Resumen de la Investigacion: My research objective is to understand the context of micro credit in Mexico and to document women’s experiences by giving voice to their choices, opinions and concerns within the context of their participation in a micro credit project.

Metodologia que se utilizara: My research methodology is based on an exploratory participatory approach, using multiple sources of evidence such as focus groups, semi-structured and open-ended interviews, documentation and direct observation. The use of multiple sources is deliberate to provide for a broad range of perspectives and the development of converging lines of inquiry for data analysis. Through these methods I have built a picture of the context in which micro credit operates internationally, with specific references to the situation of microfinance in Mexico.

Hipotesis: The use of microfinance to enhance income opportunities of the poor is a popular tool for commercial microfinance institutions, Governments and non-governmental organizations working to combat poverty and to raise standards of living. There has emerged an “almost” global consensus that lending small loans or micro credit to the poor is the key element for reducing poverty in the twenty-first century and improving social and economic development. With the activities of the Grameen Bank of Bangladesh serving as a successful example of bringing small loans to poor women, a number of non-governmental organizations have developed spin-off programs similar to the Grameen Bank’s in different regions of the world. These spin-off programs have served as a model for the current development of commercial microfinance institutions providing micro credit loans on for-profit basis, emphasizing financial self-sustainability. This research study highlights the operating environment of microfinance in Mexico and seeks to learn about women’s experiences in micro credit delivered through a commercial institution.

Capitulo Primero : Introduccion

1.1 Research Objective

This research study examines women’s experiences and struggles in the context of their participation in a micro credit project. The micro credit program sponsored by Compartamos provides loans to lower income Mexican women in rural and semi-urban areas. This exploratory study based primarily in Mexico City seeks to understand the context of micro credit in Mexico by examining women’s perspectives by giving voice to their choices, priorities and concerns related to their participation in a micro credit project. In order to learn about women’s experiences I had to travel outside of Mexico City to rural and semi-urban areas. The results of this study will contribute to advancing knowledge on the intersection between women’s productive and reproductive roles, and the interconnected public and private spheres, as well as women’s complex status in development projects for Mexican and international development workers, feminists, community organizers, social workers and academics.

1 My field research revealed that there are currently no microfinance programs operating in Mexico City, a city of +25 million people. Many microfinance institutions have their head offices in Mexico City, but do not provide savings or credit services in Mexico City.
In Mexico, as in the rest of Latin America, the country’s accelerated population growth, whose concentration is greater in urban areas, has exceeded the capacity of corporations in the formal sector to provide jobs (Compartamos 2001:2). As a result, a large segment of the population is self-employed and carries out productive activities to obtain income and thereby achieve economic development in the informal sector. These activities, known as microenterprises, typically require access to small amounts of working capital, which is generally unavailable through the formal financial sector. In urban areas, a large percentage of the working population – up to 50 % - is linked to microenterprises (Compartamos 2001: 2; USAID 2002). In rural areas, most families combine microbusiness activities with other activities, relying on the former as the main source of income for the family. Most of these entrepreneurs do not have adequate access to financial services.

The use of microfinance to enhance income generating opportunities of the poor is a popular tool for non-governmental organizations (NGOs), Governments and commercial financial institutions working to raise standards of living in developing countries (Szabo 1999). Micro-finance programs targeting women became a major plank of donor poverty alleviation and gender strategies since the 1970s and funding is set to further increase under current initiatives by the World Bank’s Consultative Group to Assist the Poorest (CGAP) and member donor agencies (Mayoux 2001). Women’s involvement in micro credit programs operates under a number of international influences that serve an important role in the development of the program, and continues to influence strategic objectives. There has emerged an “almost” global consensus that lending small loans or micro credit3 to the poor is the key element for reducing poverty in the twenty-first century and improving social and economic development (Microcredit Summit 1999). With the activities of the Grameen Bank of Bangladesh serving as a successful example of ‘poverty-lending’ by bringing small loans to poor women, a number of non-governmental organizations (NGOs) developed spin-off programs similar to the Grameen Banks’ in different regions of the world4 (UNDP Spinning Off for Sustainable Microfinance). Based on the experiences of NGOs, a number of commercial microfinance institutions have emerged working for profit. This study is based on such a commercial financial institution operating in Mexico known as ‘Financiera Compartamos’.

The importance of this study is anchored in women’s interactions and negotiations within the household and the larger society through their involvement in the group lending and savings program. The women participants in the program are the intended beneficiaries, and for this reason their views are given most significance, since it is them the program is intended to assist (Dawson 1998:192). Although this study does not attempt to measure “impact” the exploratory nature of this research generated important qualitative data, as well as assisted in the future development of indicators. This paper presents the results of a dialogue between women and focuses on their experiences as told by the women themselves. Compartamos supported this

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2 Consultative Group to Assist the Poorest, a multidonor international consortium formed in 1995 to assist the development of microfinance internationally. The CGAP Secretariat is at the World Bank in Washington, D.C.

3 Micro credit is defined as the provision of small loans for self-employment and income generation.

4 Spin-off micro credit projects also exist in ‘developed’ industrialized countries (in Canada, U.S.) See ILO (1999).
participative evaluative approach and facilitated my field visits to their offices and with women’s groups in Atlatamulco and Toluca, outside Mexico City.

Within the context of international development programming, there is a particular concern for poor women and their position in low-income societies, their lack of autonomy and generally worse situation than that of men living in similar contexts (Dawson 1998:189). The nature of employment arrangements, attitudes of the family and of the society at large towards women’s economic activities, and the economic and social circumstances that encourage or resist change in attitudes are examined in relation to women’s active participation in the informal economy using micro credit. The variety of women’s responses, the context of women’s decision-making and the actual experience of change, constraints, and choices operating within micro credit and in which women are immersed in calls for examination.

1.2 Review of the Literature

1.2.1 What is Microfinance?

Microfinance refers to small-scale financial services – primarily credit and savings – provided to people who farm or fish or herd; who operate small enterprises or microenterprises where goods are produced, recycled, repaired, or sold; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, animals, or machinery or tools; and to other individuals or groups at the local levels of developing countries, both rural and urban (Robinson 2001: 9).

Savings services allow savers to store excess liquidity for future use and to obtain returns on their investments. Credit services enable the use of anticipated income for current investment or consumption. Microfinance services are being promoted because they are believed to help low-income people reduce risk, improve management, raise productivity, obtain higher returns on investments, increase their incomes, and improve the quality of their lives and those of their dependents (Robinson 2001: 9).

Microfinance services are rarely accessible through the formal financial sector (See Hulme and Mosley 1996: Vol.1, ch.2). Banks generally assume that providing small loans and deposit services is unprofitable. NGOs and other nonbank financial institutions have led the way in developing appropriate credit methodologies for low-income borrowers. Common to nearly all parts of the developing world, however, is a lack of microfinance services – a shortcoming that is believed to limit the options and lower the financial security of poor people throughout the world.

Throughout history, informal sources of credit have proven to be the most popular and widely used method of gaining access to funds. Informal credit is the norm in communities where there are no microfinance institutions. It operates on a voluntary basis, with verbal promises to lend and repay. Family members, close friends and

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5 The literature shows that the economically active poor, including the poorest, save in multiple forms and for a variety of purposes (See Robinson 2001, ch.7; Versluyen 1999). Robert Vogel (1984) called savings “the forgotten half of rural finance”. In many countries government regulations impede the mobilization of microsavings.
distant relatives, as well as neighbors, have all been “sources of credit” at one time or another. Other informal sources have also included the actual “goods and services” exchanged through bartering or other types of trade. It is only recently that credit has become more formalized through financial institutions serving the poor.

When informal sources of credit are unavailable, often the poor have been able to access the services of a “moneylender.” Credit is widely available from informal commercial moneylenders but typically, at very high cost to the borrowers – especially poor borrowers (see Robinson 2001). Moneylenders live locally and know their clients. Their forte is being able to offer credit when it is most needed. While serving an important function in the eyes of the poor, who do receive access to credit through the moneylenders, there is a significant cost involved. Moneylenders are known for charging very high interest rates, and have earned a reputation for taking advantage of those who can least afford it (Sinha 1998). Sometimes charging as much as 100% of the loan amount, the literature is rampant with examples of moneylenders taking matters into their own hands when the poor fail to repay on schedule (Versluysen 1999; Buckley 1997). The enduring image of the “evil moneylender” or “loan sharks” continues to influence the literature of micro credit by serving as a reminder of the injustice faced by the poor.

Most of the demand for microfinance comes from households and enterprises operating in the unregulated, informal sector of the economy. There are a number of features associated with informal enterprises: scarcity of capital, family ownership, small-scale operations, nonlegal status, lack of security of business location, operation in unregulated markets, relatively easy entry into markets, irregular work hours, small inventories, use of indigenous resources, and domestic sales of products (Robinson 2001:11; Rakowski 1994). The informal sector is far from homogeneous – it includes people who collect and recycle, and people who subcontract (petty traders, carpenters, brickmakers, recyclers of paper and metal, tailors). The huge demand for finance from self-employed microentrepreneurs has typically been ignored by the formal financial sector, until recently.

During the 1960s and 1970s the presence of informal microenterprises – street vendors, home workshops, market stalls – was generally perceived by policymakers and economies to be a result of the formal economy’s inability to absorb the national labor force. Thus, governments focused on improving the management of the formal economy to increase its absorptive capacity. This approach hoped to enable low-income and unemployed people to integrate into the formal sector. The result was that the huge informal sector in many countries remained invisible – in government plans and budget, and in national policies. What policies did exist tended to repress or eliminate the sector by removing vendors from the street, by sending urban informal laborers back to their villages, or by turning some into formal workers.

The value of supporting self-employment as an economic development strategy was first publicized in the 1972 study undertaken by the International Labour Organization in Nairobi, Kenya (Raheim 1996:70; Moser 1994). Microenterprises were shown to provide an income for poor microentrepreneurs and create employment. They recycle

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[6] The formal financial sector has been self-deterred from financing informal enterprises due to the nonlegal status of enterprises, lack of an authorized business location, unavailability of standard forms of collateral, small size of transactions and perceived riskiness of such businesses.
and repair goods, provide cheap food, clothing, and transportation to poor people who would not otherwise be able to live on their salaries. Microentrepreneurs accomplish all of this despite severe obstacles, since they typically lack capital, legal status, and business security (Versluyen 1999). But they generally have strong survival skills: shrewd business sense, long experience of hard work, knowledge of their markets, extensive informal support and communication networks, and a fundamental understanding of flexibility.

In the 1980s the growth of the already large informal sector was a predictable, rational response to structural adjustment (Robinson 2001:12). In this context policymakers in some countries reexamined their approach to informal enterprises, viewing them not as a problem for the economy but as an important solution to crucial aspects of current problems that are cause by poverty and massive rural-urban migration. It was under these conditions that attention began to be paid to improving the legality, security, and financing of informal enterprises. If microentrepreneurs did not have to face routine removal from their business locations, confiscation of their goods, constant demand for bribes, detention, and other forms of harassment, they would be more likely to invest in their enterprises — which could then raise incomes and increase employment (Robinson 2001:13).

The growing interest in microfinance is related to the recent recognition on the part of some policymakers that the informal sector is very large, it is here for the foreseeable future, it provides employment and contributes to the economy, and its performance can be improved with the removal of legal and financial obstacles (Versluyen 1999). Thus increasing microenterprise access to financial services — both credit and savings — has become a priority for many governments and donors.

The literature on microfinance supports the development of financial services to alleviate poverty, but how it might be measured and who constitute the poor are fiercely contested issues (Hulme and Mosley 1996: Vol.1, ch.5; Sinha 1998). The literature does make a distinction between the extremely poor and the economically active poor, but it is not precise. Households move from one category to the other over time. Robinson (2001) explains that the poverty line concept is not directly relevant for microfinance: savers are found on both sides of the official line, and many borrowers below the line are creditworthy, while many above the line are not. Another word for credit is debt; debt may not be an effective tool for helping poor people enhance their economic conditions (Adams and Von Pischke 1992). When loans are provided to the very poor, the borrowers may not be able to use their loans effectively because they lack opportunities for profitable self-employment and because the risks involved in using the credit may be unacceptably high (see Hulme and Mosley 1996, vol.1, ch.5).

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7 People employed in the formal sector (receiving low wages) also benefit.
8 Poverty is not created by the poor. It is the outcome of complex social and economic factors, which include class distinctions, gender and ethnic bias, and the socioeconomic impact of free-market policies, fiscal austerity, and cuts in programs for the needs (Versluyen 1999:236).
1.2.2 Competing Paradigms in Microfinance: The Financial Systems Approach and the Poverty Lending Approach

According to Elisabeth Rhyne (1998) “everyone involved in microfinance shares a basic goal: to provide credit and savings services to thousands or millions of poor people in a sustainable way.” Everyone wants to reach the poor. The debate is about the means, not the goals. The literature is marked by a major debate between the two leading views: the financial system approach and the poverty lending approach (see Rhyne 1998 and Gulli 1998; Woller 1999).

The financial systems approach (also know as the financial self-sustainability paradigm or sustainability approach) is the model of microfinance promoted since the mid-1980s by most donor agencies and Best Practice guidelines promoted in publications by USAID, World Bank, UNDP, CGAP and the Micro Credit Summit Campaign. It is the result of lobbying by microfinance organizations to insert at least some attention to poverty alleviation and empowerment concerns into the neo-liberal growth agenda. The ultimate aim is large programs, which are profitable and fully self-supporting in competition with other private sector banking institutions and able to raise funds from international financial markets rather than relying on funds from development agencies. The main target group, despite claims to reach the poorest, is the ‘entrepreneurial poor.’ Policy discussions have focused particularly on setting of interest rates to cover costs, separation of microfinance from other interventions to enable separate accounting and program expansion to increase outreach and economies of scale, reduction of transaction costs and ways of using groups to decrease costs of delivery. This emphasis on financial sustainability is seen as necessary to create institutions that reach thousands of poor people, in order to meet world demand for microfinance, and declining aid budgets and opposition to redistribution in macro-economic policy. In principle, there are no subsidies. Thus, the financial systems approach emphasizes large-scale outreach to the economically active poor with interest rates that enable ‘commercial institutions’ to cover all costs and risk, and generate a profit, in order to meet world demand for microfinance.

Commercial microfinance institutions charge interest rates above the normal lending rates of the country’s standard commercial banks (see Robinson 2001:29). The terms ‘microfinance revolution’ is used to describe the financial system approach, even though they remain relatively rare (Robinson 2001: 34).

The poverty lending approach concentrates on reducing poverty through credit, with complementary services such as skills training and the teaching of literacy and numeracy, health, nutrition, family planning. In this approach donor and government funded credit is provided to poor borrowers, typically below market interest rates. The goal is to reach the poor, including the extreme poor, with credit to help overcome poverty and gain empowerment. Poverty alleviation is defined in broader

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9 There are two types of subsidies: interest-rate subsidies and operational subsidies. Interest-rate subsidies can be justified on economic and social grounds, and operational subsidies cover operational expenses for microfinance institutions that cannot recover costs and depend on donor subsidies and funding (Versluyen 1999:56).
10 Transaction costs for the lender include obtaining information about the creditworthiness of the borrower, administering the loan, and collecting it.
11 The literature shows that providing microfinance is more expensive than providing standard banking services to larger clients.
terms (than simply income) to encompass increasing capacities and choices and decreasing vulnerabilities of poor people. Policy debates focus on the importance of small savings and loan provision for consumption as well as production, group formation and possible subsidies for programs working with specific client groups or in particular contexts. Subsidized credit delivery emerged in response to conditions after World War II; the theory of supply-leading finance (See Robinson 2001, ch.4). I would like to point out that the borrower’s transaction costs are not subsidized.\(^{13}\)

1.2.3 The Grameen Bank Model of Bangladesh

Many studies have been conducted, primarily by economists, on the microcredit program of the Grameen Bank of Bangladesh, and is credited as one of the primary reasons this tool has gained importance worldwide (Rahman 1999). Over the last two decades, the Grameen Bank pioneered the poverty-lending approach. The founder, Prof. Muhammad Yunus, recognized the pitfalls of the only two credit sources available in rural Bangladesh during the 1970s – commercial banks and moneylenders. An experiment emerged with the Grameen Project, using peer monitoring and joint liability in a group to overcome the problems of screening, monitoring and enforcing repayment (Sinha 1998), the first micro credit loans emerged in Bangladesh, which transformed into the Grameen Bank, now a specialized credit institution.

There is a vast body of literature on the Grameen Bank since its inception in 1983 (Hulme and Mosley 1996; Todd 1996; Sinha and Matin 1998; Rahman 1999; Versluyen 1999; Robinson 2001; Rahman and Islam). The Grameen Bank “model” has been replicated in fifty-six countries (Isa 1997 quoted in Rahman 1999) and has been highly influential in spreading the idea that the poor can be credit worthy. The “poverty lending” model developed by the Grameen bank set the stage for the use of credit as a tool to engage people who are below the poverty line in productive activities, and views self-employment as a means to raise income and reduce poverty. My field research in Cairo, Egypt, examined Save the Children’s program as a “spin-off” of the Grameen Bank’s model, adapted to the local cultural context.

Both of these paradigms represent different discourses each with its’ own relatively consistent logic in relating aims to policies and based on different underlying understandings of development. Rhyne (1998) explains that some underlying differences in perspective surface about the role of government, donors, and the private sector. Each paradigm is promoted by different stakeholders and co-exist as ‘incompatible discourses’ in uneasy tension and with continually contested degrees of dominance (Woller; Versluyen 1999:58-59). In many programs and donor agencies there is considerable disagreement, lack of communication and/or personal animosity between staff involved in microfinance, those concerned with human development, and gender lobbies (Mayoux 2001). Microfinance practitioners are conscious of the differences between both paradigms, and generally subscribe to one over the other.

\(^{12}\) Credit in which interest rates and other fees do not cover the full cost of making and collecting the loan. See Adams and Von Pischke (1992) on small farmer credit programs funded with subsidized credit in low-income countries.

\(^{13}\) Transaction costs for the borrower include the opportunity cost of time spent traveling, preparing a loan application, and in group lending programs attending meetings, transportation costs and bribes to officials.
1.2.4 Microfinance in the 1990s

Microenterprise finance has generated enormous enthusiasm among aid donors and NGOs as an instrument for reducing poverty in a manner that is financially self-sustaining (Mosley and Hulme 1998:783; Rahman 1999). The literature provides evidence of unanimous support by international agencies and donors for micro credit. The World Summit for Social Development held in Copenhagen in 1995 called upon Governments and international organizations to support credit programs in order to facilitate entrepreneurship for the poor. An international Micro Credit Summit was organized in Washington, D.C., in February 1997, in which many donor statements and NGO funding proposals presented an extremely attractive vision of microfinance. A campaign was launched with the objective to reach 100 million of the world’s poorest families, especially the women of those families, with credit for self-employment and other financial and business services by the year 2005 (Micro Credit Summit Campaign 1999). The Microcredit Summit was important is capturing international attention to the concept of micro credit, as well as generating support and financial commitments from Government and international donors. A second Microcredit Summit in 2002 was organized in New York City, to review progress over the last five years, and to support the creation of financially self-sufficient institutions; Mexico’s President Vicente Fox presided over the opening ceremonies. Further, the General Assembly of the United Nations adopted Resolution 53/197 declaring 2005 as the International Year of Microcredit (Microcredit Summit E-News: 2003).

In the 1990s it was widely believed by some that credit was the “missing piece” that would allow the poor to “work their way out of poverty”, and become more self-reliant, generate employment opportunities, and particularly, engage women in economically productive activities (Tadros 1999:22). Buckley (1997) questions whether the extensive donor interest in microenterprise really addresses the problems of microentrepreneurs or whether it offers the illusion of a quick fix. Microfinance cannot eliminate poverty by itself (Versluyen 1999:224). Other social investments are necessary and require fundamental structural changes of the socioeconomic conditions that define informal sector activity - if a considerable dent is to be made in poverty (Buckley 1997).

The 1990s illuminated a broad variety of institutional arrangements and approaches, ranging from small self-help groups with a handful of members to huge organizations that have national coverage and serve millions of clients (Versluyen 1999:39). The models and approaches used in micro credit are diverse, in meeting the needs of different populations. The majority of micro credit projects received subsidies to cover their operating and administrative expenses, and even though most programs in today have some plans to become financially self-sufficient. Projects that target the poorest of the poor and offer significant training, or access to health and social services or other supports, take more time to be in a position to cover their costs.

The 1990s saw accelerated growth in the number of microfinance institutions created and an increased emphasis on reaching scale. Standards are being developed, and

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14 There were over 2900 participants representing 137 countries at this Summit.
many microfinance programs are undergoing transformations from one institutional form to another (Robinson 2001). The current trend indicates that microfinance is moving from government and donor-funded subsidized credit to sustainable finance intermediation.

Capitulo Secundo: Microfinance in Mexico: The Country Context

2.1 The Political Climate

The Mexican political system underwent a profound change toward a multiparty democracy with the election of President Vicente Fox in July 2000, thereby ending a period of one-party domination that had lasted for seven decades. This change has led to a redefinition of the roles of the legislative, executive, and judicial branches and those of political parties and local governments. Predictably, the election results raised unrealistic expectations for immediate change. And the administration has made slower than hoped for progress in enacting its legislative and policy agenda. Yet, the chances for reform are not negligible. The current decentralization process, or federalismo, has decisionmaking power devolved to state and municipal governments.

2.2 Mexican Economy and Poverty

After an extended period of strong expansion, economic activity in Mexico experienced a sharp slowdown during 2001 as the downturn in the global economy, and in particular in the U.S. economy, spread across emerging markets. Growth of Mexican manufactured exports, nine tenths of which go to the United States, plummeted from an average annual growth rate of 20 percent to minus 3 percent last year (World Bank 2002). According to analyst Carlos Fernandez-Vega, the Mexican external debt (which is nearly 350 billion dollars) is a financial hyper bomb, but President Fox assured that it does not represent a problem for Mexico anymore (Jornada 24: March 17, 2002).

The devastating social effect of the 1994-95 ‘Tequila’ crisis – which in a few months, fully undid the 10 percentage point reduction in poverty levels achieved in the preceding decade – continues to affect poverty levels (USAID 2002). From 1994 to 1996, the share of the population in poverty (defined as having a level of capital consumption below what is necessary to meet basic food and nonfood needs) drastically increased, from 51 percent to 62 percent at the national level (World Bank 2002). Since 1996, the share of the population in poverty has declined to 46 percent nationally (in 2000) (USAID 2002). Poverty, and especially extreme poverty, remains much higher in rural than in urban areas.

Government policies continue to favor economic growth as the most important determinant of poverty in Mexico. It is believed that growth improves the income of the poor, and brings along positive synergies in nonmonetary welfare (such as infant mortality, life expectancy, school enrollment, and access to safe water).

15 Amar Bhattacharya, principal advisor to the World Bank, announced that this year (2002) the world’s flow of direct foreign investment will be 170 billion dollars and Mexico will be the second recipient country of these resources, preceded only by China. Published by Universal, March 17, 2002.
Mexico’s poverty reduction and development strategy\textsuperscript{16} is, however, overshadowed by four persistent characteristics of the country’s social map:

1. Although reduced, absolute poverty numbers remain unacceptably high (some 45 million Mexicans are still poor);

2. There is sharp inequality in the distribution of income, which seems immune to the growth process and so far resilient to policy interventions (by current Gini measurements Mexico’s is one of the most unequal economies in Latin America);

3. The incidence of extreme poverty in rural areas is abnormally acute (in 2000, almost one in every two Mexicans living in rural areas was extremely poor);

4. There is a widening development gap between the southern region and the rest of Mexico (southerners are far poorer, less educated, less likely to have running water, and more likely to die younger). \textit{Source World Bank Country Assistance Strategy dated April 23, 2002.}

These characteristics gather additional urgency when seen in light of the available employment opportunities for the poor – while formal employment has remained low, some 1 million new jobs are needed each year just to accommodate new entrants into the labor force (at the peak of its recent growth performance, the Mexican economy managed to create only about 600,000 such jobs.)\textsuperscript{17}

How can we then accept that a pro-growth economic policy is working for a majority of Mexicans?

Over recent decades, Mexican governments have implemented several nationwide programs to reduce poverty\textsuperscript{18}. The record of those programs, especially earlier ones, is mixed and their sustainability is unproven.

It is in this context that nonbank credit institutions, especially those serving the poor and populations in the rural areas, will likely play a more prominent role. Mexico’s ‘other economy’ is the mass of middle-market and micro and small informal enterprises that, by some estimates, may account for as much as three quarters of total employment (World Bank 2002 : 11). But providing capital through microfinance does not in itself reduce poverty. The poor need to be able to earn income with that capital. The challenge is particularly difficult for three overlapping social groups – women, indigenous populations and the rural poor. Socially ascribed gender roles

\textsuperscript{16} Mexico’s National Development Plan 2001-2006 is a broad government agenda that covers areas that go beyond economic development. It presents three main objectives: 1) Social and Human Development (education, equity, collective initiative, harmony with the environment, confidence in public institutions); 2) Growth with Quality (macroeconomic management, competitiveness, inclusive development, regional development, sustainable development); and 3) Order and Respect (sovereignty, national security, democracy, federalism, population dynamics, corruption, public security, justice). See \url{www.presidencia.gob.mx}.

\textsuperscript{17} Cited in the World Bank’s CAS 2002.

\textsuperscript{18} Interestingly, in an interview with Radio Red, U.S. Ambassador Jeffrey Davidow said that although there is great poverty in Mexico, the United Nations and the rest of the world believe that its level of development suggests it does not need financial support from the other countries, March 20, 2002.
have placed women at a clear disadvantage in terms of both health, education, labor, and personal safety. Similarly, about 1 in 10 Mexicans defines himself or herself as indigenous and holds, and may respond to, a different set of economic values, whereby assets (like land) are nontradable sources of group identity, community benefit is held in higher regard than individual profit maximization, traditional social governance bodies are trusted over those dictated by the country’s law, social organization is based on prestige and civic duty, and the language of preference (and frequently the only language) is not Spanish (Gonzalez 2002).

2.3 The Role of Civil Society

Civil society organizations play a critical role in enhancing government quality, as partners in the design of development policy and as a means of public accountability during implementation. Mexico has a long and evolving tradition of social organization – from small, voluntary, and philanthropic foundations dealing with localized issues to professional entities influencing public policy in trade, democracy, human rights, anticorruption, environment and women’s rights.

- In its annual report, Amnesty International states that torture, arbitrary detentions and mistreatment were ‘a common practice’ by Mexican police and army authorities (Universal 6; Reforma 10; Financiero 33; Jornada 1,3; Milenio 12; Noticiero Televisa on May 29, 2002).

- According to a report by the Citizens Institute of Insecurity Studies, Mexico City has the highest crime rate in the nation, and 66 percent of all crimes nationwide are not reported to the authorities (Universal 1, 6; Reforma 1,2; Milenio 13, Noticiero Televisa on May 29, 2002).

- Transparency International, an anti-corruption watchdog group, released its annual corruption rankings, placing Mexico in 57th place out of 106 nations, slightly worse than last year. Transparency International President Federico Reyes Heroles called Comptroller General (SECODAM) Francisco Barrio’s fight against corruption a ‘failed strategy’ (Universal1,12; Reforma 1,8-9, 24; Financiero 1,40-41; Jornada 11, Noticiero Televisa on August 29, 2002).

Yet, despite some progress, the environment in which these civil society organizations operate remains a constraining one: the legal and fiscal framework does not facilitate their emergence; thier institutional capacity to engage in policy debate and seize new opportunities to participate is uneven; inter-coordination is weak; and they face a persistent culture of exclusion in parts of the public sector (World Bank 2002 : 16).

Capitulo Three : Microfinance : The Savings and Credit Sector

3.1 Microfinance Is Not Well Developed in Mexico

Most of the microenterprises in Mexico lack access to formal financial services. This is critical, because many microenterprises reside in the poorer segments of urban areas and in rural areas. There are about 3.5 million microenterprises, which play a
significant role in the Mexican economy: over 90 percent of Mexican enterprises are microenterprises, accounting for over 40 percent of the workforce (World Bank 2002: 80). **Microfinance is not well developed in Mexico.** In Mexico, what is most striking is the relative lack of progress and participation in microenterprise finance and other services. Given Mexico’s apparent economic potential, it would be reasonable to expect that Mexico be well ahead of other less-endowed countries in providing assistance to microenterprises (Interview with USAID 2002; Leon 2003). In fact, Mexico is substantially behind in this area, with microfinance and other services barely above a nascent level. Studies show that less than 1 percent of the Mexican poor have access to some type of formal financial services (World Bank 2002). Serious limiting factors have inhibited the growth of Mexico’s microfinance sector in the past, namely inflation and the collapse of many financial institutions (including numerous credit cooperatives) following the Tequila Crisis, and rigid and incomplete regulations (Rivarola 2002).

Despite this situation, the non-bank financial intermediaries operating in Mexico include a multiplicity of formal and informal, regulated and unregulated institutions which mobilize deposits from and/or extend credit to the public. Among formal non-bank intermediaries are those which are regulated as financial institutions, including Sociedades de Ahorro y Prestamo (SAPs) and Credit Unions, and those which are not, including Cajas Populares, Cooperativas de Ahorro y Credito, Cajas Solidarias, NGOs and others. Saving and credit institutions refer to both types of formal intermediaries. Informal intermediation, on the other hand, which is unregulated and not legally sanctioned, includes rotating savings and credit associations (tandas), money lenders, savings groups and other personal savings and loan arrangements, which are not dealt with in this document.

It is estimated that the Savings and Credit Institutions, comprised of more than 630 institutions, extend savings and loan services to approximately 2.3 million people or about 7 percent of the economically active population (World Bank: 2002). The Sociedades de Ahorro y Prestamo (SAP) network alone includes nearly 400 retail outlets with 500,000 members in 31 states (World Bank 2002). For many of these institutions, full reliance on mobilized deposits to support their loan portfolios protected them from the 1995 currency crisis, as they had practically no foreign-currency liabilities. In addition, it gave the savings and loan societies an advantage vis-a-vis the banking system, as they were able to lend when banks were drastically contracting credit flows. Well-functioning savings and credit institutions were thus able to attract new members and grow in scale when most of the rest of the financial system was shrinking.

While the relative stability and extension of the Savings and Credit Institutions (SCI) sector towards lower-income and rural clients has provided for alternative access to financial services where commercial and development banks have not been successful, the lack of effective regulation and supervision until the passsage of the new legislation last year has meant that these institutions and their depositors are exposed to significant risks. These risks have been made apparent by several failures, some of them openly fraudulent, which have seriously undermined public confidence in these institutions, especially among small depositors (Leon 2003; World Bank 2002). Restoring client confidence, and enhancing the ability of financial
intermediaries to reach more people thus became critical objectives of the Mexican administration.

Against this background, the Mexican Government has embarked on a strategy to strengthen financial intermediaries active among all market segments, including banks and non-bank institutions. In order to increase access to services and enhance the reliability of those services among lower-income households, which traditionally do not benefit from banking services, the Government has devised a strategy towards strengthening and effectively supervising Savings and Credit Institutions. Funding has been provided by the World Bank to develop these intermediaries\(^{19}\). This strategy aims at further developing the capacity of these intermediaries, modernizing their services, substantially improving their image among the general public and increasing their overall outreach, especially in rural areas.

3.2 Ley de Ahorro y Credit Popular (April 20, 2001)

Government entities concerned with financial sector issues are the Secretariat of Finance and Public Credit (SHCP), the National Banking and Securities Commission (CNBV) and the Central Bank of Mexico (BANXICO), in collaboration with microfinance practitioners, developed a new legal and regulatory framework for savings and credit institutions and organizations (instituciones de ahorro y credito popular). The diverse range on non-bank financial institutions operating in Mexico serves a continuum of clientele, from the relatively wealthy to poor, marginalized households in rural and urban areas alike. The Ley de Ahorro y Credito Popular was passed on April 20, 2001 and became effective on June 4, 2001. It provides for the incorporation of all savings and credit (non-bank) financial institutions into a legal framework that covers the range of their intermediation activities.

The law recognizes two types of retail intermediaries authorized to mobilize deposits from the general public: Savings and Credit Cooperatives (Sociedades Cooperativas de Ahorro y Credito) and Popular Savings Associations (Sociedades Financieras Populares). After a period of two years from the date of the law’s effectiveness, only those institutions which are able to demonstrate their financial viability, which subject themselves to regulation and supervision and which purchase private deposit insurance will be authorized to remain in operation. More developed institutions will be granted authorization to provide a greater range of services and products, while being subject to stricter standards than less developed ones.

The new legislation represents a departure from past policies. A number of risks associated with the new legislation have been identified: transparency and adequacy of entry and exit procedures, conflicts of interest and regulatory capture in the auxiliary supervision mechanisms, incentives and delimitation of responsibilities between CNV and the federations and confederations, adverse selection issues, and capacities and roles of CNBV and BANSEFI.

\(^{19}\) The World Bank’s current portfolio in Mexico comprises 28 active projects with about $5.2 billion in net commitments. The new Country Assistance Strategy for Mexico project loans totaling $5 billion to the country between 2003-2005. The list of active and proposed projects can be found on the Bank’s website www.worldbank.org. For example, a Rural Microfinance Capacity Building Project is worth US$56.8 million.
3.3 Financial Services in Rural Areas: Mexico’s History with Subsidized Credit

Mexico’s experience with micro credit programs originated in public finance institutions delivering subsidized credit largely to farmers in rural areas. Rural finance in Mexico suffers at present two main consequences of past government strategies:

1) Rates of participation in formal financial transactions for rural entrepreneurs and households lower than those in countries with one-half of Mexico’s capital GDP; and

2) A severe scarcity of viable or potentially sustainable financial institutions with a significant presence and outreach among low-income households, particularly in rural areas.

Directed credit at subsidized interest rates, subsidized credit guarantees, and debt forgiveness and restructuring characterized rural credit in Mexico during the 1980s and early 1990s. Key public rural finance institutions, namely Banco Nacional de Credito Rural (BANRURAL) and the Fideicomisos Instituidos en Relacion con la Agricultura (FIRA) were the main means of intervention. In addition, the Aseguradora Nacional Agricola (ANAGSA, closed in 1990) insured most of BANRURAL loans at subsidized premium rates. The Government began introducing reforms in rural credit policies in the early 1990s, intended to reduce transfers to the sector and improve efficiency of its rural finance institutions. It reduced interest-rate subsidies, made transfers to institutions more transparent and close or reorganized inefficient government entities.

The exchange-rate crisis of early 1995 induced further closings of rural branches by struggling banks, thus diminishing the already dwindling presence of financial institutions in rural areas. Banks chose the pursuit of profitable opportunities in their existing urban markets over experimentation and the substantial investments in infrastructure and staff training needed to move into less understood rural markets. Moreover, a collusive attitude among commercial banks and a struggle between Government offices for control over the initiative hampered the project viability and resulted in its closing in 1999.

Currently, the Secretariat of Agriculture, Livestock, Rural Development, Fishing and Food (SAGARPA), and the Secretariat of Finance (SHCP) are concerned with increasing the presence of reliable financial intermediaries in rural areas as an essential base for a healthy development of savings and other microfinance activities, and a restoration of rural people’s confidence in the financial sector.

3.4 The Need for Social Intermediation

Experience elsewhere has demonstrated that to reach low-income households where literacy rates are low and functional literacy is practically nonexistent, important efforts need to be made in the area of social intermediation. This is particularly important given that the history of subsidized credit and lax financial discipline practiced by government agencies impairs the ability of rural entrepreneurs and households to knowingly and responsibly enter into formal financial transactions.
Awareness raising and assistance at the community level are therefore essential to improve the likelihood of successful finance.

Most previous efforts have included the non-bank sector, with the notable exception of CGAP’s investment in the NGO Compartamos, perhaps the only success story in microfinance in Mexico (World Bank 2002: 17). I will later discuss the contribution of Compartamos’s microfinance program in Mexico, and my findings from field visits where I spoke with women participants.

Capitulo Four : The Context of Microfinance in Mexico : Regional Differences

4.1 Common Observations

Though there are great regional differences in Mexico, there are also some commonalities. The following common observations are as follows. (Note: these observations are presented by the World Bank’s Project Appraisal Document (2002) for a Savings and Credit Strengthening and Rural Microfinance Capacity Building Technical Assistance Project.

4.1.1 There is a great interest among indigenous, and poor communities in general, in developing alternatives to access a variety of financial services and promote savings efforts. A number of organizations have been working on such activities for many years with mixed results, thus there is a need for technical assistance (p.64).

4.1.2 Cultural factors have great influence on decisions about the use of financial resources in general and savings in particular; many savings and credit organizations have developed on the basis of trust and solidarity. Community activities, in addition to individual needs, are the driving force behind these efforts. However, in some areas, organizational efforts must take into account the conflicts that exist between different groups, which may have deep historical roots or be caused by recent demographic and political events (p.64).

4.1.3 Savings capacity and credit requirements are typically seasonal because they are linked to agricultural activities and/or temporary jobs. Designing financial products linked to communities’ productive cycles is likely to increase credit recovery and savings rates. The interest in expanding productive activities, particularly to improve commercialization, as well as investing in children’s education and improving family conditions, were mentioned as the main reasons for saving and accessing other financial services (p.64).

4.1.4 Women usually play an important role in family savings and credit activities, but their capacity to borrow and save is likely to vary considerably according to economic conditions and social norms in their communities. Women’s involvement in productive activities oftentimes generates goods used for exchange or own-consumption, rather than cash income, for example. The degree to which women are responsible for managing the cash resources which are ultimately produced by their individual activities, if any, or the activities of their productive organizations, community groups, or of their families, will vary among communities and ethnic groups. Savings and credit organizations must take these particular social and
economic structures into account when designing programs to target women as clients (p.64).

4.1.5 Government programs have proved inefficient either because they have operated under temporary political waves and then disappeared, or their temporary effects have not been sustainable. In general there is mistrust towards government programs and government institutions, particularly among indigenous organizations (p.64).

4.1.6 Communities’ incentives to save may be linked to their incentives to develop productive infrastructure and commercialization processes, which are among their main concerns (p.64).

Capitulo Cinco : Presentacion de Financiera Compartamos

Before arriving in Mexico, I had expected to undertake my field research in an organization using a poverty-lending approach similar to that of the Grameen Bank. For several months I met with various community and non-governmental organizations to discuss their partnerships and find a suitable microfinance institution for my research. For personal reasons, I was unable to travel outside Mexico City for an extended period of time, and so it was imperative that I find a microfinance institution near the D.F. While many microfinance institutions have their head offices in Mexico City, they deliver credit and savings services outside of Mexico City. A commercial microfinance institution called ‘Financiera Compartamos’ met with me and agreed to provide support for my research. I am grateful to them for their assistance in organizing my field visits to outlying field offices in Atlacomulco and Toluca, where I met with nearly 60 women receiving micro credit loans.

5.1 Financiera Compartamos

Financiera Compartamos is a regulated, for-profit entity, incorporated in December 2000 to take over the microlending operations and portfolio of a Mexican non-governmental organizations (NGO) called « Gente Nueva ». In April 2001, International Finance Corporation (IFC) made a US$660,000 equity investment for 10 percent of the shares of Compartamos, and a five-year US$1 million loan to the company.

By September 2001, Compartamos grew to having over 82,000 clients and a loan portfolio of US$19 million equivalent. The average loan to the borrowers is currently US$240, which official documentation from the organization states its’ penetration of the low-income strata of Mexico’s population (Compartamos 2001). Compartamos operates 34 branches in 11 Mexican states, including the underprivileged states of Oaxaca and Chiapas.

5.2 Compartamos’ Mission : « Compartamos is a socially responsible institution committed to providing adequate financial services to low income entrepreneurs, creating opportunities for economic, personal and social growth. »

5.3 Compartamos’ Definition of Microfinance : Microfinance refers to the provision of financial services at small scale, offered to people who operate microenterprises,
where the products are manufactured, recycled, repaired or exchanged both in rural as well as in urban areas. Microfinance provides an opportunity to people with low income to improve their well-being as well as those of their families.

5.4 History of Compartamos:

Compartamos’s history can be divided in five stages:

1. Pilot 1990-1993
   Early credit experiences through the application of technology adjusted to rural areas, based on a ‘village banking’ model. There were visits organized to large-scale microfinance institutions in 1993 in Asia and Latin America in order to learn from their experience and scale of operations.

2. Credit Model : 1993-1995
   The methodology of a standardized product called ‘Income Generators’ is firmly established. Operations focused in Mexico’s Southwest, particularly in the states of Chiapas and Oaxaca. Initial access to sources of multilateral and domestic funds to finance portfolio growth.

   Compartamos’ scale and operating systems allow the institution to reach operational self-sufficiency in 1995. Profits become an important source of funding.

   Income from operations is sufficient to cover not only operating costs but also actual or imputed financial costs, including cost of funds and cost of inflation. Financial self-sufficiency creates the possibility of offering massive scale service in Mexico. Compartamos prepares its transformation from an NGO to a Regulated Financial Institution.

5. Growth : 2001-Present
   Compartamos starts to operate as a Regulated Finance Institution. Private investors contribute US$6,000,000 and establish Compartamos’ Board of Directors in order to provide supervision and management skills. Compartamos is able to access loan and international funding from various institutions.

En los ultimos lustros ha surgido en Mexico y en otros paises con grado de desarrollo semejante, un importante numero de organizaciones no gubernamentales (ONG) dedicadas a promover el ahorro y otorgar recursos para el microfinanciamiento de proyectos productivos, de comercio y servicios, a personas que no tienen acceso al credito institucional, ya sea porque su condicion economia les impide ofrecer las garantias o avales necesarios, o por la falta de conocimiento al respecto y el bajo nivel educativo.

Con base en este objetivo, la intencion del presente estudio fue indagar como operan estos sistemas de credito alternativo, como ingresan al mercado, como se acercan a las posibles usuarias y las incorporan. Tambien investigar cual es el origen de los
recursos, el circuito del ahorro y el credito y su viabilidad financiera en el tiempo, asi como el impacto en las condiciones de vida de las usuarias.

5.5 Financiera Compartamos

El programa Compartamos, se ha propuesto:

1. Cubrir las necesidades basicas de las personas como alimentacion, salud y educacion (el programa alimentario).
2. Promover actividades productivas en las comunidades necesitadas (Generadoras de Ingresos).
3. Enlazar estas actividades a la economia formal para integrar a estas comunidades en el avance del pais.

5.6 Metas y modalidades del programa Compartamos de Generadoras de Ingresos

Los objetivos principales de este programa son:

1. Conformar un mercado de dinero especifico que facilite a las comunidades que subsisten en condiciones de pobreza, el acceso a recursos financieros que se queden en las comunidades y contribuyan a transformar las condiciones materiales de las mismas.
2. Procurar ampliar la participacion en el ambito empresarial de aquellas personas que se caracterizan por haber quedado marginadas del circuito economico formal, colaborando asi a reducir, en lo posible, el costo social y humano que implica la transicion a una economia de libre mercado.
3. Estimular la formacion de mayores volumenes de ahorro, como un medio para alcanzar mayores y mejores niveles de bienestar social y familiar.
4. Apoyar a las microempresas, a fin de que estas sean susceptibles de transformarse en generadoras de empleo y crear entre sus propietarias la conciencia de la autosuficiencia, la responsabilidad y la disciplina en el trabajo.
5. Capacitar adecuadamente a las participantes en el programa en funcion de su realidad cotidiana, de suerte que les permita el maximo aprovechamiento de los recursos con que cuentan.

5.7 Modalidades del programa

El programa esta orientado exclusivamente hacia el sector femenino de la poblacion. Se considera que las mujeres desempenan un papel decisivo en el desarrollo economico y social por su participacion y contribucion en la economia empresarial,
especialmente en el impulso de la pequena empresa y en el optimo empleo de los recursos humanos. Ademas, en las mujeres se cifra la esperanza de que se constituyan en elementos activos de cambio, ante la creciente e incontenible emigracion masculina de Mexico. El exito del programa descansa en la capacidad que han demostrado las mujeres de enfrentar con responsabilidad y creatividad los proyectos productivos que redundan en beneficio de sus respectivas familias.

El programa se instrumenta a partir de un mecanismo financiero para otorgar creditos a mujeres que tienen un acceso limitado o definitivamente nulo a los mercados formales de capitales.

La organizacion base es la Generadora de Ingresos, que se define como un grupo comunitario, integrado por 35 mujeres, que adquieran el compromiso solidario en el credito.

Una vez constituido el grupo, las integrantes se reúnen con el promotor para aprender como opera el programa. Las interesadas eligen el comité directivo. Inmediatamente despues se capta la primera aportacion de ahorro del grupo, y estos recursos los deposita el grupo en una cuenta de ahorro bancaria y se solicita el primer credito. Este proceso de conformacion del grupo puede tardar de una a cuatro semanas.

Estas generadoras de ingreso reciben financiamiento y apoyo tecnico para el ahorro-prestamo. Regularmente llevan a cabo una reunion semanal, bajo la supervision de un promotor, en la que se efectuan los pagos y se contabilizan los ahorros se imparten platicas, cursos de capacitacion o se organizan dinamicas de grupo.

Cada generadora cuenta con un comité directivo, integrado por una presidenta, una tesorera y una secretaria, quienes son las responsables de vigilar la correcta aplicacion de los reglamentos internos, las politicas y el buen funcionamiento de los negocios de cada una de las socias.

Los prestamos son otorgados en ciclos de cuatro meses, dividiendo el monto a pagar en 16 semanas. Cada nuevo ciclo, el prestamo puede ser ajustado, dependiendo del ahorro que haya alcanzado cada socia.

5.8 Ubicacion regional y poblacion atendida

El programa se ubica en las siguientes regiones:

Oaxaca, Tapachula, Tuxtla Gutierrez, Chetumal, Torreon, Puebla, Michoacan, Mazahua (Edo. De Mex.) y Mexico, D.F. (pero no en la ciudad de Mexico)

Las usuarias del credito son mujeres de mas de 18 anos, se identifican con su credencial de electora y algunas de ellas son madres solteras.

5.9 Componentes del programa
El programa Compartamos es similar a los otros programas de microfinanciamientos. Se inicia con la formacion de los grupos. Integrados por mujeres que se conocen, habitan en la comunidad o sus cercanias, se conforma el grupo, se educan en le sistema de ahorro y financiamiento.

Los creditos de Compartamos se dan de manera personal, no a proyectos grupales.

5.10 Policy Context

En 1996, Compartamos contrato un donativo por US$2,000,000 de CGAP (Consultative Group to Assist the Poorest) administrado por el Banco Mundial. It is therefore not surprising that Compartamos’s model supports financial self-sufficiency model currently espoused by the World Bank and other international donors. Compartamos. However, Compartamos has benefitted from significant subsidies.

5.11 Compartamos’ Clients

Compartamos works with enterprising individuals who live under unfavorable conditions. These enterprising women operate microenterprises that usually employ one or two people of the same family and, in many cases, are the main income source for the family. The businesses includes a great variety of scales and activities.

Most of Compartamos’ clients live in rural areas and are involved in different economic activities among which, the following are the most outstanding:

- Rural trade of food, consumption products and garments.
- Production of handicrafts, garments and crafts.
- Farming and animal husbandry activities.
- Other service and trade related activities.

Most of Compartamos’ clients are not required to provide collateral for the loans they receive. In exchange, they organize themselves into groups of 4 to 30 people and provide a group guarantee. I witnessed such a group guarantee during a weekly loan repayment meeting held outside Toluca. One of the women in the group was late arriving to the meeting, thus the group was going to participate in paying her weekly obligation to the loan officer.

5.12 Summary of Field Visits in Atlacomulco (Rural Area)

The town of Atlacomulco is situated on the cuota road to Morelia, nearly a two hour drive from Mexico City. The women participating in the program lived in the outlying areas of Atlacomulco, in rural areas, approximately one hour from Atlacomulco. I was advised by the loan office that the women would not feel comfortable having the sessions interviewed on tape cassette. For cultural reasons, it was not possible for me to document their informed consent with a signature; the women provided verbal consent to share their experiences. The women were advised that their participation in my research would not affect their status in the micro credit program.
The majority of the women I met with were very pleased to discuss their projects currently being financed with micro credit loans. The women were engaged in micro credit activities to supplement the household income, which is primarily based in agriculture. The women were of all age groups; some were participating in the weekly group meeting with their younger children and husband present.

The loan period consisted of 16 weeks, with weekly repayment taking place at a designated women’s home, usually the President of the group. If a woman did not attend a meeting, she had to pay a 10-15 peso fine. If a woman was late with her repayment, the others covered for her; she would later have to pay a 5-10 pesos late fee.

The field officers promoted a formal organizational structure for each woman’s group, with an elected President, Secretary and Treasurer. These women were responsible for the maintenance of the group. A Presidential Oath is taken prior to receiving a loan, and all the women took another Oath attesting to their willingness to abide by the rules of the program. When I asked the field officers why they did this, I was told it promoted ‘grupo solidaria’ and it was important for every woman to understand the reglamento interno.

Every woman received an identification card from Compartamos, in which she had to imprint her fingerprint or write her signature on the front of the card. This credential was supposed to facilitate the process when women went to the Bank Bital to cash their cheques. The women must find and pay for their own transportation to the bank.

The women created a lively and warm atmosphere at the meetings held in and around Atlacomulco. Typically, the hostess serves tacos or tostados, rice, beans and drinks. The loan officer and promoter from Compartamos are invited to eat something.

All of the women were mothers. The women explained that they liked to participate in micro credit activities because they could combine their domestic work with it. The women openly talk about their plans and their projects.

The loan officer explained to me that he preferred to work with people in the rural areas. He felt that there was some worth to what was taking place, even though he believes micro credit provides only part of the solution against poverty. He said that in the community in which he works, everyone is poor with 60% very poor.

I spoke with the women about their household relationships with regard to their participation in the micro credit program. The women said that the men generally allow them to participate. They have convinced their husbands that it is for their benefit and an investment for the family.

‘Maria (not real name) is working in alfarería in the family business. She shares an oven with several women who get together and burn their pottery. It takes one week to produce a pot. The earth must be dry, which is very hard in the rainy season. Her husband was taught how to do this by his father; and so the alfarería business has been in the family for a long time. Her micro credit loan allows her to hire help in bringing the earth to their home. She also hires transportation to take her goods to ferias, other towns and even Mexico City to sell.’
5.13 Summary of Field Visits in Toluca (Semi-Rural/Urban)

The city of Toluca is located approximately one hour west of Mexico City. It is an urban city, but the project focuses on women living outside of Toluca in semi-urban and rural environment. During the season of my visits, the climate was harsh: cold, wet and very muddy roads.

The loan officer accompanying my visits told me that Toluca is not attracting many women into group solidarity practices; most women are looking for individual loans. This is considered a limiting factor for microfinance in Mexico City – without group solidarity practices (replacing the need for collateral) most organizations are not willing to engage in credit and savings services in the Distrito Federal. For this reason, the field office in Toluca focuses on reaching women in the outlying areas because they are willing to work in a group. The Grupo Solidaria emphasized that the women must trust one another, and focus on discipline and punctuality. It is a compromiso – ‘confidence in you and in us’. The loan officers told me that this confidence and trust is not possible in Mexico City D.F.

Another differentiating feature in Toluca is that each woman has her own accounting book, in which she manages her micro credit loans and repayments. The women are very proud of their book and were eager to show me their entries.

Most of the women were interested in expanding their business activities into other areas. The compulsory savings requirement (equivalent to 10% of the loan) contributed to this future prospect.

The women tell me that they sell from home and in their communities. While a few sell in the market during the weekends, most do not go to town. I am told by the loan officer that the security situation can be rather unsure in town.

5.14 Analysis of Field Visits and Women’s Experiences

As a commercial finance institution, Financiera Compartamos provides credit and savings services on a for-profit basis. While micro credit and savings services provide a welcome opportunity to engage in productive activities, many of women face limiting factors that affect their ability to earn income.

Unlike poverty lending programs, the women cannot avail themselves of training, health services or subsidized services. In commercial finance institutions, the focus is on achieving financial self-sufficiency, not empowering clients in a social or political context. There are only a certain number of opportunities for women in rural areas to increase their income with micro credit loans. Many rural women use their micro credit loans for similar business activities (such as alfareria). Because of supply factors in their small community, the women must market their goods for sale in other areas. Women’s income must support these additional transportation expenses when not selling from home. Seasonal factors can affect women’s productive work supported by micro credit. The group meetings can be time-consuming depending upon the need for social intermediation and/or assistance from the promoter or loan
officer. Some of the women expressed an interest in bi-weekly repayment, which allows them more time to collect.

Women receive their micro credit loan as a cheque. This cheque must be cashed in town, which at times can be difficult. If the bank lacks electricity or the computer is not working, the women must make another trip. Roving banks could be an option to resolve this problem.

Capitulo Seis : Conclusiones

This study seeks to understand the context of micro credit in Mexico and to document women’s experiences by giving voice to their choices, opinions and concerns within the context of their participation in a micro credit project.

‘Financiera Compartamos’ is a spin-off program initially developed by a non-governamental organization. By choosing to adopt a financial systems approach, Compartamos has sought to develop large programs, which are profitable and fully self-supporting in competition with other private sector banking institutions. It has been successful in this regard and has raised funds from international financial markets rather than relying on funds from development agencies.

However, given the situation in Mexico, the main target group of such programs is the ‘entrepreneurial poor’ rather than the extreme poor. Policy discussions have focused particularly on setting of interest rates to cover costs, separation of microfinance from other interventions to enable separate accounting and program expansion to increase outreach and economies of scale, reduction of transaction costs and ways of using groups to decrease costs of delivery. What is missing is a discussion of impact of this approach on the lives of the poor. Is the income earned from micro credit activities sufficient to bring people out of poverty?

Preliminary evidence at this point shows that it is not possible for the income earned from microfinance to bring people out of poverty, particularly in programs supported by commercial finance institutions.

If the focus of microfinance interventions is poverty reduction, there may be more opportunity with a poverty lending approach. Unlike the financial system approach, the poverty lending approach concentrates on reducing poverty through credit, with complementary services such as skills training and the teaching of literacy and numeracy, health, nutrition, family planning. In this approach donor and government funded credit is provided to poor borrowers, typically below market interest rates. The goal is to reach the poor, including the extreme poor, with credit to help overcome poverty and gain empowerment. Poverty alleviation is defined in broader terms (than simply income) to encompass increasing capacities and choices and decreasing vulnerabilities of poor people.

Within both microfinance paradigms, if program are to seriously have an impact in reducing poverty, additional interventions must be made at all levels : macro, mezzo and micro.
At the macro policy level, appropriate policy responses can be developed to support workers in the informal economy. Most workers in the informal economy face greater risks and enjoy fewer opportunities than their counterparts in the formal economy. Informal workers face greater exposure to general risks such as illness, property loss, disability, old age and death. There are also greater work-related risks such as less secure contracts, fewer benefits, and poorer working conditions for wage workers. Policy makers can design appropriate policies to help the informal workforce address risks and seize opportunities. Given the state of the informal economy, it is here to stay and requires appropriate regulations, laws and policies to correct biases in the existing regulatory, legal and policy environment that favour formal enterprises and workers to the disadvantage of informal workers and enterprises. Chen, Jhabvala and Lund discuss four functional areas of policy that impact the informal economy: macro-economic policies, urban policies and regulation, labour standards and social protection policies (ILO website).

The mezzo community level has the potential to educate worker’s and contribute to a decent work strategy for the informal economy. Spooner defined worker’s education as programmes of adult learning associated with, or originating from, trade unions, co-operative movements, political parties associated with organized labour or social movements. Strategies to promote and defend the rights of workers in the informal economy and to promote their effective organisation and representation demands a targeted innovative and imaginative approach, which could be developed by microfinance intermediaries.

At the micro individual level, women entrepreneurs account for a large number of microenterprises and make a substantial contribution to national economies. There is no ‘one size fits all’ when designing solutions and programs, as women entrepreneurs are not a homogenous group. Microfinance programs need to be responsive to their individual concerns. Networks and associations of women entrepreneurs can provide much-needed support for new and emerging women entrepreneurs. Support for women entrepreneurs needs to take account of women’s reproductive and household responsibilities, as well as existing gender relations and roles between women and men. Women’s mobility is limited in terms of often having to work close to home, having limited access to transport, and they have personal security considerations.

Although the microfinance industry in Mexico has been little developed, there is reason to hope that more practitioners will become involved in providing credit and savings services for the poor. The Mexican Government, in partnership with microfinance institutions, non-governmental organizations and civil society groups, has to make a decision regarding the means it will use to achieve its objectives: to reduce poverty substantially in Mexico. I would argue that a poverty lending model should not be disregarded in favor of a financial systems approach.
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