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Defining microcredit success in Bolivia

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DEFINING MICROCREDIT SUCCESS IN BOLIVIA

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INTRODUCTION

Microcredit is a strategic development model that claims to improve the plight of the poor. Before the introduction of microcredit in Bangladesh in 1977, poor people were denied access to capital vis-à-vis traditional means such as bank loans The arrival of microcredit changed this situation. Microlending institutions issue small loans to poor microentrepreneurs so that they [microentrepreneurs] can invest the money in their businesses. Loans are given at higher interest rates than the formal banking sector in order to cover the administrative costs of issuing lots of small loans. Poor people are willing to pay the high interest, however, because although high, interest rates are much lower than those charged by loan sharks. As businesses grow and profits increase, microentrepreneurs are able to pay back their loan. Successful repayment of the loan makes them eligible to receive another loan, and the process is repeated again and again, with each loan amount growing proportionately to business productivity. Microcredit theory claims that the capital provided gives the poor the means to pull themselves out of poverty. Furthermore, microcredit theory claims that as businesses grow larger, they create more employment opportunities, which contributes to the overall national development of a country.

Bolivia has embraced the microcredit model to its fullest. Economists and international actors alike have declared microcredit a phenomenal success. Targeting the commercial, manufacturing, and service sectors, microcredit claims to reach the poor that formal banks refuse to serve. Women were some of the first clients to take advantage of microcredit. We are told that they used it to pursue social ends. That is, with access to credit, women challenged traditional patriarchal hierarchies that have long been reinforced by women's lack of access to capital. In Bolivia, microcredit no longer strictly focuses on reaching women but rather it targets men and women alike.

Once the work of small NGOs funded by international investors, microcredit has expanded its scope and has become a new competitive financial sector. Microfinance lending institutions have become financially profitable, commercializing microcredit to the fullest. Reaching clients in every regional department in Bolivia, microfinance institutions offer new services consistent with clientele demand. Bolivians are lining up outside of microcredit banks to receive loans, and microcredit banks are expanding to meet clientele demand. Microcredit seems to be a dream come true.

First this study discusses the evolution of economic development models in Bolivia from 1970 to the present day. In the 1970s, Hugo Banzer led an authoritarian regime that favored the growth of the economy vis-à-vis of state-led industries, also known as state developmentalism. The state-led industry provided secure jobs and employment benefits for the poor. In the late 1970s Banzer's regime could no longer hold out against national and international pressures for a return to democratic rule and an opening of the market, which resulted in the decline of state developmentalism. These transitions prompted the introduction of a new economic plan, known as neoliberalism. Neoliberal policies had profound effects on Bolivia's class and economic structures. The liberalization of the market pointed to significant changes in development for the poor. The new kind of development was the introduction of microcredit by international, non-governmental organizations. At first microcredit targeted poor peasants in rural Bolivia by providing them with capital and technical skills needed to start and maintain small businesses. Private investors, however, rejected rural microcredit because it did not yield profitable returns. Thereafter microcredit efforts moved to urban centers and the new target population was the urban microentrepreneur. Quite distinct from 1970 state developmentalism in which the poor had steady jobs and social welfare benefits, in the onset 21st century development was defined by granting the poor access to microcredit. These development strategies were motivated by specific political and economic factors. This study considers what actors supported the various strategic development plans, what economic and social population each plan targeted, and how this population was affected by changing definitions of development.

Second, this study analyzes the significant changes that have taken place within the microcredit strategic plan in the past two decades. Initially non-profit, non-governmental organizations (NGOs) implemented the microcredit and defined its overall "social" and "economic" mission. Today microcredit has been commercialized, and NGOs play an insignificant role in microcredit activity. The new actors in microcredit, Bolivian businessmen, government technocrats, and international organizations have defined a new mission that emphasizes the financial viability of microfinance institutions. So much is this the case that today, the Bolivian government now decides how and to whom a bank can issue a loan. While most scholars of microcredit claim these changes are insignificant, this study argues that such changes are indeed important. In addition this study indicates that the Bolivian microcredit model has not achieved its goal of poverty alleviation. Masked behind questionable theoretical assumptions, microcredit claims that its economic success and financial viability inherently mean that its social goals of poverty alleviation are being met. This study demonstrates that the Bolivian microcredit model considers the "social" impact of microcredit on the poor is of little or no importance. Given that profitability is the model's only measure of success, I challenge a definition of success that ignores important factors. Microfinance institutions directly link their own economic success and/or profitability with the microentrepreneur's social and economic development. They claim that good banking alleviates poverty. The assertion, moreover, that microcredit gives the microentrepreneur an opportunity for social and economic development is misleading. The rhetoric "social and economic development" becomes problematic in trying to measure the effects of microcredit on the microborrower, because no one knows what "development" looks like. A similar argument can be made about microcredit as the strategic sustainable development plan for poverty alleviation. Code words such as "sustainable" and "development" are vague and inadequate for a real discussion about poverty alleviation. Essentially, development rhetoric says nothing about the success of the Bolivian poor.

Third, this study not only challenges the idea that microcredit is a poverty alleviation strategy but also it points to microcredit as yet another moneymaking scheme of foreign investors. While microcredit theory emphasizes its service to the poor, it is important to see how lenders benefit from microcredit while cloaking its true intention behind development rhetoric. I demonstrate that the benefactors of microcredit are not innocent bystanders performing charitable deeds to help the poor but rather are capitalists who pursue profit vis-à-vis economic endeavors.

Fourth, I suggest an alternative definition of microcredit success. While the financial viability of microfinance institutions may point to success, the social and economic indicators such as increased employment, better education, a reduction in poverty, and overall economic growth do not. Different from mainstream definitions of success as financial sustainability, my definition considers the social and economic development of the client as the measure of success. I refute microcredit theory's claim of poverty alleviation. This study illustrates that rather than having reduced poverty, the Bolivian microcredit model has allowed some groups to prosper while not others. Untangling rhetoric from reality, this study seeks to assess the social and economic impact of microcredit on the microborrower. According to my definition of success, microcredit does not show significant support for poverty alleviation.

The study concludes that microcredit theory has been warped from any kind of humanitarian goal. Theoretically, microcredit is for the poor, but in practice microcredit is for the rich. The commercialization of microcredit solidifies this statement because it has placed profitability ahead of human necessity. In its most benign form, the Bolivian microcredit model is less effective than it was meant to be. Microcredit advocates bought into the rhetoric of "development" and believed that it was the answer to poverty. In its most malignant form, microcredit may become harmful for the poor and the nation, leaving them both in shambles. Microcredit cannot prove poverty alleviation, microentrepreneur development, or national economic growth.

The structure of this study is as follows: The first chapter describes the origin of microcredit and the three major lending models. This chapter also includes a description of the motivation of the study as well as the methodology used. The second chapter illustrates the changes of development strategies in Bolivia and identifies the motivation behind and significance of each development method. The third chapter discusses the informal sector, which is the targeted population of microcredit. This chapter presents several theories about the development of the informal sector and illustrates how politics shape the informal sector in Bolivia. The fourth chapter is a historical description of the foundation of four microfinance institutions: (1) Foundation for the Promotion and Development of the Microenterprise Sector (PRODEM)[1], (2) Banco Solidario, S.A.[2] (3) Caja de Ahorro y Prestamo Los Andes (Caja Los Andes), and (4) Center for the Development of Economic Initiatives (FIE).[3] This chapter describes the transformation of NGOs from non-profit microfinance endeavors to for-profit, microfinance institutions and discusses how this transformation affected the original mission of microcredit. The fifth chapter presents empirical evidence regarding the financial sustainability of the aforementioned microfinance institutions. This chapter also illustrates who are the real beneficiaries of microcredit. The sixth chapter refutes the data that microcredit profitability is an adequate indicator of microcredit success and poses a new definition. It also presents substantial evidence that microcredit practices negatively affect the poor. Finally, my study concludes with a summary of my argument and recommends the further study of microcredit.

[1] In Spanish, Fundación para la Promoción y Desarrollo de la Microempesa.
[2] In English, Solidarity Bank
[3] In Spanish, Centro de Fomento a Iniciativas Económicas.

CHAPTER ONE:

INTRODUCTION TO MICROCREDIT

Origin of Microcredit

Microcredit was born in the heart of a man who cared about poor people. Muhammad Yunus, an economics professor in Chittagong University in Bangladesh in the early 1970s, was moved by the starvation of thousands of people when famine when it hit the country. Although the famine received international attention, the humanitarian need was not met and hundreds of people died daily. Yunus was disenchanted with the inadequacy of hi education to affect the reality of poverty. He recalls,

> What good were all my complex theories when people were dying of starvation on the sidewalks and porches across from my lecture hall?..Nothing in the economic theories I taught reflected the life around me. I needed to run away from these theories and from my textbooks and discover the real-life economics of a poor person's existence.[4]

Yunus was determined to find a new economic model that would reach the poor. He came to the conclusion that poor people needed access to capital and that traditional bank methods made this impossible. He believed and still believes that "the poor are poor...because they cannot retain the returns of their labor. They have no control over capital, and it is the ability to control capital that gives people the power to rise out of poverty."[5] Yunus proposed to alleviate poverty vis-à-vis microcredit.

In 1976 Yunus offered his first clients, all of whom were women, a solidarity group loan—a loan taken collectively—totaling $30. Paying on a weekly basis, the women were able to successfully repay the loan. With a few adjustments along the way, the Grameen Project was established and microcredit lending commenced. Grameen activities expanded quickly and in

[4] Yunus, Muhammad. 1999. Banker to the Poor: Micro-Lending and the Battle Against World Poverty. New York: Public Affairs. p. viii.
[5] Ibid, 141.

September 1983, the Bangladesh government approved the opening of the Grameen Bank, Bangladesh's first formally recognized microlending institution.

Since 1976, microlending has exploded around the world and receives worldwide recognition as a "successful strategy for sustainable development." Developing nations across the globe have replicated the Grameen Bank model, trusting the microcredit model will yield similar results for them too. International organizations claim that their interest in microfinance stems from a desire to reach as many poor people as possible. One such organization is USAID, which says its commitment is to "ensure that the poor, wherever they are, share in the benefits of economic growth."[6] Economic theorists, international organizations, and scholars promote microlending as the "grand strategy" for economic development in developing countries. Today millions of aid dollars are channeled from bilateral and multilateral organizations to nongovernmental organizations (NGOs) that implement the microcredit model.

Microlending Models

The microcredit model can be applied in several ways. The three most popular lending models focus on the solidarity group, the individual, and village banking.

Solidarity Group.[7] The solidarity group lending model focuses on collective responsibility regarding a loan. A group of five to ten people come together and decide to take out a loan together, and each guarantees the payment of the other. In cases where the member cannot make his/her loan payment then it is the responsibility of the other members in the group to pay on his/her behalf. The group is self-selected, placing a considerable emphasis on building a social network of support. Studies have shown that solidarity groups made up of family members are less efficient; so one

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[6] U.S. Agency for International Development. 1999. "Reaching Down and Scaling Up: Into the Next Century" in *Microenterprise Results Reporting for 1998* (September), p. 1.
[7] Berenbach, Shari and Diego Guzman. 1994. "The Solidarity Group Experience Worldwide" in Maria Otero and Elisabeth Rhyne, Eds. The New World of Microenterprise: Building Healthy Financial Institutions for the Poor. Bloomfield, CT: Kumarian Press, Inc, p. 156-184.

requisite of group formation is that no two members can be from the same family. Another requisite for group formation is that its members must have similar business productivity levels.

Village Banking. This lending model uses the solidarity group as a base but on a larger level and is a community-managed credit and savings program.[8] The goal of village banking is not only to provide access to credit but also to serve as an avenue in which clients can learn the value of savings. Each village bank is usually comprised of 30-50 individuals, who form solidarity groups. On a much smaller scale than commercial microcredit banks, village banks are non-profit, yet profitable, organizations. They maintain a focus on enhancing the social status of women by providing them the financial leverage they need to supersede male-dominated spheres. Payments are made in cycles. Upon the completion of a cycle, the credit has been repaid and compulsory savings can reach up to 20 percent of the initial loan amount. If a client wishes to abandon the program, their entire savings are not readily available, and full collection could take up to 3 months. Village banking is financially sustainable because it uses captured savings by employing interest rates of 15 percent annually and uses this revenue to issue more loans with interest rates at 30 percent annually.

Individual Lending. Individual loans are more popular in institutions that seek to attract clients with well-established and productive businesses. Individual loans target a narrower range of businesses because these businesses can produce assets for collateral that newer and smaller businesses cannot. The individual lending model appeals to individuals who dislike the solidarity model and having to take responsibility for others. Individual lending gives a client more freedom and is clearly a self-accountable method to assure repayment. Similar to the formal banking sector, clients are asked to demonstrate their ability to pay by offering collateral sufficient to insure the loan. Collateral usually implies liens on movable assets such as appliances of significant value (ie.

[8] Holt, Sharon. "The Village Bank Methodology: Performance and Prospects" in Maria Otero and Elisabeth Rhyne, Eds. The New World of Microenterprise: Building Healthy Financial Institutions for the Poor. Bloomfield, CT: Kumarian Press, Inc. p.157.

machinery, jewelry, or furnishings) or property. In cases where the client's assets are not sufficient collateral, a personal guarantor is also required.

Methodology

My interest in this topic stems from my fascination with the Bolivian informal market. In August 2001, I was afforded the opportunity to study in La Paz, Bolivia. My stay made me think about the informal sector and especially the market vendors. I was astounded that I could leave my house and buy a bag of milk on the street corner. I was surprised when my host mom said that we we're going grocery shopping and we ended up carrying nylon sacks from one market vendor to another to buy food for the week. It took me weeks to understand how this informal worked, but after I became more confident, I traveled to the market and took care of personal business. When I needed a strap on my sandal fixed, I took it to the shoemaker at the end of the block. When I needed to buy groceries, I bartered with the *caseras* to get the best price for meat, potatoes, and vegetables. It was through this direct participation with market vendors that I became interested in their work.

Arriving back in the United States, I remembered a particular protest that took place in front of BancoSol. These poor people were market vendors among other microentrepreneurs and they were angry about something, but I could not remember what. Recalling this event piqued my interest about BancoSol and microcredit, and I decided this was something I wanted to know more about. Therefore from my interest in market vendors and my recollection of BancoSol, I proposed to write a thesis about the Bolivian microcredit experience. Returning to Bolivia for one month of fieldwork in January 2003, I collected information about/from four microcredit institutions. I performed interviews with bank officers and market vendors, seeking to find information on the social and economic components of microcredit. I also visited the Bolivian office of the United States Agency for International Development (USAID/Bolivia) where I asked for access to any reports or studies written about the impact studies of microcredit. I undertook observation of market vending at its most basic level, street vending. I spoke with vendors in hopes to better understand the daily challenges they confront, and how microcredit has affected their lives, both socially and economically.

In the following pages, I recount the adventures and mishaps of my fieldwork. I believe that my studies were expansive enough to present various points of view concerning microcredit. My contacts included a wide selection of people with different views and concerns about microcredit operations. My multi-faceted approach included contacts who: (1) came from different social and economic backgrounds; (2) were involved in microcredit on different levels (either as professionals or participants) and; (3) were non-participants but suspect and/or feel the economic effects of microcredit.

Collection of Comparative Data

In my approach, I chose to evaluate the performance of microcredit through systematic assessment. That is, at each financial institution, I asked the same questions. First, I sought to understand the microcredit from a client's point of view. I visited each institution and asked how I could receive a loan for my commercial business. I was received with some suspicion because I was a foreigner, but each afforded me the opportunity to observe and participate as would any client wanting to take out a loan. The loan officer asked me a series of questions. What was my line of business? How long had I been in the business? How much money did I want to take out? What could I offer as collateral? What were my expenses? How much could I afford to pay back on a monthly basis? After collecting this information, the loan officer told me how microcredit lending worked. She addressed the requirements to take out the loan, including the collateral requirement (which differed according to the loan model that was used), repayment plan, and interest rate. After the institution received all the necessary documents, I would have my loan within five to seven days. In all cases, the default interest rate was not offered unless I specifically asked for it.

Throughout the process there were some variations. In the cases of PRODEM and FIE, client expenditures and loan amounts were critically analyzed and compared to lessen the likelihood of loan default. BancoSol and Caja Los Andes were not so particular in client evaluation. In all cases (with the exception of BancoSol), the loan process included a visit to the business location or the home where the client must show proof of his/her business. This varied from a loan officer going to the home to look at a pile of books to be sold on the street or visiting the textile enterprise that employed eight family members who would then redistribute products to several smaller enterprises.

I also visited the office of the Association of Specialized Microcredit Financial Entities (Asofin), where I collected comparative data on the financial performance of the larger microfinance institutions. Asofin serves a s a financial intermediary between the Bolivian Government and the microfinance institution. The office had current information and told me that data from earlier years was available in the Microfinance Bulletin, which could be purchased at Finrural for five dollars.

MICROFINANCE LENDING CONDITIONS

Table 1.1

<table>
<tr><th rowspan="2">Microfinance Institution</th><th rowspan="2">Lending Model</th><th colspan="2">Requisites</th></tr>
<tr><th>Client</th><th>Guarantor</th></tr>
<tr><td rowspan="2">Banco Solidario, S.A.</td><td>Solidarity</td><td>-Photocopy of I.D.
-Proof of business</td><td>Photocopy of I.D.
-Proof of business</td></tr>
<tr><td>Individual</td><td>-Photocopy of I.D.
-Proof of business
-Collateral (if any)</td><td>-Photocopy of I.D.
-Job type (job certification, last pay stub)
-Collateral (home, vehicle, property, anticrético contract)</td></tr>
<tr><td>Caja Los Andes, FFP</td><td rowspan="2">Individual</td><td rowspan="2">-Photocopy of I.D.
-Sketch of location of home and business</td><td rowspan="2">-Photocopy of I.D.
-Collateral (home, property)
-Last tax payment
-Photocopy of light and water invoice
-Sketch of location of home</td></tr>
<tr><td>PRODEM, FFP</td></tr>
</table>

FIE, FFP	Individual	-Photocopy of I.D. -Photocopy of light and water invoice -Credit application -Collateral (machinery or other appliances)	-Photocopy of I.D. -Photocopy of light and water invoice -Collateral (home, property, other machinery or appliances)

I also spoke with loan officers and managers as an investigator. I asked them many of the same questions I asked in my role played as a client. How does microcredit work? What were some of the greatest challenges of the institution? What was the institution's main objective? Each one had similar information to offer. The microcredit model was explained exactly as I perceived it as a potential client. I was shown how the institutions processed the loans, verified credit history with credit bureaus, visited work sites, and took pictures of appliances to be uses as collateral. In the case of PRODEM, I was able to see the entire application of one of their older clients and the complexity of deciding the loan amount to be issued. At this step in the process I also collected important comparative data about loan portfolios, for example, the percentage of female versus male clients, the number of solidarity versus individual loans (at BancoSol), the percentage of clients that defaulted on loan payment, etc. I also received a copy of the 2001 Annual Reports for each institution.

Interviews

I was able to perform interviews with participants and non-participants in microcredit. I interviewed a market vendor, Blanca de Chuquinia, who sold Bolivian and Peruvian *artesania*. She was a client of both BancoSol and Caja Los Andes. At BancoSol she had taken out a solidarity loan with four other women, and at Caja Los Andes she served as a guarantor for a friend. However, not only did I ask about the effects of microfinance, but I also sought to know what other dynamics affected her work as a market vendor. For Blanca, the most pertinent factor that affected her business was the competition with *ambulantes* and the lack of government control over their work.

Blanca expressed that she resented having to pay taxes—40 *bolivianos* every two months to the State and 150 *bolivianos* a year to the mayor—while the *amubulantes* paid nothing.

I also interviewed with the Garrón family and friends. Indeed my contact with these people was a miracle. Raul Garrón, is the father of a friend of mine. Raul is a self-employed financial consultant and was able to put me in contact with his friend, Xavier Iturralde. Fortunate for me, Xavier was an expert on the economic history of Bolivia. He and I spent hours going over the history. He put me in contact with managers of each institution of interest, introducing me and asking them to assist me in anyway possible. He was very kind and encouraged me in my work, saying that a microcredit study was a very important topic for Bolivia today. He also presented his own analysis of where he sees microcredit heading, asserting that microcredit needs to be reevaluated because it truly no longer is microcredit but rather normal credit. In fact he says that the larger the loans get in these institutions the greater the economic danger because regular banks will cease to exist. I revisit this argument later on.

Members of the Garrón family believe that microcredit is headed in the wrong direction. They believe that the poor will just get poorer because eventually they will be unable to pay back their loan and over-indebtedness undoubtedly will follow, leaving the economy in shambles. The crisis of 1999 may attest to this fact. The Garróns believe this is another political game played by the elite in order to exploit the poor; but proof is hard to come by in support of this statement.

I also visited USAID/Bolivia, one of the most prominent providers of microfinance aid. Even though USAID did not provide capital to any of the founding NGOs of my study, it has funded research for some studies about microcredit clients in Bolivia. Claudio Gonzalez-Vega of Ohio State University did one such study of ProMujer, a microlending organization in El Alto. This study and others like it attempt to recognize and identify flaws in the microcredit model. From USAID, I hoped to get information about their first investments in microcredit in Bolivia. Gabriela Salazar Rivera, Activity Manager, said that this information had been destroyed because initial investment was in 1988—too long ago to keep around the office. Nevertheless, Gabriela did redirect me to some other institutions that would assist me in my search for impact studies, particularly *Gesellschaft fur Technische Zusammenarbeit* (GTZ or the German Technical Corporation) and the Association of Financial Institutions for Rural Development (Finrural). These institutions serve as technical assistants for microfinance institutions, providing several types of analyses of microfinance operations.

I also visited PRODEM NGO. In this office, I spoke with Maria Elena Querejazu, who gave me a short overview of the history of PRODEM NGO transformation. I was told that the functions of PRODEM NGO are solely based in rural areas. Maria Elena was quite occupied and was unable to help me further.

Literature Review

I visited the libraries of the Foundation for Production (FundaPro) and Finrural. Similar to Finrural, FundaPro was established by international agencies and the Bolivian government; it serves as a technical assistant for microfinance institutions. Unfortunately, the FundaPro library was "under construction" and I was not able to peruse their collection. The Finrural office was very helpful, and there I found extensive literature and other references concerning microcredit in rural and urban Bolivia. The staff was very cordial, and I was able to copy various articles from books that were pertinent to my research.

Observation

I also observed the petty commerce market sector as a participant and a researcher. Walking down the streets of La Paz, I intensively observed each and every transaction in an attempt to understand the challenges market vendors confront. I spoke with those who interacted with market vendors, such as wholesalers, security guards, consumers, and other market vendors. These conversations helped me understand the market vendor experience. To the untrained eye, market vending might seem like a simple transaction between buyer and producer. But for the market vendor, it is a livelihood that embodies many additional relationships. Beyond producer-consumer relationships, market vendors deal with issues of security, cooperation, competition, and bargaining, which requires the vendor to establish a broad network of relationships. Market vending also demonstrates distinct cultural, political, and economic factors. As I got a better understanding of all of these aspects, I was able to ask pertinent questions according to the specificity of my research.

Limitations, Importance, and Merits of Study

While I was able to guide my study by some fieldwork done by Stephanie Small (1998), my own study obviously holds some limitations. My study may be an effective tool to begin evaluating the economic impact of microcredit at the macro level, yet there are many other dynamics that must be considered. It is also unfortunate that I was unable to speak with someone whose business clearly benefited from microcredit. The Annual Reports of all the institutions boast of their success stories, but I surmise that these stories are few and far between. However, again, the information that I was able to collect is an indicator that perhaps *all* is not well in microcredit. I wish for this thesis to be used as a point of reference for further studies on microcredit. And if my conclusions hold true, than any upcoming crisis in microcredit can be addressed within the context of the information provided.

CHAPTER TWO:

DEFINING DEVELOPMENT: 1970 TO PRESENT DAY

The meaning of development in Bolivia has undergone significant change in the past three decades. Popular organizations, political leaders, and foreign actors have prompted these changes, each seeking to play a role in shaping and defining development for the country. The following chapter includes a historical description of the political and economic reorganizations in Bolivia from 1970 to present day. This chapter highlights the important policy decisions that resulted in the substantial growth of the unemployed class (referred to in Chapter three as the informal sector) and illustrates the weakness of development theory to effectively address multifaceted societal problems.

This chapter describes the mining and agricultural sectors at length, focusing on which actors benefited or not from certain economic policies, and how politics play a role in shaping class structure. I pay particularly close attention to the cost-benefit analysis of economic policy, because as I discuss later on, subsequent political and economic change in Bolivia "turn the tables" and the "winners" of state developmentalism become the losers of neoliberalism.

The Rise and Decline of State Developmentalism (1970-1984)

From 1971 to 1978, General Hugo Banzer, dictator, led a very repressive regime. Backed by civil technocrats, Banzer believed that an authoritarian regime could best define and interpret national interests, which left no room for political parties. Using a top-down model, state developmentalism benefited certain groups of the economic elite and excluded others. State developmentalism entailed large investments in targeted state-led sectors, including agricultural, mining, and petroleum. Protectionist policies were implemented in order to shelter domestic industries from foreign goods competition. Banzer also tried to dismantle labor unions, although unsuccessfully, which had grown to enjoy their popular power during the previous dictatorships of Ovando and Torres, leftist leaders.

Under state developmentalism, Banzer granted subsidies to the private, agricultural sector. *Banco Agricola de Bolivia* (BAB), the state agriculture bank, channeled credit to the Santa Cruz region, which received 66 percent of all BAB credit.[9] Cotton production received most of this aid but other productions such as sugar, soybean, and cattle ranching were also included. Interestingly, a lot of this credit came from international development agencies, mostly from the United States. USAID controlled 46 percent of the total foreign-financed credit. The World Bank and the Inter-American Development Bank (IDB)[10] provided the remaining 54 percent, loaning directly to the government.[11] For the agricultural elite, business boomed and policies worked in their favor. Protectionist policies safeguarded the marketability of production on international markets even, but only for mass producers. Small farmers were not given access to this credit. The settlers of these small farms had land on the frontier, but it was no competition for commercial farming, which received large state grants for land and subsidies. Small farmers became tenant farmers and wage laborers, because they could no longer compete.

The mining industry was also targeted by state-led development. After the nationalization of Bolivian mines during the 1952 Revolution, the foreign exchange between the Bolivian State and international markets began to increase. Under state developmental policies, the state mining company, *Corporación Minera de Bolivia* (COMIBOL), provided miners with an entire social welfare plan, including health, education, and food benefits. Isolated from major urban centers, the mining sector independently stood out as the major source of employment for Bolivians in these areas. The strength of the mining sector and the formation of unions helped solidify the voice of miners concerning the political and economic issues that would affect them. Unions were able to

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9 Conaghan, Catherine M. and James M. Malloy. 1994. Unsettling Statecraft: Democracy and Neoliberalism in the Central Andes. Pittsburgh: University of Pittsburgh Press, Inc. p. 57.

10 The Inter-American Development Bank is the oldest and largest regional multilateral development institution. It was established in December of 1959 to help accelerate economic and social development in Latin America and the Caribbean. Its current member countries include the U.S., Canada, several Latin American and Caribbean nations, among other non-regional actors. For more information see www.iadb.org.

protect employment benefits even as the State sought to repress political opposition. Any attempt made by Banzer to implement unfavorable policies that would benefit the elite, such as wage freezes, was impeded by unionized labor. Moreover, unionized power miners also knew that the Banzer regime depended on their cooperation to implement export strategies, and therefore they used their political leverage to secure worker benefits.

The profits from the export boom in mining did not translate into proportionate benefits along class lines. While the miners did enjoy some benefits, government technocrats benefited much more. Banzer's strong commitment to maintaining his coalition of technocrats led him to create 24 new government bodies between 1971 and 1977. In comparison, the mining sector saw few new employment opportunities. While the public sector grew in at an annual rate of 9.9 percent from 1971-1975, this represented a growth three times as high as the employment growth rate in the labor force as a whole.[12]

Investment in the expanding petroleum industry—the Bolivian State Petroleum Enterprise[13]—received a lot of attention from industrialized nations that were dependent on petroleum sources from other countries. Petroleum was first exported in 1966, averaging 11 percent of all Bolivian exports. From 1970-1976, exports reached their peak at 16 percent of all exports.[14] These numbers impressed the international community. Perhaps making investment even more convincing, in March 1972, the General Hydrocarbons Law gave foreign investors a generous tax break on 50 percent of all production for thirty years and a 40-60 percent share of production on new petroleum source discoveries.[15] The petroleum industry boom, however, did not last. In 1976 production for exports stopped, largely due to limited exploration for new reserves.

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[11] Gill, Lesley. 1987. Peasants, Entrepreneurs, and Social Change: Frontier Development in Lowland Bolivia. Boulder, CO: Westview Press, 52.
[12] Conaghan & Malloy, p. 52.
[13] In Spanish, *Yacimientos Petrolíferos Fiscales* Bolivianos (YPFB).
[14] Morales, Waltraud Q. 1992. Bolivia: Land of Struggle. Boulder, CO: Westview Press. p. 149.
[15] Ibid, 150.

State developmentalism not only promoted high levels of production but also it led to the growth of a booming, state-led financial sector. Throughout all of Bolivia the business elite financed their endeavors through newly established banks, including: La Paz Bank, Potosi Bank, Oruro Bank, Cochabamba Bank, and Santa Cruz Bank. The Central Bank of Bolivia borrowed money from international markets and loaned money to these banks at low interest rates in order to sustain state enterprises. Banks were functional and quite successful for the elite, but they did not offer any services to the working class.

From 1971 to 1976, prices for Bolivia's main exports—agricultural and mineral—rose, resulting in a 5.7 percent increase in the annual gross domestic product (GDP) rate.[16] This "economic miracle," however, cannot be attributed solely to state development strategies, because external factors played a huge role. The world market prices for raw materials laid the foundation for such a miracle. Banzer took advantage of these favorable factors and pursued policies that would strengthen the agricultural and mining sectors in order generate overall economic growth.

Among the sectors that did not benefit from state developmentalism were individual businessmen who were not associated with state-led initiatives, and who preferred a free trade economic model. While some domestic businessmen opted to collaborate with Banzer in hope of receiving some benefits and not being excluded from decision-making processes, others participated in an exit strategy, reallocating funds in other endeavors. They refused to invest money in the government, hoping to pressure it to abandon protectionist policies that did not benefit them. International investors participated in a partial exit strategy. Instead of pulling out all investment that was related to government enterprises, they channeled money through non-governmental organizations (NGOs) that advocated the suspension of state protectionism. The Catholic Church sponsored some of these organizations. Others were linked to the *Movimiento de Izquierda*

[16] Conaghan, Catherine M. and James M. Malloy. 1994. Unsettling Statecraft: Democracy and Neoliberalism in the Central Andes. Pittsburgh: University of Pittsburgh Press, Inc. p. 57.

Revolucionaria (MIR), an opposition party that hoped for the fall of the Banzer regime. These NGOs formed coalitions with foreign investors and their respective governments in order to bring about change in Bolivia. NGOs were funded by international organizations that refused to channel money through authoritarian governments that were obviously undemocratic. Taking a closer look at the interests of international actors, however, the more likely reason for channeling money through NGOs rather than the government was the concern for protecting their assets from government intervention. The nationalization of private firms in 1952 still weighed heavily on the minds of many capitalists.

The decline of state developmental policies was the result of both national and international pressures. On the national level, Bolivian conservatives and the working class challenged the Banzer regime and demanded democratic elections. Bolivian conservatives wanted a government that would implement market policies that benefiting them. The working class had tired of the repressive politics of the Banzer regime. Countries with big banks and interested investors, such as the U.S. and Switzerland, also supported the reemergence of "democracy." These countries knew that a concession to democracy would invariably lead to an advantageous economic model—neoliberalism. Yielding to these pressures, Banzer knew that the transition to democracy was inevitable, and in December 1978 he announced that elections would be held. Democracy, however, was not so easily achieved. Party leaders and military generals competed for power, and from 1978 to 1981 there were a series of fraudulent elections and military coup *d'etats*.

On the international level, state developmentalism could not hold out against the pressures of foreign governments. Beginning in early 1980 the international economy entered a state of crisis. The tin market collapsed, devastating the Bolivian mining sector. United States President Reagan began to take advantage of the low interest rates and financed the U.S. federal deficit with these monies. The international prime rate went from 8 percent to 21 percent, and high levels of inflation plagued Bolivia. The Central Bank of Bolivia could not acquire loans from international markets at such high rates, and therefore was unable to continue assisting the Bolivian industries with state subsidies. Severe drought in 1983 and failing markets caused agricultural output to decline by 11 percent and exports to fall 25 percent between 1980 and 1984.[17] The Bolivian economy needed the assistance of the international community, and the only way to get this help was a return to "democracy" and free market trade.

In 1982 Bolivia returned to democratic rule after more than a decade of nearly uninterrupted military authoritarianism. Hernán Siles Zuazo, of the Unión Democrática Popular (UDP), was elected President. His election to office could not have come at a more inopportune time. He had inherited a $5 billion foreign debt from the Banzer regime. Zuazo tried to promote a "populist democracy." He tried to gain the support of the Bolivian Labor Central (*Central Obrera Boliviana*, COB)—Bolivia's largest trade union confederation—but the trade-off demanded by the workers was too high. The COB demanded shared management of the public sector. Political parties broke into several factions and it appeared that a military coup was imminent—this time by Zuazo's Vice President, Jaime Paz Zamora. Overwhelmed by the economic problems and intense political dissension, Zuazo called for elections one year before his four-year term was due to end.

Neoliberalism (1985-)

In July 1985 new elections took place and Victor Paz Estenssoro of the National Revolutionary Movement (MNR) party won the presidential seat. Faced with the pressures of a huge foreign debt, Paz conceded to the international pressures. The International Monetary Fund and the World Bank's demanded the removal of protectionist policies and the liberalization of trade. It is interesting to note that these same organizations had contributed aid in order to protect certain markets, and now that Bolivia suffered from huge foreign debt, it was time to open up the market. Paz introduced the Bolivian economy to neoliberalism. Neoliberal measures included selling state enterprises to the private foreign investors such as U.S. corporations at very cheap prices, raising

[17] Klein, Herbert S. 2003. A Concise History of Bolivia. Cambridge: Cambridge University Press. p. 240.

producer prices for agricultural products, devaluing the national currency, reducing the government deficit, and creating incentives to attract foreign capital.[18] The neoliberal model was to bring about improvements in productivity and competition. Yet its policies benefited social and economic classes unevenly, and consequently had profound effects on the class structure. Bolivians still remember and bitterly refer to the neoliberal shock as *veintiuno zero sesenta* after the Supreme Decree 21060. Scholarly literature refers to Paz's neoliberal reforms as the New Economic Policy.

Raising the prices for agricultural goods was meant to be an incentive to increase production. It did indeed increase the "incentive" for production, but more appropriately defined, it created the need to produce more. The swift devaluation of agricultural goods in unprotected markets made it much harder to profit. Exposing national produce to competition in larger markets that could sell goods a lot cheaper than Bolivian produce meant that agriculturists had to produce more goods for less money. The reduction of the government deficit led to major cuts in BAB subsidies. After years of profiting from protectionist policies, the agriculture elite had to look for new profitable investment opportunities. It is difficult to pinpoint what new areas received investment, because in Bolivia investors are protected the status of *socios anonimos*, or anonymous partners. It can be speculated, however, that investment was eventually channeled to the microfinance sector.

Those who suffered most were small farmers, whose sole livelihood was based in agriculture. The devaluation of agricultural production meant that their work was worth little. With no benefits under state protectionist policies, an entire sector of Bolivian society became impoverished. Many farmers moved from their rural dwellings to the city in search of better economic opportunities. Others chose to remain on their land and work, although their produce did not provide sufficient earnings for their households.

[18] Veltmeyer, Henry, James Petras, and Steve Vieux. 1997. Neoliberalism and Class Conflict in Latin America: A Comparative Perspective on the Political Economy of Structural Adjustment. New York: St. Martin's Press, Inc. p. 21-22.

Drastic changes took place in the newly privatized mining sector as well. The collapse of the Banzer regime meant the collapse of state-led industry. Although the New Economic Policy was supposed to free up funds that were "ill-spent" on subsidies, the decline in mine productivity meant that the State no longer had funds to support such exports anyway. Those who suffered the most adverse consequences from the collapse of state industries were the miners. They first began to feel the loss of government social welfare benefits. School supplies grew scarce and medicines were unavailable in hospitals. Food subsidies for rice, meat, sugar, and bread were also no longer available. Isolated in remote areas and without access to markets that carried the necessary resources to care for their sick, educate their children, or feed their families, miners went on strike—their usual recourse when met with dissatisfying economic policies. Yet in 1985 these strikes were no longer an effective political tool to deter unfavorable policies. Tin was no longer the strategic product for national development. The loss of these benefits *forced* miners out of their jobs. With no way to provide for their families and little hope of getting governmental concessions, many miners packed up and headed to the city. Those who chose to "stick it out" in hopes of improvement saw even grimmer days: drastic wage decreases and wage freezes. In August 1985 miners earned US$60 per month; only one year later wages fell to US$43 per month.[19]

Tin Production in Bolivia, 1970-1999
Table 2.1

Decade	Average Annual Production
1970-1979	29,731
1980-1989	19,031
1990-1999	15,423

Source: Klein, Herbert S. 2003. A Concise History of Bolivia. Cambridge: Cambridge University Press. p. 272.

[19] Gill, Lesley. 1997(b). "Relocating Class: Ex-Miners and Neoliberalism in Bolivia" in *Critique of Anthropology* (17)3: 298.

The Union Confederation of Miners in Bolivia[20]--the nation's largest miner's union—staged a 24-hour strike together with the *Central Obrera Boliviana* (COB). The strike gained it the attention of government officials who felt compelled to negotiate with the miners. At the negotiating table the government agreed to provide job retention guarantees for half the miners and compensation for those who had to be let go. Some miners obstinately opposed the deal, arguing that the union should not consider downsizing a viable option. Others favored compensation because they believed it was best they could hope for. The negotiation with the government was never collectively resolved, and individual miners made their own decisions about where to stand on the issue. Some took their money (about $1,500), packed up, and left. Others choose to "stick it out" in hopes of renegotiations. This event holds a great deal of significance for Bolivian unions, because it points to the initial cleavage that led to subsequent division of a strong labor union. For the COB, the lack of consensus meant the loss of political leverage with the government. For the Bolivian government, this meant it had finally met its goal—established long before Paz's inauguration—of effectively undermining working class power.

Workers that opted to stay were also eventually forced out of their jobs. Machinery maintenance dwindled due to the lack of spare parts. Workers took early retirement and others were "encouraged" to take voluntary retirement. Compensation for these late goers steadily increased as the government sought to persuade miners from their jobs. In 1986 compensation had reached $3,000. By the early 1990s, the government was offering an extra $1000 for every year of work.[21] The message from the government was loud and clear—"Just leave!" From 1986 to 1992 about 30,000 miners and their families were forced into unemployment.

Foreign investors and Bolivian nationals formerly excluded from state initiative benefits had long awaited the benefits that the neoliberal economic model would bring them. For private

[20] In Spanish, *Federación Sindical de Trabajadores Mineros en Bolivia* (FSTMB).

investors such as Rockefeller, Swiss Development Bank, and USAID, the neoliberal model was the most "efficient" way to produce economic growth and development. Of course for these wealthy businessmen, free trade meant enormous profits. They had capital to invest in expanding markets. As mentioned earlier, the expanding markets in Bolivia were not the agriculture and mining sector. These markets had collapsed under the intense competition and prices too low to translate into Bolivian prosperity. The expanding and most profitable market was in the financial sector. The liberalization of interest rates drastically devalued Bolivian currency. Consequently investment in the financial sector, where money had amazing exchange rates with the *boliviano* (Bolivian currency), was especially beneficial. U.S. dollars would go a lot further than the *boliviano*, and interest rates could be adjusted to make for this difference. That is, loans issued in *bolivianos* would accrue at interest rates higher than the dollar in order to adjust for the constant devaluation of Bolivian currency. For financial marketers, Bolivia was a "land of opportunity."

Most private investors looked to do business with the rapidly multiplying number of NGOs that promoted neoliberal politics. Whereas only one hundred NGOs were initiated between 1960 and 1980, over four hundred emerged from 1980 to 1992.[22] This tremendous growth can be attributed to the increased demands by international institutions such as the World Bank and USAID to channel money through NGOs rather than directly to the central government. NGO work targeted poverty and "grassroots development." Grassroots development advocates the improvement of basic living conditions of the poorest sectors of society, including programs oriented towards nutrition, health care, education, housing, and employment. Later on, grassroots development was renamed grassroots empowerment. Grassroots empowerment considered the poor as the primary promoter of their own well being, that is the poor should not simply be recipients of assistance but active

[21] Gill, Lesley. 1997(b). "Relocating Class: Ex-Miners and Neoliberalism in Bolivia" in *Critique of Anthropology* (17)3: 299.
[22] Gill, Lesley. 1997(a). "Power Lines: The Political Context of Nongovernmental Organization (NGO) Activity in El Alto, Bolivia" in *Journal of Latin American Anthropology* 2(2): 147.

participants in helping to improve daily lives. Stephanie Small writes that these changes help agencies like USAID to convince their governments that microcredit is not an ineffective "hand-outs" program. She writes, "Both congress and the public prefer development without a price tag so they can help the poor but not spend billions of dollars...Such a strategy also appeals to the ideas that "they" (Bolivians) should not be dependent on us" (Americans) but should take care of themselves and stand on their own two feet."[23] Redefining development from a bottom-up rather than a top-down approach, NGOs believed that microcredit met these criteria. NGOs claimed that the poor would now also reap the benefits of a free market economy.

Implications of Changing Development Strategies

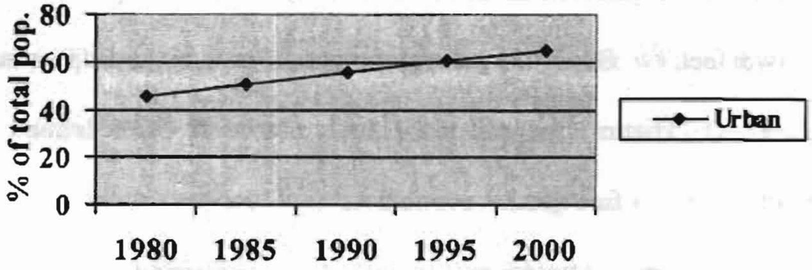
Changes from state developmentalism to neoliberalism, and specifically microcredit, point to significant reorganizations of class in Bolivia. The statist development strategy created a working class in Bolivia and the neoliberal model destroyed it. After 1985, class lines were completely redrawn. The largest and most impoverished classes included the rural and urban poor. The middle class was nearly non-existent. The upper class included the rich, capitalist class, which controlled the majority of productive resources. As explained by Lesley Gill, neoliberal policies "relocated class."[24]

Promised were made by the government to provide alternative employment options, but these options never materialized. As a result, most miners scattered all over the country. Some went to the urban centers in search of employment, while others sought to buy land near Bolivia's border. Some miners organized themselves into cooperatives to work in the few dysfunctional state mines that were not privatized. Others went back to their rural communities of origins that needless to say, held very

[23] Small, Stephanie. 1998. Missing from the Miracle: Microcredit and Urban Market Women in Bolivia. Senior Honors Thesis, Colby College, p. 43.
[24] Gill, Lesley. 1997(b). "Relocating Class: Ex-Miners and Neoliberalism in Bolivia" in *Critique of Anthropology* (17)3. London: Sage Publications Ltd.

few opportunities. Others left Bolivia altogether and headed for neighboring countries such as Chile, Brazil, and Argentina.[25]

Urban Population Growth
1980-2000
Table 2.2



Source: Statistical Yearbook for Latin America and the Caribbean (ECLAC) 2001.

[25] Gill, Lesley. 1997(b). "Relocating Class: Ex-Miners and Neoliberalism in Bolivia" in *Critique of Anthropology* (17)3: 299.

Table 2.3

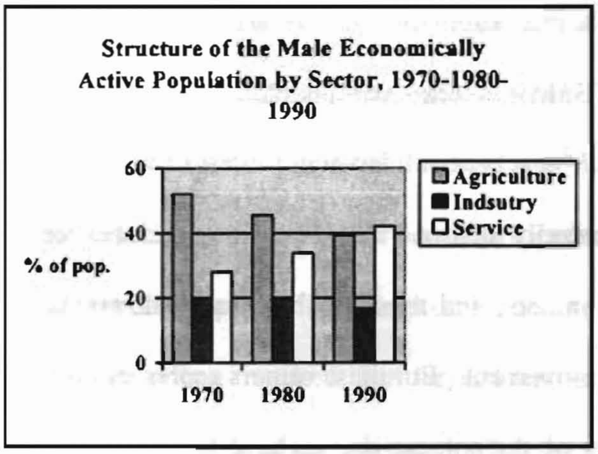
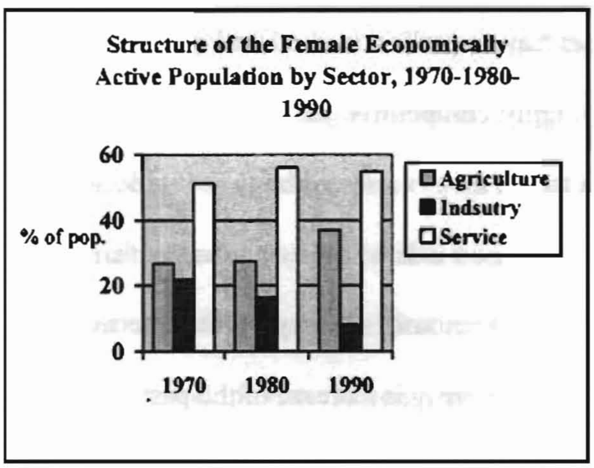


Table 2.4



Source: Statistical Yearbook for Latin America and the Caribbean (ECLAC) 2001.

Table 2.3 indicates the levels of the male employment in the agricultural, industrial, and service sectors. Agricultural production was at an all time high during state developmentalism. Men (52.2%) were employed as tenant farmers and wage laborers. In 1980, however, this number had dropped to 45.5 percent. By the 1990s, only 39.3 percent of all men were farmers. Those who migrated to urban centers took up employment in the service and industrial sectors. From 1970 to 1990 the service sector employment by males increased from 27.9 percent to 42.2 percent as men tried to find their niche in urban centers. In 1970 both men (20%) and women (21.9%) held jobs in the industrial sector. However, unemployed men began to migrate to the city looking for work. As Table 2.4 indicates, industries began to employ men over women. For this reason there is not a sharp decline of male employment in the industrial sector, as one would suspect because of the downsizing of the mining industry. Women who were pushed out of industrial jobs became more involved in the agriculture and service sectors.

Most scholars perceive the return of democracy in a positive light, because it called for democratically elected representation. People would finally have the opportunity to elect leaders that represented their interests. Yet the lack of democratic rule is not what accounts for Bolivian poverty. It is the neoliberal policies that destroyed working class interests. With each miner going his own way, there were no collective interests to be represented. The solidarity of miners during the Bolivian dictatorship did not give miners a vote but it did provide them with crucial rights and protections. Today, miners no longer have solidarity but rather compete for access to scarce resources. The collective identity of unionism has been replaced with individualistic opportunism. Democracy demanded representation. Neoliberalism claimed economic growth and development. However, neither protected nor promoted the interests of Bolivia's large working class.

From time to time, the ex-mining sector shows public acts of solidarity in protest of *veintiuno zero sesenta*. For example they may demonstrate in a centrally located Plaza, crucifying their bodies on flagpoles. In other moments, sympathizers join the miners, and together they march down the *Prado*—La Paz's busiest street—and halt transportation movement. But these miners represent only a fraction of the entire ex-mining class. The majority of the miners are seeking to readjust to permanent unemployment, making do with what is available. Many take temporary jobs as day laborers in construction as the opportunity arises. Others have enrolled in the local university in hopes that an education will increase their chances in a highly competitive job market. Some ex-miners are plumbers, electricians, or mechanics who sit on top of their black tool bags in visible areas of the city, waiting for someone to solicit their services. These kinds of ad hoc jobs are terrible options for miners who are used to fixed wages, benefits, and economic security. Out there in the streets wages come and go, there are no benefits, and economic security is a dream of the past.

The Bolivian family structure was tremendously affected by steady unemployment. Desperate miners turned to alcohol in order to evade their personal failures as husbands and political actors. In order to make ends meet, women were forced to leave the home and seek work in order to supplement the sporadic incomes of their husbands. These women currently line the streets with their vending stands. Traditional housewives are forced to perform double-duty,[26] taking care of their children and earning money by selling goods in an already saturated market. Women began to resent their role as the primary breadwinner for the family. Men were willing to work, but no work was available. Marriages began to fracture. The testimony of one ex-miner explained: "Women out of desperation went with other men [who were not their companions] because the men had some sort of job. It was everybody for themselves...If you die, you die."[27] Once again we can see that market ideology not only affected macroeconomics but also penetrated to even the basic units of society.

The neoliberal approach exacerbated inequalities by favoring elite groups that had access to capital, and by excluding the poor from participating in the economy. Productive resources were sold at discount prices to the highest bidder, allowing only the rich to reap the benefits. The benefits of neoliberalism reached the large landowners with export capabilities, while small farming enterprises were displaced. Mass production of low-priced consumer goods undermined small-scale artisan production that has higher operational costs. Notions of improved production and competition only benefited the "big dogs" that could trade in international markets. Hence even though the neoliberal model claims to produce economic growth and development, it fails to acknowledge that development was for a select few.

The new of role of NGOs in mid and late 1980s demonstrates a significant change in the definition of "development." First, neoliberalism demanded for the diminished control of the State in promoting development. Foreign development agencies stepped into this vacuum and established NGOS, which introduced new, free-market "development" projects in Bolivia. NGO proposals of "sustainable development" replaced many of the State's social welfare programs. Due to the fact that the government relinquished most of its control to provide social services to the poor, the interests of labor unions and popular organizations were largely ignored.

[26] For more information about market vendors' dual role in Bolivian society see Florence E. Babb's "Producers and Reproducers: Andean Market Women in the Economy" in June Nash, Helen Safa, and contributors' Women and Change in Latin America. 1986. South Hadley, Massachusetts: Bergin & Garvey Publishers, Inc.

[27] Gill, Lesley. 1997(b). "Relocating Class: Ex-Miners and Neoliberalism in Bolivia" in *Critique of Anthropology* (17)3. London: Sage Publications Ltd. p. 301-302.

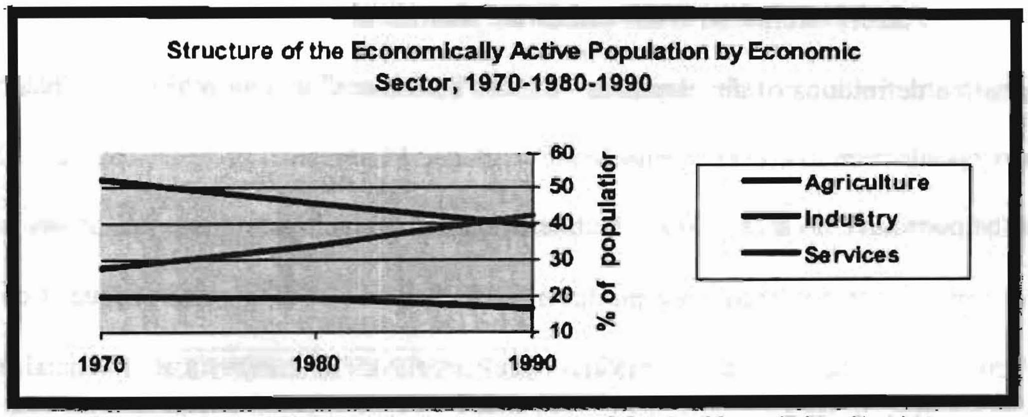
Second, the role of NGOs during the authoritarian government was clearly politically motivated, whereas emerging NGOs claimed to be an apolitical status and benign force. NGOs, however, are never strictly apolitical. Their appearance as an apolitical entity gives them a strategic advantage by weaning the poor of the state and attracting them to nongovernmental projects. The term "nongovernmental" social welfare programs suggest a true concern about the interests of the poor rural and urban dwellers, while political parties appear unable and unwilling to represent the interests of their constituents. NGOs, however, are not apolitical regardless of their "non-governmental" status. Private investors with certain political and economic ideologies fund its entire purpose of being. So while it can be argued that NGOs were less overt in their politicization during the dictatorship, NGOs of the 21st century are certainly driven by political influence and economic gain.

In the financial sector, liberalization of credit and interests rates served as incentives for foreign investors to increase investment. Struggling state banks were liquidated and closed. Seeking an opportunity to make money in their absence, finance-oriented NGOs moved to the forefront. Under the guise of providing social benefits to the poor vis-à-vis microcredit, NGOs embarked on a mission to make money from poverty-stricken Bolivians. In the late 1980s and early 1990s, new financial institutions sprouted up. International organizations from the United States, Germany, and Switzerland began to compete for a space in the microfinance sector. Their mission was to provide banking services to the poor that had been traditionally excluded from access to money markets. NGO success in microenterprise development has prompted the State to abandon programs that offered concrete benefits, such as health and education.[28] Microenterprise development theory fails to address the origins of poverty, and legitimizes the State's poor effort to provide jobs, schools, and

[28] Gill, Lesley. Gill, Lesley. 1997(a). "Power Lines: The Political Context of Nongovernmental Organization (NGO) Activity in El Alto, Bolivia" in *Journal of Latin American Anthropology* 2(2): 155.

health services to the poor by assuming access to capital will lead to improvement in all these areas. Grassroots empowerment is all-inclusive in microcredit theory.

Table 2.5 (a)



Source: Statistical Yearbook for Latin America and the Caribbean (ECLAC) 2001.

Table 2.4(a) shows that the presence of agricultural subsidies led to displacement of small farmers by commercial production. The service sector expanded significantly due to the levels of migration into the city. The industry or manufacturing sector stays about the same. Below in Table 2.4(b), the exact percentages are listed.[29]

Table 2.5 (b)

YEAR	Agriculture	Industry	Service
1970	52.1%	20.0%	27.9%
1980	45.5%	19.7%	33.8%
1990	39.3%	16.8%	42.2%

Source: Statistical Yearbook for Latin America and the Caribbean. 2001. (ECLAC) 2001.

The statist development model provided access to productive resources that gave the poor political leverage to secure social welfare benefits. Neoliberal policies have confiscated the productive resources from the poor and are the central cause for increased poverty and

[29] Percentage may not add up to 100 due to rounding.

unemployment. NGOs are not fixing the problem, but rather they are the "apolitical" tools used to advance it. The dominant players of the free market trade have once again found a way to exploit the market in the name of "social economic development."

Microcredit theory works so well within the neoliberal model that NGOs have failed to provide alternative definitions of development. Small "businesses" cannot realistically reach a high enough level of production to compete with larger markets. Microcredit provides capital to the poor but many of the poor have no access to productive resources. Development requires production, and small market vendors are not producing products but rather wholesaling mass-produced consumer goods. Microfinance institutions, however, have *produced* a *competitive* financial market. Neoliberalism notes that production and competition are key elements, and NGOs adhere to these criteria. Yet microcredit does not suggest the same criteria be used for the poor. Microcredit does not create production nor does it increase competition in any positive sense of the word. For the microentrepreneur, competition is not associated with large-scale trade in international market, but rather it is associated with the daily pressure and struggles of surviving with limited resources.

CHAPTER THREE:

UNDERSTANDING THE INFORMAL SECTOR

One can rightly assume that the informal sector is a characteristic of a Third World or developing country. As noted in Chapter two, however, the arbitrary lines that define formal and informal economies are really reflections of political decisions that exclude certain groups from participating in the economy. In such cases—as in the case of miners—unemployed persons seek a living through other avenues, usually self-employment in commercial, manufacturing, or service sectors.

ILLUSTRATIVE TYPES OF MICROENTERPRISES
Table 3.1

COMMERCIAL	MANUFACTURING	SERVICE
Street vendors	Tailor/seamstress	Transportation
Snack food sellers	Cabinet/furniture making	Barbers/hairdressers
Used clothing vendors	Metal working	Machine repair
Convenience Stores	Bakery/food processing	Electronic repair
Market Vendors	Beer production	

Source: Adopted from Berenbach, Sheri and Craig Churchill. 1997. Regulation and Supervision of Microfinance Institutions: Experience from Latin America, Asia and Africa. Washington DC: The Microfinance Network Occasional Paper No.1, p. 6.

Elisabeth Rhyne notes that there are three dominant perspectives regarding the role of the informal economy. [30] The first perspective is defined as residual. Macroeconomists tend to see the growth of the informal sector as a result of the formal sector's failure. Macroeconomists say that it is the responsibility of the formal sector to provide employment, and if it is unable to do so, then one sees the rise of the informal sector. They do not see the informal sector as a strong nor permanent source of employment but rather as an economic safety net for bad economic times. The residual model is not a reflection of what took place in Bolivia. The informal sector cannot be considered a safety net for bad economic times. Bad economic times seem to be a permanent reality of the Bolivian poor. The government made a conscious decision to destroy "formal" markets and displace workers to "informal" ones. The term "safety net" points to a temporary state; yet the neoliberal policies of 1985, which are the cause of the creation of the informal economy, are not going to be temporary. Neoliberalism is here to stay, and the poor most definitely do not feel "safe" in unemployment.

The second perspective states that the informal sector has a positive social and economic influence. The disenfranchised are taught to seek to improve their lives through self-help. Microenterprise workers and owners realize that their work will "make or break" them, thus they seek skills that ensure their economic well-being. After workers obtain entrepreneurial skills, they invest their income where they see it as most beneficial to them; more likely than not they will invest their money in their children, providing them with a better education. This perspective denotes that microenterprise not only puts economic development in the hands of the workers but also and perhaps more importantly, that social development derives from economic independence.

There are two major problems with this perspective. First, it assumes that the poor did not seek to improve their lives before. This, of course, is not the case. Workers all over Bolivia united together to challenge the Banzer regime and were thus able to hold onto the workers benefits that they did have. Second, this perspective assumes that the poor did not know how to invest their money well until they became poor. If poor workers have not invested in their children's education, then it is because they are trying to put food in their bellies. To claim that the poor need entrepreneurial skills essentially in order to teach them a lesson about economic independence is complete nonsense. The poor are struggling to survive with what they have. What they have are small loans at high interest rates. What they are expected to do is create a business that can make that money multiply. This is not economic independence, nor will it translate into social development.

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[30] Rhyne, Elisabeth. 2001. Mainstreaming Microfinance: How Lending to the Poor Began, Grew, and Came of Age in Bolivia. Bloomfield, CT: Kumarian Press, Inc. p. 44-45.

The third perspective focuses on the legal framework of the informal enterprise. This approach states that informal businesses do not seek to become formal businesses. First and foremost, the burdensome process of becoming recognized as a formal sector enterprise is just not worth it. The time needed to complete the entire transaction may take up to a year. Besides this, the legal recognition of formal status demands that the enterprise pay taxes and provide worker benefits. Formality introduces a "whole new ball game" that is most likely more costly to and not in the best interest of the owner.

Formal & Informal Economies

There are two major theories regarding the relationship between the formal and informal economy. One theory states that the informal economy is constantly in competition with the formal economy. Informal enterprises can evade traditional state regulations such as taxes, and are not required to offer social welfare protection or adhere to strict labor laws regarding the rights of the worker. Because of their "informal" nature, microenterprises compensate for their lack of fixed capital by lowering their costs below those offered by formal enterprises. This point, however, is often refuted due to the fact that there are microentrepreneurs that do pay taxes and do not seek to evade such regulations. In fact, those who label the informal sector as illegal over generalize, because many vendors pay the applicable taxes with few qualms.*

The other theory states that the informal economy is not in competition with the formal one but rather that the informal and formal sectors are complements of one another. Through subcontracts, informal economies add value to products by lowering output costs such as hiring more employees and providing them with employee benefits.

Bolivia's Urban Informal Economy

* One exception to this is the *ambulantes* or mobile market vendors, who intentionally move around in order to evade the tax collectors that periodically patrol vending sectors of the city. This has been a constant source of tension between market vendors because those with fixed kiosks, the *establecidas*, feel that all vendors should receive equal treatment from

When walking down the streets of La Paz, Bolivia, one finds that the informal sector predominates, especially in the open market. Many of these peddling vendors are Aymara-speaking women called *cholas* who sell an array of items, including perishables, auto replacement parts, books, clothing, and just about any other item one could imagine. One cannot even describe the economy of Bolivia without mentioning their presence. Jaime Saenz, historian and expert on Bolivian cultural anthropology, writes of the Rodriguez market, one of La Paz's largest food markets, it "is inseparable from the La Paz *chola*, who is by her own right the owner..."[31] The art of street vending can take on many different forms, depending on the business. The smallest type of business may be a market vendor who wakes up at 5:30 a.m. to sell kleenex out of an open suitcase display from any free space of the sidewalk. The more developed business may own or rent a permanent kiosk with fancy display windows and a hired hand to help out. Regardless of the microentrepreneur's approach, competition is intense, with many products to sell and many people selling them.

Besides the street-side vendors, there are other microentrepreneurs that produce in large quantities and sell petty commodities as wholesale to entrepreneurs. Many of these microenterprises are owned by a family and reside in the back or spare rooms of homes in poor sections of the city. For these entrepreneurs, business is usually steady. Establishing a network of contacts and working together, a family can to a certain extent secure consistent sales. Wholesalers plan production according to economic slowdowns and utilize the time to go out and seek new clients. Greater output may necessitate more help, allowing the larger microenterprises to offer employment to non-family members.

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the government. *Establecidas* say that if *ambulantes* do not have to pay taxes, neither should they. The competition that exists between market vendors is revisited in chapter six.

[31] Saenz, Jaime. 1979. Imágenes paceñas: Lugares y personas de la ciudad. La Paz, Bolivia: Difusión. p. 57. My translation.

The rise of the informal sector in Bolivia can be attributed to two major developments. The first of these was the incredible increase of migrants coming from rural areas and going to urban centers beginning in the late 1960s. These migrants—mostly young people—traveled to the urban centers searching for greater economic opportunities. They looked for apprenticeships and acquired skills from others in a particular trade. Adjustments were made easier for those who already had family members precede them whom could teach them the "tricks of the trade" and network them into the economic system if not provide them a job. Some migrants made the urban centers their permanent homes, while others came and went as the seasons dictated sales. The growth of the informal sector from the late 1960s onward is reflected in the following: In one of La Paz's most renowned food markets, Rodriguez, in 1967 the market's busiest days accounted 2,332 market vendors. In 1992, this number had increased to 3,778 vendors, nearly a 62 percent increase. El Alto markets showed similar growth for the same years. In 1967 approximately 15,000 vendors worked in El Alto whereas by 1992 this number had risen to 27,371, an 82 percent increase.[32]

The second cause of the growth of the informal sector is the 1985 economic policies and the shrinking of state enterprises. In 1985 the state developmental model was discarded and the neoliberal model adopted. This meant that all state industries including, mining and manufacturing were privatized. The State no longer guaranteed secure employment with benefits, and the downsizing of these industries meant mass unemployment. Workers accustomed to the job stability were forced to seek alternative employment. Finding themselves with few options, unemployed workers practiced self-employment as a coping strategy. According to Rhyne, in 1985 the public

[32] Buechler et al. 1998. "Financing Small-Scale Enterprises in Bolivia" in Lynne Phillips, Ed. The Third Wave of Modernization in Latin America: Cultural Perspectives on Neoliberalism. Wilmington, DE: Scholarly Resources Inc. p. 86.

sector employed 24 percent of the labor force in the three major cities of Bolivia: La Paz, Cochabamba, and Santa Cruz. By 1989 this number had fallen somewhat to 17 percent.[33]

These large population shifts from rural to urban areas had to be dealt with by the government. Even though the policies to move towards neoliberalism were activated by government officials, the mass movement of people to the cities was a great concern to politicians. Bolivian politicians knew that a great gathering of poor people in one area had historically led to social unrest. In order to avoid political instability and social unrest, the government introduced the microcredit program. Since the State would no longer provide stable jobs, then it would provide credit. Credit, however, is not employment. And even though microcredit theory tries to link access to capital with employment, there is no data supporting this statement. This will be addressed at greater length in chapter six.

Other significant adjustments took place within the informal sector after the introduction of neoliberalism in 1985. The number of manufacturing microenterprises fell while the number of commercial ones increased. Rhyne claims that these changes were due to the influx of women into the informal sector. Some of these women came from rural areas to the city as migrants, hoping to earn extra money for families at home. Others were wives who sought to make up for the loss of income of their unemployed husbands. While the initial motivation was out of necessity and in response to 1985 economic shocks, today informal market participation is motivated by other factors. In 1985 male-operated manufacturing concerns no longer dominated this sector. Rather, female-operated enterprises began to compete with the established manufacturers, forcing them to downsize. Some sense for the rapidity with which women entered the informal sector may be gained by the following; female participation in the labor force grew twice as fast as the total urban growth rate

[33] Rhyne, Elisabeth. 2001. Mainstreaming Microfinance: How Lending to the Poor Began, Grew, and Came of Age in Bolivia. Bloomfield, CT: Kumarian Press, Inc. p. 42, 48.

between 1985 and 1989.[34] Unsurprisingly, when microcredit officers went looking for potential clients in February of 1987, they found success with female commercial market vendors.[35]

These changes in enterprise type and activity suggest a series of important social and economic changes. On the one hand, these shifts in the informal sector demonstrate a positive social effect, particularly for women. Women feel more empowered by having access to credit. They have adopted the self-help attitude and impacted the informal economy to their favor. Women became more independent, both economically and socially, of their male counterparts by gaining economic control over their own assets. In general, women entrepreneurs tend to earn higher wages than men do. Struggling mothers have expressed resentment that men spend money unwisely, leaving children poorly dressed and malnourished. One woman states, "No, I have never seen the man's money, not even a cent. That luck I've had."[36] This is one reason why poor women refuse the institution of marriage; some go even as far as to liken marriage to colonialism. These women do not need or want husbands in their lives, because they are usually more of an economic burden than an economic relief. As a single woman with control of her own assets, the female entrepreneur can spend on things important to her, including the well being of her children.

On the other hand, the downsizing of microenterprises from manufactured goods to familial-owned, commercial goods and services had a negative economic effect. The former signifies greater sophistication and development than the latter. Perhaps manufacturing informal microenterprises would have eventually developed into formal enterprises offering more job security and reaching a broader group. Conversely, the commercial and service sectors grew, signifying a breakdown of the manufacturing sector and what one (certainly I) would call a process of underdevelopment. Today one sees this process has reversed itself once again, and family-owned microenterprises seek to expand their businesses through greater production, which would require hiring more employees.

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[34] Ibid, 49.
[35] Ibid, 67.

Today the micro entrepreneurial sector is quite important in the scope of Bolivian economic prosperity. Totaling about 600,000 small and micro entrepreneurs, this sector represents 20-25 percent of Bolivian GDP.[37]

[36] Stephenson, Marcia. 1999. Gender and Modernity in Andean Bolivia. Austin: University of Texas Press. p. 29
[37] International Finance Corporation.
http://wbln0018.worldbank.org/IFCExt/spiwebsite1.nsf/f451ebbe34a9a8ca85256a550073ff10/ad1f1c0b03989f0e85256c87007afbb2?OpenDocument {Accessed 2/28/2003}

CHAPTER FOUR:

NGO TRANSFORMATION & THE COMMERCIALIZATION OF MICROCREDIT

In this chapter, I discuss the origins of the Foundation for the Promotion and Development of the Microenterprise Sector (PRODEM), Banco Solidario, S.A., Caja Los Andes, and the Center for the Promotion of Economic Initiatives (FIE), four of Bolivia's most prominent microfinance institutions. Although microcredit is recognized as an important part of the Bolivian economic model, this was not always the case. I will consider microcredit growth and development, through its transformation from an NGO-based effort to a full-fledged moneymaking business. In understanding NGO transformation, I consider two main questions. First, what motivated NGO transformation? Second, what actors were involved and what steps were taken to make transformation possible? My concluding remarks discuss how NGO transformation affected the microcredit model by placing emphasis on profitability.

Foundation for the Development of the Microenterprise Sector (PRODEM), NGO

I begin my evaluation of microfinance institutions in Bolivia with PRODEM. While PRODEM was not the first microfinance entity in Bolivia, it was the first to have a widespread impact on how microcredit was perceived. Acción International, a U.S. non-profit organization, assisted PRODEM in its initial steps toward microcredit lending.[38] Acción sought to replicate the microcredit model in Bolivia as it had previously done in other Latin American countries. Under the leadership of Jack Duncan, founder and president of Acción, and Fernando Romero, a native Bolivian and former owner of a local Coca-Cola Company, several prominent Bolivian businessmen, including Roberto Capriles, David Blanco,[39] Carlos Iturralde, Gonzalo Sánchez de Lozada, Julio León Prado, Luis Eduardo Siles, Carlos Calvo, Fernando Illanes, and José Luis Camacho, were invited to discuss the endeavor. Some of these men were Ministers who helped launch former

[38] Acción was founded in the 1961 as a student-run volunteer effort in Caracas, Venezuela. Although its initial efforts did not focus exclusively on microcredit, its current focus is community development vis-à-vis microcredit.

President Victor Paz's Economic Policy and future (today's acting) President Gonzalo Sánchez de Lozada political and economic platforms. At the negotiating table Duncan proposed the microcredit project and solicited their participation and investment. At the meeting, Duncan presented a feasibility study by Robert Peck Christen, microfinance specialists, which said that the restoration of monetary stability in Bolivia ensured the success of the microfinance program.

The Bolivian businessmen were initially quite skeptical of the project. It was a foreign concept to them and they had no real proof that microcredit was a sound economic investment. First, the businessmen questioned the high interest rates. They appeared scandalous in comparison to the much lower interest rates offered at banks. How were they going to make loans to poor people at such high interest rates? Who would accept such conditions? The businessmen concluded that the poor would agree interest rates higher than traditional banks, because when in need of money, the poor would accept outrageous offers from loan sharks. Second, they were uncertain that microcredit was the market solution to their economic problems. Because microcredit was unfamiliar territory, there were fears that microcredit would harm rather than help the situation of the poor because of indebtedness. Pledging support would not only be a financial risk but also a social risk as well. No one wanted their name attached to a development strategy that resulted in greater poverty and social unrest.

Duncan seemed to have picked his first investors carefully, despite their doubts. These men were strong advocates of the neoliberal model and belonged to the same business class that did not profit during the state developmental era. They had witnessed how the state-developmentalism stifled investment, and the microcredit model offered a new solution. The probable success of microcredit to be a profitable investment was high. Being optimistic, Bolivian investors thought that perhaps the poor would be attracted by their access to additional funds; perhaps the solidarity method would work; perhaps this model would mean overall economic development for the Bolivian nation.

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[39] David Blanco served as the Minister of Finance under the Banzer regime.

They agreed to invest several thousand dollars each, totaling $80,000. Acción and the United States Agency for International Development (USAID) invested $560,000.[40] PRODEM, a non-governmental organization launched its microcredit program.

PRODEM's First Donors

Table 4.1

INVESTOR	COUNTRY OF ORIGIN	AMOUNT ($USD)
USAID	United States of America	$560,000
Individual Investors	Bolivia	$80,000
TOTAL		**$640,000**
Source: Rhyne, Elisabeth. 2001. Mainstreaming Microfinance: How Lending to the Poor Began, Grew, and Came of Age in Bolivia. Bloomfield, CT: Kumarian Press, Inc. p. 63, 105.		

Pancho Otero was hired as the executive director of the new microfinance institution. He had worked in rural Bolivia as a credit officer and had a lot to offer. He not only understood the microcredit model well, but he also felt a personal commitment to the project. Otero believed in microcredit and was committed to helping the poor. Mario Usnayo, an experienced microcredit loan officer, and Monica Velasco joined Otero in the microcredit effort. These three individuals made up PRODEM's first management team. Unlike a formal banking institution, Otero, Usnayo, and Velasco chose PRODEM's first employees to be young men and women (mostly students fresh out of the university) that were passionate about their project—helping poor people to help themselves. For Otero, it was not all about the bottom line (even though the bottom line was inherently important for financial viability) but rather his and others' obligation to make a difference in the lives of Bolivian poor.[41] PRODEM's middle class management team had been convinced by the simplicity of microcredit theory and was persuaded by an alternative development that neither had links to state

[40] Rhyne Elisabeth. 2001. Mainstreaming Microfinance: How Lending to the Poor Began, Grew, and Came of Age in Bolivia. Bloomfield, CT: Kumarian Press, Inc. p. 105.
[41] Rhyne, Elisabeth. 2001. Mainstreaming Microfinance: How Lending to the Poor Began, Grew, and Came of Age in Bolivia. Bloomfield, CT: Kumarian Press, Inc. p. 65.

developmentalism nor socialist thought. They believed microcredit would alleviate the poverty created by neoliberal adjustments.

Taking into account the new concept of microcredit, the entire staff had to be taught solidarity group lending. Bill Tucker, who was developing Acción's Peruvian microcredit program, came to Bolivia to teach them how to make solidarity group loans work. The team of technocrats and young people began the lending process, both sides deeply invested in the project, with distinct skills to offer. When all technical and financial aspects were finalized, PRODEM opened its doors.

Interestingly, PRODEM initially had a difficult time finding clients who wanted a loan. When PRODEM first opened its doors, nobody walked through them. Consequently the management team and employees hit the streets and tried to recruit poor people who would benefit from the loan. All, however, was not to be as easy as it seemed, and it was not until February 1987 that PRODEM issued its first loan. Elisabeth Rhyne recounts Mario Usnayo's recollection of PRODEM's initial efforts:

> We went to the poorest people in the market. They wouldn't believe us and wouldn't come. We went to the next poorest people. After some promotional activities, we waited, looking out the window, but only a few people straggled in. So we decided to go to an association. We chose the *Asociación de Comerciantes Rodriguez*, a group of fruit and vegetable vendors...We succeeded in convincing four groups of five people to come together, and made our first set of loans to twenty people. That was the last promotional work we had to do. From that point on, word of mouth brought people to us.[42]

From the onset loan officers worked very closely with their clients. Largely motivated by Otero, loan officers felt that the work they did was rewarding. They felt they believed that access to capital was the way to better the lives of the poor. In the initial meetings with potential clients, PRODEM officers explained what the organization expected of them (in Spanish, these talks were called *charlas*). They made sure the clients knew that PRODEM did not have any religious or political affiliation and would not treat clients differently based on any of these criteria. They emphasized the

[42] Ibid, 67.

definition of solidarity and that in all things, the clients had to be honest and understand that the group loan was a social obligation. Solidarity was no longer associated with ideas of a collective voice and cooperation as it had in the past but rather with an obligation of economic interdependence. Lesley Gill notes:

> Solidarity [became] synonymous with debt repayment, and social relationship within the individual groups are frequently strained by the resentment and hostility directed at those who fail to make timely payments. More generally, differences between the poor and the truly destitute are reinforced, and freedom comes to mean having as much money as possible in your pocket.[43]

Solidarity was no longer defined as collectivism but rather as competition and individualism. The term "solidarity" now has the potential to lead to the deterioration rather than the preservation of important social relations.

Loan officers at PRODEM stood out from other loan officers at other lending institutions. The personal relationship that emerged during the loan transaction (from distribution to repayment) contributed to developing the relationship between the client and the institution. Loan officers encouraged clients to invest their money in their businesses and to use good management skills so the credit would bring the greatest returns. In committee meetings with other PRODEM employees, loan officers had to prove their clients demonstrated an ability to pay back the loan. In doubtful cases loan officers would champion the cases of their clients, insisting "this or that" demonstrated "good client" status. Loan officers did not go to such lengths because they received monetary incentives for their efforts but rather because in such cases, they honestly believed that their client would come through with payment. Loan officers believed in their clients and their businesses and worked with their clients *until* the loan transaction was a completed success. They worked so diligently because it was not only important for good for the institution but also because there was a genuine interest in helping poor people.

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[43] Gill, Lesley. 1997(b). "Relocating Class: Ex-Miners and Neoliberalism in Bolivia" in *Critique of Anthropology* (17)3: 306.

PRODEM constantly worked with the proposed model introduced by Acción and adapted it to the Bolivian case. For example, repayment scheduling had to be adapted to the "rhythm of the market."[44] Upon the realization that repayment on Fridays was an inconvenience to market vendors, PRODEM rescheduled. One loan officer notes:

> One day it hit us. Market vendors bought on the days the big trucks came—Wednesdays and Fridays. They sold over the weekend. On Mondays they had money. So we switched the schedule. Monday mornings for repayment, then disbursement on Tuesday mornings. We hit the nail on the head with this because it really fit the market.[45]

The new repayment schedule also made it easier for officers to follow-up on defaulted payments on Tuesday mornings, neither a busy market day nor the day of produce arrivals.

PRODEM did not create separate departments for loan distribution and loan repayment, which may have resulted in allowing for such consistent loan repayment. Distinct from banks, PRODEM concluded that the loan officer must truly be dedicated to his/her case, because he/she would have to ensure the loan until the very end. In fact, if a client was unable to pay or defaulted on the loan (assuming the solidarity model did not kick in), the loan officer went to the client's work site and investigated the reason for lack of payment. By connecting distribution with repayment vis-à-vis loan officers, the loan process was not only much more personal, but also these linkages also allowed for proved to lessen the amount of repayment default.

From its initial distribution of loans, PRODEM was a model of success. In six months it claimed 700 clients, a waiting list, and zero default rate. Consistent with the solidarity model, PRODEM's clients' first loans amounted to $50 with a 2-month repayment plan. Subsequent loans were $100 and $200 with extended repayment terms. Interest rates were fixed at 2.5 percent per month, and clients were obligated to allocate the first 5 percent of the loan in savings. In accordance with microcredit lending patterns, the majority (85%) of PRODEM's clients were women market

[44] Rhyne, Elisabeth. 2001. Mainstreaming Microfinance: How Lending to the Poor Began, Grew, and Came of Age in Bolivia. Bloomfield, CT: Kumarian Press, Inc. p. 70.

vendors.[46] By the end of 1991, PRODEM was a stellar example of microcredit success not only in Bolivia but also in all of Latin America. It had issued 22,700 loans and its loan portfolio had reached $4.6 million. Its clientele load was increasing at 50 percent a year and the default rate remained remarkably low. Its geographical reach included eleven branches, many of them located in poor neighborhoods.[47] PRODEM made the microcredit model an uncontested success.

How did PRODEM achieve such remarkable success? In fact, the PRODEM success story is truly "one-in-a-million," because not all microfinance organizations can claim equivalent success. Perhaps the most important factor that accounts for PRODEM success is timing. The introduction of microcredit in the mid-1980s was without a doubt a time when free-market policies worked in the favor of foreign investment. So although Paz's Economic Policy excluded the informal sector, it created the necessary conditions—immense poverty and neoliberal economics—for the introduction of microcredit. In the politically and economically "unstable" environment, investors would not benefit from the Bolivian system. If the market had maintained state developmental policies, protectionism would have undermined the microcredit initiative, choking competition and ultimately leading to financial failure. Neoliberalism provided an irresistible opportunity to provide an alternative, non-governmental plan of "development." Yet as noted in Chapter two, this initiative was not truly motivated by a concern for the poor, because poverty was the byproducts of neoliberal adjustments. Instead, microcredit was an open opportunity for the rich to invest money in a new endeavor that would exploit poverty in order to make money.

As early as 1988 the tremendous growth experienced by PRODEM led to the proposal of microcredit commercialization. Once again, embarking on an uncharted course, PRODEM investors concluded that commercialization of microcredit was in the best interest of the institution. These businessmen publicly claimed that they wanted to reach more people with more loans, because it was

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[45]Ibid, 71.
[46] Ibid, 69.

"good for the people." The more likely reason is that commercialization would reach more clients, accrue more loans, and result in greater profits for them. That is commercialization would result in a bigger investment opportunity. The next section discusses the founding of Bolivia's first microfinance commercial bank, Banco Solidario.

Banco Solidario, S.A.

Banco Solidario (henceforth referred to as BancoSol) was created by PRODEM and founded in February 1992. Because of PRODEM's initial efforts, microfinance institutions' position underwent major changes. BancoSol was the first of many transformations of non-profit NGOs to privately funded, commercialized microfinance institutions. What motivated these changes? How did the proposed model differ from PRODEM?

The transformation from an NGO to a commercial bank was motivated by the constraints of an NGO by definition. Non-governmental organizations in the financial sector are non-profit organizations and have no owners. Unlike other financial institutions, NGOs cannot capture funds through savings nor invest in money markets. This posed a problem for PRODEM. In order to expand it needed access to more capital, which was only available through additional donor funds. So why not just continue to seek donor contributions? First, donor funds from international organization and wealth business were not always available. Without these funds, new loans could not be issued, and PRODEM did not want to run the risk of stagnation. As a private institution, PRODEM could gain access to capital from diverse credit lines at low interest rates, including the Central Bank of Bolivia, which would reduce the risk of capital shortage.[48] Second, PRODEM's non-ownership structure did not seek to make money, but the proposed model would. The proposed model would provoke competition as a formal financial institution.

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[47] Ibid, 77.

[48] White, Victoria and Anita Campion. 2002. "Transformation: Journey from NGO to Regulated MFI" in Deborah Drake and Elisabeth Rhyne Eds. The Commercialization of Microcredit: Balancing Business and Development. Bloomfield, CT: Kumarian Press, Inc. p. 23.

PRODEM also wanted to offer a wider array of customer services. Savings were important to microborrowers, but PRODEM was only authorized to supply savings on a compulsory rather than voluntary basis. So, while clients were able to save some money (5% of the initial loan amount), they could not make voluntarily deposits. If PRODEM could capture voluntary savings then they could then use this freed up capital to expand its efforts. As it stood, growth would stagnate when donor funds expired. In short, PRODEM needed access to competitive financial markets in order to reach its desired scope.

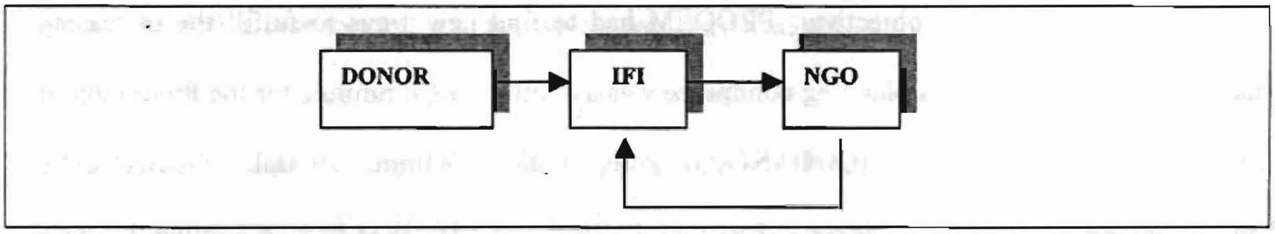
The new model sought to solve these problems. The new model—commercialization of microcredit—would provoke competition, attracting investors to become part owners. PRODEM had already proved that microcredit was a financially viable business, so the only thing that it lacked was the ownership model in order to resolve the problem of having to seek grants from donors. Competition and expansion of microcredit would decrease the moral hazard of making poverty a profitable business. Disengagement from the non-profit model was perceived as the answer to the problem. The first microfinance commercial bank, Banco Solidario, was to be born.

In order to reach its objectives, PRODEM had to find new ways to fulfill the increasing demands of its portfolio. So a planning committee was assembled—Committee for the Promotion of the Bank for Microenterprises[49] (COBANCO)—to assist the transformation task. COBANCO's chairman and PRODEM's board director, Fernando Romero, led PRODEM in investigating the costs and benefits of such an endeavor. COBANCO received assistance from BancoSol investors, Calmeadow Foundation and Acción International. First, COBANCO looked at financial feasibility studies. The first proposal sought to procure funds vis-à-vis subsidized loans from the Central Bank of Bolivia. This proposal was rejected and the new and accepted one would raise capital by selling bank shares to private local and international investors. Shareholding made the new commercial bank a viable investment option for its investors.

Second, COBANCO had to meet the legal requirements of a commercial bank. The Superintendency of Banks required a minimum capital investment of $3.2 million, which meant attracting investors with a lot of money. The new bank's principal investor would come from the portfolio of PRODEM, making PRODEM a shareholder. PRODEM, however, was a non-profit organization; its money came from donors and U.S. taxpayer dollars. Was it lawful for the PRODEM to embark on an endeavor that would capitalize on donor funds? The grant agreement between PRODEM and USAID restricted PRODEM from using the funds for any other purposes besides their original ones, which were designated for social objectives. Yet because the money was given to PRODEM and technically no longer belonged to USAID, then taxpayer dollars were not being spent. Eventually the U.S. determined that the portfolio transfer was lawful because the initial government funds that were lent had been repaid. Thus the funds were really no longer taxpayers dollars and could be used as the government chose.[50]

Non-Profit Transaction

Table 4.2



PRODEM sold the portfolios of its most viable clients to BancoSol in return for shares. The sold portfolio totaled $1.4 million, which gave PRODEM a 41% share in BancoSol. Other shareholders included Bolivian businessmen (25% share) and foreign development organizations.

[49] In Spanish, Comité Promotor del Banco para la Microempresa.
[50] White, Victoria and Anita Campion. 2002. "Transformation: Journey from an NGO to Regulated MFI" in Deborah Drake and Elisabeth Rhyne, Eds. The Commercialization of Microfinance: balancing Business with Development. Bloomfield, CT: Kumarian Press, Inc. p. 40.

The fact that BancoSol's largest shareholder was an NGO made the Superintendency of Banks leery. The Superintendency questioned what role PRODEM would have in BancoSol's decision-making. It feared that an NGO's agenda would dominate BancoSol's agenda. Past bank failures made the Superintendency leery of such a close relationship between the two institutions, because above all, the Superintendency was concerned about the bank's financial stability. If PRODEM was to influence the bank, the Superintendency had to be sure operations placed a greater emphasis on financial viability than social programs, such as training and management skills for clients. COBANCO convinced the Superintendency that NGO involvement would not hinder the bank's most important mission of financial viability.

Banco Solidario Shareholders (1992)

Table 4.3

SHAREHOLDERS	COUNTRY OF ORIGIN	AMOUNT (USD)
PRODEM	Bolivia	1,400,000
Inter-American Investment Corporation	Multiple countries	N/D
Bolivian businessmen	Bolivia	1,000,000
Acción International	United States	900,000
Calmeadow Foundation	Canada	
Fundes	Switzerland	
Rockefeller Foundation	United States	200,000
SIDI	France	150,000
TOTAL		**>3,650,000**

Source: Rhyne, Elisabeth. 2001. Mainstreaming Microfinance: How Lending to the Poor Began, Grew, and Came of Age in Bolivia. Bloomfield, CT: Kumarian Press, Inc. p. 110.

Throughout transformation, COBANCO and the Superintendency worked very closely, focusing on the legal procedures of establishing and maintaining a microcredit commercial bank.

The Superintendency of Banks was also very dubious of the solidarity model. Financial regulations did not consider the solidarity model as offering sufficient collateral. The Superintendency required movable assets, such as liens on property, in order to insure the loan. This meant that the new bank would have to secure every solidarity loan it issued with reserves of 100%. For BancoSol this would be an impossible task because nearly all of its loans would have to be covered by reserves. BancoSol went on to convince the Superintendency that solidarity group lending should be considered sufficient collateral, pointing at the success of solidarity loans in PRODEM. The Superintendency was able to reach a compromise with BancoSol, allowing it to issue solidarity loans of $2000 or less without the need of securing these loans with reserves. The Superintendency also issued other regulations regarding administrative tasks such as reporting profit and loss accounts, taxation, and other security measures.[51]

Advocates of NGO transformation felt that regulation by the Superintendency was a great accomplishment. Regulation was supposed to legitimize the microfinance sector as a competitive market economy, and therefore attract private investment. Recognized as a formal financial institution, BancoSol began operating on February 10, 1992 in the San Pedro neighborhood.

Transformation did result in the desired effects. Transformation allowed microfinance institutions attracted clients with a better array of services, especially the savings account feature. Microfinance institutions had effectively stimulated a higher level of client participation in savings deposits. In turn, as stated earlier, the deposits made more capital available in order to reach more people. The cyclical nature of the microfinance model is quite consistent with BancoSol's promotional logo that states, "We grow together."[52] The logo emphasizes the interdependence of client participation in microcredit and microcredit interest in client participation in order to realize "development" in both sectors. Yet there is no evidence that the client and the institutions are truly growing together. Microfinance institutions are indeed profitable and the money purses of investors are enlarging, but the indicators of poverty alleviation are yet to be proven.

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[51] Katsuma, Yasushi. 1997. "Transforming an NGO into a Commercial Bank to Expand Financial Services for the Microenterprises of Low-Income People: PRODEM and Banco Solidario (BancoSol) in Bolivia" in *Technology and Development*, No. 10, p. 77.
[52] In Spanish, Juntos crecemos.

The most profound and immediate effect was the fast commercialization of microcredit into the financial economic system. The foundation of BancoSol certainly provoked competition, and only months later, the Superintendency of Banks and other NGOs were working together to replicate the BancoSol success. The Superintendency saw the need to define a new category for microcredit lending institutions. Working in conjunction with Interdizciplinare Projekt Consult (IPC), the Superintendency reviewed several proposals. These proposals included banking houses that would be owned by municipal governments and departmental banks. Both these proposals were rejected. Banking houses and departmental banks would not far-reaching enough. They appealed only to politicians who could use financial services as an appealing device to their constituencies. In addition, it was felt that restricting lending institutions to certain jurisdictions would result in a lack of competition. The model that was finally agreed upon was *Fondo Financiero Privado* (FFP).[53] FFPs would act as financial intermediaries for microenterprises and would abide by the regulations of the Superintendency. These regulations included: 1) a minimum capital of $1 million for foundation; 2) comparable regulatory norms as banks (ie. ownership structure, portfolio quality, liquidity, internal control, and limitations against insider lending) and; 3) restrictions from servicing foreign trade, credit cards, checking accounts, and trust funds. The Supreme Decree 24000 of President Gonzalo Sanchez de Lozada endorsed these regulations in May 1995, and FFPs were integrated into the financial system.

Caja Los Andes, FFP

Caja Los Andes was the first microfinance institution to be given a FFP license in July 1995. Caja Los Andes, however, was also preceded by the work of an NGO, ProCrédito. Claus-Peter Zeitinger, founder of IPC, established ProCrédito in 1986 with the foremost intention of converting it into a formal financial institution and capturing funds from the Inter-American Development Bank (IDB), a principal international donor for microfinance development projects. And indeed he did.

[53] In English, Private Financial Fund.

The German Technical Cooperation (GTZ), the Swiss Development Cooperation, the IDB, and the An m Development Fund provided Procrédito's initial funding. Procrédito became the first competitor to challenge Acción International's monopoly of microfinance initiative funds for Latin America.

Similar to the PRODEM-BancoSol transformation, ProCrédito transferred its portfolio Caja Los Andes and became the chief investor, owning nearly half of all the shares.

Caja Los Andes Shareholders (1995)

Table 4.4

SHAREHOLDER	COUNTRY OF ORIGIN	% OWNERSHIP
Procrédito	Bolivia	40%
Swiss Technical Corporation	Switzerland	40%
Andean Development Fund[54]	Multilateral organization	
Private, individual investors	----------------------------	20%

Source: Rhyne, Elisabeth. 2001. Mainstreaming Microfinance: How Lending to the Poor Began, Grew, and Came of Age in Bolivia. Bloomfield, CT: Kumarian Press, Inc. p. 127.

Caja Los Andes focuses on individual rather than solidarity lending. Zeitinger believes that solidarity lending is not the best lending model to ensure microfinance profitability. He claims that the individual lending model is preferred over the solidarity model because clients do not want the financial burden of guaranteeing others. This decision to choose the individual lending model over the solidarity model, however, implies an important shift about who microcredit reaches. The requirements of an individual loan at Caja Los Andes (as pointed out in Chapter one) list that the client can guarantee his/her loan by putting a lien on movable assets. If the client does not have sufficient collateral, then another person must guarantee the loan with assets worth the amount of the loan. The importance placed on the lien is most assuredly a move towards the same requirements of traditional banks, which have excluded the poor in the past. Was this not the original reason why clients could not get credit from banks? How many poor people have movable assets? The implications for this shift are obvious. The poorest client that cannot find a guarantor that meets those qualifications and therefore cannot receive credit.

Today, Caja Los Andes profits are quickly reaching comparable levels as BancoSol's, and competition is fierce between the institutions, each trying to outdo the other in net gains. Zeitinger attributes Caja Los Andes' financial success to the individual loan model. BancoSol seems to be catching on quite quickly and has come to the conclusion. BancoSol reported in its 2001 Annual Report:

> The downsizing of the Solidario loan portfolio results from the preference for individual loans shown by clients, as well as from a strategic management decision to lower the concentration of the total loan portfolio in Solidarity loans, given that during the economic slowdown solidarity guarantees are not effective.[55]

My visit to BancoSol confirmed this policy change. When I asked the loan officer the possibility of taking out a solidarity loan, she replied, "No. You the individual loan would be best in your case."

Eliminating the solidarity loan is a protective measure taken by the banks to ensure ongoing profits. In all likelihood, in a few years solidarity loans will no longer exist. Microfinance continues to take more steps towards reaching the "best" poor—those from whom the bank profits most—rather than targeting those that are in dire need. Zeitinger's claim that clientele demand motivates microcredit decisions is very doubtful. The true picture of microcredit decision-making is motivated by the interests of investors to protect their capital from bad investments. Besides if microfinance institutions wanted to meet clientele demand than they would have to provide basic needs such as sufficient food, health care, education, and employment to all the poor and not a "selective" poor. Microcredit is looking for profits, and instead of "growing together" the poor remain poor while the rich get richer. Yet is not this the same old, sad story of Latin America?

<u>Center for the Promotion of Economic Initiatives (FIE), FFP</u>

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[54] In Spanish, *Corporación Andina de Fomento* (CAF).
[55] Banco Solidario, S.A. 2001. Annual Report, 11.

FIE NGO was established by M. Pilar Ramírez. Educated at Harvard University, Pilar Ramírez sought out a program that was distinct from food aid programs, which she thought were highly ineffective and demeaning. FIE began microcredit operation in 1985 under the auspices of Oxfam America, a privately funded U.S.-based organization "dedicated to creating lasting solutions to hunger, poverty, and social injustice."[56] FIE's first project was a knitting and sewing company in rural Bolivia. This project was dismissed because it lacked market orientation, demonstrated management and ownership problems, and assisted few people at high administrative costs. FIE's next project, funded by the Inter-American Foundation, was working with unemployed miners and teach them new skills such as machinery repair, carpentry, fishing, poultry, and raising livestock. Yet this project was still not far-reaching enough for FIE. In 1988 FIE received funding to do microfinance project in an urban area, and from there FIE began to see increasing profits.

On March 16, 1998 FIE received its license as a *Fondo Financiero Privado*. Pilar Ramirez, acting President, targeted microcredit for the manufacturing industry. She believed that it was more important to give money to offer credit to those who provide a productive base for economic development. Eventually she also opened up credit opportunities to the commercial sector because women who were primarily market vendors were being excluded.

FIE Shareholders (1998)

Table 4.5

SHAREHOLDER	COUNTRY OF ORIGIN	% OWNERSHIP
FIE	Bolivia	60%
Bolivian businessmen	Bolivia	30%
Swiss Development Corporation	Switzerland	10%

Source: Rhyne, Elisabeth. 2001. Mainstreaming Microfinance: How Lending to the Poor Began, Grew, and Came of Age in Bolivia. Bloomfield, CT: Kumarian Press, Inc. p. 121.

[56] Oxfam America. http://www.oxfamamerica.org/about/art4610.html {Accessed April 21, 2003}.

Like Zeitinger, Ramirez was also skeptical of the solidarity model. She labeled the model as paternalistic and declared that it forced clients to put themselves in financial jeopardy vis-à-vis interdependence. As in the earlier days of FIE, Ramirez still believed that enterprise development would be the result of hands-on training. She incorporated a training program into the microcredit model. The training focused on topics such as management skills and investment tips that were aimed at enhancing the client enterprises. Training was eventually dismissed first, because it revealed to have little difference in the productivity levels of the clients, and second because clients disliked completing the one-month training session before receiving credit. Training, if any, now spans four days and is considered a separate department than that of credit.

While FIE places a greater emphasis on serving the manufacturing sectors, it processes loans for the commercial and service sectors as well. This distinction is important to microcredit, because it chooses to extend credit to those that have access to <u>productive resources</u>. In the service and commercial sectors, there is little room for growth.' Each day these markets grow more competitive. It can be argued that the manufacturing sector is the best sector in which money should be invested, because there is a potential for growth, which could translate into the creation of more jobs. This is not to say that growth in the manufacturing sector is going to solve poverty, because it most definitely will not. Yet, unlike the commercial and service sectors, manufacturing is producing; and therefore it has a greater chance of providing a base for economic growth in Bolivia. This theory, however, is just that—a theory. In practice the manufacturing sector of the informal economy has not yet demonstrated these results. Moreover, these small micro-manufacturing industries may never be viable enough to provide workers' benefits, etc. And yet again, supporting the "poor but not too poor" microborrower contradicts the microcredit claim of commitment to the poor.

<u>PRODEM, FFP</u>

In addition to BancoSol, PRODEM NGO established its own FFP with the new and viable portfolios accumulated from 1992 to 1998. PRODEM FFP license was granted on December 28, 1999, and it began operating in January 2000. Its lead owner is PRODEM NGO.

CONCLUSION

NGO transformation has led microfinance in a direction distinct from the work of its founding NGO. Transformation has placed a new emphasis on the profitability of microfinance institutions rather than the scantily defined "social commitment" to the poor. The Superintendency of Banks not only regulates microfinance practices but it also defines what microfinance success is. The Superintendency of Banks is not concerned with whether or not commercialization is a sound social decision but rather a sound financial practice. PRODEM's performance and later on the establishment of BancoSol served as the proof of that success.

Organizations such as the World Bank, USAID, and the Inter-American Development Bank claim that the transition from NGO to private institution has not only met the financial viability goal but also the social goal. Claiming microcredit was already a good method to alleviate poverty; it is believed that expansion of this method could only be seen in a positive light. Enlarging microcredit to include other services and branching out geographically allow more poor people access to microcredit. Microfinance institutions operate offices from in neighborhoods all over the city, making access more readily available than ever before.

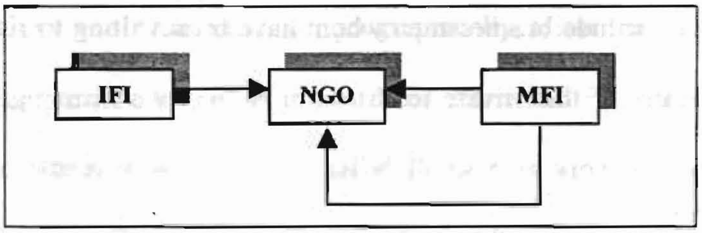
Both investor and NGOs claim that transformation was a success. International investors such as USAID, Acción International, Inter-American Development Bank, amongst others embraced the new definition of success as profitability as they discovered NGO transformation made microcredit marketable. Microfinance demonstrated good prospects for growth. As stated earlier on in this chapter, commercialization was assisted by easy loan portfolio transferal and ownership model. First, microfinance institutions did not have to go looking for new clients. NGOs offered clients that already had loans and had showed consistent repayment records. Second, NGOs would still be part owners and place a role in decision making that ensure the plight of the poor remained the focus of lending strategies. It is believed that the role of the NGO in the private institution will serve to assist the bank with the technicalities of preserving the aim of microfinance, which is reaching the microentrepreneur. Former NGO board members would take seats on the board of the new institution, corresponding to the NGO's percent ownership. NGO presence was necessary because Bolivian bankers were financial analysts who knew only the technicalities of how to run a bank. The perspective of banking specialists would not place enough emphasis on improving microfinance operations beyond measures of financial gain. The NGO would serve as the vanguard against microcredit finance deviation away from social works. While these assumptions may have been true at the onset of NGO transformation, the role of NGOs in microfinance is quite different today. Taking a more in depth look at the ownership model, one can clearly see that microfinance investment offers shareholders an opportunity to gain returns on their capital. One can no longer assume that microcredit is all about "good works," because in reality, there is money to be earned in microfinance investments.

The shareholders of microfinance institutions consist of private and public-private investors. Private investors in Bolivia include businessmen whom have been willing to risk small amounts of capital in microcredit. Many of the private investors in Bolivia were among the first to endorse microcredit when it began its work as a small NGO. While these investors did not believe that microfinance would have huge returns, they had been willing to give the microfinance model a try. Today microfinance has proven that it would be a good investment, but private investors—especially native Bolivians—still account for a very small percentage of ownership. What deters private investment if microfinance is a profitable economic model? Private investors are deterred from investment, because they feel that their contribution would not give them enough leverage to shape the mission of the institution. The fact that NGOs still own the majority of the shares give private investors little incentive to believe that they could introduce new methods that may compromise the NGO's commitment to prioritizing profitability.[57]

Public-private investors are defined as specialized partnerships that capitalize funds vis-à-vis the public sector, but whose funds are managed and treated as private commercial money.[58] Breaking this definition down, public investors may be microfinance institutions (MFIs) or non-profit organizations. The private investor is usually an international financial institution (IFI). A foreign private investor may represent the interests of multilateral, bilateral, or unilateral actors, including development agencies. Partnerships between the private and public sectors are the result of the increased interest of international institutions in microfinance. The specialized partnership arrangement applies to the Bolivian transformation cases. For example, USAID and Acción International are the private investors, and PRODEM is the public investor. This partnership allows for the appearance that PRODEM was profiting, while in reality USAID manages the profits as private commercial funds.

Public-Private Partnership

Table 4.6



Mommartz et al.[59] mentions that most private investors chose not to take an active role with microfinance institutions, but rather remain "silent partners" and play a passive role. Mommartz

[57] White, Victoria and Anita Campion. 2002. "Transformation: Journey from an NGO to Regulated MFI" in Deborah Drake and Elisabeth Rhyne, Eds. The Commercialization of Microfinance: Balancing Business with Development. Bloomfield, CT: Kumarian Press, Inc. p. 37

[58] Mommartz, Rochus and Gabriel Schor. 2002. "The Role of Specialized Investors in Commercialization" in Deborah Drake and Elisabeth Rhyne, Eds. The Commercialization of Microfinance: balancing Business with Development. Bloomfield, CT: Kumarian Press, Inc. p. 29.

[59] Ibid.

cites four main reasons why this might be the case: (1) private investors are unwilling to bear the costs that active ownership entails; (2) private investors are politically motivated not to intervene; (3) private investors have no business strategy for the institution; and (4) private investors lack the technical skills to make an active contribution.[60] Applying these reasons to the Bolivian case and U.S. foreign investors specifically, it may be said that USAID and Acción may act as silent partners because they are unwilling to bear the costs of active ownership and are also politically motivated not to intervene. The other two reasons—no business strategy and lack of technical skills—are certainly not applicable to the Bolivian case.

Individual investors refrain from microfinance investment, not only because they feel they have no leverage in decision-making, but also because of the immoral stigma attached to a development project in which the rich make money off from the poor. This same rationale, which I will refer to as moral hazard, can be applied to foreign investors who have detached their names from microfinance investment. This tactic is significantly advantageous for investors, because if microfinance fails then it is the public image of the FFP, which is attacked rather than the real faces behind the scenes—USAID and Acción. The microfinance crisis of 1999 is a great example of this taking place.

In 1999 microborrowers began to borrow money from multiple microfinance institutions—mostly from consumer lending institutions but not exclusively. The process was quick and easy; if they were unable to pay back a loan to Caja Los Andes then they would just borrow from BancoSol. When clients could no longer juggle their loan payments amongst the various institutions, clients began to default on their loans. In turn, microfinance institutions did not have sufficient enough reserve to cover these loans, as they had petitioned to the Superintendency of Banks for 0% reserve on loans of less than $2000. The situation turned ugly as poor people grew more and more indebted. Clients defaulted on their loans, interest rates increased, and there was no money to pay back the

[60] Mommartz et al. 2002: 82.

loans. Protestors marched to the Superintendency of Banks with bombs strapped to their backs. They demanded debt forgiveness and demanded that the Superintendency intervene on their behalf.[61] The fact that Latin American governments are known to intervene in the market has made the U.S. keep a low profile regarding its investments in the microfinance industry. Therefore if the microfinance markets enter in crisis and people demand debt forgiveness, then it is the national government that must deal with the problem, because it is the national government that should be regulating microfinance institution practices. Those who really profit are able to hide behind the image of the public sector that bears the brunt of a public attack. The debtor's revolt resulted in the debt forgiveness of a few cases. The movement lost momentum, however, when its leaders were imprisoned for the illegal collection of debt-service payments and the mishandling of membership dues.

The crisis of 1999 was not just a result multiple lending problems but also the result of Bolivia's first economic recession after fifteen years of progress. This recession demonstrates the weaknesses of the microcredit model and its high likelihood of quick collapse. It only took one bad year and microfinance institutions had begun to talk about mergers. The failure of microfinance would mean that the poor lose. Their savings deposits would be lost. Enterprises may be forced to downsize or close because of low productivity, and credit would not be available to see them through the hardship. Investors got their "piece of the pie" and for them it is just time to shuffle their capital around and invest it in something different. Therefore it is obviously politically advantageous for the U.S. to be able to pull out of such operations if its name is not attached.

Does the U.S. have the technical skills to make active contributions? The answer to this question is yes. The U.S. funds academic scholars, NGOs such as FundaPro, Asofin, and Finrural,

[61] This kind of tactic is nothing new in Latin America. During economic crisis, Latin American governments—and Bolivia is no exception—have been known to politicize the banking sector as the cause of the problem. These same governments have had to intervene and require banks to defer debts.

and government organizations such as USAID to pursue research that ensures microfinance profitability. Acción International, a prominent foreign investor for microfinance operations in Latin America, unquestionably has the technical skills to make active contributions. For this reason alone it has insisted on having a position on the board of directors of its microfinance institutions. In short, there is plenty of skill to go around. U.S. governmental and non-governmental organizations have a clear idea about how to keep microfinance moving in the desired direction.

Does the U.S. have a business strategy for microfinance institutions? The U.S. most definitely has a business strategy for microfinance in Bolivia. While U.S. initial engagement in microfinance was a "testing of the waters," subsequent engagement was clearly heightened because of PRODEM's phenomenal success. The U.S. and other international investors do not perceive microcredit objectives in light of a development strategy for the poor but as the means to mask a profitable venture in the name of "development." The U.S. strategy is to maintain microfinance profitability with few political costs, and thus far it has been doing a reputable job.

Transformation has outlined new goals and redefined the concept of microcredit success. The new indicator of success is profits not social works. Perhaps microcredit was not about social works to begin with. The following chapter presents evidence of the financial success of microfinance institutions.

CHAPTER FIVE:

MICROFINANCE INSTITUTIONS' DEFINITION OF SUCCESS

The new terminology that defines microcredit success as profitability is proven. Each year microfinance bulletins publish statistics that support the ever-growing portfolios of microfinance institutions. Indeed more clients are being reached and more loans are being issued. In this chapter, I present the latest information regarding microfinance institution portfolios, pointing to data that supports this new definition of microfinance success. The measures for success include clientele reach, portfolio growth, and low delinquency rates. Following the presentation of microfinance "success," I present a true picture of who are the real beneficiaries of microcredit.

This chapter also points to an interesting debate between commercial and non-commercial microfinance institutions. Other NGOs in Bolivia have purposely opted out of commercialization because—they claim—microfinance has moved away from its objective goal of poverty alleviation and placed greater emphasis on financial gain. While this argument is similar to the one I posed in the previous chapter, my conclusion points to the problems of microcredit regardless of its commercial or NGO status.

CLIENTELE REACH

The commercialization of microcredit has met its goal regarding clientele reach. Clients are lining up outside of microfinance institutions to see if they qualify for a loan. Microfinance institutions have saturated the market so completely that they actually must compete to gain the attention of clients. Microfinance institutions try to out do each other by offering new services in order to attract clients from other institutions to their own. Table 5.1 indicates the difficulty of keeping clients interested in microcredit.

Client Evolution

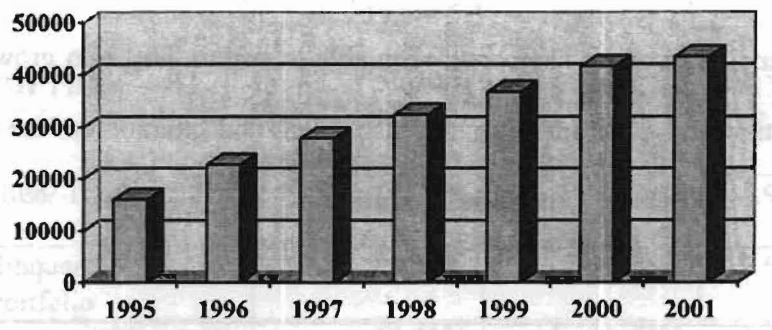
Table 5.1

Microfinance Institution	Number of Clients	
	December 1998	December 2001
Banco Solidario	81,555	61,338
Caja Los Andes	32,482	43,530
FIE	20,848	23,173
PRODEM	47,130	*21,386
TOTAL	182,015	**149,427

*denotes December 2002
**PRODEM December 2002 figures are included.
Source: Pedro Arriola Bonjour. "Microfinance in Bolivia in Times of Crisis." Unpublished paper; BancoSol, Caja Los Andes, FIE, PRODEM. 2001. Annual Reports.

CAJA LOS ANDES CLIENT EVOLUTION

Table 5.2



Source: Caja Los Andes. 2001. Annual Report, 15.

While Caja Los Andes and FIE have been able to maintain clientele growth, BancoSol and PRODEM have seen a decline. BancoSol's decline may be attributed to its shift away from solidarity loans to individual loans. The majority of BancoSol's clients have been solidarity loans; perhaps clients are unwilling to put liens on their property in order to receive credit and thus have opted out of microcredit. This, however, is just a speculation, because it also may be true that solidarity clients have voluntarily moved from solidarity to individual loans; However, the administrative decision to lower the number of solidarity loans as an overall percentage of the loan portfolio is the most likely reason for clientele movement away from solidarity group lending.

BancoSol Loan Type Evolution

Table 5.3

Loan Type	Number of Clients		
	2000	2001	% change
Solidarity	37,667	21,758	-42%
Individual	21,066	34,346	63%
Source: Banco Solidario, S.A. 2001. Annual Report, 11.			

PRODEM's decline in clientele growth is probably due to the portfolio transferal in 1999. The figure in Table 5.2 for the year 1998 indicates the number of clients for PRODEM NGO, because PRODEM FFP was not yet established. Therefore it can be assumed that upon the establishment of PRODEM FFP, its NGO founder did not transfer the entire portfolio.

PORTFOLIO EVOLUTION

Consistent with the growth of the clientele portfolio, microfinance institutions have experienced notable financial success. They have been able to sustain portfolio growth even in the event of intense competition from other microfinance institutions and saturation of the market.

Portfolio Evolution

Table 5.4

Microfinance Institution	Gross Portfolio ($USD 000)	
	December 1998	December 2001
Banco Solidario	74,068	81,449
Caja Los Andes	28,613	52,634
FIE	14,086	26,175
PRODEM	24,188	33,628
TOTAL	140,955	193,886
Source: BancoSol, Caja Los Andes, FIE, PRODEM. 2001. Annual Reports.		

The year in which most microfinance institutions saw a downturn in the clientele reach was in 1999—the most severe year of the ongoing economic recession in Bolivia. However, microfinance institutions did not suffer nearly as much as traditional banks. Asofin reports that between 1999 and 2001 microfinance institutions lost approximately 4 percent of their clients, while regular banks saw a 23 percent loss in the same time period.[62] The fact those microfinance institutions have been able to "bounce back" makes these institutions quite proud. With these types of statistics, microfinance can claim that they have achieved in areas traditional banks have not.

Not only have microfinance institutions proven their superiority to traditional banks in portfolio growth but also in the quality of their portfolio. Microfinance institutions assert that their careful monitoring of clients has allowed for low delinquency rates. Table 5.3 illustrates the delinquency rates of microfinance institutions, which places them above the rates of traditional banks that see delinquency as high as 30 percent for the total portfolio.

Delinquency Rates

Table 5.5

DESCRIPTION	MICROFINANCE INSTITUTION			
	Banco Solidario	**Caja Los Andes**	**FIE**	**PRODEM**
Delinquent Portfolio/ Total Portfolio	10.23%	5.28%	5.98%	5.35%
Rescheduled Delinquent Portfolio/Total Portfolio	8.38%	3.25%	2.68%	7.55%
Delinquent Clients/Total Clients	13.71%	12.64%	15.38%	11.62%
Rescheduled Delinquent Clients/Total Credit Clients	6.70%	1.81%	3.38%	11.70%
Source: ASOFIN. 2002. Balances Generales y Estados de Resultados por la Gestión 2002. Unpublished report.				

GEOGRAPHICAL REACH

Meeting all of the aforementioned goals—clientele reach and portfolio growth and quality—microfinance institutions have expanded its reach to departments all over Bolivia. Even though commercialization began in La Paz, every department now has its very own microfinance bank or FFP. After commercialization was legalized by the Superintendency of Banks, microfinance

[62] Asofin. "Desempeño y desafíos de las microfinanzas en Bolivia." www.abe.eurofull.com/img/JorgeMaclean.htm {Accessed April, 12, 2003}.

institutions rushed to open up new branches—each wanting to beat the others in reaching new clients.

Geographical Reach

Table 5.6

Department	MICROFINANCE INSTITUTION				
	Banco Solidario	**Caja Los Andes**	**FIE**	**PRODEM**	**TOTAL**
La Paz./El Alto	14	9	7	13	**43**
Cochabamba	8	4	1	8	**21**
Santa Cruz	10	3	4	7	**24**
Oruro	2	0	1	2	**5**
Chuquisaca	2	2	1	4	**9**
Potosi	0	0	1	6	**7**
Tarija	0	2	1	6	**9**
Beni	0	1	0	4	**5**
TOTAL*	**36**	**21**	**16**	**50**	**123**

**Note: Some of this information differs from the report of Asofin (12/31/2002). This probably is the result of the closing and opening of branches after the printing of the 2001 Annual Reports.*
Source: BancoSol, Caja Los Andes, FIE, PRODEM. 2001. Collection of unpublished advertisements/pamphlets; Annual Reports.

Table 5.2 demonstrates that as far as expansion goes some institutions have done significantly better than others have. On the one hand, BancoSol and Caja Los Andes have purposefully targeted the more densely populated cities—La Paz, Cochabamba, and Santa Cruz.. BancoSol and Caja Los Andes have opted out of expansion in less populated departments because of their focused mission of institutional profitability. Centralization in urban areas cuts the costs of microfinance operations. Not only do urbanites make the best clients, but also there is a key advantage of having an office in one location with many clients rather than several offices with the same amount of clients. ProCrédito clearly only exists in order to hold shares. It does not seek to "waste" money on rural Bolivia when the urban centers bring the best returns.

As mentioned earlier, ProCrédito was founded with the sole intention of becoming a formal financial institution. That is, its initial goal was profits. So while ProCrédito's doors are technically "open" to public, the potential microborrower is always redirected to the doors of Caja Los Andes. ProCrédito has made no attempt to reach the rural peasant and essential does nothing but collect the money it is due as shareholder of Caja Los Andes.

Distinct from the cases of BancoSol and Caja Los Andes, I believe that it is worthy to note that it is not clear that all NGOs were founded with the intention of commercialization. These microfinance institutions seem to have a greater concern for reaching rural areas. For example, the first officers of PRODEM NGO started their microfinance work as loan officers in rural Bolivia. Second, one must bear in mind that these officers believe in the microcredit model. Some even vocalized their opposition to the commercialization of microcredit. Perhaps for this reason, PRODEM NGO has not closed its door on the possibility of reaching others, particularly rural peasants. I think that it is worthy to note that PRODEM NGO has not excluded the rural sector but rather continues to implement the microcredit model in rural areas too. This is not to say that the microcredit model works just because it is in the rural sector; however it is worthy to point out that PRODEM's beginnings were humble. There are loan officers that remember this fact and are committed to reaching *all* poor and not just the "best" poor. I believe that these officers represent an important opposition to economists, financial specialists, and bankers whose sole focus is the bottom line. FIE is another institution that has continued to show its commitment to reaching the poor in rural areas. Pilar Ramírez also began her work in rural Bolivia and is a strong believer in the microcredit model. This may explain FIE's advances toward promotion the microcredit model in rural Bolivia.

I do not mention the cases of PRODEM and BancoSol to diminish my argument about commercialization being the means to greater profits for international investors. Yet it is also clear that steps taken regarding geographical diversification differ amongst microfinance institutions. I do suggest, however, one reason why this might be the case.

Each year microfinance institutions publish colorful, glossy pages full of data about the success of the institution. These annual reports are obviously directed to potential investors. Microfinance institutions are trying to show how "good" they are. There reports are written like advertisements. Essentially they saw, "Look how many deposits the bank captured! Take note of our low delinquency rates!" The people who care about this information are future investors. They want proof that their investment to microfinance is going to result in returns. When microfinance institutions demonstrate substantial growth and "success," private investors are more likely to give microfinance a chance. However, annual reports do not indicate microcredit has attracted new investors. The shareholders are essentially the same ones since the banks opened. This may be because of two reasons.

On the one hand and as mentioned earlier, investors may have chosen to opt out of investment, because they do not think their small investment could make a difference in key policy decisions. Perhaps NGOs—the major shareholders—have purposefully hoarded their shares, because microfinance institutions are doing well. Commercialization may have attracted new investors, yet NGOs may be unwilling to sell their shares. NGOs may still want to be the key decision-makers in the microfinance business.

On the other hand, there may be no new interests in microfinance investment because investors see microfinance as a risky business. Even though there is "regulation" by the Superintendency of Banks, it is no secret that the Bolivian government often works in conjunction with the rich, covering up their bad business. That was exactly the case for State banks operating in the 1970s; and the Superintendency was supposedly "regulating" them too. Investors may see microfinance as a business that is likely to go under "at the drop of a hat." It very well may be that NGO shareholders are looking for an exit strategy but are unable to find one without suffering major loss.

The questions are this: Is no one buying or is no one selling? This information would be difficult to obtain without speaking with the shareholders themselves. But even if it were possible to get interviews with the major shareholders, with whom would I speak? NGOs have no owners. It is without question that shareholder profits do not just sit in the NGO, because no one can claim them. Someone is responsible for making decisions regarding the buying and selling of shares, but the question is who? NGO shareholding is an ambiguous business, and someone definitely has invested interests in keeping it that way.

BENEFICIARIES OF MICROCREDIT

The real beneficiaries of microcredit success are the shareholders of the microfinance institutions. Microfinance institutions provide a list of their shareholders in their annual reports. Most times the percentage of the shares held by each is also available. Tables 5.4 through 5.7 provide this information. It is important to know what companies have invested in the future of the Bolivian poor.

BANCO SOLIDARIO SHAREHOLDERS (2001)

Table 5.7

PRODEM NGO
Commonwealth Development Corporation
Profund International, S.A.(FundaPro)
Acción International
Acción Gateway Fund, LLC
Ramir Freitas Ocampo
Ferber Realty
Compañía Boliviana de Inversiones S.A. (COBODI)
Roberto Capriles
Metrocity Investment
SIDI (Canada)
José María Ruisanchez
Gonzalo Sánchez de Lozada
Julio León Prado
Luis Eduardo Siles
Source: Banco Solidario, S.A. 2001. Annual Report, 4.

CAJA LOS ANDES SHAREHOLDERS (2001)

Table 5.8

Shareholder	Percentage of Shares
ProCrédito NGO	46.69
Internationale Micro Investitionen Aktiengesellaschaft (IMI)	25.7
Andean Development Corporation (CAF)	20.0
International Projekt Consult (IPC)	1.0
Private investors	6.4
TOTAL	**99.79%**

Source: Caja Los Andes, FFP. 2001. Annual Report, 6; Caja Los Andes. www.cajalosandes.com/losandes.html {Accessed 5/11/03}.

FIE SHAREHOLDERS (2001)

Table. 5.9

Shareholder	Percentage of Shares
FIE NGO	69.14
Andean Development Corporation (CAF)	11.73
Swiss Development Corporation (COSUDE)	7.31
Interchurch Organization for Development Cooperation (ICCO)	2.85
ADA / Roger Adams Foundation	2.22
Raúl Adler Kavlin	4.00
Peter Brunhart Gassner	1.15
M. Pilar Ramírez Muñoz	1.00
Earnes Carl Göran Nordgren	0.60
TOTAL	**100%**
Source: FIE, FFP. 2001. Annual Report, 18.	

PRODEM SHAREHOLDERS (2001)

Table 5.10

Shareholder	Percentage of Shares
PRODEM NGO	80.95
Eduardo Bazoberry Otero	3.03
Edgar Millares Ardaya	2.62
Óscar Bazoberry Otero	2.02
Johnny Delgado Achabal	2.02
Gonzalo Sánchez de Lozada	2.02
Carlos Gerke Mendieta	1.01
Fernando Anker Arteaga	1.01
José Luis Silvestro Arze	1.01
Ernest Brugger Alois	1.01
Empresa Bol. de Administración	1.01
Sergio Prudencio Tardío	0.67
Marcelo Mallea Castillo	0.67
Alfredo Otero Pizarro	0.34
María Elena Querejazu Vidovic	0.34
Gonzalo Tezanos Pinto Guerra	0.26
TOTAL	**100%**
Source: PRODEM, FFP. 2001. Annual Report, 11.	

COMMERICIALIZATION: GOOD OR BAD?

While this paper focuses on PRODEM, BancoSol, Caja Los Andes, and FIE, there are many other microfinance institutions in Bolivia. Some have taken the FFP-route and await licenses from the Superintendency. Others have decided to keep working as an NGO. These choices are mostly based on the mission of the organization. As I have shown in the previous chapter, transformation from NGO to commercial bank or *fondo financiero privado* (FFP) is motivated by many factors. Those that refuse the FFP model continue focusing on the social aspects of lending, including economic and social empowerment. Those who are for the FFP model do so on the grounds that this model allows them to reach more people. Regardless of these differences both commercial and non-commercial microfinance institutions agree that microcredit lending is a strategic and successful model for sustainable development in Bolivia. How microfinance institutions qualify success is, however, a different story.

Microfinance institutions that have not opted for commercialization are those based mainly in rural or less populated areas. These institutions are those who have opted for the old definition of success, that is, success not defined by financial viability and commercialization. Why? What advantages do noncommercial institutions claim to have? Microfinance institutions may decide not to "go commercial" because of three reasons. First, for some microfinance institutions, expansion would be impracticable and unattainable. The less populated areas do not offer enough clients to consider opening new branches. For this reason, commercialized microfinance institutions have moved from rural areas to urban ones. Rural microcredit initiatives simply do not make enough money.

Second, non-urban center populations tend to be among the poorest of the poor. Some microcredit advocates, particularly Pilar Ramirez—founder of FIE—have shown a great concern about providing capital access opportunities to the poor in rural areas. The quickly declining agricultural sector and the nearly non-existent mining sector have left the rural poor in dire straits.

Providing them with capital and introducing new business initiatives with greater returns on capital is essential.

The third and final reason is because microfinance institutions purposely choose to keep their work smaller in order offer services to their clients that commercialized institutions have cut. These services are both economic and social in nature such as training about childcare and hygiene, business management, or literacy coursework are perceived as essential parts of assisting poverty alleviation efforts. Keeping their work small has allowed microfinance institutions to focus on the social welfare as much as the economic welfare of its clients. These institutions assert that capital by itself is not enough to alleviate poverty; thus they have incorporated a compulsory training program into their loan application.

Commercial microfinance institutions counter each of these arguments. First, in regards to urban versus rural microcredit programming, commercial microfinance institutions say it would have been impossible to stay in the rural areas. In order to meet the needs of more clients and to achieve self-sustainable, microcredit had to move to where the paying clients were. Microcredit had to move into the neighborhoods and districts where microcredit would be most beneficial.

Second, commercial conglomerates argue that their founding NGOs still focus on microcredit in the rural areas. In fact the privatization of microcredit has not only met the goal of reaching more people in the city, but also it has enabled the maintenance of microcredit programs in the rural areas. Non-governmental organizations can and do use the profits gained as shareholders in order to fund unprofitable initiatives.

Third commercial microfinance institutions argue that the social programs were cut from the loan process because they were perceived negatively by clients, did not prove beneficial to the clients business vis-à-vis greater profits, or beneficial to the institution vis-à-vis improved repayment rate. In a study done by Stephanie Small, Colby College graduate, it is noted that the training program of ProMujer in El Alto is largely unproductive and inefficient. ProMujer, a microcredit initiative that targets women, claims that its training program teaches women skills that will empower them to become better, smarter mothers and vendors. Yet Small notes that "[e]mpowerment occurs with the help of societal influences and opportunities, not manual pages."[63] Women already know how to run their businesses. In fact the requisite for taking out a first loan is proof of an existing business—a business that was developed and maintained in the absence of training.

Muhammad Yunus, microcredit founder, also dislikes the idea of obligatory training, however, based on different reasons. He states that compulsory training insinuates a paternalistic attitude and infers that microentrepreneurs do not know have the necessary skills to run their business well or invest the money wisely. He states,

> Government decision-makers, many NGOs, and international consultants usually start the work of poverty alleviation by launching very elaborate training programs. They do this because they begin with the assumption that people are poor because they lack skill...I firmly believe that all human beings have an innate skill. I call it the survival skill. The fact that the poor are alive is clear proof of their ability. They do not need us to teach them how to survive; they already know how to do this.[64]

Yunus argues that people do not want training but rather money. He notes that they know what to do with the money. The problem before microcredit was access not ability.

Pilar Ramirez, founder of FIE and an advocate of training, must consider that while microentrepreneurs have not had access to capital, they have indeed been running successful businesses for years prior to microcredit. Yes, one should place an importance on investing the money in the business in order to see increased development, but Ramirez's insistence on a training program wrongly assumes that most people do not know how to run a business. Moreover the attempt at social programming appears undesirable to clients and under compulsory circumstances is ineffective. Moreover, the microfinance institutions that cling to the old definition of success also have failed to prove training helps alleviate poverty.

[63] Small, Stephanie. 1998. Missing from the Miracle: Microcredit and Urban Market Women in Bolivia. Senior Honors Thesis, Colby College, 98.

Most likely any social initiatives that incur further costs for microfinance institutions will not be implemented—even those that *might* benefit the client. Most microfinance institutions argue that social initiatives, especially training programs, are ineffective and therefore have had no qualm in omitting them from the loan process. Yet microfinance institutions have also made no further attempted to propose alternative initiatives that complement the microcredit effort. Perhaps microfinance institutions lack ingenuity. Although I suspect that it is something more basic. Microfinance institutions do not want to invest more then the have to. They know that the poor take what they can get—and all the poor get is microcredit .

CONCLUSION

There is no question that microfinance institutions are profitable. They have demonstrated their viability and in comparison with other banks in Bolivia, they have even indicated greater success. Many scholars point to the Bolivian case as a microfinance miracle. Not only has the Bolivian model achieved sustainability and provoked competition, but also it is responsible for reaching one-third of an estimated 600,000 microenterprises.[65] All of this "success," however, does not meet the qualifications of what microcredit was originally proposed to do. The fact that microfinance institutions have been able to run good banks does not mean the poor are rising up out of poverty. In the following chapter, I suggest a new definition of success—one that clearly indicates that the social and economic conditions of the poor are truly improving.

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[64] Yunus, Muhammad. 1999. Banker to the Poor: Micro-Lending and the Battle Against World Poverty. New York: Public Affairs, p. 141, 140.
[65] Rhyne, Elisabeth and Robert Peck Christen. 1999. "Microfinance Enters the Market." Washington, DC: USAID. p. 4.

CHAPTER SIX:

AN ALTERNATIVE DEFINITION OF SUCCESS

Undoubtedly microcredit is a booming business in Bolivia. The portfolios of microlending institutions are constantly increasing. The financial viability of microcredit, however, does not inherently mean microcredit is the best option for poverty alleviation in Bolivia. This chapter illustrates that microcredit in practice does not produce the results that microcredit in theory suggests. It is important to raise these conceptual issues of microcredit and then relate them to evidence that supports or rejects the "goodness" of microcredit. This chapter concludes that microcredit has not helped the poor but rather has shown signs of debilitating the poor further. First, I will refute the major assumption of the microcredit model, which says that microcredit is a development strategy for the poor. Second, I will engage in a discussion about factors, I believe, demonstrate advances toward poverty alleviation.

Microcredit Is Not For All Poor

In the previous chapters, I demonstrated that microcredit is not a strategic development model for the poor but rather it is an economic exploit for the rich. If microcredit wants to reach the poor then microfinance institutions will have to make a greater effort to expand their reach to the poor. A study by Sergio Navajas et. al demonstrates that microcredit targets people who are slightly above and slightly below the poverty. That is, microcredit has not reached into populations where the poorest of the poor live. The authors note that the median level of poverty for the borrowers of FIE and Caja Los Andes clustered just above the poverty line, Banco Sol's at the poverty line, and PRODEM's just below the poverty line.[66]

When comparing these microfinance institutions in their reach for the poorest clients in urban areas, Caja Los Andes' portfolio only reached about 4 percent of the poorest and BancoSol only about 5 percent of the poorest. FIE had the lowest share of the poorest, accounting for only 2 percent of all its borrowers. PRODEM's count was considered for rural areas only. PRODEM served 32 percent of the poorest of the poor.[67] Table 6.1 shows that the extremely poor predominate (although not by much) in the rural areas, which further indicates the poorest do not benefit from microcredit.

Poverty in Bolivia, 1989-1995

Table 6.1

	MILLIONS OF INDIVIDUALS			
	Extremely Poor	Poor	Non-Poor	TOTAL
Urban 1989	0.2	1.9	1.3	3.4
Urban 1993	0.2	2.1	1.4	3.7
Urban 1995	0.2	2.3	1.4	3.9
Rural 1995	0.3	2.1	.4	2.8
Source: Adopted from Paul Mosley's "Microfinance and Poverty: Bolivia Case Study" Revised final draft, May 1999.				

Penetrating the poorest clients also is closely correlated with the microlending model type. As mentioned earlier, individual loans exclude the poorest clients from receiving credit because they have no collateral to offer. Caja Los Andes and FIE, the new lenders that issue only the individual loans, had less than 1 percent of the poorest households in their portfolios. BancoSol, which is known for its solidarity model served about 3 percent of the poorest household. PRODEM's rural offices on the outskirts of La Paz reached only about 2 percent of the poorest households.[68] This data supports my earlier conclusion that microcredit is for some and not for others. The move towards strict individual lending means that microfinance institutions consider the poorest of the poor as not good enough for microcredit. The cost of lending to these groups is too great. The poorest Bolivians are excluded from "development."

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[66] Navajas et al. 2002. "Microcredit and the Poorest of the Poor in Bolivia" in Manfred Zeller and Richard L. Meyers, Eds. The Triangle of Microfinance: Financial Sustainability, Outreach, and Impact. Baltimore: John Hopkins University Press. p. 162-163.
[67] Ibid, 164-165.
[68] Ibid, 168.

It is argued that clients who are very poor are not the most desirable in order to reach microfinance profitability. The poorest in Bolivia have higher delinquency rates and are most likely to become indebted. So this means that microcredit must be selective in their client choice, otherwise it fails to profit. As of yet, the microcredit development model has not addressed this problem. Although studies point to microcredit as being for some of the poor and not all, no other development model has been proposed to reach those who are excluded from microcredit. If microcredit is to help the poor, then it should help the all the poor. If the Bolivian model cannot meet this task while maintaining sustainability then other approaches must be considered.

It appears that some microfinance institutions are trying to make a greater effort to reach the rural poor. Asofin reports that in December 2001, Caja Los Andes had expanded its reach to rural Bolivia, with its rural offices accounting for more branches than its urban ones.

Urban vs. Rural Geographical Outreach

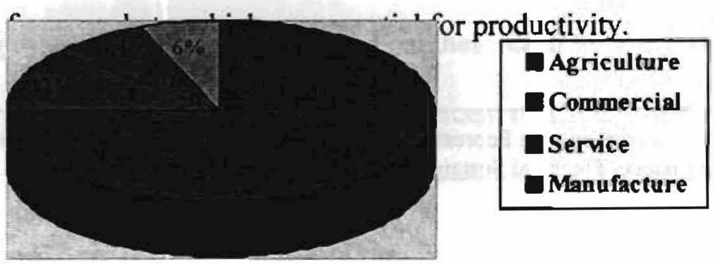
Table 6.2

Location	**MICROFINANCE INSTITUTION**			
	Banco Solidario	**Caja Los Andes**	**FIE**	**PRODEM**
Urban	30	13	16	22
Rural	4	14	0	40
Source: ASOFIN. 2002. Balances Generales y Estados de Resultados por la Gestión 2002. Unpublished report.				

This does not mean, however, that Caja Los Andes is reaching the poorest in these areas. In fact their portfolio notes that the rural portfolio "reflects the institutions focus on the agriculture and livestock" oriented clients. In rural Bolivia, these clients are probably not the poorest clients. Those that are most likely to be very poor are those in the service, commercial, and manufacturing sectors because they are isolated f [illegible] for productivity.

Composition of Caja Los Andes' Rural Portfolio

Table 6.3



Source: Caja Los Andes. 2001. Annual Report, 19.

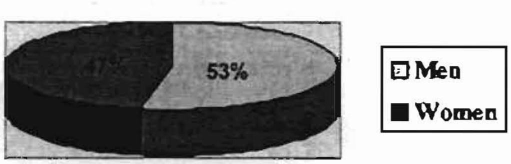
Microcredit Does Not Promote Women Empowerment

Microcredit theory has always claimed to be the means for women empowerment. Empowerment can be defined as greater independence and putting the tools for improvement directly in the hands of women. Microcredit theory claims that microcredit has meant good things for Bolivian women. Bolivian women are glad for the opportunity to be in charge of their finances. Before microcredit, women got loans from loan sharks at exorbitant interest rates, some as high as 20% per month. Microcredit access gave them new independence and provided capital through institutions, which was an important step towards recognizing the role women play in the economy. For the first time in Bolivian history, women became strategic financial actors.

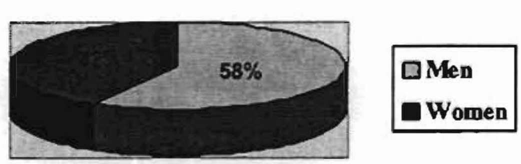
So are any of the above claims true? In fact, many of them are. Women were happy to be candidates of microcredit. Microfinance institutions have the testimonials to prove it. Women did pay very high interest rates to loan sharks, because there were no other credit options. What is not true, however, is that women have achieved greater independence. Women have only shifted their dependence from one loan shark to another. Women use microcredit to survive. That means without microcredit, they may be ruined. Microcredit has not challenged arguments of dependency, yet it has embraced it for its own. Essentially women moved from one loan shark that was an individual to another that is a group of foreign firms. This obviously does not translate into greater independence.

Microcredit has also moved away from its focus on women. For the sake of competition, microcredit is offering money to any client that has the necessary credentials to pay the loan bank. Microfinance institution portfolio make-up illustrates that microcredit no longer targets women for

Caja Los Andes Portfolio Gender Distribution, 2001
Table 6.4



PRODEM Portfolio Gender Distribution, 2002
Table 6.5

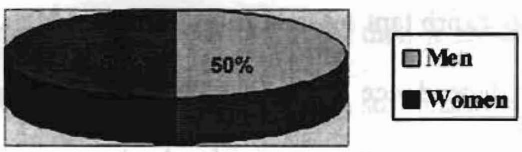


the sake of empowerment. Tables 6.4, 6.5, and 6.6 express that this is the case for Caja Los Andes, FIE, and PRODEM. Data was not available for BancoSol.

Source: Caja Los Andes. 2001. Annual Report, 21.

Source: Jorge Guzmán Vargas. January 21, 2003. Personal Interview. PRODEM. La Paz, Bolivia.

FIE Portfolio Gender Distribution, 2001
Table 6.6



Source: FIE. 2001. Annual Report, 37.

> *Note*: In PRODEM's portfolio, men and women account for 63.18% and 36.19%, respectively of the dollar total. This further demonstrates that men are issued bigger loans than women are. The same conditions apply to FIE's portfolio as well. Men and women account for 58.08% and 41.92%, respectively of the dollar total of the portfolio.

Microcredit May Not Always Target the Poor

There has been some speculation that micr microcredit is shifting from its "micro" status Microfinance institutions refute this argument, stating that the reason why loans are getting larger is because clients are becoming more successful, enabling them to take out larger loans. During my field research, there was not sufficient information to attest to this fact. The only answer that I did get was that it would be difficult to document if such an occurrence, because not all clients take out new loans directly after the repayment of the first. Some clients wait months and even years to take out a bigger loan.

During my interviews with the Garrón family, many of the family members expressed their doubt in microfinance. They believed that microfinance was taking over the banking industry and that in the future, microfinance institutions would no longer offer "micro" credit. It is true that microfinance have become competitive with traditional banks. Yet there is no evidence as of yet that microfinance institutions are placing a greater emphasis on attracting "big" borrowers. While average loan sizes are getting larger each year, there still is no significant number of big loans (over $5,000).

An Alternative Definition of Success

Defining microcredit success as profitability has become detrimental to the poor. By claiming microfinance a success because of financial indicators in an annual report, microcredit has missed the point. Microcredit cannot prove that the microborrowers are less poor. One of my biggest frustrations during my field work in Bolivia was the fact that microfinance institutions could not produce impact studies of microcredit on the client. Time after time, USAID officials, PRODEM financial analysts, BancoSol managers, among others would tell me that there were no impact studies. Maria Elena Querejazu, who works at PRODEM NGO and holds shares in PRODEM FFP, told me outright that impact studies do not explain much about the impact of microcredit on the client, because so many other factors can influence a client's economic success or failure. I tend to agree with this statement, however, I also think that it is worth a try. If microfinance institutions really cared about making a difference in the lives of the poor, then they would demand evidence saying so. However, microfinance institutions are not really interested in the client, except in his/her ability to pay back a loan.

I am interested in the success of the Bolivian poor. I want to know if microcredit is harming or helping the poor. While I speculate throughout my study that microcredit is ineffective in alleviating poverty, I am interested to know how microcredit affects clients throughout. In my interview with Blanca Chiquinia, an artisan vendor, I discovered that microcredit did not help her build her business.[69] Blanca told me that in order to pay back the loan at such high interest rates, she actually had to downsize her enterprise. Besides that, Blanca co-signed for another women who

[69] Chiquinia, Blanca. January 9, 2003. Personal Interview. La Paz, Bolivia.

defaulted on her loan, and will soon face legal penalties for not stepping in on her friend's behalf. Is this the same story of many microcredit clients?

In an interview with Gabriela Aramayo Carrasco, assistant to the Commercial Manager, I asked Gabriela if there was any kind of follow-up on the client. She responded, no there was not. I then asked her if it was correct to assume that clients who ask for the second and third loan may not be at all capable of paying it back. She responded, "Yes. Sometimes the second and third loans are not a true representation of business growth, and the loans get paid back but maybe just barely."[70] There seems to be a lot of potential for things to go wrong.

How do we know that the needs of the poor are being met? Microfinance institutions say that the fact that clients have been able to take out larger loans attests to this fact. Microfinance institutions say that microcredit helps the poor get rich. Yet these are theoretical assumptions. A real measure of poverty alleviation must concretely indicate that the social and economic plight of the poor has improved. An indicator that confirms poverty alleviation is basically a better standard of living. Microfinance institutions *could* claim success *if* their clients lived in an alley and now reside in a decent home. Microfinance institutions *could* claim success *if* there clients did not have access to potable water or electricity and now they do. Success requires higher standards of education for the poor and steady jobs with social welfare benefits such as health. Poverty alleviation demonstrated that some of these basic needs are being met. Just because microfinance institutions are getting rich does not mean the poor are too. Creating linkages between these two ideas is absurd.

[70] Aramayo Carrasco, Gabriela. January 21, 2003. Personal Interview. Caja Los Andes. La Paz, Bolivia.

CONCLUSION

Development is most definitely a concept Bolivia has struggled with over the past 30 years. The different actors that have been involved in defining development, including the Bolivian government foreign governments, and "non-state" entities, have all wrestled with defining development. However, development is always a relative term, because it means development for some and not for others. Banzer's attempt to "develop" the nation was largely defined by giving concessions to the elite. Paz's attempt to "develop" the nation has resulted in monopolistic maneuvering of private, foreign investors in Bolivia's public sectors. Each of these development plans have excluded the poor from reaping any benefits from the nations "development."

Microcredit—Bolivia's newest development plan—predominates the scene in the 21st century. International organizations claim that microcredit is the answer for the poor in developing nations. Microcredit theory, however, has failed to provide evidence that the poor actually feel the effects of poverty alleviation by having access to credit. Even though clients do take advantage of the credit provided, they do so because it is the only option offered to them. Without access to other types of resources the Bolivian poor have been forced to make do with microcredit.

What the Bolivian poor need are jobs and not credit. Microcredit is not going to turn the poor Bolivian into a small industrialists. It is unrealistic to believe that microcredit is going to relieve poverty. Moreover microcredit is not going to be the means in which Bolivia achieves overall economic development. There are many social and economic constraints on the Bolivian poor that microcredit will never address. Giving a poor person a loan does not mean that their lives are going to improve in all areas. The majority of Bolivians still live under poor conditions. Economic distribution is still concentrated in the hands of the top 20 percent of the population. Microcredit will never address these types of inequalities. It may however exacerbate the situation as the poor essentially give money to the rich by taking loans at high interest rates.

For future studies on Bolivia's microcredit model, I would like to carry out an investigation regarding the impact of microcredit on the clients. Even though microfinance institutions publish "success" stories in their annual reports, I highly doubt that this is the same story of all Bolivian poor.

I question the motives of international organizations desire to invest in Bolivia. While the Bolivian foreign debt is astronomically high and investors seem interested in getting their money back, I believe that investors truly just want to keep Bolivia dependent foreign aid. The Bolivian government has cut social spending and given NGOs free reign to initiate their own social programs. This points to the fact hat Bolivia has become even more dependent on foreign actors then ever before. Furthermore it is not only is the Bolivian government that has become dependent on foreign aid, but also Bolivians. Bolivia's dependency on foreign actors is penetrating into even the smallest units of society. Microcredit merely attests to the fact that international actors want to replicate Bolivia's national dependency on aid at the individual level. Microcredit makes the poor dependent on loans for "development" just as the Bolivian nation depends on aid for development. This kind of dependency creates a vicious cycle, and unfortunately I do not see Bolivia leaving it anytime soon. Bolivia must anticipate its future. For years it has been blatantly obvious that this kind of dependency has not resulted in true development for Bolivia. International investors are not interested in Bolivian development. So if Bolivia seeks true development it must propose an alternative.

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