately 35 mainly open-ended questions<sup>7</sup>. All interviews were conducted in Spanish, with the exception of a few in Aymara that required translation. The interviews took place at five Pro Mujer offices during the bi-weekly association repayment meetings and each interview took between 15-25 minutes. The questions investigated four general areas:

1. Personal information in order to explore the similarities and differences among the three groups studied: target (poor), not-target (middle income) and control (those who have never taken out a loan).<sup>8</sup>
2. Family educational attainment and personal skill development before and after a woman opens a business.
3. Business information and housing conditions which will be used as proxy indicators for poverty. This study does not look directly at monthly income since it is impossible to accurately measure pre and post income levels.
4. Empowerment<sup>9</sup> indicators to investigate the effects of loans on family power relationships.

The survey is mainly qualitative in nature and only samples approximately 2% of eligible Pro Mujer clients in El Alto and La Paz. More interviews were done in El Alto due to the higher proportion of long-term clients there. I also conducted a total of 30 interviews with people who had never taken out a loan. 12 of these interviews served as a pilot survey before the final survey layout was implemented. An independent control group of this nature is unusual in microfinance research. Unfortunately, few studies take the time to find control groups that are completely dissociated from the evaluating organization even though such academic research can yield valuable information and build unbiased knowledge about microcredits. Furthermore, research that is done by people who do not hold stakes in the microfinance industry is indispensable since it can hold a critical light to claims made by the organizations providing the loans. Finally, surveys designed in developed countries may be based on faulty assumptions; meanings the conclusions drawn from them are less accurate and less useful for the development community.

### **Sampling**

The non-probability method of quota sampling allowed me to interview women who were in two extreme categories (poor and better off) and who had been in Pro Mujer for more than three years or who were business owners. Although quota sampling is more accurate than haphazard sampling and has been used by opinion pollers such as Gallup, it could nevertheless have representative limitations because it does not use random probability sampling.

The staff at Pro Mujer helped me to identify the women's associations that had a high number of clients who entered Pro Mujer as either noticeably poor or better off. Since the study investigates the long-term effects of microcredits, a client's current status as better off or poor may not be an

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6 El Alto has 700,000 inhabitants and a 5% growth rate. La Paz has 800,000 inhabitants and less than 1% growth per year. It is the largest metropolitan area in Bolivia

7 To ensure accuracy, I took notes during the interview and tape recorded each interview. A Bolivian then transcribed each interview to ensure the accuracy.

8 See page 6 for a detailed explanation of the groups.

9 Empowerment will be understood as a change in traditional household roles and power relations at the household level.

indicator of their status when they entered Pro Mujer more than three years before this study took place.

### **The Poverty Scorecard**

For standardization of each woman's status before she took out a loan, after each interview "A Simple Poverty Scorecard for Bolivia" by Mark Schreiner (2006) was used to determine the past and present poverty levels of each interviewee. The "Poverty Scorecard for Bolivia" is a quantitative measure of housing conditions and household composition that is imperfect but useful as a poverty indicator. It is tied to the Bolivian national census conducted in 2001<sup>10</sup>. This poverty scorecard is a beneficial resource since it allows one to quantitatively measure current levels of poverty and estimate past levels of poverty based on respondent answers to when they acquired specific household goods or services.

## **3. Pro Mujer in Urban Bolivia as a Microfinance Case Study**

Pro Mujer offers group-based loans and savings programs to 70,000 clients in Bolivia. It does not give large sums of money to new borrowers; people must first prove themselves responsible and reliable in repaying their debt. A first loan can not be more than US\$ 150, but after 8 years of continuous borrowing loans can reach US\$ 4,000. Pro Mujer targets the poorest of the poor, even though women who have more resources do request loans and are granted them. Its urban setting has allowed it to reach a maximum number of clients and to become cost efficient through economies of scale. Its "market" interest rates cover its delivery costs as well as the salaries of its professional financial staff.

This description of Pro Mujer sets it within the market approach. However, its second mission is to include women who are excluded socially and economically from development. Thus, Pro Mujer also has an empowerment focus and has married the market-led and empowerment approaches, pursuing both aims—although one is always subordinate to the other. In the case of Pro Mujer, in order to make profits and ensure sustainability in the spring of 2007, Pro Mujer was in the process of reducing support service quality.<sup>11</sup> This is justified by its primary paradigm: market sustainability.

Edward and Olsen (2006) discuss the wide disconnect between attempting to combine market and empowerment approaches since each fosters a different type of empowerment behavior in women. On the one hand, the market empowerment process "educates women to be compliant and efficient actors within the established structures of an expanding market economy" (Edward and Olsen, 2006: 36) while the empowerment approach attempts to empower women to rethink the established order and to become actively involved in changing it. Pro Mujer teaches women how to best survive within the current economic system and secondarily proposes altering power relations in the home.

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10 The National Statistics Institute conducted a national census in 2005 but results are still pending analysis and publication.

11 In previous years they had received a grant to hire people to run their training sessions. In spring 2007, these workshops were being taken over by already busy loan officers.

## 4. Field Study Findings

Based on the highly stratified nature of Bolivian society, the differences in education, economic resources, and social marginalization are substantial. For this reason, the author has evaluated the impact of microcredits on a poor (or target group) and wealthier (not-target) group of Pro Mujer clients independently.

### **Box 1: The Groups Used by the Author to Analyze the Impact of Microcredits**

**Target:** The population that Pro Mujer specifies they want to serve in their mission statement; in order to classify as target, a family must score fewer than 50 points on the poverty scorecard. The words “target” or “poor group” are used interchangeably in this study.

**Not-target:** The middle income clients who take out loans from Pro Mujer; in order to qualify as not-target, a family needs to score more than 50 points on the poverty scorecard before entering Pro Mujer.

**Loan:** The combination of the target and not-target groups; this facilitates a comparison with the control group.

**Control:** Defined as current small business owners and street vendors who have **never** taken out a loan from Pro Mujer or any other bank or organization for their businesses.

The women interviewed can be divided into 4 groups: extremely poor (0-14 points)<sup>12</sup>, poor (15-39 points), upper poor (40-49 points), and not-target (50 points and above). The loan group has two extremely-poor families, 25 poor families, nine upper-poor families, and 30 better-off families. The control group, on the other hand, has five poor families, eight upper-poor families, and 17 better-off families. The control group’s higher scores are due to their having fewer children rather than having more household goods.

### **4.1 Personal Characteristics**

Establishing the personal characteristics of each group surveyed in this study is essential for understanding the constraints and opportunities each group lives with on a daily basis. Therefore, civil status, partner’s occupation, a woman’s education level, home ownership, and the number of children a woman has were investigated. Poor women were found to be married as often as women in the not-target and control groups, but they also had a higher divorce or separation rate. Husbands in the target group tended to provide services such as chauffeuring in cars they do not own and had less stable jobs. The poor women also had lower educational levels that peaked at primary and middle school. Many women who had no education told me that it used to be different, ‘Girls did not go to school like they do today’. Roughly the same number of women in the three groups own their houses, but a larger percentage of poor families must rent instead of accessing anticreticos<sup>13</sup> like wealthier families do. The target group also tends to have more children.

Many of these characteristics (low educational levels, partners’ inconsistent incomes, unstable living environments) present themselves as barriers to women who wish to create successful businesses. Their large families, however, present themselves as an asset (in the form of labor and

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12 Points on the Poverty Scorecard for Bolivia. See appendix 1 for the complete scorecard and poverty likelihoods.

13 Anticreticos allow the owner of a house or room to receive a large sum of money in one lump payment in exchange for living in his/her room or home for three to five years. Bank interest rates are high (15%-25%) and large amounts of capital are hard to acquire. The tenant usually takes out a bank loan and pays a low monthly rent consisting of the interest on the loan and is guaranteed either his or her original deposit at the end of the specified time period, or if the owner is unable to repay the original lump sum, the tenant keeps the property.



health and retirement insurances) and may give these women the confidence necessary to risk the few possessions they own on a loan. Brett (2006) highlights the importance of family networks in repaying loans.

Comparatively, the not-target group tends to have husbands with more stable office jobs, and higher educational levels-- predominately at the middle school or above levels. The not-target group tended to have fewer children than the target group (three to four compared to five to six respectively). Higher educational levels as well as husbands who have more stable jobs are assets that the not-target women have to ensure payments and create more profitable businesses.

The control group follows many of the same trends as the loan groups in Pro Mujer, making a comparison between the groups possible. The same percentages are married, although less are widows and more are single. The control group's partners are spread rather evenly between commerce, services, and 'other'. In the services and commerce sectors the partner tended to be involved in the same business sector as his wife. The control group shows deviation from the loan group in lower levels of education, lower levels of home ownership, more immigration from the country, and a lower birth-rate (on average three children). Lower educational levels can be seen as barriers to business success.

#### ***4.2 Education***

It is widely accepted that education is a key factor in the development of industrialized nations. Therefore, one of the main research questions of this study was how "a family's education is impacted by access to a microcredit" Using data collected through a pilot program with the Grameen Foundation<sup>14</sup>, I found that 21% of families who had an average of 1.3 cycles in Pro Mujer did not send all of their children aged 6 to 17 to school. It is unknown if these women have loans in other microcredit institutions or if they have exited Pro Mujer and have now re-entered after a break. The same survey revealed that only 9.7% of Pro Mujer clients who had requested loans for three or more years did not send all children to school. The Grameen pilot survey suggests that the decision to send children to school is not exclusively an economic one due to the fact that 60% of families who do not send all of their children to school score above 50 points on the poverty indicator and would classify as "not-target" in this study. I thus suggest that family values about education (not only economics) play an important role in the decision to send or not send children to school.

Comparatively, this study with its independent control group did not confirm increased levels of education for children of microcredit participants. Strikingly, the percentages of children under 17 who do not study, but only work, is higher in the loan group. This study found that approximately 6% of poor and 4% of not-target, school-aged children do not study. While the larger Grameen survey found that 9.7% of long-term Pro Mujer clients did not send all school age children to school, the author found that 5.8% of such clients do not. Surprisingly, the author's control group reported sending all of their school-aged children to school. The evidence from Grameen's control group of first-cycle Pro Mujer clients is at odds with the author's findings. The author proposes that this is due to the different criteria used for control groups-- the author surveyed women who had never had a loan from any organization while Grameen surveyed their first-

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14 The Grameen survey evaluated the houses and interviewed 120 women who had 0-12 cycles in Pro Mujer.

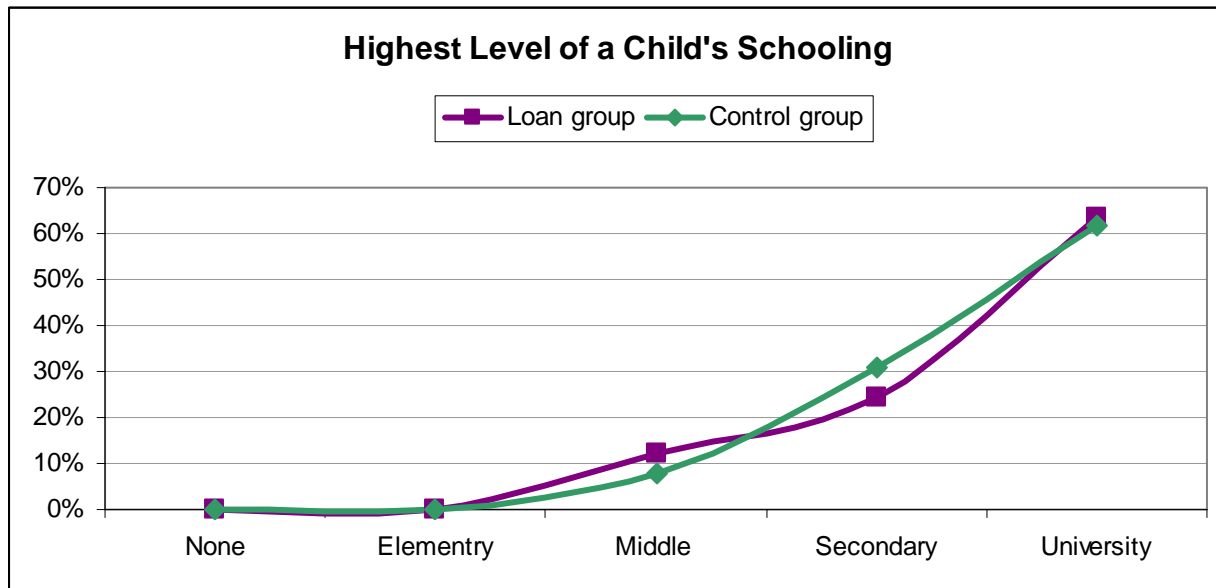
cycle clients, as do most MFI's. First-cycle clients could be women who either have borrowed/are borrowing from another institution, women who have decided to withdraw their savings from Pro Mujer and start at the first-cycle again, or women who are taking out a loan for the first time. Therefore, the author suggests that many impact assessments done by MFI's can report substantial improvements among those who take out loans due to their use of first-cycle loan participants as the control group.

*Table 1: Ages of children and if they study, work, or both.*

<b>Target</b>	<b>Study</b>	<b>Study and work</b>	<b>Work</b>	<b>N/A (children under 5)</b>
Ages 5-17	<b>78.8%</b>	3.0%	<b>6.1%</b>	12.1%
Ages 18-30	17.1%	4.9%	<b>78.0%</b>	-
<b>Not-target</b>				
Ages 5-17	78.6%	0.0%	3.6%	17.9%
Ages 18-30	<b>30.4%</b>	13.0%	56.5%	-
<b>Control</b>				
Ages 5-17	70.6%	<b>5.9%</b>	<b>0.0%</b>	23.5%
Ages 18-30	29.4%	<b>17.6%</b>	64.7%	-

Other information gained from this study indicates that educational levels have risen dramatically among all education and wealth levels in only one generation. Most households currently have children who have a secondary degree and more than 50% of all homes can account for at least one child in a post-secondary program. The growth in resource allocation for human development is striking in only one generation. The following graph shows the highest educational level achieved in a family. Family educational levels in the loan and control groups follow an almost identical pattern and show that over 60% of both groups have some type of post-secondary training. Thus, the effectiveness of microcredits as a tool to increase higher educational levels among long-term clients should be questioned. This, combined with the possibility that children in the loan group have a higher dropout rate, should open a debate on whether a mother's access to a microcredit plays a positive role in educational attainment.

**Chart 1: Highest Levels of Household Educational Attainment**



**Cual es el curso de estudio mas alto que ha tenido alguien de la casa?  
What is the highest level of education in your family?**

**The chart compares the highest household level to the interviewee's level.**

As for the women's educational attainment since they had been in Pro Mujer, formal channels of knowledge accumulation such as courses or workshops were predominately used by the not-target group (they may have more time and money), while learning by doing from family and friends was more common among the target group. The trainings Pro Mujer offers were found to impact the poor and not-target groups differently. The poor group reported learning how to treat clients and how to take care of children. The not-target clients found marketing, vaccinations, and pap smears important knowledge that they had learned at the trainings. All in all, it can be said that although microcredits do not seem to improve a family's education level, Pro Mujer does seem to have educated women on more personal issues to a certain extent.

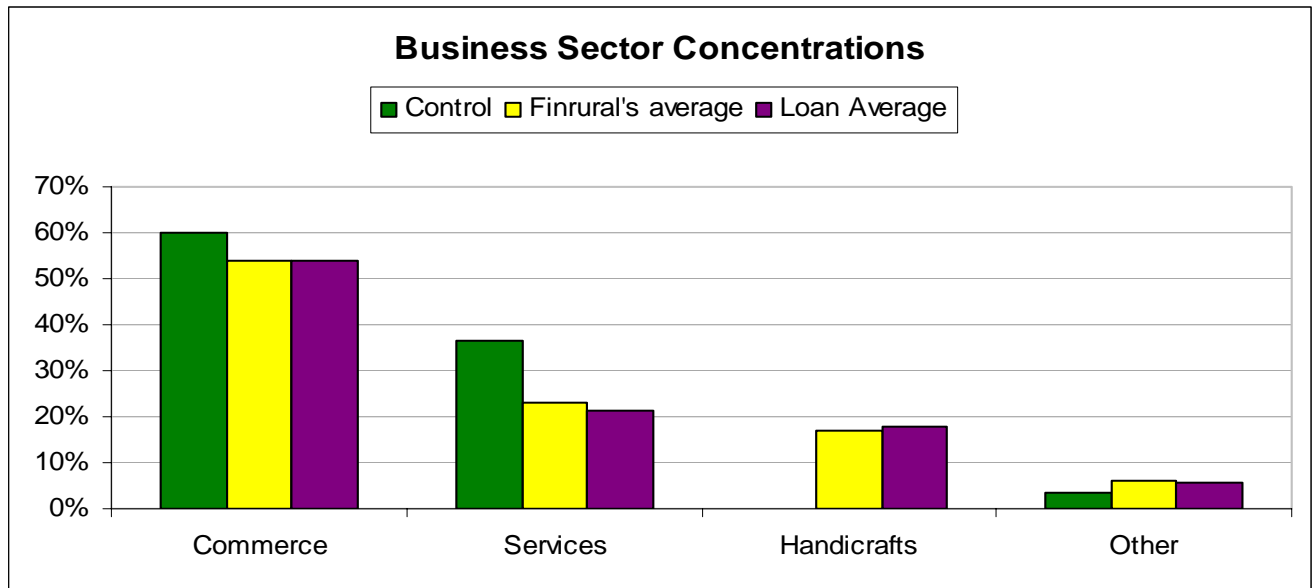
#### **4.3 Poverty Impacts**

In order to gauge the impact microfinance has on poverty, it is important to understand what types of businesses are created, how they are run, and if people feel their businesses are better off after versus before they took out a loan. The study also takes into account people's values about how, in a hypothetical situation, they would spend money given to them as a gift. The subjective question: "Comparing your business now to before you had a loan, is your business better, worse, or the same?" is also investigated. This question allows the author to assess the perception of the loan's impact even if it is not based on actual quantitative numbers<sup>15</sup>.

First, what types of businesses do microloans and businesses create? Do they largely contribute to a country's production or do they re-sell goods that have little add-on value? The chart below provides an overview of the economic endeavors of target, not-target, and control groups.

<sup>15</sup> Quantitative numbers could be deceptive due to high inflation rates.

**Chart 2: Concentration of Businesses**



**Que tipo(s) de negocios tiene?**  
**What type(s) of businesses do you have?**

The control group is highly concentrated in the service (37%) and commerce (60%) sectors and lacks handicraft representation. Handicraft vendors are not on the street while they are manufacturing their goods and therefore are not included in the control group. Still, most microbusinesses are concentrated in the commerce sector and do not produce value-added products.

This study confirms other recent studies carried out by Finrural<sup>16</sup> and the Vice Minister of Microbusinesses that report the highest levels of microbusinesses are in the commerce sector (Pro Mujer Impact Assessment, 2006; Baldivia, 2006: 55). The data from Finrural's 2006 report as well as this study find that on average 54% of people who take out loans from Pro Mujer concentrate their efforts in the commercial sector. So, although the author's research is only a small percentage of the total population, its concurrence with Finrural's reconfirms the accuracy of the data collected for the present study. The other types of businesses created were found to vary somewhat according to economic status. According to the 2006 Finrural Impact Assessment Report for Pro Mujer, handicraft making is the most common economic activity in the Altiplano (high planes –La Paz/El Alto region) and among lower economic groups. The fact that wealthier women start service sector businesses hides a deeper divide between poor and not-target groups. If someone in the target group provides services it is usually as a food vendor on the street or as a mechanic; the not-target group provides services such as interior decorating and musical entertainment (bands) which target a wealthier class.

### **Business Investment**

Capitalist thought suggests that capital is the key component for a successful business. This study

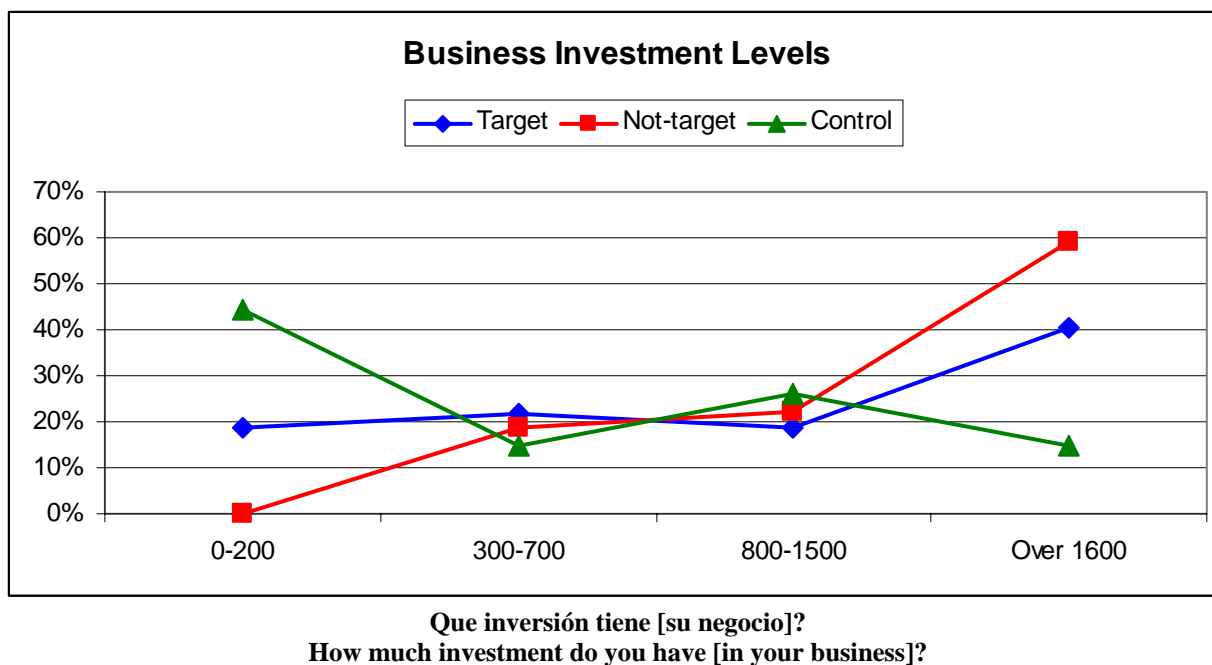
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<sup>16</sup> Pro Mujer hires Finrural to do independent reports for them. However, Pro Mujer is still involved in the editing and tone of the paper. As with all companies working on a contractual basis, in order to keep their clients Finrural must remain uncritical of the organization.

investigates the current level of investment each person has in her business, as well as if the business is, in the woman's view, doing well or not. Mosley studied the effects of microfinance on poverty from 1993-1999 and found that asset accumulation (automobiles, machinery, etc.) is potentially significant for a family's long-term wealth (Mosley, 2001). However, Mosley found that commercial goods accumulation, meaning goods bought at wholesale and then resold on the street, made very little impact on poverty over time.

As the below graph shows, this study finds that the not-target loan group has significantly larger investments in their businesses than the poor or control groups. The loan group is thus expected to have higher rates of return even though they have debt related fees such as paying for meals at repayment meetings, group fines<sup>17</sup>, and a 2% commission fee from Pro Mujer. Yet, especially at the higher levels of investment (over \$1000) the women seem to have accumulated fixed capital goods which Mosley found to contribute to long-term wealth.

**Chart 3: Investments in Businesses**



The benefits of one's ability to accumulate capital can be tested against the subjective perceptions of the women themselves. 73% of the not-target group and 53% of the poor loan group reported that their businesses had improved since they took out a loan. On the other hand, only 18% of the control group reported that their businesses were better off now than compared to a year before. In fact, 47% of them said that their businesses were performing worse now. Better-off Pro Mujer clients reported successful businesses compared to the poorer group which can be attributed to increased educational levels, their ability to start businesses that are less common, and their ability to acquire fixed assets that generate higher revenues. 27% of the target group reported that

17 Internal group fines are as follows: 5 Bolivianos (Bs) (US\$ .62 cents) for arriving late, 10 Bs (US\$ 1.25) for leaving money but not staying for the meeting, and 50 Bs (US\$ 6.25) for not paying. According to Brett, (2006) if someone from the group is forced to take out a loan from the other group members, the group has the right to charge an 8% a month interest rate.

their business had not improved or had worsened since they took out a loan, and 14% said their business was worse off than before, sending a warning to potential poor borrowers who may be copying easy entrance and low profitability businesses.

Finally, in an attempt to find their real priorities, the study investigated how women would spend US\$150, if it were a gift, not a loan. The majority of the women responded that they would use it for their businesses, but the control group exceeded both of the other groups in their intention to use the money for their businesses. When asked the question, “How do you spend your earnings?”, 5% of the control group (a higher percentage than the target and not target groups) reported saving their money. Saving extra money to invest in their businesses could be a coping mechanism for low capital accumulation since they have chosen not to take out loans. It became evident in my interviews with the control group that many of these women have a negative perception of loans. For example, one told me, ‘My business is not going well, but thanks to God I have not had to take out a loan’. In her opinion, a loan was a last resort and something even worse than facing hard economic times.

### **Competition**

Due to high unemployment rates and migration to the cities, El Alto appears to “be one large shopping mall” (Konn and Nystrom, 2004). Extreme competition may affect a woman’s ability to earn enough from her business to repay her loan. One woman I interviewed in the not-target category who makes sweaters and exports them told me that it makes her sad at repayment meetings when group members ask for internal loans of US\$2- US\$5 because this means that their business is not profitable and that the loan is not helping them improve their business. She expressed concern over increased competition from machine made sweaters that sell for half what she makes them for. She exports her alpaca sweaters because of the very small internal market in Bolivia.

Other studies of the El Alto and La Paz area have also highlighted the effects of competition on microcredit borrows. Brett writes that those who “were doing the best as start-up entrepreneurs ...were those who had identified a niche not yet overfilled...but it was not clear how long it would be before dozens of additional women would be selling the same items in the same locations” (Brett 2006: 14). Brett also encountered women who stated that they reduced the quantity or quality of food they consumed if they were at risk of not being able to make their loan payment (Brett 2006: 15). One woman told me, “We sometimes have to go without eating in order to pay the loan.”

In conclusion, the small businesses served by microcredits tend to be concentrated in the commerce sector, creating little value-added production. Even in the manufacturing sector, however, competition is fierce which keeps prices and profits to a bare minimum. Pro Mujer clients do show increased levels of investment in their businesses compared to the control group and thus finds that microcredits do positively impact a person’s ability to invest in her business.

#### ***4.3.1 Household Goods as a Proxy for Wealth***

A proxy used to assess microcredits’ effects on poverty over time is a household’s accumulation of goods and basic services. Ten easily verifiable items were selected for their high level of statistical association with poverty from the 2001 Bolivian National Institute for Statistics household survey. The major indicators include the number of children in the household and their

school attendance as well as a family's ownership of a refrigerator and a dining room table. Other indicators are the material used on the floor of the house and whether or not the property has a toilet<sup>18</sup>. Other minor indicators are: telephone ownership, cultivation of any type of small garden, and the use of gas to cook with. This study does not specify whether the wealth is a factor of increased income by the husband or the wife. Many women responded to the question, "How does your husband feel about you working?" by stating that her contribution makes it possible for the family to make it to the end of the month-- indicating that a second income from the woman's business could be the factor determining if there is increased consumption<sup>19</sup>. The poverty indicators mentioned above are scored as a group with lower scores indicating higher poverty likelihoods than higher scores.

A significant proxy of wealth in Bolivia is a family's ownership of a refrigerator. This one indicator is a highly stratified item between the not-target and target groups and therefore serves as a major socio-economic indicator. For example, only 28%<sup>20</sup> of poor and 37% of the control group households own a fridge while 67% of the not-target Pro Mujer clients own one. Many food vendors, including those who sell meat and vegetables, do not own a refrigerator, limiting their capacity to save unsold goods for long periods of time. One woman who sells corn told me that her children help her sell all of her produce in one day by taking it to different markets in the city. If she does not sell it fast enough, it goes bad. Even though La Paz and El Alto are high in the Andes and the temperature rarely goes above 16 or 17 degrees Celsius, refrigerators would help sellers conserve food and increase profits. Another important poverty indicator is the ownership of a dining room table and chairs<sup>21</sup>. 90% of the not-target group owns a dining set, compared to 56% and 57% of the target and control groups, respectively.

Each group (poor, not-target, and control) shows an increase in goods and services accumulated since they opened their businesses. Nonetheless, the poor loan group shows the most improvement and the control group shows the least improvement. This suggests that microcredits do impact poverty over time. The following graph shows the economic gains each group made. The scores are recalculated for cell phone ownership<sup>22</sup>. The scores also take into account children who would have been under the age of 17 when their mothers entered Pro Mujer or started their businesses. Some scores are increased solely by the fact that children have grown up.

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18 For those who do not have a bathroom or latrine inside their house or on their immediate property, there are private bathroom-and-shower houses that can be used for .50 bolivianos (4 US cents) per use. Urinating on the street (by both males and females) is also common.

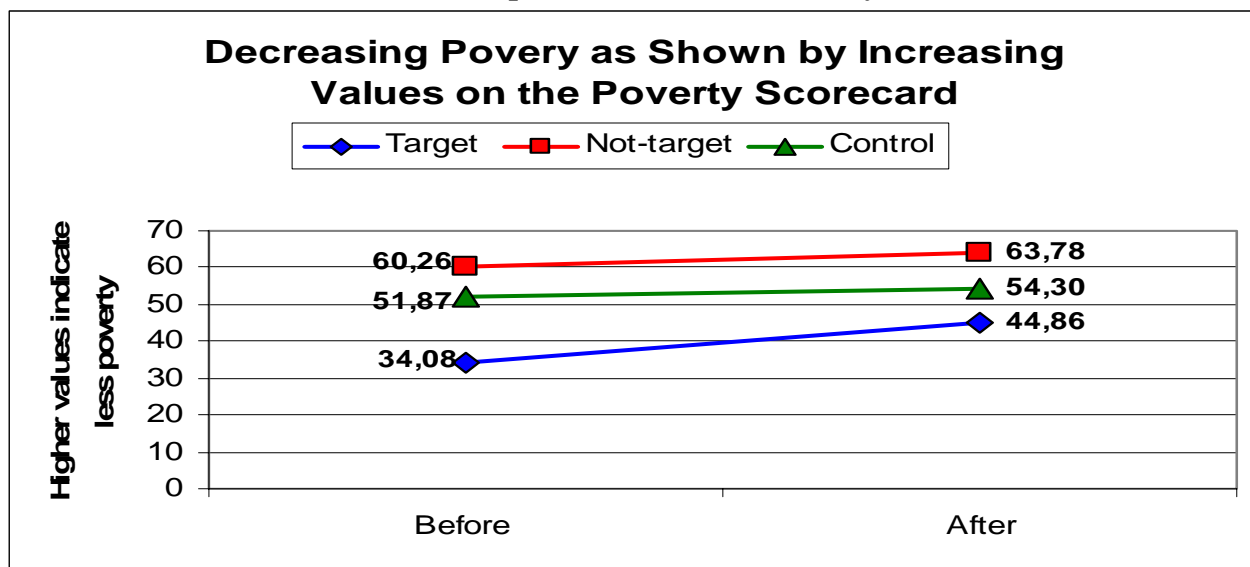
19 An important question I should have asked was if the woman's husband had found a better job (more stable or higher paying) within the last 5 years. This would have made it possible to show a higher level of correlation between microfinancing and household consumption. However, approximately 33% of the sample is single, widowed, or divorced. In these households, any change in poverty status would be due to the woman's business.

20 These percentages are based on ownership at the time of the interview.

21 A dining-room table in this case refers to a table large enough for people to eat around. In the North, we might refer to this as our kitchen table.

22 Telephone and mobile phone ownership is no longer divided along socio-economic lines. Therefore, the "after" scores are calculated without mobile phone ownership unless they owned the phone before starting their business or taking out a loan.

Chart 4: Impact Over Time on Poverty<sup>23</sup>



The group that began as the target group increased by an average of 10.8 points, while the not-target and control groups improved by 3.5 and 2.4 points, respectively. The mode increase is 5 in the target group and zero in the not-target and the control groups. The poor (those who scored below 50 points) in the control group improved by 3.5 points; the same amount as the not-target Pro Mujer loan group. The striking difference between the improvement in the control and the target loan groups, 8.4 points, (2.4 vs. 10.8 respectively), suggests that continuous access to credit does have a positive impact on housing standards and goods accumulation and, presumably, poverty.

### Birthrates and the Poverty Scorecard

Ceteris paribus, this study shows that the only major difference between the poor loan and control group is that the control group has fewer children. This one fact increases their score on the poverty scorecard even though ownership of goods is at the same level as the poor Pro Mujer population. The correlation between high birthrates, poverty and low educational levels is readily accepted throughout development literature. Following the established logic of the relationship between high birthrates and poverty, the scorecard portrays larger families as having higher poverty levels.

### Property Improvements

This study also asked the women one open ended question to analyze poverty over time, namely, whether a family had made any major or minor changes to their house since they took out a loan or opened their business. Since home ownership is lower in the control group, home improvements were also expected to be lower<sup>24</sup>. 36% of the target and 50% of the not-target loan groups had made either minor<sup>25</sup> or major<sup>26</sup> changes to their homes since they took out a loan.

23 Please note that families earn points for owning possessions and for low birthrates. For a more detailed explanation of the poverty scorecard point system please see appendix 3.

24 For this question, only 18 women were surveyed in the control group.

25 Minor changes refer to painting, repairing house fences or walls, or buying construction materials.

26 Major changes include adding on, putting in a new kitchen, or installing a water connection.



However, only 13% of the control group had made changes to their homes since they opened their businesses.

### **Components that Spur Consumption**

Besides increased capital, business investments, and an improved business perception, there are two other components that can be credited with increased consumption and goods accumulation for the loan group. First, when witnessing the dire economic situation of families and the semi-consumption nature of the loans, it seems natural to predict that by acquiring credit, household consumption will increase. A key informant told me that her mother took out microloans for years even though they resulted in no economic benefit. When I asked her why her mother continued taking out loans, she replied that she believed her mother liked how it felt to receive the money. It is important to understand that the majority of these women have never received a monthly pay check or any other large quantity of money. For a moment, they feel wealthy and may afford themselves a new household luxury.

Furthermore, mandatory capital accumulation (in the form of savings) allows women to save every month regardless of their economic situation. Women thus finish with large lump sums of money that they can use to buy specific household items or to pay for large family expenses. One woman told me that such a disciplined savings approach was impossible to replicate at a bank or at home because both places allow you to withdraw your money at anytime. At Pro Mujer, one is unable to withdraw money until the client has cleared herself of all debt and agrees to start over at a first cycle loan of between \$20 and \$150. Even if other household factors such as food quantity and quality stay the same or diminish while the woman is paying her loan, she still contributes to her savings which she is eventually able to utilize when she decides to withdraw it. One woman told me that over a 12 year period she had accumulated US\$ 1,500 in savings and had used it to pay for a university degree for her daughter<sup>27</sup>.

Microcredits may overemphasize the virtues of loans and underemphasize the benefits of savings. In fact, most programs require a person to take out a loan in order to access savings programs. Islam writes, “Some people want loans and are creditworthy, but all people are deposit worthy. Although some people cross the poverty line through the return on assets purchased on credit-assisted enterprises, most people exit poverty through the return on assets purchased with their savings” (Islam, 2007: 14).<sup>28</sup> More research is necessary to understand this tautology. Should the decrease in poverty be justly attributed to improved business earnings made possible by access to credit or to access to savings programs?

### **4.4 Women’s Empowerment**

This study does not wish to focus solely on the economic impacts of microcredits, but also attempts to analyze the affects of microcredits on social aspects such as education and women’s empowerment. Goetz and Sen Gupta (1996) point out that loan repayment rates and increased incomes do not represent proxy empowerment indicators. Neither financial indicator assesses

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<sup>27</sup> This study did not inquire about the impacts of mandatory saving schemes and therefore cannot form substantial conclusions about them.

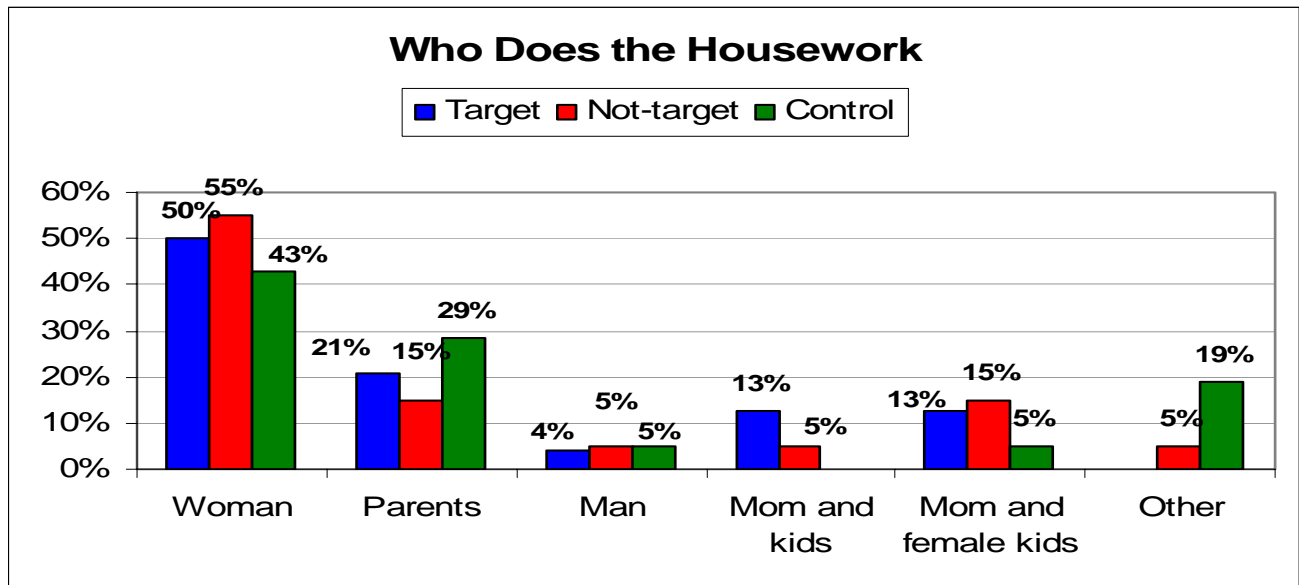
<sup>28</sup> Banco Sol in Bolivia, which started as a microfinance organization and evolved into a bank, recently began offering free savings accounts, even though the Bolivian population remains skeptical.

whether or not women control how the loan is spent or how intra-family decisions are made. Development paradigms tend to focus on increasing women’s productive work outside the household—which microcredits successfully do—but a feminist empowerment approach to microcredits also takes into account a change in power relations within the home and community (Goetz and Sen Gupta, 1996). This study investigated who manages a family’s money, who makes important decisions, and who does housework (traditionally viewed as ‘women’s work’). These three aspects will shed light on the degree to which microfinance loans alter intra-household power relations.

By controlling for single women<sup>29</sup>, I am able to investigate how Bolivian families interact and how power relations are negotiated when wives have their own business and work outside the home. In Bolivian households, women tend to manage the money and decision-making is sometimes done together. For over half of Pro Mujer clients, important decisions are made together, but in approximately a quarter of cases husbands or wives unilaterally make household decisions. Notably, most couples in the target group make decisions together, but fewer women make decisions alone. The control group, on the other hand, shows a higher percentage of men that make family decisions, indicating more traditional gender roles.

Even though the couples in the target and not-target groups report making more decisions together, this study finds that 75% of women in the loan group are solely responsible for housework or share housework responsibilities with their children. In some cases the women specified that she and her female children did the housework. Comparatively, only 48% of women and children in the control group are responsible for doing all of the housework. When comparing couples who share housework, 29% of control-group couples said they shared household chores compared to only 17% in the loan group.

**Chart 5: Person Who Does Domestic Chores**



¿Quién realiza las tareas del hogar?  
Who does the housework?

29 Empowerment indicators only take into account women who are married or living with their partners.

When both partners work full-time or part-time jobs, sharing household chores would be expected to show a certain degree of female empowerment<sup>30</sup>. Even when men are unemployed or work sporadically, only 5% of men are responsible for housework.

The distribution of household chores can be used as an indication of changes in gender roles and attitudes within the home and for general female empowerment at the family level. It appears that more women in the control group have altered gender attitudes than have women in the loan group. One possible reason for continued traditional gender role assignments and female submission in the home could be the use of family networks (especially husbands' families) that women borrow from if they are unable to make a loan payment. Having to borrow money from a husband reaffirms gender roles and the image of the husband as the provider (Brett 2006) and negatively impacts equalizing power alterations in the home.

One of my key informants estimates that about 2/3 of clients are married to men who have unstable employment, meaning the women are the main family providers. One woman who had been in Pro Mujer for 10 years and who was the main economic provider in her family forced her husband to "learn how to cook in case something would happen to me". Another woman said that her husband became jealous when she started making more than he did, yet she still does the family's housework. Therefore, just as in developed countries, income generation alone does not necessarily impact women's empowerment in the home. However, some studies have found that because of a woman's subordinate position in the home and her ability to access credit, a husband may require a woman to take out a loan for him even though the wife may have little control over how the loan is spent (Goetz and Sen Gupta, 1996).

Since Pro Mujer subscribes to a market paradigm instead of an empowerment paradigm, altering power relations inside the home is not a primary goal or concern of the organization. In fact, in conversations with Pro Mujer staff, it seemed that they prefer to work with less-empowered and less-educated women because they are easier to scare into paying and less likely to go to the police with problems or complaints<sup>31</sup>. In many microfinance organizations, empowerment is defined as a woman making decisions to take out future loans or to become less home bound, but not defined as changes in cultural norms or stereotypes within the home. Microfinance's impact on intra-family relationships therefore is rarely evaluated in impact studies, even though home responsibilities affect a woman's health as well as the time she can dedicate to her business.

Even so, in Bolivia the stereotype that a woman's place is in the home is limited. When I asked one woman what her husband thought about her making money and having a business, she replied, 'He is used to it since I have been working for over 30 years'. Many women said that they have worked all of their lives. In fact, most of the women reported that their husbands "like it that I help him with the bills", and one told me, "My husband doesn't like lazy women".

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30 This study did not ask the women if they worked part or full time jobs and is unable to take this into account when discussing empowerment.

31 In one instance, a woman did not pay her loan on time. The women who were in her solidarity group went to her house and took her cell phone and her cooking gas container to ensure her payment. She was livid and threatened to go to the police. Since she was more educated, she knew that because Pro Mujer was an NGO the people are not bound by law to pay. The woman also knew that Pro Mujer staff could not take her things or come barging into her house without the family's consent and was willing to file a complaint with the police.

Overall, increased income was reported to reduce family tensions, but few women expressed feeling more independent because of their income. For the poor, any income (contributed by men, women, or children) only helps the family survive and scrape by. Furthermore, for the most part, the jobs the women do cannot be associated with contributing to increased levels of self-esteem, and wages are so low that it does not appear to greatly empower her in the home.

#### ***4.5 Microcredit's Role in Development***

##### **Perceptions of Microfinance in Developed Countries**

Before coming to Bolivia, I had encountered numerous accounts of microcredit success stories in the media. One example that stands out is a video from Unitus<sup>32</sup>. In the video, a woman in India uses a microcredit to buy a cow, from which she is able to sell its milk and buy more cows. Eventually she discovers a market for cheese. Therefore, she takes out another loan to buy a cheese processing machine, which increases her profits and enables her to “work herself out of poverty”. However, after spending very little time in La Paz, one realizes that such value-added production is the exception and not the rule. The streets of La Paz and El Alto are lined with street vendors who are part of the informal economy. Jobs in the informal economy account for approximately 70% of all jobs in Bolivia and 90% of “new” jobs created were in the informal economy (Brett, 2006: 9).

Microfinance institutions, therefore, contribute to the creation of businesses in the already large informal economy. In a conversation with a representative of the Washington D.C. based Grameen Foundation, the representative explained that some people argue that microcredits do not produce results due to the fact that they do not stimulate economic growth. Instead of looking for macro level results, he prefers to focus on the micro or family level of impact. The author can agree with this worthy objective, but is uncomfortable with how microcredits in developed countries are presented as a panacea for general economic development and are mainly touted as a way to increase value-added production. Upon arrival to La Paz, one realizes that instead of fostering economic growth, microcredits mostly support subsistence living on the informal economy.

The findings from La Paz, Bolivia call into question the theoretical underpinnings of microcredits. Both the market and empowerment approaches have western biases and assumptions built into them that limit their explanatory power. Both paradigms erroneously believe that agency, defined as “individual economic self-sufficiency” by the market approach and as “community self-sufficiency” by the poverty/empowerment approach, will be increased by microcredits. This study finds neither definition of self-sufficiency to materialize. Women rarely reach individual self-sufficiency, as shown by their dependence on taking out microloans year after year and their reliance on networks to pay back loans (Brett, 2006). On the other hand, “community self-sufficiency” is weakened as businesses with low start up costs and easy entry are created in the same neighborhoods, causing prices to fall. Women told me, ‘it seems like there are more sellers than buyers’.

Likewise, theory suggests that an economic “trickle-down” or “trickle-up” will occur with the

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32 The 14 minute video can be found on Youtube: <http://www.youtube.com/watch?v=JoEzDOguCAc>

spread of microcredits. However, the “trickle-down” seems to be hindered due to the informality of the jobs microcredits create. The “trickle-up” is also blocked due to the vast competition caused by unemployment and the stagnant formal-sector economic conditions in Bolivia. For example, microcredit’s ability to quell unemployment is limited given that the migration rate to the cities is 5% a year. Therefore, instead of microcredits contributing to an income graph that slopes upward, the graph stays flat due to increased competition and high levels of unemployment. Elmira Bayrasli, writes, “These small enterprises yield 3-4 jobs at the most<sup>33</sup>, and are rarely sustainable. Developing economies need to create sustainable businesses that will expand jobs and inject wealth into the community.” Without a larger development strategy, microcredits are largely ineffective.

As with other studies, this research suggests that, “The effect [of microcredits] on the economy as a whole has been small, however, because of the nature of the activities these microcredit programmes support” (Islam, 2007: 14). Microcredits’ main economic function in Bolivia, especially among the poor and unskilled majority, is to support subsistence living. As a development strategy, therefore, microcredits’ usefulness in a high unemployment economy with low educational levels is minimal. Furthermore, since the late 1980’s, microcredits in Bolivia have become more and more accessible and, according to key informants, they have begun to saturate the market; in spite of the increased access to microcredits and the resulting microbusinesses, traditional economic indicators such as GDP have not increased in Bolivia. In fact, quite the opposite has occurred –GDP economic indicators on average have decreased (INASET, 2007).

I propose that the semi-consumption based nature of microcredits artificially stimulates the economy and has little effect on development. Stuart Rutherford recognizes that most practitioners turn a blind eye to the fact that most loans are multi-purpose. He states, “We now know, for example, that many ‘enterprise loans’ are used for non-enterprise purposes...” (Rutherford, 2000, in Harper 2003: 39) Islam adds, “The fungibility of loans implies that loan demand and use are driven by the overall budgetary needs of the households” (Islam, 2007: 97). I witnessed this on a home and business verification visit in La Paz. A family asked for a \$150 loan and admitted that part of it was going to be used to recuperate pawned jewelry. The field officer later told me that she would not be able to disburse the requested amount, but said she would “ok” \$100. From the list of goods the women said she planned to buy for her business, it was obvious a large part of the loan would be used to recuperate the family heirlooms.

### **Has Expanded Use of Microfinance Helped to Develop Bolivia?**

The term development can be understood in many different ways but will be understood as the economist Dudley Seers described it, improvement in poverty, unemployment, and inequality within a country. He wrote, “If all three have become less severe, then beyond doubt there has been a period of development...” (Martinussen, 1997: 294). Over the last 10 years, Bolivia has not seen a substantial improvement in poverty, employment, or income equality. Bolivia’s unemployment rate between 1997 and 2007 fluctuated between 11.5% and 7.5%<sup>34</sup> while Bolivia’s

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33 In my study done in Bolivia, over 2/3 of those interviewed did not have any employees (family or outside).

34 These unemployment figures are very low. Although there are 8.3 billion Bolivians, there are only 400,000 formal-economy jobs. It is doubtful that a 7%-11% unemployment rate takes into account those in the informal economy which is the majority of the population.

raw score on the gini index<sup>35</sup> was 42.0 in 1990 but by 2002<sup>36</sup> it had risen to 61.1. Finally, the percent of Bolivia's population below the poverty line has decreased slightly over the last 10 years, from 70.2% in 1992, to 67%<sup>37</sup> in 1999, and to 64%<sup>38</sup> (est.) in 2004. According to Martinussen, all three development indicators must decrease in order to call economic progress "development". Bolivia, therefore fails to develop, according to Seers, from 1990 to 2007 even though microcredits have become prevalent and accessible during this period of time. "Providing only credit for generating self-employment cannot solve the multiple causes of poverty" (Islam, 2007: 14). Credit may *affect* development, but *ceteris paribus* it does not seem to be a successful leading strategy for development.

The World Bank suggests alleviating poverty through, "the expansion of income through increasing productivity-including increasing human development, improving access to land, credit, technology, and expanding basic infrastructure, particularly in the rural areas" (World Bank, 1996). Building upon this, I propose five development strategies that are necessary for the Bolivian economy before microcredits can play a substantial role in development: 1. Increase value added exports, 2. improve infrastructure, 3. increase formal employment opportunities, 4. decrease paperwork involved in legalizing companies and, 5. implement and/or simplify tax codes so that the government can benefit from companies operating within their borders. Although the Bolivian government is trying to affect change, without reforms numbers 3, 4, and 5 it is difficult for any government to improve infrastructure, education, and/or health care. Furthermore, even if the Bolivian government were able to use oil and natural gas wealth to fund social projects, they would only last as long as the natural resources do or as long as there was political will to do it.

#### **Empowerment: Are microcredits a good tool for female empowerment?**

Empowerment, as the word suggests, focuses on power—defined as one's ability to change and make one's own choices. Women's empowerment thus aims to strengthen women's personal identities as well as their self-awareness and self-esteem. Empowerment advocates emphasize that empowerment's goal is to increase "*power within...with others and power to bring about change*" (Parpart et al. 2002: 6, emphasis is original). There are three components that facilitate decision-making: "[R]esources, agency [and] capabilities" (Kabeer 2002: 15). Resources are defined as both economic resources and influential relationships. Agency is the ability to define personal goals, and capability is one's ability to carry out goals and plans. These three dimensions of empowerment are interconnected and determined by each other (Kabeer, 2002).

Microfinance's market approach assumes that economic resources almost automatically give women enhanced agency. Using the framework above, it can be argued that Pro Mujer provides economic resources along with relationships through solidarity in group lending. Pro Mujer also uses economic and health workshops to enhance women's capabilities. Therefore, the economic-freedom loans provide are accompanied by a human and skill support system and *should* lead to greater empowerment among Pro Mujer borrowers. However, in many cases economic 'wealth' is

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35 The Gini coefficient uses the Lorenz curve to measure how equal a society is and gives each country a number ranging from 0 to 100. 0 represents a perfectly equitable distribution of income while 100 signifies that one person holds all of a country's wealth.

36 UNDP, Human Development Report 2006.

37 World Bank

38 CIA World Fact Book 2007.

only temporary, and since women's understanding of domination is not challenged, empowerment does not carry over into other broader areas of women's lives. Societal or familial power decision-making relations are not addressed in the market-led microfinance paradigm and therefore cannot be changed.

In the context of developed countries, the book *Bridges Out of Poverty* discusses that for the poor in their struggle to make ends meet, borrowing and lending to friends and family is a survival mechanism. Likewise, as previously mentioned, Brent (2006) finds that although women may gain economic resources, the family networks may be strained and tarnished during the repayment process. As family or “relationship” resources diminish, women’s agency to break subordinate roles in the family also decreases.

## **5. Conclusions and Future Research Suggestions**

The effectiveness of microcredits is multifaceted. This study has found some evidence that supports the usefulness of microcredits in development while other indicators suggest they are less effective. All too often mainstream media outlets and organization literature flood developed countries with stories about how lives have been changed dramatically by microcredits.

In this study, educational attainment has improved in the target, not-target, and control groups when compared with their parents’ generation. The further effects of microcredits on educational attainment were disputable depending on the methodology used. When the long-term loan group was compared with a group of first cycle Pro Mujer borrowers<sup>39</sup>, the long-term group showed a significant improvement in child educational levels. Pro Mujer typically uses first cycle loan groups as their “control group” when studying the impacts of microcredits. By doing so, they can accurately report a positive impact between long-term loan use and increased family educational attainment. However, using an independent control group of women who had never taken out a loan before, fewer children were found to “study” or “study and work” than in the control group. This study thus echoes other warnings from Latin America by Brett (2006) and Wydick (1999) which suggest that children’s schooling can be negatively impacted by microcredits.

The impact microcredits have on the ownership of goods and greater business investments is undoubtedly positive. Furthermore, qualitative information shows that the not-target group was able to make improvements to their homes that went beyond the scope of the poverty scorecard. Both loan groups acquired more household goods than the control group. However, using microcredits as a leading tool in development is cautioned against because microfinance’s primary sector of economic stimulation is the commercial sector, meaning the informal economy where they buy and then resell products at a slightly higher price. Second, high unemployment rates and migration from the countryside exacerbate employment problems. These factors have increased competition and brought down prices and profits. Given these impeding external economic factors, funding microcredit projects should not be presented as a primary solution for stagnating economies.

This study did not find that women who took out microcredit loans became more empowered in

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<sup>39</sup> First cycle participants may have or have had loans in other financial institutions.

the home or community. While the women in the loan group claimed they made more decisions with their husbands, they were more likely to do all or most of the housework. Decision-making may therefore be influenced by increased economic independence, but the domestic sphere remained unchanged and was more feminized than that of the control group. Brett (2006) suggests gender stereotypes may be reinforced by microcredits when women borrow money from their family networks to repay their loans.

A possible missing link in the empowerment process is a specific consciousness-raising component that draws attention to power differentials and societal pressures on women. Given the women's dire economic situations, Pro Mujer pursues an economic agenda. Yet, this study finds that increased economic resources fail to change traditional household roles and power relations. Thus, it appears that groups formed for solely economic purposes—without a specific mission to empower and challenge external power structures—lack the desired spill-over effects. Therefore, values remain unchanged and intra-family roles are not renegotiated.

### **Future Research**

This study leads to important questions. On a micro level, do the newly acquired comforts families acquire through debt and forced savings substantially benefit them and their families, or is the burden of debt a negative externality that hinders long-term development by stunting education and empowerment indicators? On a broader scale, comparing the effectiveness of microcredits to other development tools (such as infrastructure, adequate health care, education, and trade policies etc.) are microcredits more or less effective? The long-term effects of savings should also be investigated.

More research is needed to investigate the correlation between large families and loan necessity and acquirement (regardless of education and poverty levels). Are families who have fewer children also more financially conservative, meaning they are less likely to take risks on loans? Or, are larger families able to rely more heavily on child labor to manage debt or economic crises and therefore more willing to take financial risks? Furthermore, could less-responsible families need to acquire loans because of their past decisions such as number of children, bad business deals, alcoholism, etc.

Finally, I propose that research should be done in poor "underdeveloped" areas or neighborhoods of developed countries such as the United States or others that have high income inequality. If we seek to use microcredits as a development tool in poor countries, then their widespread use in marginalized regions or neighborhoods—where circumstances of poverty, high unemployment, high birthrates, and poor education systems are present—would contribute significant information about how microcredits stimulate or do not stimulate economic development. I propose that similar economic, social, and cultural challenges exist in poor "ghettos" in developed countries and suggest making these neighborhoods a prime testing ground for testing the effectiveness of microcredits. Before developed nations "export" the use of microcredits as a development tool, it would be wise to investigate how they effect development in their own nations where they could fully appreciate the obstacles borrowers face.



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## Appendix

### Appendix 1: Survey Questions Loan Group

1. Cual es su estado civil? Soltera, casada, divorciada, viuda, unión libre
2. Si tiene pareja: A que se dedica el?
3. Que curso termino usted?
4. Donde nació usted?
5. Alquila o es propietaria de su casa?
6. Tiene hijos? 7. Y de que edades?
8. Los hijos, estudian o trabajan?
9. Cual es el curso de estudio mas alto que ha tenido alguien de la casa? (quien lo ha tenido)
10. Que tipo(s) de negocios tiene?
11. Cuanto tiempo lleva con estos negocios?
12. Que inversión tiene?
13. Tiene empleados?
14. Cuales son sus ingresos mensuales/semanales/diarios?
15. Vende sus productos en una tienda o kiosco fijo o no?
16. Para que uso el ultimo préstamo de Pro Mujer?
17. En que invertiría si tuviera un monto de 150?
18. Comparando su negocio hace x años, esta mejor, igual o peor ahora?
19. A que se debe?
20. Ha hecho algún otro curso/taller desde que abrió el negocio?
21. Que son 2 cosas que ha aprendido en Pro Mujer?

Estoy haciendo algunas preguntas sobre las viviendas.

22. De que esta hecho el suelo? (Cuando se lo puso?)
23. Tiene televisión?
24. Tiene refrigerador?
25. Telefono/celular?
26. Tiene comedor (mesas y sillas)?
27. Que tipo de combustible usa para cocinar?
28. El hogar tiene baño, water o letrina?
29. En el último año, ¿sembró el hogar algún cultivo agrícola?
30. Ha hecho algún cambio a la casa en los últimos x (tiempo un poco menos que llevan en Pro Mujer)?
31. Quién maneja la plata en la familia?
32. ¿En que se gasta la plata que gana del negocio?
33. ¿Que piensa su pareja de que usted trabaje y gane dinero?
34. Quien realiza las tareas del hogar? (limpiar, cuidado de los niños, pago de los gastos escolares?)
35. Quien toma las decisiones importantes de su hogar?
36. Que cambios con su pareja ha experimentado desde que ha empezado su negocio?

## Appendix 2: Survey Questions Control Group

Estoy haciendo una encuesta a los negocios, y me gustaría saber su opinión. No le voy a quitar mucho tiempo.

1. Cuanto tiempo tiene su negocio?
  2. Alguna vez usted ha pedido un préstamo para su negocio de algún banco u otra organización?
  3. Te gustaría acceder a algún crédito?
    1. Cual es su estado civil? Soltera, casada, divorciada, viuda, unión libre
    2. Si tiene pareja: A que se dedica el?
    3. Que curso terminó usted?
    4. Donde nació usted?
    5. Alquila o es propietaria de su casa?
    6. Tiene hijos?
    7. De que edades?
    8. Los hijos, estudian o trabajan?
    9. Cual es el curso de estudio mas alto que ha tenido alguien de su casa? (quien lo ha tenido)
    10. Que tipo(s) de negocios tiene?
    11. Cuanto tiempo lleva con estos negocios?
    12. Que inversión tiene?
    13. Tiene empleados?
    14. Cuales son sus ingresos mensuales/semanales/diarios?
    15. Vende sus productos en una tienda o kiosco fijo o no?
    16. En que invertiría si tuviera un monto de 150?
    17. Comparando su negocio hace x años, esta mejor, igual o peor ahora?
    18. A que se debe?
    19. Desde que abrió su negocio, ha hecho algún otro curso/taller?
- Estoy haciendo algunas preguntas sobre las viviendas.
20. De que esta hecho el suelo?
  21. Tiene televisión?
  22. Tiene refrigerador?
  23. Teléfono / celular?
  24. Tiene comedor (mesas y sillas)?
  25. Que tipo de combustible usa para cocinar?
  26. En los últimos x años, ha hecho algún cambio a su casa?
  27. ¿Quién maneja la plata en la familia?
  28. ¿En que se gasta la plata que gana del negocio?
  29. ¿Que piensa su pareja de que usted trabaje y gane dinero?
  30. Quien realiza las tareas del hogar? (limpiar, cuidado de los niños, pago de los gastos escolares?)
  31. Quien toma las decisiones importantes de su hogar?
  32. Que cambios con su pareja ha experimentado desde que ha empezado su negocio?

## Appendix 3: Poverty Scorecard

Figure 5: A simple poverty scorecard for Bolivia

Indicator	Values					
1. How many children aged 0 to 17 are in the household?	75	4	3	2	1	Zero
	0	9	11	16	21	30
2. What is the main material of the house's floors?	Earth or other		Cement, bricks, or wooden planks		Tile/parquet, rug/carpet, or ceramic tile	
	0		5		13	
3. Does the household own a refrigerator?	No			Yes		
	0			8		
4. In the past year, did the household raise any crops?	No, urban household		Yes		No, rural household	
	0		9		16	
5. Does the household have a fixed-line or cellular telephone?	No			Yes		
	0			10		
6. Does the household own a dining-room set (table and chairs)?	No			Yes		
	0			5		
7. Do all children ages 6-17 attend school?	No		No school-age children		Yes	
	0		2		4	
8. Does the household have a bathroom or latrine?	No			Yes		
	0			7		
9. What type of fuel does the household usually use for cooking?	Wood or guano/dung			Other		
	0			5		
10. Does the household own a television?	No			Yes		
	0			2		

Source: Calculations based on the 2002 Encuesta de Hogares.

Total

## Scores and Poverty Likelihoods

Score	Poverty likelihood for people with score in range (%)	% of people <= score who are poor	% of people > score who are non-poor
0-4	100.0	100.0	35.3
5-9	100.0	100.0	36.4
10-14	100.0	100.0	37.7
15-19	99.5	99.8	39.5
20-24	96.8	98.5	43.2
25-29	95.7	97.5	48.5
30-34	86.0	94.4	54.5
35-39	81.4	91.8	61.4
40-44	67.5	87.7	68.6
45-49	60.3	84.2	76.2
50-54	33.1	79.4	78.9
55-59	53.7	77.4	90.0
60-64	11.8	73.4	90.7
65-69	18.8	70.4	96.4
70-74	3.4	67.2	96.3
75-79	7.5	66.1	99.7
80-84	0.3	64.8	100.0
85-89	0.0	64.7	100.0
90-94	0.0	64.7	0.0
95-100	0.0	64.7	0.0

Surveyed cases weighted to represent Bolivia's population.

Source: Calculations based on the 2002 Encuesta de Hogares.