

Alleviating Poverty through Microfinance: Village Banking Outcomes in Central America

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Abstract

Our research reports on field studies carried out in Guatemala during summer 2003 to assess the impacts of microlending on indigenous families. We first introduce the growing movement of microfinance institutions, organizations that provide small loans as start-up capital for the unemployed poor in Central America. We next describe the Guatemalan socioeconomic context in which three native nongovernmental organizations allocate their resources. Our methodology is described and the survey instrument we created is analyzed, as well as the process of data collection. Finally, we report our findings and interpret their conclusions and implications, as well as suggest further studies on poverty alleviation.

1. Introduction

There is a growing debate as to the best strategy for alleviating global poverty. On the one hand, recent years have seen radically innovative approaches from the grassroots. Known as microfinance, which refers to tiny loans to the third world poor, this movement has grown from a small program in the 1970s in Bangladesh, to a worldwide movement. Such microloans are usually provided through nonprofit, humanitarian organizations such as Freedom From Hunger (2004) and CARE (2004). These new mechanisms are often referred to as nongovernmental organizations (NGOs) whose focus is on empowering poor families. According to the recent Microcredit Summit (Daley-Harris, 2003), this effort has mushroomed to over 3600 microlending organizations, mostly in Africa, Asia, and Latin America. Collectively, these microfinance institutions (MFIs) have given out over 18 billion dollars in loans (Lapenu & Zeller, 2000) to more than 67 million individuals, 79 percent of which are women.

Yet this strategy is not without its critics. Initially, large multilateral organizations such as the World Bank, the World Trade Organization (WTO), and the African Development Bank all rejected this movement as of little consequence—too little money, given to poor families who are unemployable, and

who are not credit worthy. Instead, these institutions favored large-scale, top-down methods in which large loans were given to governments and large corporations. It was assumed they would enjoy economies of scale, invest capital in creating employment in the private sector, and that poverty would gradually be reduced. Yet Joseph (2002) and others have argued that changes in the international political economy, third world dissatisfaction with such multilateral institutions, and growing power among developing states are combined to break up “statis” and push for change.

In short, the top-down approach has not delivered intended results. Hence, in recent years, the World Bank, for example, has come to be impressed by the feasibility of microfinance and has provided over a billion dollars to MFIs. Likewise, the U.S. Agency for International Development (USAID), the United Nations, and others have begun channeling microloan funds through small NGOs because of their impressive results. Initially, many national governments seemed to support NGOs and the voluntary services carried out by concerned citizens. In fact, considerable funding from governmental sources supported NGO activities such as the 1992 Earth Summit in Rio de Janeiro, the Social Development Summit in Johannesburg in 2002, and the work of specific groups such as Catholic Relief Services, AFRICARE, and so on. Government leaders seemed to appreciate civil involvement and saw these NGOs as more flexible and rapidly mobilized to address human problems. These NGO strategies were seen as fostering democratic values and the building of civil society in the process.

But currently, there is a growing source of criticism about the work of NGOs. Fears that NGO labors are extremely diverse and often quite critical of the establishment have led to major questions. Much of the concern about this derives from the American Enterprise Institute (AEI), a Washington D.C. think-tank. Policy experts at AEI have begun to challenge the NGO movement and its processes (2004). They question whether these nonprofits should be getting so much funding, and worry more about their power and societal influence. Certain NGOs such as Human Rights Watch and the American Friends Service Committee are seen as leftists, or at least too liberal, too critical of big business.

But, AEI is increasingly voicing criticism of all NGOs as dangerous, too populist, and too participative (AEI, 2004). The institute has now linked up with the arch conservative Federalist Society to establish a new monitoring institution called “NGO Watch” as a means of fighting the growing

influence of international NGOs. Its sponsors are tracking thousands of NGOs around the globe, holding conferences to criticize their work, attempting to warn corporations and governments that these grassroots movements are dangerous. By arguing that NGOs now need to be regulated and or controlled seems to be a curious proposal coming from avowed free market advocates.

However, regardless of the criticisms or advocacy of NGO work in fighting poverty, for now at least, the trend continues for fueling MFIs to provide credit among the poor of the third world. This paper reports on the authors' field research in Guatemala regarding the impacts of village banking for reducing poverty.

Increasingly, major public donors are asking NGOs to evaluate the effectiveness of poverty lending. Does it work? How does it impact various family challenges? Does it improve people's quality of life? Does microcredit help build greater family self-reliance?

Poverty assessment tools are becoming ever more important since the recent passing of legislation in both the U.S. House and Senate. The amended Microenterprise for Self-Reliance Act (H.R. 4073, 192; P.L. 106-309, 108-31) requires all MFIs that wish to obtain USAID funding to demonstrate that more than 50 percent of all their assistance go to the "poorest of the poor" (U.S. Senate, 2003). The bill H.R. 192 requires USAID to certify two low-cost poverty assessment techniques to be used by MFIs by October 1, 2004. It also demands all organizations applying for governmental microlending funds to have at least one poverty assessment technique certified by October 1, 2005 (GOP, 2003). Hence, poverty assessment tools that can indicate clientele economic status and progress are becoming a vital asset for obtaining future funding. Our research attempts to design and utilize a new, short, low-cost poverty assessment instrument to measure the impacts of microcredit in Guatemala.

2. Guatemala

Guatemala is a beautiful region of rich, green jungles, smoldering volcanoes, swirling cloudy mists, and ancient Mayan pyramids. Freed from Spanish rule in 1821, Guatemala has been characterized for the past few decades by ugly military *juntas*, socialist politics, CIA interventions, assassinations, and

destabilization. Secret police, leftist insurgencies, scorched earth practices, and the brutal killings of over 200,000 people, mostly indigenous peasants, have exacted a huge social and economic toll. Today, America's Watch and the UN Human Rights Commission still keep tabs on the country's potential for human rights violations and the possibilities for more genocide and "the disappeared" symptoms of the past. In December 2003, the Inter-American Court of Human Rights ruled against the Guatemalan government for covering up an administration-plotted death of an anthropologist who was killed for documenting the military massacre of tens of thousands of indigenous people (Reuters, International, 2003). Because of the human rights treaty Guatemala signed in 1978, the Court's ruling is binding and more international investigations regarding assassinations of foreigners are likely to occur.

Guatemala has one of the most diverse populations in Central America. Of the 14 million people who live in the country, 43 percent are indigenous Amerindians that live over 108,890 square kilometers. Spanish is spoken in 60 percent of Guatemalan houses, while in the remaining 40 percent, over 15 different Amerindian languages are spoken. Some of these larger recognized languages include Quiche, Cakchiquel, Kekchi, Mam, Garifuna, and Xinca. Illiteracy is some 67 percent, and unemployment is high. Guatemala's agricultural sector accounts for about one-fourth of its GDP, two-thirds of its exports, and one-half of its labor force. The main products are coffee, sugar, and bananas (CIA World Factbook, 2004).

In recent years, former President Arzú (1996-2000) worked to implement a program of economic liberalization and political modernization. The most recent president, Portillo, has continued the liberalization program, but with more sporadic results. With the implementation of President Arzú's political modernization programs, the distribution of income remains highly unequal, with about 87 percent of the population falling below the poverty line (Ghosh and Tanski, 1996). During the 1980s, Guatemala's growth rate was a paltry 0.2 percent—never even exceeding its population growth rate (ibid). Ongoing challenges are seen in the efforts to increase government revenues, negotiate further assistance from international donors, upgrade both government and private financial operations, and narrow the increasing trade deficit (CIA World Factbook, 2004).

In 2003, work continued on the proposed U.S.–Central American Free Trade Agreement (CAFTA) that would allow a phasing-out of most tariffs with a commitment to honor intellectual property rights (Reuters, U.S., 2003). Supposedly, CAFTA would bring hope to Guatemalan textile mills as many are moving out of the country due to augmented costs from regulated minimum wage increases (Hedgpeth, 2003). But of course, the idealized dreams of the 1994 North American Free Trade Agreement (NAFTA) was also thought to hold much promise for Mexico; but a decade later, many critics claim that the resulting data suggest otherwise—that Mexico is worse off, and the maquiladoras are now moving to Asia (Weiler & Zerlentes, 2003). However, it is unlikely that CAFTA will be passed without major changes in Congress because of the adverse impacts it may have on U.S. agriculture producers and factory jobs.

With the end of the internal armed conflict signed in 1996, Guatemala has begun to pursue ambitious socioeconomic improvements. The peace accords removed a major obstacle to foreign investment, but numerous corruption scandals associated with the Portillo administration have dampened investor confidence. The needs are considerable since the GDP per capital is only \$3,700. According to World Bank reports, some 60 percent of the people are officially poor, a quarter of whom are in extreme poverty. These numbers consist of indigenous people, women, children and the elderly (World Bank, 2003).

Additional reports by the World Bank indicate that four of the six Latin American countries with the highest reporting of HIV-AIDS include the Central American nations Guatemala, Belize, Honduras, and Nicaragua. Guatemala is plagued with orphanages filled with abandoned AIDS babies. The country's institutions are under-funded and filled beyond capacity. With few resources, the country's AIDS medications eventually reach some of the children through lottery-like processes while the adults are left without any relief (Jordan, 2003).

Great struggles face the Guatemalan people at present. On the one hand, much work needs to be done to sustain the peace process and achieve genuine national reconciliation. On the other, the task is one of improving the quality of life, reducing inequalities while building justice and democracy

(Coordinadora, 2000). Microlending that strengthens the informal economy, while helping poor families move toward greater self-reliance, may be a significant part of the country's solution.

3. Research

In summer 2003, a university-based microfinance research team conducted an impact assessment of three village banking non-governmental organizations (NGOs) in Guatemala. The investigation's objective was to observe what impact village banking may have on poverty. To accomplish the objective, the team measured the socioeconomic and financial status of three groups: New Clients, Current Clients and Ex-Clients. Their assumption stated that if village banking helped the poor become less poor, the New Clients would likely be the poorest, followed by the Current Clients, and finally by the Ex-Clients. After deciding upon which groups to analyze, the village banking researchers created a survey instrument and determined the criteria they would use to measure poverty which is discussed in the methodology section. We will refer to the three microfinance institutions we studied as Microcredit A, Microcredit B, and Microcredit C.

3.1 Microcredit A

Microcredit A was incorporated in Guatemala City in 1988 as a non-profit MFI dedicated to the strengthening of the "economic and social development of small and microbusinesses in urban, semi-urban, and rural areas of the Republic of Guatemala" (Génesis Empresarial, 2001). In 2002, it added 14,002 new clients to bring its total number of active clients to 35,452. Truly one of the largest MFIs in Guatemala, Microcredit A lent out over \$25,132,000 USD in credit in 2002 to poor entrepreneurs and employed over 190 people in 16 branch offices around the country.

Microcredit A's line of credit extends into five programs: Microenterprise, Village Banking, Small Businesses, CISEC, and Housing. The Microenterprise program offers credit to the individual who already has a business and wishes to take out small individual loans to make his business grow. The entrepreneur is usually the only client in this category. This is the largest of Microcredit A's programs and encompasses 50 percent of its clientele. Microcredit A's Village Banking program resembles the legendary Grameen Bank model (2003). It encourages women to start new microbusinesses by forming

groups that create the social collateral necessary to receive a loan. This second-largest program (engrossing 22 percent of Microcredit A's clientele) mainly supports women in rural areas and encourages them to specialize in agriculture, handicrafts, and in the raising of farm animals as employment. The third-largest program is the Small Business program. This program offers credit to entrepreneurs who have graduated the Microenterprise program, want their businesses to grow, but do not have access to commercial credit. When microentrepreneurs graduate into this category, their businesses usually have grown to a point that they are now employing multiple people. This program involves 14 percent of its clientele.

Crédito para Introducción de Servicios Comunitarios en el Área Rural or CISEC (Credit for the Introduction of Community Services in Rural Areas) is the next largest program and exists to provide basic needs that emerge in the community such as electricity, drinking water, etc. In this program, Microcredit A facilitates credit to compliment the total cost of projects started by municipalities and development organizations. A little over 2000 clients, or 11 percent of the clientele, actively participate in CISEC. In order to administer this program, Microcredit A relies on its own financial resources and loans granted by the Central American Bank of Economic Integration through the PROMUNI program.

Finally, the smallest program Microcredit A sponsors is Housing Finance. This program, which lends to only 4 percent of its entire clientele, makes it possible for the poor to receive credit to build or repair their houses in the rural areas. In addition to the credit, special technical assistance is offered to help with the construction (Génesis Empresarial, 2001). In this study, however, the research team focused on only one of Microcredit A's five programs, the Village Banking program, because of the study's objective and the nature of the survey instrument.

3.2 Microcredit B

Microcredit B is based in the rural western region of Guatemala in the city called Tonicapán and is dedicated to the elimination of poverty among the native Mayan Indians. According to Microcredit B's institutional descriptions, "the 16th century Spanish invasion caused the Mayan people to enter into a disadvantaged situation that, among other things, drastically limited their access to development resources. Their opportunities for growth vanished, and the culture entered into an impoverishment

course that would last for centuries” (CDRO, 2001). To combat this inequality, local community leaders began the formation of an NGO that would give the Mayans more economic opportunities. In August, 1984, Microcredit B was incorporated.

Microcredit B began as a rural development institution that worked with 14 communities. Within each community were 85 improvement committees that planned, coordinated, and effected development projects. Within a few years, these committees became specialized to deal exclusively with agriculture, handicrafts, women, health care, education, etc. In each village, there was a local board that constituted the Association’s General Assembly. Because Microcredit B’s executive board members recognized that they could not combat poverty unless capital was invested, they established a credit lending arm with the support of their improvement committees and village boards. Microcredit B solicited its members’ savings to form interest-bearing accounts from which it used to provide loans. Later, the savings account privilege was extended to those who were not members of Microcredit B. After establishing a microfinance operation, Microcredit B opened up bank offices in various villages of the northwestern regions of Guatemala. Each branch office uses its own savings from the local village citizens for lending operations (CDRO, 2001).

Similar to Microcredit A, Microcredit B’s financial operations involve village banks, microenterprise, and small businesses. In 2001, Microcredit B lent out \$756,608 USD to 4985 clients of which 38 percent went to local vendors, 25 percent to the handicraft industry, 23 percent to agriculture, and 14 percent to various service-related businesses. Fifty-four percent of its clientele are women and 46 percent are men. Recently, Microcredit B partnered with a local commercial bank, BanRural, to help its credit operations.

In addition to its lending operations, Microcredit B has one of the largest development training programs in the nation. To supplement its efforts, Microcredit B cooperates with local community leaders to obtain 25 local agriculture technicians, 24 health agents, 594 health inspectors, 172 midwives, 116 literacy instructors, and 16 local program coordinators. These experts work in Microcredit B’s 16 health centers, six education institutes, three technical schools, and 115 literacy centers. Furthermore, Microcredit B has 220 infrastructure projects in process dealing with drinking water, electricity, housing,

roads, bridges, community centers, and sewage. To help fund its infrastructure projects, Microcredit B receives monies from the Cooperación Internacional y del Gobierno de Guatemala which provides \$995,078 annually (CDRO, 2001).

3.3 Microcredit C

Originally part of FINCA International, Microcredit C left the FINCA umbrella to become its own NGO in the early 1990s. Microcredit C serves a clientele of around 5000 members, and loans range from \$50 to around \$250. Due to its beginnings with FINCA International, Microcredit C uses the same village banking model as FINCA. The model generally favors women who make up over 90 percent of the MFI's clientele. Each village bank group size averages between 25-40 members. Some members join from hearing about it, but the majority of the members join because they are invited by one or more members of the group. All potential group members must receive acceptance by a majority vote from all current members to be allowed to join, whether they have been invited or not. In addition, members elect their own leaders, design their own bylaws, keep the books, manage the funds, and are fully responsible for loan supervision, including enforcing penalties for non-compliance. In harmony with FINCA International's model, Microcredit C's village banking groups provide services that include "small self-employment loans to start or expand their own businesses; an incentive to save, and a means of accumulating savings; and a community-based system that provides mutual support and encourages personal empowerment" (FINCA International, 2003).

4. Methodology

A field study conducted in summer 2003 from three microfinance institutions in Guatemala collected the data used in this paper. The field interviewers collected data from three groups of persons who had received loans: New Clients (those who have been in the program for less than a year and on their first or second loan), Current Clients (those who have been in the program for more than a year), and Ex-Clients (those who were in the program and later left). The research team created a field survey instrument that obtained three types of measures: socioeconomic data, daily per capita expenditure, and

daily minimum wage equivalent (Hatch, 2002). These three criteria composed the study's poverty level indicators.

4.1 Survey Instrument

The socioeconomic criteria were designed to measure the social impacts of poverty that are usually overlooked when conducting economic analyses. Accordingly, these socioeconomic criteria measured important indicators of economic status by using six criteria that affix a rank to their social status: Food Security, Health, Housing, Education, Empowerment (women only), and Social Capital (women only). A relatively new term, Social Capital is increasingly seen as interpersonal ties and connections (Kasinitz & Rosenberg, 1996), relationships, trust, and support (Portes, 1995; Crowell, 2004). The six criteria with their definitions were as follows: Food Security assessed the client's food quality and quantity; Health measured the client's access to healthcare; Housing measured the client's living standards; Education measured the client's children's access to formal schooling; Empowerment captured the woman client's ability to voice her opinion in the home, receive respect, and take part in family decisions; and finally, the Social Capital criterion measured the woman client's relationships with neighbors and her ability to count on them in emergencies.

The criteria were based on an ordinal scale from 1–4. For example, in Food Security, a 4 meant the respondents reported that they had enough and the kinds of food they wanted, whereas a 1 signified they often did not have enough to eat. Similar ordinal scales were used for Health, Housing, Education, Empowerment, and Social Capital respectively. These six criteria have been established by the World Bank, the Consultative Group to Assist the Poor (CGAP), the International Labor Organization (ILO), and the United Nations Development Program (UNDP) as legitimate poverty indicators. Empirical surveys conducted on the poor have demonstrated that poverty is best described as an absolute and a relative dimension (CGAP, 2003; Henry et al., 2003; UNDP, 2003; Zeller et al., 2003). As the UNDP has declared, “In the absolute sense, the poor are materially deprived to the extent that their survival is at stake. In relative terms, they are also deprived in relation to other social groups whose situation is less constraining.” Hence, the field survey instrument used by the team encompassed both the absolute

dimensions of poverty, measured by the Food Security, Health, Housing, and Education criteria, and the relative dimensions of poverty, measured by the Empowerment and Social Capital criteria.

Traditionally, the first and foremost ranking of poverty is defined by how much a person earns daily—the daily per capita income (DPCI). The World Bank and the United Nations have classified absolute poverty as those who earn less than \$1 (USD) a day or, in other words, those who have a DPCI of less than \$1 a day. The “universal” poverty line is classified as those who have a DPCI of \$1 – \$2 (USD) a day. Through extensive field-testing by the United Nations, World Bank, and other development institutions, it was found that the poor usually do not know exactly how much they earn but do know how much they spend in a day, a week, or a month (Hatch, 2002; UNFPA, 2002). This is the case because the poor usually have many different sources of income to sustain the family (i.e. from children working, remittances, etc.) which when received are then turned around and immediately spent on food, education, housing, etc. To accurately reflect how much money the poor earn, the research team decided to use the daily per capita expenditure (DPCE)—how much a person spends per day—to accurately represent the DPCI.

Since the purchasing power of the dollar differs from country to country, the final economic factor the team members used to gauge poverty was the daily minimum wage equivalent (DMWE). Using expenditures again to represent their earnings, the examiners compared the clients’ earnings to the daily minimum wage for the country. Various NGOs affirmed that the minimum wage for all areas studied averaged Q40.9 (Quetzals) or roughly \$5.30 (USD) a day. For people in Guatemala, this was the minimum needed to stay above absolute poverty. The team converted the DMWE into World Bank dollar scales by performing a linear transformation and dividing all the reported amounts by 40.9. This essentially made Q40.9 equal to \$1 a day per person. In this way, the researchers were able to compare the data they received to the DPCE, and observe if there existed significant statistical differences in the criteria among the three types of groups: New, Current and Ex-Clients.

4.2 Data Collection

After arriving in the country and making initial contact with an MFI, the field investigator team randomly selected groups—capturing both rural and urban areas. They then accompanied the MFI

representative to the respective MFI group meetings. At the group meetings, the field team members conducted one-on-one interviews in a private location and orally asked the questions from the survey instrument questionnaire (see Appendix A). These interviews included all members from the New and Current Clients. The group sizes ranged from 15-30 clients. After concluding the interviews at the group meeting, the team members accompanied the MFI representative to visit with clients who were once part of that MFI group (Ex-Clients) and conducted interviews with them at their respective houses and businesses.

5. Results of Socioeconomic and Economic Findings

The research team used a Kruskal-Wallis one-way analysis of variance test to analyze the socioeconomic criteria. The team found no significant differences among New, Current and Ex-Clients in the socioeconomic criteria as shown in Table 1.

Socioeconomic Results						
Mean Rank						
Group	Food Security	Health	Housing	Education	Empowerment	Social Capital
New Clients	86.2	87.7	81.3	80.5	78.1	80.1
Current Clients	88.1	88.8	91.3	88.0	76.4	75.5
Ex-Clients	86.4	75.7	74.4	104.2	86.5	90.4
F	0.03	0.45	1.21	1.71	0.90	1.20
P	0.9716	0.6364	0.3018	0.1835	0.4077	0.3047

Table 1 displays the six criteria with their corresponding mean rank for each clientele group. The higher the mean rank, the higher the clientele group scored on the socioeconomic scale of 1 to 4. Although no criteria indicated a significant difference among the three clientele groups, Education may be representative of Ex-Clients (104.2) scoring higher than Current (88.0) and New Clients (80.5).

The research team conducted a one-way analysis of variance test to analyze the economic criteria. Significant differences at the .05 level among the groups were noted in the daily per capita expenditure criterion and in the daily minimum wage equivalent criterion at the .10 level. Hence, the data indicated

some groups differed in the DPCE and DMWE measurements. In Table 2, the daily per capita expenditure scores indicated New Client spending mean to be \$.94 a day, the Current Client mean to be \$1.28 and the Ex-Client spending mean to be \$1.01 a day. Subsequently, using a least significant differences comparison of means test on the data, the research team found the DPCE New Client mean to be significantly different from the DPCE Current Client mean. Current Clients (\$1.28) were significantly less poor than New Clients (\$.94) leaving Ex-Clients (\$1.01) not being significantly different from Ex-Clients or New Clients.

Table 2		
Economic Results		
Group	DPCE*	DMWE**
New Clients	0.939	0.942
Current Clients	1.282	1.381
Ex-Clients	1.007	1.178
F	5.45	2.79
P	0.0051*	0.0639**
* significant at .05 ** significant at .10		

The daily minimum wage equivalent indicated similar trends with Current Clients being the least poor earning \$1.38 a day, followed by the Ex-Clients earning \$1.18, and finally the New Client being the poorest earning \$.94 a day. The research team conducted a least significant differences comparison and found that Current Clients were significantly different from New Clients, but Ex-Clients were not significantly different from either the New or Current Clients.

6. Discussion and conclusion

Empirical studies based on these surveys for these three Guatemalan NGOs could reveal promising results for village banking. As a consequence of these reports, microfinance may have had a positive impact on poverty in the DPCE and DMWE economic criteria. According to economic measurements, Current Clients who have participated in village banks for more than a year were observed to earn more money daily, and hence, were less poor than those who had recently joined the microfinance

program. It would also appear that those who stay in the microfinance program improve much more than those who leave.

A possible interpretation on why Current Clients are economically better-off than Ex-Clients could be due to investment decisions, as shown by research conducted by Helms on microentrepreneurial women (2003). His report indicates that in many cases, the purpose of a microentrepreneurial woman's business is not to grow, capitalize, or create employment. Instead, the small business allows the woman to invest her earnings, not in her business, but in other "asset-building activities such as children's education, fixing a leaky roof, better nutrition, dealing with emergencies, and the like" (ibid). Helms also suggests that a microentrepreneurial woman may not want her business to grow because she is just too busy with the "15 other responsibilities she attends to every day to keep the household afloat" (ibid). Thus, lower investment in the small business after client graduation may translate into lower profits and daily income to the microentrepreneur as profits and accumulated savings are invested in assets other than her business. Although Helms' interpretation could shed light on why Guatemalan Current Clients earn more daily than Ex-Clients, more studies are certainly warranted.

This article provides observational evidence on the important role poverty lending can play in international development. By conducting interviews with this Guatemalan NGOs, the university research team found significant data that may indicate that microfinance participants' socioeconomic and economic levels had increased due to their participation. Microfinance is based on a hand-up instead of a hand-out policy, and as such, it is becoming more popular among developers and donors. Microfinance also appears to improve the lives of those who are poor by increasing their buying and investing capability, thus lifting them onto a higher economic plane. Accordingly, these small loans seem to positively affect poverty by creating entrepreneurship and greater self-reliance among the poor.

Widely-held stereotypes about the global poor are that they are lazy, that they don't work hard, that they have too many children, and that they overrun natural resources. Ridgeway and Jacques (2002) argue that such views generate and perpetuate myths that, in essence, end up "blaming the poor for poverty." But, microfinance suggests another perspective: That the poor do, in fact, labor to survive; that

a key problem in explaining their poverty is lack of working capital; and that empowered by microloans, many are able to improve their quality of life.

In conclusion, we reflect on the idea promoted by Professor William Foote Whyte (1982) of Cornell in his presidential address to the American Sociological Association. He argued that the social sciences ought not to merely study what is, but what ought to be. His was a clarion call for new “social inventions” to solve human problems. Global poverty is one the most crushing problems of the modern world. It seems to us that small loans to very poor microentrepreneurs may come to be seen as one the most promising inventions in this new 21st Century.

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Appendix A

Questionnaire in English

I. Food Security: On the scale from 1-4, which of the following statements best describes the food eaten in your household?

1. You often do not have enough to eat.
2. You sometimes do not have enough to eat.
3. You have enough but not always what you want to eat.
4. You have enough and all the kinds of food you want to eat.

II. Health: On a scale from 1-4, which of the following statements best describe your household's health situation.

1. You can never afford needed medicine or healthcare
2. You often can't afford needed medicine or healthcare
3. Sometimes you can't afford needed medicine or healthcare
4. You can afford the medicines or healthcare you need to treat sickness.

III. Housing: On a scale from 1-4, which of the following statements best describes your housing situation.

1. Your home has no utilities.
2. Your home has either water, electricity or indoor plumbing.
3. Your home has two of the three (water, electricity, indoor plumbing).
4. Your home has (all three) electricity, water, and indoor plumbing.

IV. Education: On a scale from 1-4, which of the following describes the education situation of the household's members.

1. None of your school-age children (6-18) attend school.
2. Not all of your school-age children attend school, and none are expected to complete secondary school.
3. All of your school-age children attend school, but not all are expected to complete secondary school.
4. All of your school-age children attend school, and you expect all of them to complete secondary school.
5. There are no school-aged children living in your household.

V. Empowerment (for women): On a scale from 1-4, which of the following describes your situation.

1. You never feel respected, never express your opinions, and never participate in major family decisions.
2. You seldom feel respected, usually keep your opinions to yourself, and you seldom participate in major family decisions.
3. You sometimes feel respected, sometimes express your opinions in public, and participate in some major decisions of your family.
4. You always feel respected, express your opinion in public, and participate in all major decisions of your family.

VI. Social Capital (for women): On a scale from 1-4, which of the following describes your household's relationship with other community residents.

1. You barely know anyone in this community, have no friends, and in an emergency you would have to depend entirely on yourselves.

2. You only know a few neighbors, have few friends, and in an emergency it is not likely anyone would help you.
3. You know some of your neighbors, have a few friends, and in case of an emergency, somebody would probably help you.
4. You know many of your neighbors, have many friends, and can count on several for help in an emergency.