Local Development through Microfinance Tools in Central America*

Warner Woodworth
Shon Hiatt
Romney Institute of Public Management
Brigham Young University
Provo, Utah 84606
Email: globalselfreliance@yahoo.com
Tel: (801) 422-6834 Fax: (801) 422-0539

**This paper is dedicated to the 21,000 Central Americans who are dead or missing from the wrath of Hurricane Mitch and the earthquakes of 2001, and to the 2.5 million people who lost their homes and jobs in the destruction.*

The Society for the Advancement of Socio-Economics (SASE)
Aix en Provence, France, June 26-28, 2003

Abstract

This paper introduces the economic development strategy in Central America of training poor microentrepreneurs in small business skills, enabling them to start microenterprises, and providing microloans to grow their income-generating projects in the informal economy. The focus is on the work of a large, global NGO and its programs in the Central American countries of El Salvador, Guatemala and Nicaragua. Four types of clientele totaling 887 microentrepreneurs are studied from field research conducted during summer 2002. The methodology for this approach is described, and several results are analyzed in demonstrating the impacts of microcredit within poor families.

Introduction

In much of the Third World, contrary to popular belief, economic conditions have been getting worse over recent decades. Today some 1.2 billion people suffer from chronic poverty, trying to subsist on less than $365 per year, which works out to only $7 a week (Daley-Harris, 2002). Glancing back at the past four decades, one sees that during 40 years the wealthiest 20 percent of the world consumed some 70 percent of all income. By the beginning of the new 21st Century, this share had mushroomed further to over 80 percent. Simultaneously, the poorest 20 percent of the world's population saw decreases in their meager share, from 2.3 percent of all wealth as it dissipated to a mere 1.4 percent (Brown, 2000). Among females in the Third World, absolute poverty has grown by 50 percent in the past two decades (UNIFEM, 2001).

Unemployment is a major aspect of poverty creation, but underemployment is perhaps equally significant. It refers to the condition in which people do not hold jobs equivalent to their abilities and training. In the Philippines, for instance, it is widely known that although many people are literate and well-educated, good jobs are hard to find, resulting in underemployment well above 50 percent during recent years.

Projections for the future of the world's poor suggest that poverty may only worsen in the coming decades. For example, an International Labor Organization (ILO) study predicts that during the next quarter of a century, 1.5 billion new jobs will be needed to provide incomes for the growing global population. It assumes that if present rates continue, there will be some 3.6 million working-age people on the face of the earth, and that possibly a third of them will be unemployed. Is it really feasible to create 40-50 million new jobs annually in the coming

decades? Not if history is an indicator. Over the last three decades, the world's workforce increased by nearly a billion people needing work. But tens of millions did not obtain jobs. To make matters worse, only ten percent of future jobs will arise from the industrialized nations, meaning that 90 percent will be needed for the Least Developed Nations (LDCs)—in other words, for the Third World where population is growing, but poverty is booming.

Formal vs. Informal Economies

Traditionally, social scientists have conceptually divided a society's economic activities into the formal sector, such as labor at a factory or work as a government employee in an office, or the informal—survival on the street as a vendor or provider of services.

Informal or underground economy workers are essentially considered to be problems themselves by some experts. These are small, clandestine, unregistered individuals or family-based economic activity that do not produce taxes to the state. Typically, such people can be observed in Third World cities living in shanty towns, or functioning as street vendors. Often marginalized, they subsist by “hustling” or sweat equity, making up for the shortcomings of formal jobs such as factory employment or government positions. While the informal economy has often been viewed by traditional economists as a minor phenomenon, or a temporary reaction to natural or financial disasters, reality suggests the opposite. The Third World informal economy is growing. It is here to stay and makes up a significant percent of many LDC cultures (Sanyal, 1991; de Soto, 1989).

Microfinance

Models for Third World economic development in the past have tended to consist of large-scale, top-down approaches like the Green Revolution through which huge multinational agribusinesses attempted to overcome world hunger with John Deere tractors and Monsanto seeds. Today, there are new, small, grassroots methods like microcredit as alternatives for fighting poverty from below.

One new tool, microfinance, is beginning to yield results. Such a strategy consists of developing technical assistance centers by microfinance institutions (MFIs) that aid poor microentrepreneurs, often with training and consulting to create self-employment and income-generating activities. They bootstrap themselves, essentially creating their own jobs. Most of

this type of work requires one's own sweat and equity, perhaps including that of one's family. It is a bottom-up method for building an income and becoming self-reliant, enjoying considerable success in certain countries as a new, innovative path to earning a living and caring for one's own. Often, training (by the MFI) is provided, along with access to capital (microcredit) so that the small entrepreneur is able to acquire raw materials, equipment, or whatever else is needed in order to grow the business.

Microcredit may be classified as small-scale loans of $30 to $100 that are accessible to the very poor, primarily in the Third World. With even a small amount of such capital, micro -enterprises may be started, or perhaps expanded. In the mid 1990s, the World Bank conducted an analysis of microfinance schemes, finding that there were in excess of nine hundred institutions in 101 nations that offer microcredit to the poor (Paxton, 1995). The organizations studied had been in existence at least three years and each had over a thousand clients. They included banks, credit unions and numerous Nongovernmental Organizations (NGOs). Today there are perhaps thousands more of newer, smaller such programs not included in the bank's analysis. But a sample of 206 of the 900 institutions studied in 1995 enjoyed an aggregate loan portfolio of almost $7 billion, totaling over 14 million small loans to poor people and their tiny enterprises. Approximately 53 percent of loan recipients resided in rural regions around the globe. By extending microfinance capital to the poorest of the poor, millions of new jobs have been created among those languishing in extreme circumstances, thereby empowering individuals and families to gain a greater degree of control over their destinies in the move toward sustainability.

Early in 1997 the first world-wide Microcredit Summit was held in Washington, D.C. to launch an ambitious plan for empowering a hundred million of the world's poorest families through microloans and job creation. Twenty-seven heads of state and thousands of NGO representatives participated in this global organizing effort. The method advocated at the summit for obtaining credit is referred to as Grameen, or “village banking,” and was pioneered by a creative economist, Muhammad Yunus, in Bangladesh (Woodworth, 1997). The typical operations of such programs are quite simple: The MFI or NGO essentially offers small or “micro” loans to each of five to ten villagers at market interest rates. They need no collateral, nor are they required to have a strong credit history. Instead, the borrowers as a group are jointly liable for paying off both the interest and principal. Social pressure and trust thus become

powerful incentives for assuming one's own financial responsibility and personal accountability. The payback rates range from 94 percent to 100 percent. In a 2002 follow-up, the Microcredit Summit + 5 conference was held to assess progress since 1997. It was reported that there are currently some 5,225 NGOs providing microloans to over 50 million poor borrowers and their families (Microcredit Summit, 2002). With the above introduction to microfinance schemes, we now turn to the Central American context for analyzing their impacts.

Pain and Pathos

Central America is an isthmus of seven countries with great divergence—sweltering flat lands and 9,000 feet high volcanic peaks, massive cities and rural farms and jungles, producers of coffee, bananas, and sugar cane. The major language is Spanish, although in Belize it is English with Creole accents and Caribbean reggae music. While some regions like Costa Rica consist mostly of people descended from Spain, much of Guatemala's population is Indian, descendants of the Mayan culture going back thousands of years, crafts people with their famous brightly colored *artesania*. Over the past century Central America has been dominated by powerful, eccentric military generals, coffee barons, U.S. multinational corporations such as the United Fruit Company, leftist revolutionaries and/or right-wing death squads.

Regardless of their histories, natural resources, and internal political struggles, there are several key facets of the Central American situation that help explain economic underdevelopment. One of these is education, or the lack thereof. There are some 50 million illiterate people in the Western Hemisphere, many of whom are indigenous women and children in the seven nations of the isthmus region. The resulting illiteracy is tied to misery, poverty and daily battles to just stay alive. When 5 percent never go to school and 35 percent drop out to work before the sixth grade, the social fallout is enormous (ASC 2002). At the 1998 Second Summit of the Americas in Chile, heads of states drafted and approved an action plan based on the postulate that education is not a commodity; it is a human right. They committed to ensure increased access to education for Latino children as the path to build a better quality of life. But so far there has been no major improvement.

A second factor that fosters poverty in Central America is foreign debt. Loans from the World Bank and International Monetary Fund have gradually erected a huge debt burden that weighs down impoverished people who must transfer much of their wealth to foreign creditors,

according to the Buenos Aires Declaration. In 1999, for instance, the nations of Latin America had an external debt load of $792 billion, triple that which they owed 17 years earlier, in spite of having paid out $1.1 trillion in debt payments since 1982.

Criticisms regarding the payment of foreign debt are that they distort genuine economic development, that structural adjustment programs require onerous conditions that exacerbate inequalities, and that much of a country's income from productivity goes abroad while healthcare, education and local social programs are cut back. Thus, the Tegucigalpa Declaration (2000) for the Jubilee Platform declared: "The debt is illegitimate….Most of the money was not used to benefit the people who are now being required to pay it back….(and) it swelled as a result of interest rates and negotiating conditions imposed by creditors and banks (Jubilee, 2000).

A third major poverty factor is the damaging consequences of natural disasters—the 2001 earthquake in El Salvador, El Nino in the late 1990s, and worst of all, Hurricane Mitch in late 1998. It was the deadliest Atlantic storm in two centuries, causing $9 billion in damage, more than the combined gross domestic product of Honduras and Nicaragua (U.S. Department of State, 1999). In the Honduran capital, Tegucigalpa, an entire shanty town neighborhood of poor families and street vendors was washed into the rising Choluteca River. In such disaster, it is often the case that the poorest, most marginalized are hit the hardest. For instance, in Nicaragua approximately 80 percent of those whose homes were destroyed by Mitch were already struggling below the poverty line (Red Cross, 2000).

Estimates from the United Nations, USAID, and other groups were that Mitch set back Central America's development by 20-40 years. Poor farmers trying to eke out an existence on small plots of land lost everything. Likewise, employees working at major firms like Chiquita Bananas saw their massive plantations wiped out, the rich topsoil gone with the crops, and joblessness exploding.

The above forces combine in Central America to further marginalize poor families. Let us turn briefly to the specific situation of each of the three countries we studied for microfinance impacts.

El Salvador

The smallest of the region's nations, El Salvador is also the most densely populated with some six million citizens in a tiny land mass of only 8,000 square miles. A decade-long civil war

that caused 75,000 deaths ravaged the country's beauty, replacing its natural habitat with death squads, military coups, rebellion, repression, and roadside executions. Thousands fled to Mexico and/or the United States. War torn devastation was exacerbated with huge earthquakes in 1986 and again in 2001.

But even with the peace accord of 1991-92, violent deaths have continued, rising to over 20,000 victims since (Klare and Andersen, 1996). Key factors here have to do with unemployment rising 50 percent, two-thirds of the population living in extreme poverty, both of which result in growing crime. Some 40,000 former soldiers and guerillas alike are yet unable to normalize their lives. Tough gangs of youth roam San Salvador's city streets looking for trouble. With an economy in shambles, Salvadorean immigrants to the United States now send remittances to family members back home, and they total more than the economic value of the country's entire amount of exports.

The seeking of jobs and peace was set further back by the 2001 earthquake. Its strength was 7.6 on the Richter scale, damaging 70 percent of all buildings in the town of San Vicente. The quake killed 1,149 and injured over 8,000 more while forcing 1.5 million people into homelessness. Over 149,000 houses were demolished and an additional 178,060 were damaged, as well as 938 public buildings and 1,566 schools (Project Madrid, 2001). All this cost over $2 billion, the loss of 32,000 jobs, a slowing of economic growth and a decline of social sectors such as education, health, and housing.

With over a million homeless people crowded into 80 emergency camps, international aid groups gave about 100 tons of food daily, although 325 tons were required to fully meet food needs. Clearly, microfinance is needed as part of the solution in El Salvador's National Reconstruction Plan, designed to cope with the effects of civil war, Hurricane Mitch flooding, and the more recent earthquakes.

Guatemala

This country is double the population of El Salvador, 13 million, spread out over five times the land size. Guatemala is a beautiful region of rich, green jungles, smoldering volcanoes, swirling cloudy mists, and ancient Mayan pyramids. However, its past few decades have been characterized by ugly military *juntas*, socialist politics, CIA interventions, assassinations, and destabilization. Secret police, leftist insurgencies, scorched earth practices, and the brutal

killings of some 40,000 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, the possibilities for more genocide and "the disappeared" symptoms of the past.

Modernity in this region consists of the big, impressive place, Guatemala City, with shopping malls, big banks, expensive hotels, and traffic jams. Yet an hour away are stately colonial cities like Antigua which, in turn, is surrounded by Mayan towns and villages that stretch into tropical valleys and up into temperate highlands.

With the end of the internal armed conflict signed in 1996, Guatemala has begun to pursue ambitious socio-economic improvements. The needs are considerable since the GDP per capital is only $3,700. Some 57 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. Labor unions became an endangered species in the era of repression, so efforts today to improve wages and working conditions are relatively weak. The adult literacy rate for males is 69 percent; for females it is 59 percent. Life expectancy for women is 68 years while for men it is 62.

Great challenges 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 is a significant part of the country's solution.

Nicaragua

The third country we examined for microfinance impacts is Nicaragua. Like its Central American sister nations, Nicaragua's economy is barely treading water. In fact, it was too much water, the deluge of Hurricane Mitch, that really battered people's lives. It dumped over six feet of water on the region during its week long storm, washing away homes, farms, bridges, highways, hillsides and coastlines. The country's deforestation habits worsened the impact since more and more people had relocated to hillsides. The disaster showed how unprepared Central America was for such an emergency. The president of Nicaragua, for example, failed to declare

that there was a crisis, and instead he denied Mitch was a danger until days into the hurricane. Earlier warnings may have led to evacuations, but instead there was government denial. Following a week of torrential rain, the entire side of the Las Casitas volcano went crashing down, causing the deaths of 1,400 individuals in the villages at the volcano's base (Nicaragua, 1999). It was the worst single event caused by the hurricane.

Nicaragua has the region's largest land mass at around 50,000 square miles, along with a population of some 5 million people. But its capital, Managua, is decimated by a century of civil wars: powerful conservative oligarchs; several U.S. military invasions; the Somoza family's dictatorship for decades; and an 80-year struggle by *Sandinistas* who eventually took power in 1979; the CIA-backed contra war; and then in the 1990s, the emergence of democratic elections accompanied by a ruined economy.

Foreign debt obligations are also tied to the present suffering of Nicaragua. The country owed $5.7 billion in debt before Mitch hit. Simply to rebuild damaged infrastructure will cost billions more. In response to the 1998 hurricane, the World Bank established a new $1 billion package of support. But Nicaragua and Honduras together pay $2.2 million each day to service existing loans. Without further debt relief, Nicaragua will likely slip into deeper crisis as cutbacks occur in socio-economic programs. Attempts to dramatically improve education by building more schools in poor rural regions cannot occur when so much of the nation's financial resources must go to foreign creditors. For poor Nicaraguan communities, the future is very bleak.

Today's social development numbers in Nicaragua are not encouraging. Gross Domestic Product per-capita is only $2700. Life expectancy is 67 years for men and a bit higher for women at 71 years.

With respect to healthcare, infant mortality is high, consisting of 34 deaths for every ten thousand births. The adult literacy rate is 67 percent for males and 70 percent for females. Can Nicaragua improve these conditions? Probably not, because the IMF has forced Nicaragua to limit annual spending on reconstruction to no more than $190 million (Hanlon, 2000).

In the past several years various plans were formulated to combat structural poverty in Nicaragua and create civil society initiatives in terms of health care, literacy, and citizen participation. However, these strategies have been greatly hampered by the lack of resources and skills to effect significant change.

Thus, microfinance schemes to empower the poor in Central America and to create sustainable livelihoods for families in poverty may be one small path out of the socio-economic jungle. We now turn to the research methods of our study.

Methodology: Assessment of Four Different Clients

Our research reports on field data collected in the summer of 2002 in three Central American countries. A large, global NGO we shall call "LatinoHelp" sent U.S. college student research interns out to assess the impacts of microfinance on poor families. The idea of our LatinoHelp poverty assessment project was to find out if microentrepreneurs, upon entering the microfinance institution and participating in microloans, would become less and less poor until they turned self-reliant enough to leave the institution. The assumption was made that if microfinance had helped microentrepreneurs leave poverty, New Clients would be the poorest, followed by Current Clients, and finally by Ex-Clients who left after becoming more self-reliant. The category of Non-Clients would be used as benchmark to see if LatinoHelp was helping the poorest of the poor, and to compare those who have participated in LatinoHelp with those who have not.

Poverty Gages

The assessment effort used economic and social factors to determine poverty. Economic factors are by far the most commonly used in today's society to determine the level of penury. Traditionally, the first and foremost ranking of poverty is defined by how much a person earns daily--the Daily Per-Capita Income (DPCI). The United Nations has declared that those in "absolute" poverty are people who have a DPCI of less than $1 (USD) a day. The "universal" poverty line is classified as those who have a DPCI of $1 – $2 (USD) a day. Our assessment

took into account all of the clients' income including remittances from abroad, savings, and expenditures. After extensive field-testing, it was found that female respondents tended to be more accurate in estimating household expenses than their household income. This is because they are more involved in daily expenditures for food, education, healthcare, and so on. These expenses are normally paid with income the respondent has earned herself, or which a male income-earner has given to her to spend on the needs of the family. Therefore, in order to better represent their income, LatinoHelp found it more useful to define and measure the DPCI of a poor household by its Daily Per-Capita Expenditure (DPCE). This is how much a person spends each day, and like the DPCI, absolute poverty would be determined by those persons who have a DPCE of less than $1 a day. The universal poverty line would be determined by those who have a DPCE of $1 – $2 a day.

Selection of Communities and Clients

After arriving in each country, the field interns obtained a list of all microfinance groups (i.e. village banks) by region which were over a year old and had completed at least three loan cycles. In LatinoHelp, a loan cycle is defined as a payback period of four months. The prerequisite of over a year of time was necessary to ensure the sampling of "Current" Clients. With this list of village banks, the field researcher then calculated how many of eligible groups belonged to each region. If there were more than three regions, the interns restricted their visits to only three regions, the one in closest proximity to the central LatinoHelp headquarters, as well as the next two largest regions. Each intern developed a minimum visitation target of 12 bank groups. After picking the regions, the interns calculated the distribution of their visitation capacity in accordance with the percentages of eligible groups (those that had one or more years in existence) in the region. For example, if there were 100 eligible banks—60 in region A, 30 in

region B, and 10 in region C—this would translate into visiting 7 groups in region A, 4 in region B, and one in region C. The groups in each region were then selected based on availability as to which groups actually had regularly scheduled meetings on the days the interns were visiting the regions.

After the individual bank groups were picked, the field interns accompanied LatinoHelp's field credit officer to the groups' meetings. There, they began interviewing 10-11 clients, of which 2 or 3 had to be New Clients. If there were more than the required quota of clients, the intern randomly selected the new and current clients.

After the interviews with the New and Current Clients were completed, the interns conducted a participatory mapping exercise with the borrowers, identifying the location of all persons interviewed. This was done to map out the group's boundaries for Non-Client interviews. Near the end of the mapping exercise, the interns asked about Ex-Clients who had left the bank, preferably over a year before, and marked their houses on the map. A Current Client usually was asked to accompany the intern to act as a host to the Ex-Client's residence for interviewing.

When the Ex-Client interviews were completed, the interns began interviewing Non-Clients using their map as a reference to the group's geographical area. The intern located and interviewed Ex-Clients who lived within the geographical boundaries of the group, preferably near the residences of the Current Clients of that same village bank. The total number of clients interviewed was 887 in our study of Central America.

Results of Economic Findings

After analyzing the data, we found that there was a relationship between the poverty level of those who participated in microloans for a year or more, and those who had just begun. In addition, there was a relationship between the economic status of those who participated in microloans, and those who had never participated in such loans, and also between those who had discontinued participating in microfinance. Those who participated in microloans on average in Nicaragua, Guatemala, and El Salvador earned more money per day, and were less poor. The following charts contain the findings taken from LatinoHelp's New, Current, Non- and Ex-Clients from the Central American countries of Nicaragua, El Salvador, and Guatemala.

LatinoHelp's New Clients Upon Entering Program

Description	El Salvador		Guatemala		Nicaragua		Total	
Total New Clients interviewed	126		37		77		240	
Household DPCE of less than $1/day	17	24%	16	43%	57	74%	90	38%
Household of DPCE of $1-1.99/ day	20	53%	10	27%	15	19%	45	19%
Household of DPCE of $2-2.99/day	12	16%	7	19%	3	4%	22	9%
Household of DPCE of $3-3.99/day	6	5%	2	6%	2	3%	10	4%
Household of DPCE of $4-4.99/day	0	2%	0	0%	0	0%	0	0%
Household of DPCE of $5 or more per day	0	1%	2	6%	0	0%	2	1%
Median DPCE for all New Clients	$1.36		$1.17		$0.73		$1.13	

LatinoHelp's Current Clients

Description	El Salvador		Guatemala		Nicaragua		Total	
Total New Clients interviewed	227		62		195		484	
Household DPCE of less than $1/day	58	26%	21	34%	106	54%	185	38%
Household of DPCE of $1-1.99/ day	111	49%	27	44%	66	34%	204	42%
Household of DPCE of $2-2.99/day	34	15%	11	18%	11	6%	56	12%
Household of DPCE of $3-3.99/day	13	6%	1	2%	6	3%	20	4%
Household of DPCE of $4-4.99/day	4	2%	1	2%	2	1%	7	1%
Household of DPCE of $5 or more per day	7	3%	1	2%	4	2%	12	2%
Median DPCE for all New Clients	$1.32		$1.40		$0.92		$1.17	

LatinoHelp's Ex-Clients

Description	El Salvador		Guatemala		Nicaragua		Total	
Total New Clients interviewed	51		7		51		109	
Household DPCE of less than $1/day	14	27%	1	14%	23	45%	38	35%
Household of DPCE of $1-1.99/ day	24	47%	3	43%	18	35%	45	41%
Household of DPCE of $2-2.99/day	7	14%	2	29%	6	12%	15	14%
Household of DPCE of $3-3.99/day	3	6%	0	0%	3	6%	6	6%
Household of DPCE of $4-4.99/day	1	2%	0	0%	1	2%	2	2%
Household of DPCE of $5 or more per day	2	4%	1	14%	0	0%	3	3%
Median DPCE for all New Clients	$1.40		$1.04		$1.04		$1.21	

LatinoHelp's Non-Clients

Description	El Salvador		Guatemala		Nicaragua		Total	
Total New Clients interviewed	162		28		180		370	
Household DPCE of less than $1/day	42	26%	13	34%	107	59%	162	44%
Household of DPCE of $1-1.99/ day	67	49%	11	44%	49	27%	127	34%
Household of DPCE of $2-2.99/day	33	15%	4	18%	13	7%	50	14%
Household of DPCE of $3-3.99/day	13	6%	0	2%	6	3%	19	5%
Household of DPCE of $4-4.99/day	4	2%	0	2%	3	2%	7	2%
Household of DPCE of $5 or more per day	3	3%	0	2%	2	1%	5	1%
Median DPCE for all New Clients	$1.58		$1.07		$0.83		$1.18	

As shown in the above charts, microentrepreneurs in El Salvador, Nicaragua, and Guatemala who had just entered the microfinance program had an average income of $1.13 a day. Of these clients, 38 percent lived in absolute poverty of less than $1 a day, and 19 percent lived in poverty of $1-1.99 a day, leaving about 53 percent living on more than $2 a day. Two dollars a day is above the World Bank's so-called range of poverty. Comparing these figures to Current Clients in the Total Average showed that on average Current Clients lived on $1.17 a day, with 38 percent living on less than $1 a day; some 42 percent were living on between $1-1.99 per day, leaving the remaining 30 percent of Current Clients' incomes earning $2 or more a day. Thus, Current Clients who had participated in microfinance loans for at least a year in these Central American countries on average were less poor than New Clients who had just entered the MFI.

These results held true with every country except El Salvador where the average DPCE went down four cents a day from $1.36 to $1.32. Although this is not a large difference, the question that arises is what this could be due to. A possible answer to why Current Clients are poorer compared to New Clients is in the group selection. In microfinance groups, the group members decide who will join the group. It appears from the statistics that group members are now picking clients who are not among the poorer of the poor, but rather, those who are nearer El Salvador's average for Daily Per-Capita Income. One reason for this that grew out of the interviews is that group members prefer other members who are not among the poorest of the poor because they may be higher risk, and those who are poor—but not the poorest—are less risky. Thus, LatinoHelp's members in El Salvador could be picking those who are less poor to join their group bank. Nevertheless, more research is needed to prove this hypothesis.

Next, we compared the Current Clients to the Ex-Clients. Ex-Clients in all three countries on average had a DPCE of $1.21. The average among the three countries showed that those who continued microloans for some time and then "graduated" from the program were actually less poor than the Current Clients ($1.17/day) and the New Clients ($1.13/day). Ex-Clients, overall, were much better off financially, thus showing that microfinance in Central America is working to help the poorer of the poor become less poor. When Ex-clients ($1.21/day) were compared to Non-clients ($1.18/day), it was shown that they were financially better off than the average person not participating in microfinance. All this data seems logical because as borrowers participate in the MFI, they become more financially self-reliant so that eventually they are able to leave the institution and stand on their own feet. These numbers held true for Nicaragua ($1.04/day) and El Salvador ($1.40/day) but not for Guatemala. However, since the number of Guatemalan Ex-Clients interviewed was so minute, a clear explanation is not apparent. A bigger

sample will be needed in the future. In order to use these numbers appropriately for now, we simply averaged them in with the other two countries into the Total column.

When comparing Non-Clients to New Clients ($1.13/day) and Current Clients ($1.17/day) in these three Central American countries, it was found that on average, the poorer of the poor participated in microfinance. Non-Clients from Central America on average earned $1.18 a day with 44 percent earning less than $1 a day, 34 percent between $1-1.99 day, and 22 percent above $2 a day. According to the World Bank's criteria, 78 percent of those randomly interviewed in these three Central American countries are considered poor. These data show that LatinoHelp's microfinance program is attracting the poorest of the poor, and it helps them improve economically their way of life through participation. In fact, in Guatemala and Nicaragua, those who participated in the microcredit program (Current Clients) and then left (Ex-Clients) were financially better off than those who had never participated (Non-Clients) in the program. In El Salvador, it appears that those who participated and then graduated actually became less poor, but they still did not reach the average Non-Client national daily income.

Conclusion

As we can see from the field data taken from El Salvador, Guatemala, and Nicaragua, microfinance has considerable promise for helping the poor improve their lives by increasing their purchasing power and giving them more income. It is an effective way to assist the poor to become financially self-reliant and take more control of their lives. By becoming financially self-reliant, impoverished Central Americans can improve their standing in life by obtaining more education, better housing and sanitation conditions, and improved nutrition. More studies with larger samples are clearly needed. For now, however, this relatively simple and inexpensive field

study suggests that small loans to Latin American microentrepreneurs at least shows some evidence of positive impacts that improves their quality of life.

References

ASC. (2002). Alianza Social Continental. *Alternatives for the Americas.*

Brown, L. (2000). *State of the World.* New York: Worldwatch Institute.

Caufield, C. (1996). *Masters of Illusion: The World Bank and the Poverty of Nations*. New York: Henry Holt & Co.

Coordinadora. (2000). *"Si, Vamos por la Paz!" Plan De Desarrollo Economico y Social*. Guatemala City.

Daley-Harris, S. (2002). *Pathways Out of Poverty: Innovations in Microfinance for the Poorest Families.* Bloomfield,CT:Kumarian Press.

De Soto, H. (1989). *The Other Path: The Invisible Revolution in the Third World.* New York: Harper & Row.

Hanlon, J. *Nicaragua and Honduras spend as much on debt service as reconstruction.* Retrieved April 26, 2003, from http://www.jubilee2000uk.org/reports.

Johannesburg. (August 26-September 4, 2002). Retrieved March 2003, from http:///www.johannesburgsummit.org.

Jubilee. Retrieved March 2003, from http://www.jubilee2000uk.org/relief.

Klare, M. and Andersen, D. (1996). *A Scourge of Guns: The Diffusion of Small Arms and Light Weapons in Latin America*. Washington, D.C.: Federation of American Scientists.

Microcredit Summit. (2002). Retrieved March 2003, from http://www.microcreditsummit.org.

Nicaragua Case. (March 19, 1999). Mitch worsened by environmental neglect. *Environmental News Network.*

Paxton, J. (1995). *Sustainable Banking with the Poor: A Worldwide Inventory of Microfinance Institutions.* Washington, D.C.: World Bank.

Project Madrid. (March 2001). San Salvador: El Salvador Government.

Red Cross. (2000). *World Disasters Report.* Geneva.

Sanyal, B. (1991). Organizing the Self-Employed: The Politics of the Urban Informal Sector. *International Labor Review.* 39-56.

Tegulcigapa Declaration. (2000). Jubilee Platform.

UNDP. (2000). *Human Development Report*. Tegucigalpa, Honduras: Editorama S.A.

UNIFEM. (2001). United Nations Development Fund for Women. Retrieved April 2003, from http://www.unifem.undp.org/ec_pov.htm.

U.S. Department of State, Bureau of Western Hemisphere Affairs. (October 1999). *Background Notes: Honduras.* Retrieved April 2003, from http://www.state.gov.

Woodworth, W. (1997). *Small Really is Beautiful: Micro Approaches to Third World Development—Microentrepreneurship, Microenterprise, and Microfinance.* Ann Arbor, MI: Third World Think Tank.

World Bank. (2000). *The World Development Report 2000-2001: Attacking Poverty.* New York: Oxford University Press.