

**Microfinance for Microenterprises?**  
**Investigating the Usefulness of Microfinance for**  
**Microenterprises in Bolivia**

by

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B.A., University of Toronto, 2011

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## **Abstract**

Despite uncertainty about whether or not microenterprises (MEs) contribute to economic growth, it is believed that MEs contribute to human development. This research paper investigates how microfinance helps microenterprise owners in Bolivia achieve certain aspects of human development. Credit services are shown to be particularly helpful for microenterprise owners in this regard; however fieldwork constraints made it impossible to determine the role of savings services. This study enhances the discussion on microfinance for microenterprises because it considers MEs from a human development perspective instead of the typical income-poverty reduction view. Moreover, it highlights the voice of microfinance program staff and participants by following participatory program evaluation methods.

**Keywords:** Human Development; Microenterprise; Microfinance; Micro-credit; Bolivia; Participatory Program Evaluation

## Dedication

*This research paper is dedicated to my husband,  
Paul Arnold. Thank you for your unceasing  
patience, support, and love.*

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This research paper could not have been completed without the incredibly generous contributions of the Idepro staff and clients in El Alto, Bolivia. The useful guidance of Dr. John Harriss has also played an influential role in this paper. Finally, my faithful editors, Paul Arnold and Melinda Barbour deserve recognition for their help.

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## List of Acronyms or Glossary

ME	Microenterprise
MF	Microfinance
MFI	Microfinance Institution
SEEP	Small Enterprise Education and Promotion
CELDA	Centre for the Study of the Development of Labor and Agriculture
PPE	Participatory Program Evaluation
GDP	Gross Domestic Product
UNDP	United Nations Development Programme
HDR	Human Development Report
UNRISD	United Nations Research Institute for Social Development
MNC	Multinational Corporation
NGO	Non-governmental Organization
DFI	Development Finance Institution
CGAP	Consultative Group to Assist the Poor

# 1. Introduction

Cumulating factors have resulted in enormous urban migration in Bolivia (Mosley, 2001, 104; Rhyne, 2001, 42). Approximately 67 percent of the country's population is currently living in urban areas with a significant proportion of this population living below the national poverty line (World Bank, 2012). Coinciding with this urban growth, the number of microenterprises (MEs) in the country has swelled as microenterprises have come to play a crucial role in the income generation strategies of many of Bolivia's urban poor. The World Bank states that "Bolivia's informal sector [where MEs typically operate] is the largest in Latin America, by many definitions and measures" (World Bank, 2011). Since microfinance programs often target microenterprises, a huge microfinance (MF) industry has emerged in Bolivia. When compared to other countries, the number of microfinance institutions (MFIs) in Bolivia is particularly vast. One study states that Bolivia may have "the densest microcredit in the world" (Navajas et al., 2000, 338). What is more, the MFIs that comprise this dense sector are quite diverse in structure and service provision methodologies (Mosley, 2001, 102).

These unique factors make Bolivia an especially relevant setting in which to evaluate microenterprises and microfinance programs. This study's central research questions are: *How does microfinance enable microenterprises to contribute to human development?* And: *What microfinance services are the most useful in this regard?* Given the prevalence of microfinance for microenterprise programs around the world, it is essential that the answers to these questions be made clear.

Before answering these questions, however, the impact of MEs on human development and economic growth must be considered. Currently there is an existing debate about whether or not microfinance programs are effective at enabling MEs to contribute to human development. Unfortunately most impact assessments of MF programs evaluate them based on their ability to reduce income-poverty, ignoring broader aspects of human development. The impact assessments that are from a

human development perspective are concentrated on women's empowerment. Evidently other relevant components of human development are generally excluded from evaluations of microfinance programs. This study adds to the debate by evaluating the usefulness of microfinance for microenterprises according to an enlarged set of criteria that includes a wider scope of human development indicators, such as security of livelihood, sense of participation in a community's economic activities, sufficient amount of free time, and feeling satisfied by work.

Moreover, numerous authors have noted that information typically flows in a "top-down" direction within MFIs, and they have stressed the need for "bottom-up" information in these institutions (Cohen, 2009, 150; Kabeer, 2009, 115; Small Enterprise Education and Promotion (SEEP) Network, 2000, 5). In this research paper I hope to increase the voice of MF program participants by highlighting information gained through semi-structured interviews with them. The increased voice of participants should provide helpful guidance for organizations that provide ME owners with financial services.

Chapter two explains the methodology that is employed in order to answer the questions posed by this paper. The following chapter develops hypothesized answers to these questions by analyzing various perspectives in the microfinance literature. Chapter four describes why fieldwork undertaken in Bolivia only partially confirmed these hypotheses. Finally, chapter five summarizes the conclusions of this study and their policy implications.

The conclusions of this research are that microenterprises can facilitate the achievement of certain aspects of human development. Credit services are shown to be particularly useful in helping ME owners attain elements of human development. While the MF literature asserts that savings also fulfill this function, it was impossible to test if this is the case in Bolivia because fieldwork was limited by several factors. Notably, the conclusions of this research paper pertain specifically to accumulation-oriented microenterprise owners.

## 2. Methodology

### Methodology:

This section outlines the research approach taken to answer this study's research questions. First a literature review was undertaken in order to develop informed hypotheses. Subsequently these hypotheses were tested through fieldwork that was carried out in Bolivia. Field research consisted of semi-structured interviews with the staff and clients of an MFI called Idepro in El Alto, Bolivia. Idepro was founded in 1991 by a network of organizations, including a research organization called Centre for the Study of the Development of Labor and Agriculture (CELDA) which produced the first serious analysis of Bolivia's informal sector in 1988 (Rhyne, 2001, 44). Idepro was established as an enterprise development organization that would offer various programs for MEs such as microfinance, training, and technological assistance services (Rhyne, 2001, 90; Idepro, 2012). Given the range of programs that Idepro offers, it is an ideal institution in which to study how microfinance helps MEs since the usefulness of microfinance for MEs can be compared to the usefulness of other services.

Semi-structured interviews were selected as the best method for gathering data, due to their flexibility. This type of interview lies between structured interviews with a set of predetermined questions and unstructured interviews which are essentially "guided conversations" about a specific topic. They are an effective method for collecting data because predetermined questions ensure that the information gained is relevant, yet the flexibility to deviate from these questions allow for supplementary insights to be revealed.

Furthermore, in order to gain as much insight as possible from Idepro staff and clients, semi-structured interviews were shaped by participatory program evaluation methods (PPE). Participatory program evaluation strives to improve programs according to the input of program stakeholders and staff (Paloma Foundation & Wellesley Institute,

2010, 16). This method draws out specific information from program participants and staff using qualitative research techniques such as semi-structured interviews (Paloma Foundation & Wellesley Institute, 2010, 82).

A recent manual about participatory program evaluation methods states that interview questions for program evaluation should be centered around the following: consideration of whether or not a program set out to do what it said it would, contemplation about what worked and what did not, deliberation about what difference the project made, and thought about what could be done differently in the future (Paloma Foundation & Wellesley Institute, 2010, 70-71). These considerations formed the framework of questions that were asked of Idepro clients and staff about the usefulness of Idepro's programs in helping ME owners achieve aspects of human development. Chapter five will describe the more specific methodology regarding how these interviews were undertaken.

#### Definitions:

Before delving deeper into this discussion about microfinance, microenterprises, and human development, it is important to define some terms.

*Microenterprise:* The main determinant of whether or not an enterprise should be classified as micro is the number of workers involved in its operations (Schreiner & Leon, 2001, 2). MEs often employ one to a few family members (Prasad & Tata, 2008, 236), however enterprises can be categorized as micro as long as they have less than ten employees (Schreiner & Leon, 2001, 2). This research paper will follow the definition of microenterprise that is used by the Bolivian government which states that enterprises are micro if they have one to nine employees (C. Paredes, interview, May 31, 2012). Other common determinants include the scale of an enterprise's output and the sector in which it operates (Schreiner & Leon, 2001, 2). Notably, MEs frequently operate in the "informal economy" meaning they are "not subject to national labor legislation, income taxation, [or] social protection" (Madrigal & Pages, 2008, 6-7).

*Accumulation-oriented microenterprise:* Naila Kabeer (2010) observes that microenterprise owners are not a heterogeneous group. The key factor that distinguishes accumulation-oriented MEs is that they generate more income than is

necessary for mere survival. Accumulation-oriented MEs are generally run by motivated entrepreneurs (Kabeer, 2010, 25). This type of microenterprise is often an entrepreneur's main source of income which furthers his or her incentive to see the project flourish. The majority of enterprise owners who were interviewed in this study own accumulation-oriented MEs.

*Survival-oriented income-generation microenterprise:* On the opposite end of the ME spectrum are survival-oriented income-generation microenterprises (Kabeer, 2010, 24). These MEs usually fare worse than accumulation-oriented microenterprises because they are just one element of poor individuals' diversified income strategies; hence owners of survival-oriented microenterprises are unable to invest as much time and energy into their projects as owners of the former (Kabeer, 2010, 27). Consequently survival-oriented MEs often struggle to generate enough income for survival.

*Micro-credit:* The specific details about how micro-credit works will be discussed in chapter three. For now it is sufficient to say that micro-credit is the dispersion of small loans to people who are typically unable to access credit from formal banking institutions (Chowdhury, Ghosh, & Wright, 2005, 298).

*Microfinance:* Microfinance is broader than micro-credit. It includes micro-credit as well as other financial services such as savings and insurance services at the micro level (Quadrat-I Elahi & Rahman, 2006, 477).

*Poverty/The Poor:* Defining poverty and classifying people as "poor" or "non-poor" are extremely delicate and complicated tasks. This research paper does not attempt to do either of the above; however from time to time this paper uses the term "poor" to describe, in general, people with low levels of human development.

*Economic development:* Economic development is generally concerned with large scale, rapid improvements in a country's standard of living that are associated with economic growth (Todaro & Smith, 2011, 8). Economic growth can be defined as a sustained increase in a country's gross domestic product (GDP) per capita over time (Thomas, 2000, 31).

*Human development:* The term human development became prominent in 1990 when the United Nations Development Programme (UNDP) issued the first Human Development Report (HDR) (United Nations Development Programme, 2011). The human development approach attempts to shift the development paradigm from a focus on economic growth to a focus on improving the quality of human lives (UNDP, 2011). Essentially this approach considers broader measures of a person's wellbeing than simply the GDP per capita of the country in which he or she lives. Amartya Sen defines it as "...advancing the richness of human life, rather than the richness of the economy in which human beings live..." (UNDP, 2011). Therefore, in addition to economic growth, the first Human Development Report emphasized the importance of equal income distribution, "better nutrition and health services, greater access to knowledge, more secure livelihoods, better working conditions, security against crime and physical violence, satisfying leisure hours, and a sense of participating in the economic, cultural and political activities of [one's] community" (UNDP, 1990).

### **3. Literature Review & Hypotheses**

#### **3.1. How do microenterprises contribute to economic development?**

The literature regarding the contribution of microenterprises to a country's economic development reveals mixed opinions.

##### Productivity:

Proponents of microenterprises for economic development contend that MEs are productive contributors to a country's economy. They argue that MEs can be efficient according to both measures of labour productivity and total factor productivity<sup>1</sup>. This outlook stresses that not all enterprises benefit from economies of scale (Romijn, Thomas, & Uribe-Echevarria, 1991, 6-7); rather microenterprises can take advantage of niche markets if they are flexible and innovative (Bozic & Radas, 2009; Johnson, 2007; Lui, 1998). Overall adherents of this viewpoint assert that capital is being used productively when ME owners invest their microenterprise income back into their ME (Kamal, 1985, 40-41).

In contrast to this perspective is the view that MEs are inefficient and that they exacerbate economic stagnation when a substantial portion of a country's labour force is employed in them (Romijn et al., 1991, 85). Proponents of this viewpoint argue that,

<sup>1</sup> Labour productivity can be measured by determining how much output is produced by one hour of labour (Bade & Parkin, 2006, 739; Felipe, 2008, 2), while total factor productivity considers how much output is produced according to various factors of production such as labour, physical capital, etc. (Debraj, 1998, 117-125).

although microenterprises provide employment and income, they do not generate significant productivity, savings, and investment. Bateman and Chang (2009) state that

“...informal microenterprises increasingly do not raise the total volume of business so much as redistribute or subdivide the prevailing volume of business...[Moreover]...given the nature of the activities, there are likely to be almost no further productivity-driven gains to be made in these struggling sub-sectors” (Bateman & Chang, 2009, 10).

Finally, since most microenterprises operate in the informal sector, any productivity gains that are achieved within this sector will not be reflected in a country’s official GDP per capita (World Bank, 2008).

#### From Microenterprises to Small Enterprises:

Another way that microenterprises might contribute to a country’s economic development is by growing into small and medium sized enterprises which typically enhance economic growth. It has been said that Bolivia’s informal sector is “a seed bed for enterprise growth” (Rhyne, 2001, 45). However, various studies have demonstrated that microenterprises rarely grow into small and medium enterprises (Liedhold & Mead, 1999; La Porta & Shleifer, 2008; MicrofinanceFocus, 2012). Basing their conclusions on data from surveys that were conducted for over 65 000 small enterprises in twelve countries, Liedholm and Mead (1999) observe that less than two percent of the MEs in their study transitioned into small or medium enterprises (Liedholm & Mead, 1999, 101).

#### ME Impact on Employment:

Since MEs are often labour-intensive, some scholars highlight the role that microenterprises can play in absorbing surplus labour by providing employment for people who do not have the education and training that is required for capital intensive jobs (World Bank, 1978, 64; Ahmad & Hooley, 1990, 22; Shaffer, 2006, 145). One author states that small-scale units of flexible, specialized production are “a long-term solution to urban employment problems” in Latin America (Romijn et al., 1991, 10-11). On the other hand, some scholars view the informal sector as “...a source of pseudo-employment that reflects the failure of the formal sector to provide enough jobs” (Rhyne, 2001, 44). Scholars from this camp assert that formal employment is much more preferable than self-employment in a microenterprise (Rhyne, 2001, 44).

### Informality and State Capacity:

Critics are also concerned that the informal economy undermines the capacity of state governments, negatively impacting their ability to pursue economic development (Bateman & Chang, 2009, 21). Bateman and Chang declare that the expansion of the informal sector around the world has resulted in “the de-legitimation of legal process, undermined respect for the tax system, sanctioned a casual approach towards health and safety and environmental regulations, and has undermined the ability of democratically mandated governments to prohibit sharp business practices” (Bateman & Chang, 2009, 21). However, this is a critique of informality in the economy - not a critique of microenterprises. Many proponents of microenterprises for economic development would agree that formalization should be made more attainable for microenterprises operating in the informal sector (Rhyne, 2001, 45; de Soto, 1989).

Interestingly Idepro regards MEs as contributing to economic development, but only when they operate in specific sectors. General manager of Idepro, Roberto Casanovas, originally intended for the organization to focus on manufacturing enterprises because he views this sector as the only one in Bolivia with the potential to “generate real development in terms of productivity and employment” (Rhyne, 2001, 90). Twenty one years after its inception, the Idepro branch in El Alto holds true to this goal as it focuses on helping micro and small enterprises in the region’s budding textiles manufacturing industry. Regardless of Idepro’s position on this issue, the literature is clearly inconclusive about the role of microenterprises in a country’s economic development.

## **3.2. How do microenterprises contribute to human development?**

### Women’s Empowerment:

The term empowerment can be defined as “a desired process by which individuals, typically including the ‘poorest of the poor’, are able to take direct control over their lives” (Allen & Thomas, 2000, 35). Proponents of microenterprises argue that

MEs contribute to women's empowerment by increasing their share of household earnings, giving them more decision making power, and consequently providing them with more agency over their own lives (Hope, 2001, 37; Kabeer, 2001; Blumberg, 1995, 196). One study shows that "women's access to the market was the primary route for their empowerment" (Kabeer, 2009, 109). In addition, various studies observe that children gain food, clothing, schooling, and health care from microenterprise development programs that help women generate an income that is kept under their control (Beneria & Roldan, 1987; Blumberg, 1995, 197; Grasmuck & Espinal, 2000).

Contrarily, additional studies are less optimistic. Authors of these studies argue that women's employment in microenterprises may increase their workload since women must add ME tasks to their list of unpaid household duties (Ackerly, 1995; Johnson, 2005; Vonderlack-Navarro, 2010). Moreover, men's financial contribution to their households may decrease in correspondence with the increasing financial contribution of women (Johnson, 2005; Vonderlack-Navarro, 2010). For example, Vonderlack-Navarro (2010) shows that men in Honduras allocate less money to their families when women gain access to credit for their microenterprises (Vonderlack-Navarro, 2010, 125). Yet, she finds that even if men contribute less, women in Honduras feel better off when they do not have to rely on income from men (Vonderlack-Navarro, 2010, 125).

Even scholars who promote wage labour over microenterprises stress that the former is not sufficient to enable women's empowerment. Naila Kabeer (2012) notes that formal employment in developing countries rarely challenges discriminatory gender roles because women tend to remain in the lowest ranked jobs while men dominate higher ranked positions (Kabeer, 2012, 36). For example, men tend to occupy permanent positions while women fill casual, temporary, and seasonal positions (Kabeer, 2012, 36). A 2011 United Nations Research Institute for Social Development (UNRISD) report supports this by stating that the global increase of women in the labour force has generally consisted of women gaining work in the most poorly paid jobs with the least social protection (UNRISD, 2011, 35). Therefore, some authors argue that MEs may increase women's empowerment more than wage labour in some aspects.

### Sense of Participation in a Community's Economic Activities & Job Satisfaction:

Microenterprises also increase the ability of poor people to participate in markets. Since employment does not necessarily follow from economic growth (UNRISD, 2011, 54), many people who have difficulty finding work become employed in microenterprises. Amartya Sen (1999) argues that having a job and the freedom to participate in markets is an important aspect of human development because it enables one to feel as if he or she is a functioning member of society (Sen, 1999, 6-7). On the contrary unemployment is a deprivation of freedom (Sen, 1999, 20). Sen states: "Unemployment is not merely a deficiency of income that can be made up through transfers by the state...it is also a source of far-reaching debilitating effects on individual freedom, initiative, and skills. Among its manifold effects, unemployment contributes to the "social exclusion" of some groups, and it leads to losses of self-reliance, self-confidence and psychological and physical health" (Sen, 1999, 21). The contribution of employment to human development is supported by empirical evidence as well. In her intergenerational study of favelas in Brazil's Rio de Janeiro, Janice Perlman (2010) found that favela residents placed more value on having a job than on having good health, a decent income, education, housing, and personal security (Perlman, 2010, 231). In sum these authors avow that ME employment plays a role in human development by allowing those previously excluded from markets to participate in their community's economic activities.

Conversely, some authors maintain that people who are self-employed in microenterprises would actually prefer to be employed in formal wage labour as the latter generally allows one to generate a higher income and to obtain greater social protection (Rhyne, 2001; UNRISD, 2011, 35). The empirical evidence supports that large firms typically offer higher wages and better benefits than small firms (Beck, Demirguc-Kunt, & Levine, 2005; Brown, Hamilton, & Medoff, 1990; Rosenzweig, 1988). A major reason for the disparity between large firms and microenterprises is that those who work in the informal economy do not have government-provided social insurance through their jobs since this sector operates outside of the government's sphere of regulation.

Even so alternate studies have shown that workers in developing countries may prefer employment in the informal sector, even if income and benefits are greater in the

formal sector (Madrigal, 2008, 4). Individuals in developing countries may abhor paying taxes if they perceive that their tax dollars do not result in accessible or adequate social services (Madrigal, 2008, 4). Hence Hope (2001) contends that working in the tax-free informal sector can be a “rational economic decision” (Hope, 2001, 37). Altogether Hope underlines that working in the informal sector is not simply a means of survival, but can also be a chosen means of making a living (Hope, 2001, 37).

#### Leisure Hours:

Another reason why workers may prefer self-employment in a microenterprise to formal wage labour is that self-employment is generally more flexible, allowing individuals to allocate work and leisure hours according to their preferences. The flexibility of self-employment also benefits people who, for example, must simultaneously work and take care of their children (Madrigal, 2008, 4). Overall self-employment allows flexibility and freedoms that formal employment does not (Hope, 2001, 37).

#### Job Security:

In addition, the jobs provided by large firms are not necessarily more stable than jobs in the informal sector. Low labour costs are an important determinant of where a large corporation will manufacture because they can significantly reduce total operating costs (Amaro & Miles, 2006, 4). It is not unusual for a multinational corporation (MNC) to relocate if it finds another location where it can pay workers lower wages (Akinsanya, 1984, 320). In 2001 five important MNCs moved their electronics manufacturing from Gaudalajara, Mexico to China and Malaysia for this reason (Vargas, 2010, 547). In turn, this has led to a dilemma called the “race to the bottom” where developing countries are forced to “accept less FDI, or accept lower wages...” (Amaro & Miles, 2006, 2). Although large domestic firms in developing countries may be less likely to relocate for lower labour costs, these firms rarely create enough jobs for the low-skilled workforce in their countries. Contrarily MEs can provide their owners with a relatively stable livelihood, especially in areas such as El Alto where the market for small vendors appears endless.

In summary, the literature demonstrates that microenterprises can contribute to human development by increasing women’s empowerment, by enabling otherwise

excluded people to participate in their community's economic activities, by increasing one's flexibility to spend his or her time according to his or her own needs and preferences, by increasing job satisfaction, and by providing a relatively secure means of making a living.

#### The Gap in Microfinance Program Evaluations:

The majority of MF program evaluations are concentrated on how effective programs are at helping people cross the poverty line in a positive direction. The results of these evaluations, however, are extremely mixed (Chowdhury et al., 2005, 299; Navajas, Schreiner, Meyer, Gonzalez-Vega, & Rodriguez-Mesa, 2000, 334). Furthermore, they are difficult to compare because authors use different methods of measuring the impact of microfinance, as well as different measures of poverty.

In regard to Bolivia, Paul Mosley (2001) claims that microfinance has contributed to poverty alleviation because his study found that on average MF programs have had a positive effect on borrowers' incomes (Mosley, 2001, 113). Similarly, using a "poverty scorecard" method of measuring poverty, Sarah Gibb (2008) demonstrates that poverty was reduced for the target clients of ProMujer (a major MFI in Bolivia) by an average of 10.8 points over a certain period of time, while it was only reduced by an average of 2.4 points for a control group without access to ProMujer's services (Gibb, 2008, 15). However, Navajas, Schreiner, Meyer, Gonzalez-Vega, and Rodriguez-Meza (2000) assert that a number of MFIs in Bolivia do not primarily serve those below the poverty line but rather those "near the poverty line", perhaps skewing the results of studies about the impact of microfinance on poverty in Bolivia (Navajas et al., 2000, 344-345). Numerous studies have found this to be true for MFIs in other countries, such as Bangladesh (Hulme, 2009, 169), Indonesia (Mosley & Hulme, 2009, 68), Kenya, and Malawi (Hulme & Mosley, 1996, 112) as well.

Since the impact of microfinance on income-poverty reduction is inconclusive (in Bolivia and elsewhere), this research paper hopes to broaden the MF program evaluation criteria by including certain elements of human development such as the attainment of secure and satisfying livelihoods, a feeling of economic participation in one's community, a sense of empowerment, and sufficient leisure time.

This research paper also emphasizes the perceptions of program staff and participants. In his article “Impact Assessment Methodologies for Microfinance: Theory, Experience and Better Practice” (2000), David Hulme points out that microfinance impact assessments are “a ‘battle field of knowledge’...in which different actors seek to influence the knowledge creation process so that it meets their needs” (Hulme, 2000, 93). Cohen (2009) furthers this point by observing the following:

“It is striking how many MFIs are largely top down in their flows of information. In such institutions, the opportunity for the client to be heard or the client to participate in institutional decision making is constrained. Yet if the voice of the client is heard and then further utilized to influence the functions of a MFI, it can significantly improve the effectiveness of services” (Cohen, 2009, 150).

Therefore it is imperative that the perceptions of MF program participants are included in MF impact assessments. This research paper hopes to accomplish this task in order to illuminate insights about how Idepro can improve its microenterprise development programs.

### **3.3. How does microfinance enable microenterprises to contribute to human development?**

As recently noted, this paper hopes to broaden evaluations of MF programs to include a wider range of human development indicators. Before outlining how microfinance enables ME owners to achieve these aspects of human development it is necessary to explain how microfinance works and the issues surrounding it.

#### Group versus Individual Lending:

Although the concept of microfinance was current before the creation of the Grameen Bank in Bangladesh, the tremendous popularity of microfinance programs in developing countries was not evident until after the Bank’s inception in 1983 (Bateman & Chang, 2009, 2). Similarly, credit unions, rural revolving funds, and village banks were present in Bolivia before its “microfinance industry” took off in 1987 (Rhyne, 2001, 55). The basic idea of micro-credit (as conceptualized by the founder of the Grameen Bank,

Muhammad Yunus) is to provide poor people with small loans, using social pressure as collateral instead of material assets (Hulme & Mosley, 1996, 99).

The Grameen Bank model is famous for dispersing small loans to jointly-liaible groups (Hulme & Mosley, 1996, 99). The mechanism that causes each group member to repay his or her portion of the loan is the fear of the social repercussions that might occur if he or she is unable to cover his or her part (Hulme & Mosley, 1996, 27). Since group members assess each other's ability to repay during the process of group formation, the bank's need to spend time and money on screening potential loan recipients is greatly reduced (Hulme & Mosley, 1996, 27). Moreover, since the bank lends to a group instead of the individual members of each group, its transaction costs are further reduced (Hulme & Mosley, 1996, 27). This lending methodology of the Grameen Bank has now been hailed as a great success because it demonstrates that poor people are able to repay small loans from formal lending institutions.

Since the field of microfinance has grown, scholars of microfinance have debated whether group lending or individual lending is preferable. Proponents of individual lending emphasize the negative consequences of group lending that group members face. For instance, Malcolm Harper (2007) despises the fact that group members are not remunerated for the tasks they perform that reduce the bank's administrative costs (Harper, 2007, 35). He goes on to highlight how group members lose valuable time when they are forced to attend numerous group meetings (Harper, 2007, 42). He also notes that group members may face social exclusion if they default (Harper, 2007, 41). Although defaulting is relatively rare, those who do are typically the poorest group members (Harper, 2007, 41). Therefore, group lending may exacerbate the social exclusion of the poorest.

One may wonder how an MFI can sustain itself if its administrative costs are not reduced through the practice of group lending. The answer lies in another key aspect of the Grameen Bank's lending methodology, which is intensive loan collection (Hulme & Mosley, 1996, 24). Intensive loan collection consists of collecting loan repayments each week at a specific time and near a borrower's place of work or residence (Hulme & Mosley, 1996, 24). This reduces borrowers' transaction costs since they do not have to travel to a bank, making it easier for them to repay (Hulme & Mosley, 1996, 24). Overall

intensive loan collection reduces default rates which can be considered the most important component of an MFI's sustainability (Hulme & Mosley, 1996, 47). Other design features of microfinance programs such as having positive real interest rates on loans, providing voluntary savings and/or insurance services (which ensure an MFI has access to funds for loan repayments), and offering incentives to repay (often in the form of giving discounts on future loans for on-time payments of current loans) have also been demonstrated to lead towards MFI sustainability (Hulme & Mosley, 1996, 54).

Seeing as Idepro focuses on enterprise development, it lends strictly to individual entrepreneurs (C. Paredes, interview, May 31, 2012). Idepro ensures that it is financially sustainable by charging interest rates that help cover unpaid loans and by providing incentives to repay. For example, an individual who is in good standing with Idepro increases his or her chances of receiving a larger loan with lower interest in the future.

#### The Financial Systems Approach versus the Poverty Lending Approach:

The view that MFIs should strive to become self-sufficient commercial enterprises is called the "financial systems approach" (Robinson, 2009, 55), and it has become prevalent in the mainstream international development community (Bateman & Chang, 2009, 2). This approach considers it unsustainable for MFIs to persistently rely on donor funding. Although the financial systems approach may view initial subsidies for MFIs to be necessary (Hulme & Mosley, 1996, 80), the idea is that these subsidies should eventually lead to self-sufficiency (Robinson, 2009, 58).

In Bolivia, MFIs have been propelled towards financial self-sufficiency and commercialization because the demand for micro-loans has become greater than donors want to or are able to provide funds for (Rhyne, 2001, 105). Moreover, non-governmental organizations (NGOs) operating in Bolivia have traditionally been unable to accept deposits from clients (savings) under Bolivian law (Rhyne, 2001, 106). Thus, in order to provide poor borrowers with more access to credit and with a wider range of financial services, Bolivian MFIs have sought to become licensed financial institutions (Rhyne, 2001, 106). Bolivian microfinance institutions are often highlighted in the literature as models for how to successfully transition into licensed financial institutions (Rhyne, 2001, 207).

Proponents of the financial systems approach argue that “donor dependent microcredit institutions...cannot meet the demand for credit and do not meet the demand for savings services. [The financial systems approach] leads to self sufficient financial intermediaries and large scale microfinance outreach” (Robinson, 2009, 58). Overall, the financial systems approach seeks to reach a broad spectrum of clients and build microfinance “on a global scale” (Robinson, 2009, 56).

Interestingly, Bateman and Chang assert that this focus on financial sustainability stems from the neoliberal ideology that has permeated much international development thinking (Bateman & Chang, 2009, 23). They state:

“...microfinance is actually almost perfectly in tune with the core doctrines of neoliberalism, the reigning ideology of our time: that is, the need to vector all economic activity through private individual initiative; the need to avoid any aspect of planning or conscious guidance of the market mechanism; the need for all institutions to attempt to ‘earn their keep on the market’; and, the need to ensure that all economic organizations are also as much as possible owned and controlled by the private sector” (Bateman & Chang, 2009, 23).

This relationship between the financial systems approach to micro-credit and neoliberalism is viewed negatively by Bateman and Chang because the success of some development projects associated with neoliberal ideology is debatable (Harvey, 2006, 154). Most worrying, however, is the idea that the high interest rates required to ensure financial sustainability lead to profiteering by some individuals who operate MFIs. A report by Jonathan Lewis (2008) discusses an MFI in Mexico called Banco Compartamos, which is just one of several examples of microfinance institutions that walk the line between helping the poor and generating a profit at the expense of the poor (Lewis, 2008, 56).

Keeping in line with the Bolivian experience, Idepro falls under the financial systems approach as it is financially sustainable without donor subsidies of any kind (M. Velasco, personal communication, June 28, 2012). Unfortunately Idepro staff offered little information when asked about the details of Idepro’s profit levels. Financial statements from Idepro indicate that the organization does generate revenue, but the breakdown of where this goes is not provided. Some earnings may go towards the training and technological assistance programs that Idepro offers. It is also presumed

that Idepro uses a portion of its profit to deepen its existing investments. Notably some of the income generated by these investments is used to pay off bad debts, however Idepro's delinquency rate has steadily decreased since 2003 (Idepro, 2011, 10). A recent report states that the delinquency rate was 1.48% in May 2011 (Idepro, 2011, 10).

Still, not all proponents of microfinance institutions are interested in whether or not an MFI can be self-sustaining. Some authors argue that MFIs should focus on income-poverty reduction, even if it means that they must rely on donor subsidies (Rhyne, 1998; Hulme & Mosley, 1996). Those who favour poverty reduction, called the "poverty lending" group (Robinson, 2009, 55), usually offer subsidized credit to their clients, asserting that lending to the poorest of the poor must include subsidized interest rates (Robinson, 2009, 55; Rhyne, 1998, 7). In sum, this perspective views subsidized credit as one among a variety of tools that should be utilized to reduce poverty (Robinson, 2009, 55).

#### Formal versus Informal Financial Institutions:

Regardless of whether formal financial institutions lend to groups or individuals, or whether they focus on financial sustainability or poverty reduction, they are thought to be beneficial because without them many people would be unable to obtain loans. In general poor people are unable to acquire loans from formal financial institutions because they lack the required credit history, documentation, collateral, guarantors, etc. (Hulme & Mosley, 1996, 16).

Poor people may also lack access to credit from informal money lenders if the interest rate offered by such lenders is so high that it outweighs the benefits of borrowing (Hulme & Mosley, 1996, 16). Indeed, various authors claim that this is often the case (Hulme & Mosley, 1996, 18; Chowdhury et al., 2005, 298; Robinson, 2009, 49). Nevertheless the role of informal money lenders is subject to debate in the literature.

The "Ohio School", a school of thought reacting against the development finance institutions (DFIs) of the 1930s, believes that informal lenders adequately serve the credit needs of the poor (Hulme & Mosley, 1996, 2-3). This school of thought argues that informal lenders can have lower costs than banks since they do not have to pay for buildings, staff, and administrative fees (Hulme & Mosley, 1996, 15). Furthermore, this

perspective views informal money lenders as “better judges of creditworthiness among their neighbours and better at collecting debts from them, than are institutional lenders” (Hulme & Mosley, 1996, 15).

Conversely, Robinson (2009) argues that the terms of informal lenders are often “not suitable for the borrowers’ needs” (Robinson, 2009, 49). For example, in their survey of MFIs in seven countries, Hulme and Mosley (1996) find that most people prefer more formal institutions for a number of reasons (Hulme & Mosley, 1996, 72). First, formal financial institutions are often closer in proximity to many borrowers (Hulme & Mosley, 1996, 72). Second, less time is spent negotiating over the terms of a loan in formal institutions (Hulme & Mosley, 1996, 72). Third, formal MFIs do not require much physical collateral while informal lenders usually do (and this is almost always the case in Bolivia) (Hulme & Mosley, 1996, 72). Finally, the loan recovery techniques of formal institutions pale in comparison to “the often thuggish recovery techniques of the moneylenders”, especially in Bolivia (Hulme & Mosley, 1996, 72).

#### How does Microfinance for Microenterprises Contribute to Human Development?:

Now that some of the mechanics of micro-credit have been discussed, it is possible to outline how MF helps microenterprise owners achieve certain aspects of human development. Micro-credit helps MEs enhance human development by providing the initial investment that MEs require (Hulme & Mosley, 1996 34), enabling them to supply more secure livelihoods and facilitate participation in a community’s economic activities. Indeed, the pioneers of microfinance in Bolivia held this idea as central to their mission of providing the poor with financial services (Rhyne, 2001, 73). In Bolivia microfinance was originally seen as a way to help the poor become active agents in their own development, rather than passive recipients of aid (Rhyne, 2001, 73). The original executive director of Prodem (a world renowned Bolivian NGO focused on microfinance), Pancho Otero, summarizes this perspective: “It’s not just the cash. It’s what the cash means, and it means ‘I trust your small project’” (Rhyne, 2001, 73).

However, as micro-credit schemes have progressed, it has become evident that much micro-credit is actually used to smooth consumption rather than to invest in a microenterprise (Hulme & Arun, 2011, 23; Dichter, 2007, 2). Thomas Dichter (2007)

aptly explains consumption smoothing as “ironing out the highs and lows in cash flow so that crises can be met or large purchases made” (Dichter, 2007, 2). In other words, consumption smoothing is using loan money to maintain one’s day to day pattern of spending, especially during times of crisis or when large expenses such as those for a wedding or funeral must be paid.

Survival-oriented microenterprise owners are the most likely to practice consumption smoothing since a loan is just one more source of income for survival-oriented ME owners. Hulme and Arun (2011) view the fungible nature of micro-credit as a positive development because “clients know what their needs are better than middle-class bankers” (Hulme & Arun, 2011, 23). Yet some view this as detrimental, because if a poor person uses a loan to finance a home improvement project instead of to fund a microenterprise, where will they generate the funds to repay the loan? A person who is unable to repay a loan goes into debt, and debt certainly does not improve any aspect of human development. Although debt is a tangible risk that coincides with the provision of micro-credit, it turns out that many loans are repaid from a variety of sources such as savings or earnings from another part-time job, in addition to income from microenterprises. Thus borrowers commonly repay their loans from sources other than microenterprise income.

Despite the fact that many micro-credit loans go towards consumption, this paper is concerned with microfinance for microenterprises. Although it is difficult to determine exactly how a loan is spent, Idepro and other organizations that focus enterprise development help ensure that loan money goes towards MEs by working with business owners to determine exactly how the loan will help their operations. For instance, Idepro often gives loans for the purpose of helping enterprise owners buy a new machine for their business. Moreover, Idepro seeks out accumulation-oriented ME owners who are more likely to put loans towards their business which they perceive to be their best chance of sustainably increasing their income.

### **3.4. What microfinance services are the most useful for microenterprises?**

As mentioned earlier, the term “microfinance” encompasses a wide range of financial services at the micro level, such as credit, savings, and insurance, among others. Although the previous section focused on micro-credit for microenterprises, other financial services may also help microenterprise owners achieve certain aspects of human development. Credit, savings, and insurance services can be distinguished as described below. Credit can be explained as receiving a lump sum from the bank and paying it back in installments over time (Rutherford, 2009, 42). Savings can be expressed as depositing installments over time so that the sum of the deposits can be used in the future (or portions of the sum can be used at different points) (Rutherford, 2009, 40). Insurance is similar to savings, however both the depositing of installments and the redeeming of deposits are subject to greater restrictions (Rutherford, 2009, 42-43). Additionally, one can receive significantly more than the sum of what he or she deposits through an insurance scheme (Brown, 2009, 172).

#### Voluntary Savings Services:

The literature concurs that, in addition to micro-credit, micro-savings are useful for microenterprise owners. However, it is necessary to distinguish between compulsory savings and voluntary savings services. Compulsory savings accounts are often part of another financial service, such as a loan (Rutherford, 2005, 22). This type of savings account usually takes the form of an MFI putting a specified percentage of each instalment of a client’s loan repayment into an account (Rutherford, 2005, 22). Then, if a client is unable to pay one of his or her loan instalments, an MFI can pay it with the funds in this account (Rutherford, 2005, 22). Consequently, compulsory savings accounts act as a source of insurance for MFIs. Typically strict regulations are put on the circumstances a client must face in order to take money out of these accounts (Rutherford, 2005, 22). However, when a client has finished repaying his or her loan, he or she can withdraw the interest gained by the money in his or her compulsory savings account (Hirschland, 2005, 139).

Voluntary savings services are explained well by Stuart Rutherford (2005) as: “...those in which the customer is not obliged to save as part of a contract for some other financial service, such as a loan. The client exercises choice over whether or not to save, and, when a variety of savings schemes are offered, over the timing and amount of savings and withdrawals” (Rutherford, 2005, 23).

Various studies have demonstrated that a demand for voluntary savings services exists among microenterprise owners in developing countries (Rutherford, 2009, 36; Rutherford, 2005, 23; Allen, 2007, 52). Formal savings accounts are extremely important for microenterprise owners because savings help protect enterprises from shocks that might destroy them or set them back (Akotey, Osei, & Gemegah, 2011, 183). In addition, if a microenterprise is protected from shocks, its owner may be more likely to make riskier investments that will result in greater productivity (Akotey et al., 2011, 183). Finally there is much evidence that entrepreneurs in developing countries have a remarkable propensity to save (World Bank, 1978; Kamal, 1985; Ashe, 2010; Bergsma, 2011). Ashe (2010) states: “The issue is not the desire or ability to save but the poor quality of the savings options available” (Ashe, 2010, 178).

People who do not have access to formal savings accounts are generally restricted to doing the following in order to save: holding cash, investing in livestock, jewellery, or other valuable items (called in-kind savings), or using a deposit collector (Bergsma, 2011, 19). Ashe (2010) notes that holding cash is problematic because it can be easily spent or stolen (Ashe, 2010, 178). In-kind savings are also problematic for various reasons: the value of jewellery can easily depreciate (Bergsma, 2011, 19); livestock must be cared for and eventually die (Ashe, 2010, 178); moreover, in-kind goods can also be stolen or destroyed in events such as fires or floods (Bergsma, 2011, 19). The most challenging aspect of in-kind savings is that they are indivisible - “one cannot sell a cow’s leg to pay a minor expense” (Bergsma, 2011, 19). Regarding deposit collectors, Bergsma (2011) asserts that deposit collectors are notoriously unreliable and often result in savers losing money (Bergsma, 2011, 19). Therefore, formal savings accounts are theorized to help microenterprise owners by providing a safe place for them to deposit money that can eventually be used to protect enterprises from shocks or to further invest in them.

In spite of this demand for voluntary savings accounts, MFIs have not made them widely available to ME owners. This is largely because offering these accounts (through which the poor can make un-restricted deposits and withdrawals) has the potential to result in high administrative costs due to a large number of small transactions taking place, making it difficult for MFIs to attain financial self-sufficiency (Bergsma, 2011, 21; Hirschland, 2005, 139). Nonetheless voluntary savings accounts can also provide a source of capital for MFIs (Bergsma, 2011, 20). An MFI can use savings deposits to make loans to new clients or to improve their services (Bergsma, 2011, 20). Another positive aspect of these accounts is that MFIs can establish longer term relationships with clients, which strengthens the incentive for borrowers to repay their loans and reduces default rates (Bergsma, 2011, 20). Idepro, an organization that is interested in providing an array of services to small businesses, is in the process of introducing voluntary savings accounts into the mix of services that they offer (C. Paredes, personal communication, July 18, 2012).

#### Micro-insurance:

In general, people who do not have a lot of money or resources are particularly vulnerable when unfortunate events such as accidents, crime, illness, or natural disasters occur (Akotey et al., 2011, 183; Mosley, 2001, 128). It has been argued that this vulnerability is one of the major factors impeding a poor person's ability to break the cycle of poverty (Akotey et al., 2011, 183). Insurance services are theorized to be especially useful for the poor because they can help them recover from such adverse experiences (Akotey et al., 2011, 183).

The major distinguishing feature of micro-insurance is "risk pooling". Risk pooling can be described as sharing the risk of a detrimental incident among a large group of people (Brown, 2009, 172). This can help the poor recover from harmful experiences, because when a person is affected by the event specified by an insurance scheme, he or she is eligible to benefit from the contributions of the entire group (Brown, 2009, 172). Micro-insurance is also theorized to be helpful for microenterprise owners because micro-insurance provides a form of social security for people working in the informal sector who are not typically reached by government social security schemes (Loewe, 2006, 38). In addition, the literature suggests that there is a demand for micro-

insurance among ME owners in developing countries, at least for certain types of risks (Akotey et al., 2011; Brown, 2009, 173; Cohen & Sebstad, 2005, 469).

Unfortunately the literature also asserts that micro-insurance is a difficult financial service for MFIs to offer. One source declares: “Microinsurance... is not just a new financial product for MFIs – it is an entirely new business” (Churchill, Liber, McCord, & Roth, 2003, 45). Micro-insurance services are difficult for MFIs to provide because they entail that MFIs have a high level of competence. Churchill, Liber, McCord, and Roth (2003) contend that the first question to ask when assessing whether or not an MFI should offer micro-insurance is: “Does the MFI have the capacity to offer insurance?” (Churchill et al., 2003, 45).

Insurance services require a high level of capacity for a variety of reasons. First, insurance services necessitate that MFIs have access to adequate information in order for them to soundly estimate what future claims might be and consequently what the price of premiums should be set at (Churchill et al., 2003, 45; Brown, 2009, 179). Second, an MFI needs sufficient marketing resources in order to ensure that clients will pay premiums even though they may not receive direct benefits from insurance schemes (Brown, 2009, 180). Third, verifying whether or not a particular individual should qualify for insurance against a specific risk and verifying insurance claims involves a substantial amount of administrative proficiency and financial resources (Brown, 2009, 181-182). Finally, MFIs must also consider legal requirements. Although legal requirements vary from country to country, they are typically designed to protect clients (Churchill et al., 2003, 59). Hence insurance regulations often require institutions to maintain sizable reserves to ensure that all claims can be served (Brown, 2009, 183). This poses an obstacle for MFIs with minimal capital.

Despite these barriers, various authors suggest that it is feasible for MFIs to offer life insurance (Churchill et al., 2003; Brown, 2009). The reasons for this are summarized by Churchill: “...the insured event – death – is easy to verify, difficult to fake, occurs only once per person and the risk of moral hazard is low” (Churchill et al., 2003, 71), meaning the likelihood that people will take risks leading to death simply because they have life insurance is low. On the other hand, insurance for natural disasters is tough for MFIs to provide because they cannot be easily predicted, the sum of total losses can be high,

and disasters will likely affect many policyholders at the same time (Churchill et al., 2003, 70). It is also tricky for MFIs to offer property insurance because it is difficult to assign value to some assets, there is a moral hazard risk that a policyholder will not take care of an insured item, and it is difficult to verify claims because a policyholder can easily claim that an item was stolen (Churchill et al., 2003, 71). Thus, the literature suggests that life insurance is the only insurance product that is feasible to offer at a micro-level.

Seeing as only very specific risks (such as death) can be insured against, savings products may actually help microenterprise owners manage risk better than insurance products. For this reason Brown (2009) asserts that increasing ME owners' access to flexible savings products is the most viable option for helping them deal with uncertainty (Brown, 2009, 175). Altogether, the literature implies that it is not feasible to offer micro-insurance products to ME owners. Instead, the literature suggests that MFIs should offer savings products that can help ME owners manage risks more effectively.

#### Other services:

Although other financial services such as money transfers and mobile banking are also important for people in developing countries (Rutherford, 2009, 39), this research paper will not discuss them since Idepro does not offer them. It would be impossible, therefore, to determine how useful these services are for Idepro clients in comparison with micro-credit, training, and technological assistance services.

### **3.5. Hypotheses**

After reviewing the relevant literature, it is clear that the impact of microenterprises on a country's economic development is uncertain. More conclusive is the impact of microenterprises on human development. The literature suggests that microenterprises can contribute to human development by facilitating secure livelihoods, a sense of being included in a community's economic activities, women's empowerment, job satisfaction, and the ability to allocate more time to one's own interests.

Given that microenterprises play a role in the achievement of certain human development indicators, it is important to determine what aspects of microfinance are the most helpful for microenterprises because microfinance for microenterprises has absorbed a lot of attention and resources from the international development community (Dichter, 2007, 1). The literature (rather obviously) suggests that micro-credit services help microenterprise owners achieve specific aspects of human development because they provide the capital that is necessary for MEs to operate. Additionally, the literature advises that voluntary savings accounts contribute to ME owners' achievement of certain facets of human development by offering a safe place to deposit income that is generated by MEs. Consequently, these services supply ME owners with ready access to capital for their microenterprises, allowing them to perceive that their livelihoods are more secure. In turn, having the perception that one's livelihood is relatively secure helps ME owners to enjoy the opportunity of running a business in their community which generates a sense of inclusion as well as job satisfaction. Self employment also enhances one's ability to spend more time on one's own interests, adding to perceptions of job satisfaction. Finally, women tend to feel empowered and less dependent on men when they are able to run their own microenterprises and deposit profits into their own savings accounts. Notably, micro-insurance services are not theorized to be especially helpful for MEs.

Considering the assertions in the literature regarding the usefulness of micro-credit and micro-savings for microenterprises, this research paper hypothesizes that: *microfinance services help microenterprises achieve certain aspects of human development by providing the capital that is necessary for MEs to operate through micro-loans, and by providing a safe place to deposit income generated by MEs through voluntary savings accounts.* The following chapter discusses how these hypotheses was partially confirmed as they were tested through the fieldwork that took place in Bolivia.

## 4. Testing the Hypotheses: Fieldwork in Bolivia

### Description of Fieldwork:

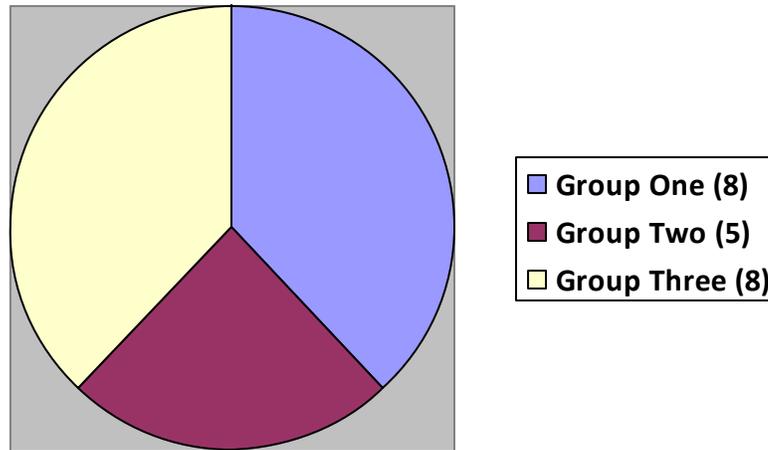
The hypotheses that *microfinance services help microenterprises achieve certain aspects of human development by providing the capital that is necessary for MEs to operate through micro-loans, and by providing a safe place to deposit income generated by MEs through voluntary savings accounts* were checked against the input of ME owners in El Alto, Bolivia who have access to financial services from Idepro. Interview participants were randomly selected by an Idepro staff member. The only criteria used for selection was that business owners must have run their business for at least one year at the time the selection took place. In some cases it was impossible to make contact with participants from the original selection, so new participants were randomly selected.

In total, twenty one semi-structured interviews were conducted with microenterprise owners. Although it would have been beneficial to interview more clients since the El Alto branch of Idepro has approximately 246 clients (C. Paredes, personal communication, July 20, 2012), this was unattainable because of financial constraints. Despite the relatively small sample, insightful common threads are apparent among the perspectives of interview participants.

The twenty one clients were separated into three groups according to which services they receive from Idepro. Group one consisted of eight clients with access to credit services from Idepro. Group two was made up of five clients who have access to a textile sector-specific credit service from Idepro. Finally, eight clients with access to training or technological assistance services in addition to Idepro's credit services formed group three. Unfortunately it was not possible to have an equal number of clients in each group. It was particularly difficult to find clients from group two since

many individuals quickly gain access to Idepro's training and technological assistance programs after gaining access to its specialized credit service.

**Figure 1: Number of Interview Participants by Group**



Initially it was thought that all participants have access to voluntary savings accounts with Idepro. However, while Idepro has the infrastructure for savings accounts in place, it is unable to offer this service until it receives approval from the Bolivian government's supervisory authority of financial services (which it hopes to gain by December 2012, but did not have at the time of research) (C. Paredes, personal communication, July 18, 2012).

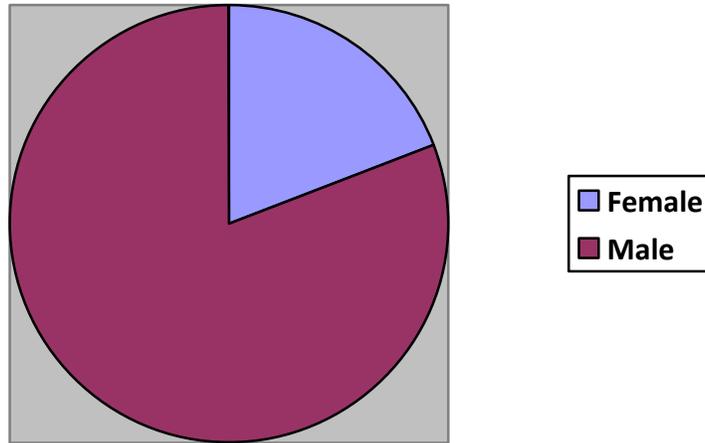
All of the interviews took place between 21 May 2012 and 1 June 2012. Fifteen of interviews took place at the interview participant's place of work and six interviews took place at the Idepro office in El Alto. The type of enterprises owned by interview participants ranged from textile workshops in clients' homes, to the car part shops that are common along the main street in El Alto, to retail vendors in small mall complexes.

**Table 1: Number of Enterprises According to Enterprise Type**

<b>Enterprise Type:</b>	<b>Number of Enterprises:</b>
Textiles	13
Car Parts	2
Fashion	2
Grocery Products	2
Cell Phones	1
Oral Hygiene Products	1

Only four of the twenty one business owners who were interviewed are female. This is likely because the majority of interview participants own accumulation-oriented enterprises which tend to be owned by men rather than women. One possible explanation for why accumulation-oriented enterprises are typically run by men is the gender roles that pervade El Alto. Simply by walking down a street, one can deduce that it is considered suitable for a woman to operate a survival-oriented ME that consists of selling produce, baked goods, or handicrafts, but it is not deemed fitting for a man to do so. On the other hand, it is acceptable for men to operate typical accumulation-oriented MEs (such as textile MEs), but it is less so for women.

**Figure 2: Proportion of Female vs. Male Interview Participants**



The majority of enterprises in this study can be classified as accumulation-oriented enterprises because it appeared as if most interview participants make more income from their enterprises than is necessary to merely survive. This is further verified by the average interview participant perceiving him or her self to be financially secure on a level of 7.07 out of ten. In addition, all interview participants exhibit entrepreneurial characteristics such as being inspired, motivated, creative, innovative, eager to make changes, or willing to take risks. These characteristics became evident when participants were asked if they would like to discuss anything else at the end of their interview. Responses often consisted of participants describing new aspects of their business that they are impatient to develop. For example, one shoe store owner outlined his detailed vision for a new method of selling shoes in El Alto.

The interview process consisted of interview participants being asked a series of questions about what they consider to be the major benefits of owning a ME, if any; how Idepro's MF services help them to achieve these benefits, if at all; and which services offered by Idepro they find to be the most useful for their microenterprise. Although conducting interviews via a translator made it somewhat difficult to explore interesting avenues that came up (since translation made the interview process tedious at times), the interviews produced sufficient data against which the hypotheses put forward by this paper can be tested. Four semi-structured interviews with various staff members, as

well as personal communication with another staff member have provided additional insight pertaining to the subject of the interview questions. The interviewed staff members possess the following positions: Micro-credit Officer (2 staff members), Client Services Representative, Project Manager, and Institutional Development Manager.

#### Microenterprises and Human Development:

Before discussing how the hypotheses developed from the literature compare to the data gathered from fieldwork in Bolivia, it is valuable to compare the elements of human development highlighted in the literature with those considered important by interview participants. The literature highlights women's empowerment, job security, job satisfaction, increased leisure hours, and a sense of inclusion from participating in the economic activities of one's community as the principle facets of human development to be gained from microenterprises. These aspects of human development are considered desirable because they demonstrate that one's well-being is enhanced by working. From Amartya Sen's perspective these human development indicators show that one's ability to function or one's capabilities are improved by work, ultimately increasing one's ability to accomplish what he or she perceives to be valuable achievements in life (Clark, 2006, 33-34).

When asked what the main benefits of running their own businesses were, ME owners stated the following: attaining economic independence (16); gaining more money (12); having more flexible time (11); achieving personal growth/having a good experience (9); enjoying maintaining or growing their own business (7); not having a boss (5); attaining respect (2); having the ability to provide others with employment or economic help (2); and acquiring the ability to travel (1). The numbers in parentheses represent the number of times each answer was mentioned. (Some interview participants stated more than one benefit). Since the interviews were semi-structured, interview participants were simply asked about the main reasons why they run their own business and about the major benefits of running their own business. Then participants were given the freedom to answer however they liked.

**Table 2: Human Development Indicators Mentioned by Interview Participants**

<b>Human Development Indicator:</b>	<b>Number of Times Mentioned by Interview Participants:</b>
attaining economic independence	16
gaining more money	12
having more flexible time	11
achieving personal growth/having a good experience	9
enjoying maintaining or growing one's own business	7
having no boss	5
attaining respect	2
having the ability to provide others with employment or economic help	2
acquiring the ability to travel	1

Interview participants clearly consider empowerment (or “economic independence”), defined as the process by which people take direct control over improving their lives (Allen & Thomas, 2000, 35), as the most valuable element of human development to be achieved by running one’s own business. Interestingly, according to this sample of clients, men view this element to be more important than women. Economic independence was mentioned by fifteen of the seventeen men participants (88.23% of men participants) while it was only mentioned by one of the four women participants (25.00% of women participants).

Security of livelihood, considered the next most important aspect of human development to be gained from self-employment, significantly overlaps with economic independence. This is evident in the fact that participants expressed security in terms of financial security rather than in terms of job security. Interview participants regard having more flexible time to be the third most essential facet of human development to be gained by running one’s own enterprise. Achieving personal growth from the

experience of running one's own business was ranked the fourth most essential element. Surprisingly this aspect of human development is not highlighted in the literature. Personal enjoyment or job satisfaction is thought to be the next most significant facet of human development. After this, another element not highlighted by the literature emerged: not having a boss. This was followed by attaining respect and having the ability to provide others with employment. These two aspects of human development are related to the sense of inclusion felt from participating in the economic activities of one's community which is also highlighted in the literature. Finally, one woman cited acquiring the ability to travel as an important aspect of human development that she had gained from running her own business.

In summary, all of the components of human development that are highlighted in the literature were also mentioned by interview participants as benefits of running one's own business. Empowerment or economic independence was considered the most central aspect, followed (in order) by security of livelihood, flexible time, job satisfaction, and finally a sense of inclusion from participating in the economic activities of one's community. Other components that are not highlighted in the literature but were mentioned by interview participants include achieving personal growth from the experience of running one's own business, not having a boss, and acquiring the ability to travel. Overall, the literature about microenterprises bringing about human development is supported by data gained from the interviews in El Alto.

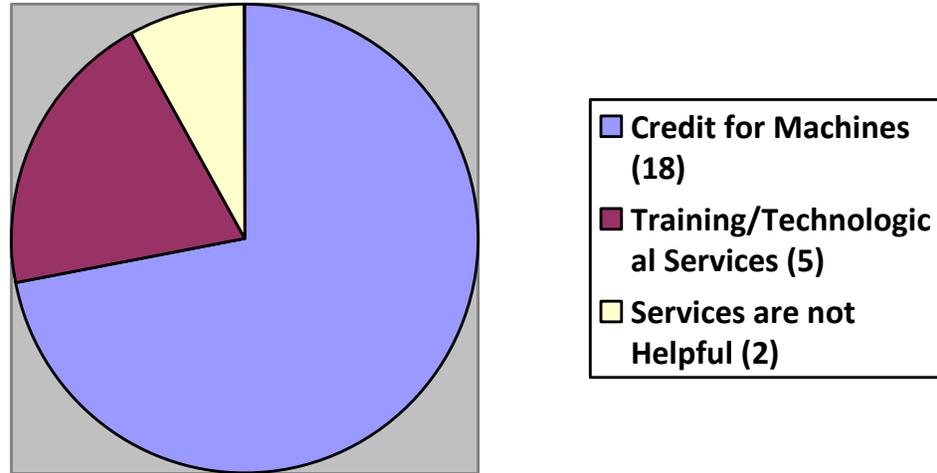
Even further, the information gained from these interviews demonstrates that ME owners enjoy owning their own business. When asked the question: "Do you enjoy running your own business?", all of the twenty one business owners answered yes. When asked to rank how much they enjoy running their own businesses on a scale from one to ten, with one being not at all and ten being very much, sixteen out of twenty one interview participants chose ten. On average, participants ranked their enjoyment of running their own business as 9.19 out of ten. Finally, when asked: "If presented with the choice, would you rather improve your own business or choose employment as a wage labourer?", twenty interview participants answered that they would improve their own business and only one answered that he would choose wage labour.

### Testing the Hypotheses:

The interview data confirms the first part of the hypotheses, that micro-credit services help microenterprise owners achieve certain aspect of human development by providing the capital that is necessary for MEs to operate. However, this study was unable to confirm that voluntary savings accounts help ME owners achieve specific facets of human development since Idepro clients do not have access to this service as of yet.

When asked about how Idepro's services help their microenterprises, the following answers were given in order of most popular to least popular: providing me with the credit I need to buy the machines that will make me/my employees more productive and grow my business (18); providing me with the training/technical assistance I need to help me run my business more efficiently (5); and Idepro's services have not resulted in any changes to my business (2). Although only eight of the twenty one interview participants had access to training or technological assistance services during the interview period, it is striking that eighteen out of twenty one ME owners (85.71% of interview participants) stated that the most useful service received from Idepro is credit.

**Figure 3: How Idepro's Services Help MEs from the Perspective of Interview Participants**

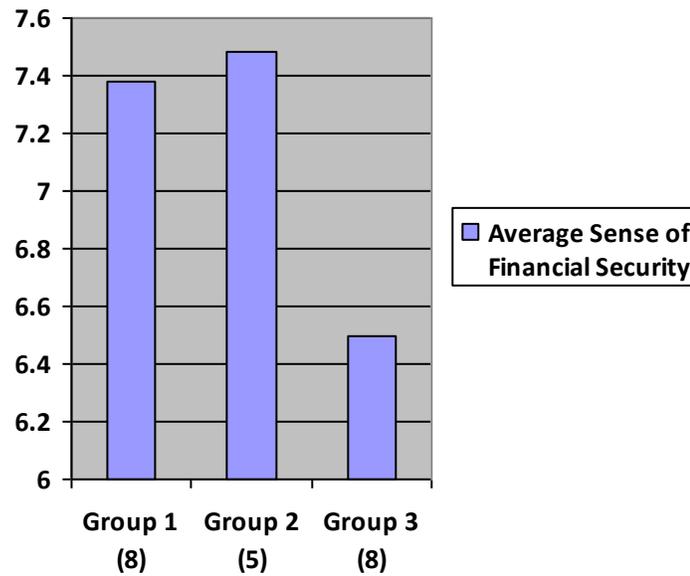


This data, therefore, confirms the first part of the hypotheses which states that micro-loans help microenterprises achieve certain aspects of human development by providing the capital that is necessary for MEs to operate. The literature argues that having ready access to capital makes ME owners perceive that their livelihoods are more secure, leading towards the attainment of other aspects of human development. Similarly, livelihood security was one of the principle elements of human development mentioned by interview participants. That microfinance enables ME owners to feel a sense of job security and financial stability is further supported by the interview data because when participants were asked to measure their financial security on a scale from one to ten (one being not at all and ten being extremely secure), the average score was 7.07 out of ten. Although the limits of this research prohibit this average from being compared to a group without access to credit, 7.07 out of ten represents a fair level of financial security among interview participants.

Interestingly, group three feels the least financially secure out of all the groups, even though this group has access to the most services for their enterprises. On average, this group ranked their financial security as 6.50 out of ten. Meanwhile, group

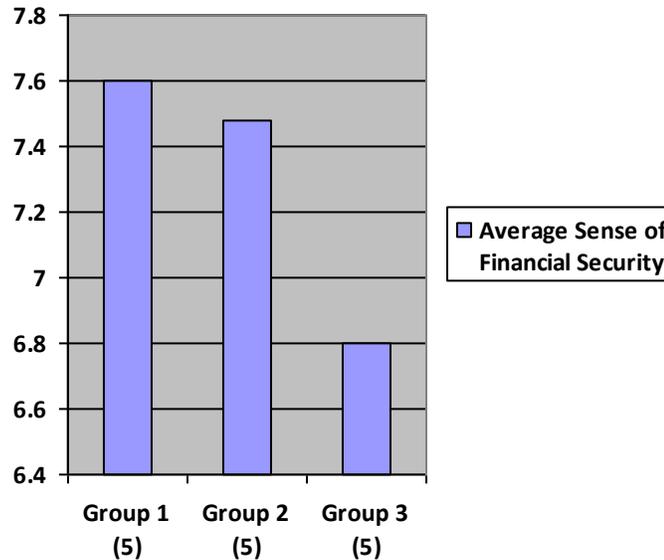
one quantified their financial security as 7.38 out of ten on average and group two evaluated their financial security as 7.48 out of ten on average.

**Figure 4: Average Sense of Financial Security by Group (Original groups)**



It is noteworthy to remember that each group did not have the same number of clients in it. Still, when reducing each group to the lowest common denominator (five clients), the averages do not significantly change. The averages of the three groups when reduced to five members each are as follows: Group one = 7.60; group two = 7.48; group three = 6.80.

**Figure 5: Average Sense of Financial Security by Group (groups reduced to five members each)**



Evidently members of groups one and two (those with access to credit only) feel more financially secure on average than members of group three (those with access to both credit and other services). One possible explanation for this interesting finding is that the sample size of the groups was too small to obtain an accurate measurement of each group's sense of financial security on average.

Obviously when asked about which of Idepro's services are the most useful, the thirteen ME owners who only receive credit naturally answered that credit is the most useful service for their microenterprise. In the group that was comprised of people who have access to credit among other services, however, two mentioned credit as being the most useful service for their ME while another two mentioned either training or technical assistance to be the most useful service. In addition, four mentioned both credit and training services. The fact that training services were mentioned by six out of the eight interview participants who have access to them indicates that training services are considered a useful service by the business owners who have access to them, despite group three feeling the least financially secure of all the groups.

Finally, it is important to emphasize that the findings of this study pertain to accumulation-oriented ME *owners*. Maria Beatriz Orlando and Molly Pollack (2000) note that ME owners or employers are likely to benefit from different services than ME employees in Latin America since the former tend to have achieved higher levels of human development than ME employees in this region (Orlando & Pollack, 2000, 4). Similarly, Hugh Allen (2007) notes that poorer ME employees desire different financial services than their typically better off ME employers (Allen, 2007, 55). It can be tricky to make this distinction because ME employees are often family members of ME owners. Even so, it should be specified that the conclusions of this research paper pertain to ME owners in particular.

#### Participatory Program Evaluation:

Altogether the Idepro clients who were interviewed seem pleased with their participation in Idepro's programs. All services appear to be valuable to those who have access to them. When asked the following questions: "What aspects of Idepro's programs work well? What aspects would you like to see changed? Why?", seven clients responded that there is nothing to improve about Idepro's programs. In addition, five clients stated that they especially like Idepro's credit services and another five stated that they especially like Idepro's training services. Regarding Idepro's credit services, clients are appreciative of being able to obtain large lines of credit from Idepro and that Idepro is flexible with what an individual can use as collateral. One client stated that he wished more people could have access to Idepro's credit services. Concerning Idepro's training services, three clients stated that they wished Idepro would expand these services because they have found them so useful. In particular, these clients hope for more business planning meetings before credit is obtained and more training for employers about how to perform administrative tasks, how to enter new markets, and how to put labels into clothing garments. Finally, one client praised Idepro for having good customer service and for giving due attention to its clients.

As mentioned earlier, Idepro's delinquency rate is low (1.48%); hence most individuals who obtain credit from Idepro continue to participate in its programs until their loan is paid off or until they acquire a new loan from Idepro. Still, such positive feedback raises some suspicion that Idepro staff may have selected clients who are known to be

satisfied with Idepro's MF programs rather than truly selecting participants in a random fashion. When asked about how participants were selected, Idepro staff remained vague.

Some clients, however, did voice opinions about how Idepro's programs might be improved. Regarding credit, two clients want Idepro to offer larger lines of credit. Interestingly, six clients want Idepro to decrease the interest rate on loans. In addition, two clients mentioned improvements that could be made to the documentation process at Idepro. One stated that the paperwork necessary for obtaining Idepro's services should be shorter and easier to fill out. The other stated that clients should receive their own copies of this paperwork to take home with them. One client also complained that Idepro's credit officials change too often which slows down the provision of services. Another stated that Idepro is too similar to formal banks and that it should be more flexible. Despite these potential improvements, on the whole this sample of clients has been pleased with the outcome of participating in Idepro's programs.

On the subject of how Idepro's services benefit its clients, some feedback from Idepro clients contrasts the perspectives of Idepro staff. For instance, complaints from Idepro clients about the slow process of obtaining loans and about the amount of paperwork necessary to obtain loans are opposed by Idepro staff who stated that their clients benefit specifically from minimal paperwork and "fast credit". Idepro staff also touted the fact that their organization provides small amounts of credit. It is intriguing then that some clients stated their desire for Idepro to offer larger loans. One area where the opinions of Idepro staff and clients did line up pertains to the issue of collateral. Idepro staff members expressed pride in the fact that Idepro is quite flexible regarding what type of guarantee or collateral it requires from individuals wishing to obtain a loan. This mirrors comments from Idepro clients who also expressed appreciation for this fact.

In terms of improvements that the organization could make, Idepro clients focused on the issues mentioned earlier, while Idepro staff commented more on the overarching structure of the organization. On numerous occasions staff members expressed the desire for Idepro to focus on a single objective, rather than spreading its

efforts across projects at different branches. The Idepro staff in El Alto generally felt that concentrating on one aim would serve a wider range of clients.

In conclusion, the primary concern of Idepro clients is the interest rate charged on credit, which ranges from fourteen to twenty four percent depending on the size of the loan and what type of guarantee a client is able to provide (C. Paredes, personal communication, July 20, 2012). Although the average interest rate on MFI loans in Bolivia hovers around 21.7% (Porteous, 2008, 9), several clients mentioned this aspect of Idepro's credit service as being problematic for them.

There is significant disagreement about interest rates in the literature. This stems from the debate about the poverty-lending approach versus the financial systems approach. As mentioned earlier, the poverty-lending perspective views the high interest rates typically charged by MFIs as unethical and prefers providing MFI clients with subsidized interest rates (Robinson, 2009, 55; Rhyne, 1998, 7). Contrarily the financial systems approach deems the relatively high interest rates charged by MFIs to be necessary in order to sustainably lend to the poor (Hulme & Mosley, 1996, 54). Regardless of what side of the debate Idepro falls on, client feedback clearly indicates a need for Idepro to reevaluate the interest rates it currently charges clients.

## 5. Conclusions & Policy Implications

The literature is uncertain about whether or not MEs contribute to economic development. Prominent features of the debate include the ability of MEs to be productive, the likelihood that they will grow into small enterprises, the impact of MEs on absorbing labourers with low human capital, and the impact of informality on state capacity. Alternatively, both the literature and fieldwork in Bolivia prove that MEs contribute to human development by facilitating empowerment or economic independence from others, increasing one's sense of financial or job security, enhancing one's sense of inclusion in a community's economic activities, enriching job satisfaction, and expanding one's amount of time spent on one's own preference. Notably study results pertain specifically to accumulation-oriented microenterprise owners.

This study shows that micro-credit supplies ME owners with capital for their MEs, providing them with a sense of security that helps them attain these aspects of human development. On the other hand this study was not able confirm that voluntary savings accounts enable ME owners to enhance their human development since interview participants did not have access to such accounts during the time of research. This lack of confirmation should not detract from the literature's consensus that micro-savings services are useful for microenterprises. Fieldwork in Bolivia has also demonstrated that training and technological assistance programs are useful for microenterprise owners. Of the eight interview participants who have access to these services, six mentioned them to be of significant use to their enterprise. Given these conclusions, micro-credit for microenterprise programs should be promoted, as well as training and technological assistance programs. Despite a common tendency to focus on micro-credit by itself, it should be viewed as one part of a holistic approach to enterprise development and "development" in general (Hulme, 2007, 21).

Although this paper has enhanced the literature pertaining to MF program evaluation by including certain facets of human development in program evaluation

criteria and by highlighting the perspective of program participants, future studies could enrich this one by interviewing a larger sample of program participants and staff. Larger samples would ideally include owners of both accumulation-oriented and survival-oriented income-generation enterprises. Additionally, larger samples should include program participants with access to both credit and savings services to further examine the role of savings in helping ME owners realize human development. Finally, since much of the criticism surrounding MEs is related to their informality, future research should also be directed towards government regulation of ME sectors. This would include the taxation of microenterprises, the extension of government social protection schemes to ME owners, as well as the improvement of health and safety standards and working conditions in microenterprises.

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