

Mentores Empresariales: Rural vs. Urban Microcredit

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Introduction

Poverty assessment tools are becoming ever more important since the recent passing of legislation in both the U.S. House and Senate during 2003. 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 demonstrate that more than 50 percent of all their assistance goes 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 microfinance 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 an essential asset for obtaining future microcredit funding.

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. 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 administrations, former President Arzú (1996-2000) worked to implement a program of economic liberalization and political modernization. The last president, Portillo, had 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 75 percent of the population falling below the poverty line. Moreover, ongoing challenges are seen in 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). 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.) 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).

According to reports by the World Bank, 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. These 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 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). Microfinance that strengthens the informal economy, while helping poor families move toward greater self-reliance, is a significant part of the country's solution. 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.

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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.

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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).

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Research

In summer 2003, our university microfinance research team conducted an impact assessment of a microfinance NGO called Mentores Empresariales. The investigation's objective was to observe what impact microfinance may have on poverty. To accomplish the objective, the team measured the

socioeconomic and financial status of three groups of participants: New Clients, Current Clients and Ex-Clients. Their assumption stated that if microfinance 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 microfinance researchers created a survey instrument and determined the criteria they would use to measure poverty which is discussed in the methodology section.

Mentores Empresariales

Mentores Empresariales was founded in 1994 to “promote...sustained economic development among the lower-income working class in both urban and rural areas” (Mentores Empresariales, Plan, 2003). Mentores initially began as a consulting agency for small and microbusinesses—mostly informal family enterprises. It later initiated credit lending to those businesses with which it trained and consulted. Mentores offers two types of credit: individual loans and group loans. Individual credit is divided among four categories which include fiduciary guarantee credit, mortgage credit, seasonal credit, and reoccurring credit. Fiduciary guarantee credit requires two co-signers in addition to the primary signer. These loans are for 24 months. Mortgage credit, as the name infers, requires the loan signers to mortgage some belonging they have to secure a loan. Seasonal credit is offered during the holiday seasons such as Christmas, Holy Week, and Mother’s Day, to clients who have a good credit record and show a real opportunity for doing seasonal business during such times. Reoccurring credit with either fiduciary or mortgage guarantee are stepped in nature, and are offered to those clients with a good credit record and a new plan of investment.

Group credit includes solidarity groups and village banking groups. Its village banking groups resemble the Grameen model, a large microfinance institution (MFI) that pioneered microlending in Bangladesh (Grameen, 2003). For both groups, credit is offered to a group of individuals who usually live in the same area and are engaged in a similar profession. The group size ranges from 4-10 people. In

the village banking groups, the loan is guaranteed by all group members. For example, if one member defaults on his or her loan payment, the other members in the group have to pay for the loan outstanding (Mentores Empresariales, August, 2003). Thus, social pressure maintains a 95 percent payback rate. Mentores Empresariales has grown from its original branch office in Guatemala City, and now extends to the rural areas of Chiquimula and Quetzaltenango. In 2002, it offered \$276,249 in loans to 590 clients, and provided training and consulting services to thousands of microentrepreneurs seeking to start or grow their businesses (Enterprise Mentors International, 2003).

Mentores Empresariales has one of the most extensive entrepreneurial training programs in Guatemala. Its loan officers perform regular business audits to evaluate enterprise growth and possible capacity for future loans. The business audits analyze accounting and production reports of the small and microenterprises and then determine the causes of company losses and gains. Once weaknesses are detected, the loan officers create action plans aimed at increasing productivity and profits. The loan officers also conduct surveys to find out what training the clients prefer. The survey results are sent to the business consultants.

Mentores Empresariales' professional business consultants provide personal training and consulting once a month to all of its clients. These courses cover accounting, business management, sales, cost control, quality control, customer service, marketing, and SWOT analysis. The consultants use andragogy-based methodologies from various sources including the International Labor Organization. These methodologies are combined with real-life simulations to create training sessions based on the clients' needs.

Methodology

A field study conducted in summer 2003 of Mentores Empresariales in Guatemala collected the data used in this paper. The field interviewers collected data from three groups of borrowers who had received loans: New Clients (those who had been in the program for less than a year and were on their first or second loan); Current Clients (those who had been in the program for more than a year); and Ex-

Clients (those who were in the program and then decided to leave). 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.

Survey Instrument

The socioeconomic criteria were designed to measure the social impacts of poverty that are usually overlooked when doing economic analyses. Accordingly, this 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). 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; and Education measured the client's children's access to formal schooling.

Empowerment captured the female client's ability to voice her opinion in the home, receive respect, and take part in family decisions. Empowerment is the "ability to affect or change a given situation through one's actions and influence. This includes the ability to influence the behavior of others" (Myrada, 2002). This power determines whether the female entrepreneur can be seen as or can grow to be an opinion leader within her community. Finally, the Social Capital criterion measured the female client's relationships with others and her ability to count on them in emergencies. Social capital itself refers to the "internal social and cultural coherence of society, the norms and values that govern interactions among people, and the institutions in which they are embedded" (Van Bastelaer, 1999). In essence, social capital is the glue that holds societies together, and without which, there can be no economic growth or human wellbeing (Ismawan, 2000; Van Bastelaer, 1999).

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.

Data Collection

After arriving in the country and making initial contact with the microfinance institution Mentores Empresariales, the field investigator team randomly selected groups—capturing both rural and urban areas. They then accompanied the MFI staff representative to the respective borrower group meetings. At the group meetings, the field team conducted one-on-one interviews in a private location, and orally asked the questions in Spanish from the survey instrument questionnaire. Appendix A contains the questions used for the socioeconomic criteria. These interviews included 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 Mentores Empresariales staff representative to visit with Ex-Clients who were once part of that MFI group and conducted interviews with them at their respective houses or businesses. A total of 130 clients were interviewed of which 63 percent were women and 37 percent men.

Socioeconomic and Economic Findings

The research team used a Kruskal-Wallis one-way analysis of variance test to analyze the socioeconomic criteria. Because rural and urban households vary in resources and income, the research team conducted separate analyses on rural and urban respondents. The team found significant differences among rural clients in the Health criterion as shown in Table 1.

Table 1 here

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. Ex-Clients in the Health criterion scored significantly higher (33.5) than Current Clients (21.5) and New Clients (15.7). Food Security, though not statistically significant, may also be representative of microfinance impacts on Ex-Clients (31.5) scoring higher and being less poor than Current (20.9) and New Clients (17.3).

The research team then conducted a one-way analysis of variance test to analyze the rural respondents' economic criteria. These results are found in Table 2 and contain no significant differences at the .05 level.

Table 2 here

After conducting analyses on the responses from rural clients, the team analyzed the urban clients' socioeconomic responses using the same statistical tests described earlier. The research team found significant statistical differences for both Health and Housing criteria as shown in Table 3.

Table 3 here

Urban Ex-Clients in the Health criterion scored higher (62.5) than Current Clients (35.0) and New Clients (29.8). Similarly, Ex-Clients in the Housing criterion scored higher (53.9) than Current (40.1) and New Clients (39.5). When the team analyzed the urban economic results, they found significant statistical differences among the three clientele groups in the daily minimum wage equivalent criterion. Unlike the socioeconomic data, Current Clients scored the highest (\$1.897) followed by New Clients (\$1.747) and Ex-Clients (\$1.295).

Table 4 here

Discussion and Conclusions

Empirical observation studies based on these surveys for this Guatemalan NGO suggest promising results for microfinance. As shown in these data, microfinance may have had a positive impact on poverty among rural clients in the Health criterion and possible Food Security criterion, and among urban clients in both the Health and Housing socioeconomic criteria. According to the socioeconomic criterion, both rural and urban Ex-Clients who graduated from the program reported that they enjoyed greater health resources than Current Clients who had been in the program for over a year, as well as New Clients who had just begun. In addition, urban Ex-Clients who graduated from the program benefited from better housing conditions than Current and New Clients. It would appear from these observations that the poor choose to first invest in Health and Housing before they begin to invest in other socioeconomic criteria.

Interesting empirical observations were found among urban clients in the daily minimum wage equivalent criterion. Current Clients (\$1.90) earned more money per day than New Clients (\$1.75) and Ex-Clients (\$1.30). A possible interpretation of why urban Ex-Clients earned much less than Current and New Clients in the DMWE, and scored higher than them in the socioeconomic Health and Housing criteria 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 Current Clients earn more daily than Ex-Clients, more studies are certainly warranted.

This article provides observational evidence of the important role that microfinance can play in international development. By conducting interviews with this Guatemalan NGO, Mentores Empresariales, the research team found significant data that may indicate that access to financial services enables poor people to build assets and reduce vulnerability to crises. Access to microfinance may even translate into better nutrition and improved health outcomes (Littlefield et al., 2003). Furthermore, microfinance 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. As such, it is becoming more popular among developers and donors. Consequently, these small loans seem to make a positive impact on the effects of poverty by creating entrepreneurship, greater decision-making abilities, and self-reliance among the poor.

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Authors' Notes

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Appendix A

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 you 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 you 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.

Tables

Table 1						
Rural Socioeconomic Results						
	Mean Rank					
Group	Food Security	Health*	Housing	Education	Empowerment	Social Capital
New Clients	17.3	15.7	19.6	21.8	15.6	11.9
Current Clients	20.9	21.5	21.5	20.0	16.2	17.8
Ex-Clients	31.5	33.5	16.2	19.0	20.5	17.5
F	2.23	3.77	0.38	0.19	0.53	1.40
P	0.1214	0.0324*	0.6872	0.8256	0.5956	0.2618
* significant at the .05 level						

Table 2		
Rural Economic Results		
Group	DPCE	DMWE
New Clients	1.333	1.281
Current Clients	1.499	1.269
Ex-Clients	1.207	1.188
F	0.19	0.02
P	0.8312	0.9812

Table 3						
Urban Socioeconomic Results						
	Mean Rank					
Group	Food Security	Health*	Housing*	Education	Empowerment	Social Capital
New Clients	46.2	29.8	39.5	53.0	22.0	25.2
Current Clients	49.7	35.0	40.1	45.7	26.0	24.4
Ex-Clients	43.0	62.5	53.9	42.9	26.5	26.4
F	0.70	33.54	5.13	1.91	1.49	0.17
P	0.5012	0.0000*	0.0078*	0.1546	0.2368	0.8406
* significant at the .05 level						

Table 4		
Urban Economic Results		
Group	DPCE	DMWE*
New Clients	2.085	1.747
Current Clients	2.202	1.897
Ex-Clients	1.710	1.295
F	0.99	3.23
P	0.3758	0.0443*
* significant at the .05 level		