



## AN ABSTRACT OF THE THESIS OF

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Abstract approved:

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Microfinance, or the technique of lending small amounts of money to the world's poor for productive activities, has emerged as a dominant approach to poverty alleviation among international development organizations. However, consensus does not yet exist as to the best mechanism for delivery of loans. While most organizations simply offer loans, a policy associated with accepted 'best practices' within the microfinance industry, a minority of organizations offer education and other non-financial services alongside loans. A debate persists among the proponents of each strategy as to which approach is not only most cost-effective for the institution, but also most empowering for its clients in their efforts to escape poverty. This thesis centers upon an organization in Peru offering credit with education, and offers a case study which could inform this debate.

The data presented here were collected during a three-month period of qualitative research in Cuzco, Peru. My research shows that because social exclusion in Peru has been justified in terms of whether or not an individual is educated or 'cultured,' loans alone are not sufficient to lift poor Peruvians out of the poverty which accompanies their inferior position in the social hierarchy. At the institutional level, I find that the educational component is praised by borrowers and has outcomes which are beneficial to all involved. I conclude that while this particular strategy may be a success in this context, this may not hold in all other contexts. Planning and design of microcredit programs should not be carried out in accordance with standardized industry best practices, but should instead be carried out on a case-to-case basis with careful attention to prevailing historical and cultural conditions.

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Empowerment or a 'Citizenship Project':  
Microcredit with Education  
in Cuzco, Peru

by  
Emily Q. Kearney

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I understand that my thesis will become part of the permanent collection of Oregon State University libraries. My signature below authorizes release of my thesis to any reader upon request.

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Emily Q. Kearney, Author

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**EMPOWERMENT OR A 'CITIZENSHIP PROJECT':  
MICROCREDIT WITH EDUCATION IN CUZCO, PERU**

## CHAPTER 1

### THE GLOBAL EMBRACE OF MICROFINANCE AND THE ‘MICROFINANCE SCHISM’

#### **The Failures of Post-War Development and the “Feminization of Poverty”**

In spite of more than 50 years of development efforts, there have been few undisputed successes in any part of the world, and very few of the countries considered underdeveloped after World War II have transitioned to ‘developed’ status (Woller et al. 2001). Across the world, and particularly in Latin America where structural adjustment programs were widely implemented, incomes dropped throughout much of the “Lost Decade” of the 1980s. The burden of structural adjustment programs fell heavily upon women, exacerbating their already-disadvantaged positions in most Third-World societies. Today, more than 70% of global poor are women, a statistic that has pointed to the increasing “feminization of poverty.”

In large part, the failure of development for women was rooted in the misguided assumptions of Western development planners. Progress was equated with increasing the wage of the male household head who was understood to be a “benevolent despot... that altruistically takes decisions that will maximize the welfare of all family members, not just his own” (in Elson 1991:181). This idealized vision of a unified, harmonious household ignored the realities of conflict and inequality within the household. Because of structural inequalities in the position of women, gains in men’s incomes did not filter down to women as had been anticipated. This problem was recognized as early as 1970 by Ester Boserup, who argued in her landmark book, *Women’s Role In Economic Development*, that a male-bias in foreign assistance—giving tools and training to only to male farmer—had meant that the women were being systematically excluded from the benefits of development. While in the 1970’s the women in development (WID) theoretical approach concluded that the answer to this problems was a greater effort to include women in development, an approach often denigrated as “add women and stir,” in the 1980’s the gender in development (GAD) increasingly sought to situate the discussion in the broader context of gender power relations.

Currently, the overwhelming consensus in development thought is that poverty is the root cause of all other development problems; as was shown by Boserup, gender inequality perpetuates poverty. But at the same time it is also true that poverty perpetuates gender inequality. These dual realizations have led to the new orthodoxy that development is best accomplished through a strategy of poverty-reduction which attempts to undo structural relations of gender subordination. This idea, an insight earned at the exacting price of half a century of misguided development efforts, was crystallized in the United Nations in 2000 in its Millennium Development Goals, which claimed that:

Gender equality is a human right and at the heart of achieving the Millennium Development Goals. It is a prerequisite to overcoming hunger, poverty, and disease. This means equality at all levels of education and in all areas of work, equal control over resources and equal representation in public life. (UN 2005: 14)

Whereas previously the idea of “participation” had predominated as the preeminently fashionable buzzword of development discourse, its reign was ultimately brought to an end by the ascendant popularity of the idea of “empowerment.”

### **The Rise of Microcredit**

Microcredit, a strategy for reaching the poor with small loans for income-generation, has increasingly gained momentum as an effective strategy to achieve these reconfigured goals. From its initial stages, the microcredit movement has targeted women, which has often been portrayed as a response to the urgency of the situation of women worldwide. Given that the majority of the world’s poor are women—a statistic rooted both in internal cultural factors and the exclusion of women from development efforts of the past—that they should be targeted seems self-evident. Perhaps more significantly, women are seen as being more suited to microcredit in that they are more compliant than men in meeting the terms of their agreements; they are said to be “easier to work with” and have been shown to have nearly perfect repayment rates. There is the additional justification in the claim that women are more likely than men to spend their

income on their families. The Special Unit on Microfinance of the United Nations Capital Development Fund (UNCDF) noted that

Women's success benefits more than one person. Several institutions confirmed the well-documented fact that women are more likely than men to spend their profits on household and family needs. Assisting women therefore generates a multiplier effect that enlarges the impact of the institutions' activities." (cited in Cheston and Kuhn 2002:8)

Finally, some programs envision credit delivery as a point of entry for "empowerment" and portray reaching women with loans as a part of a greater strategy to combat gender inequality. In light of its confluence with several key trends in development discourse, microcredit has recently exploded to become *the* preferred poverty-alleviation tactic of development organizations across the globe.

Lending to the poor is a relatively new phenomenon. In the past, several factors made credit inaccessible to the poor, the most significant of which was that they typically lacked collateral. In the absence of the traditional indicators of risk for this population, lenders also struggled to accurately evaluate borrower quality. Finally, there is the additional matter that small loans are much more expensive to process per dollar loaned than larger ones (Smith 2001:42). But the innovative technology of group lending, a strategy pioneered by Muhammad Yunus and the Grameen Bank in Bangladesh, in which borrowers form groups to mutually guarantee loans, overcame all of these obstacles. The presumed knowledge of community members as to the trustworthiness or reliability of their neighbors acts to ensure borrow quality and, as each member's ability to access loans depends on the performance of the other members, peer pressure substitutes for collateral. The high cost of small loans is reduced by the tactic of lending to the group as a whole rather than to a single individual.

One approach to group lending was pioneered by the Grameen Bank and is characterized by "solidarity groups" composed of roughly 5 people. Only one or two members at a time receive loans, and the other members cannot access their own loans until these initial loans have been repaid. "Village-banking," a second group-lending approach, was developed by FINCA in Latin America as an adaptation to serve the

relatively more dispersed populations of that continent as compared to Bangladesh (Dunford 2001:5). Under this approach 20-40 (usually female) borrowers come together to form a village-bank. The microfinance organization grants a loan to them as a joint liability group, which they then divide among themselves however they see fit. In doing this they implicitly assert their confidence that the other members are trustworthy and can be expected to comply with the obligation to pay back the loan with interest. If the village bank manages to succeed in repayment, they will then qualify for a larger loan in the next “cycle.”

Although microcredit was originally developed and promoted as a means of empowering the “poorest of the poor,” as it was replicated and implemented in new contexts over the years, it has become increasingly bureaucratized and systematized. Management and institutional policies of such organizations have been increasingly responsive to neoliberal concerns for efficiency. Likewise, the neoliberal aversion to the subsidies that characterized interventions of the past or dependency on donor-support has meant that the goal of reducing poverty has been subsumed by the goal of institutional financial sustainability. Despite the claim of microcredit to reach the “poorest of the poor,” in practice this has proven to be difficult, costly and inefficient.

Microcredit involves an essential trade-off between breadth and depth of outreach. Lending to the truly poor, which is equated with greater depth of outreach, involves much more administration and monitoring of loans, and lower overall gross revenues for the lending institution due to the much smaller average loans size (Thys 2000). Furthermore, such clients represent a greater credit-risk to the institution as they are often located in rural areas, making them much harder to reach than the more concentrated, urban poor. On the other hand, a concern with breadth of outreach, or absolute numbers of clients served, usually entails targeting better-off populations that are more accessible and more able to manage larger loans. This leads to economies of scale for microfinance organizations (MFIs) and consequently is much more conducive to institutional sustainability.

This trend towards serving the “better-off poor” out of concerns for efficiency and institutional sustainability has now come to be judged as representing “best practices” for

microfinance lending. This designation has been heavily criticized by those organizations maintaining a poverty focus which are scornful of the singular focus on profitability. They stress that credit should be viewed only as a means to the greater end of improved social welfare, but never as an end in itself. This conflict in approaches to lending has been called “the microfinance schism” by Jonathan Morduch. He portrays the newer, breadth-focused practitioners of microcredit as being motivated by a powerful “win-win” proposition: namely, that those MFIs that most closely follow the tenets of good banking will be those that are most likely to achieve poverty reduction (2000:617). This newest approach has been the subject of a great deal of optimism within the microfinance industry because “if the argument is right, much poverty alleviation can be achieved at no cost to governments and donors—or perhaps even at a small profit” (2000:619). Under this logic, there is in fact an increasing consensus within the microcredit community is that the truly poor are not actually “credit-worthy” and could be better helped through other means. The microcredit arm of the World Bank, CGAP, concluded in a recent report that the very poor should not be served through by microcredit organizations at all but should instead be helped via grant-funded safety net services and ultimately “graduated” into microfinance once they have achieved a certain level of economic security and demonstrated their ability to make good use of their loans.

These conclusions that the very poor are simply not credit-worthy stand in glaring contrast to the movement’s “spiritual foundation”; this leads authors Woller et al.—who openly acknowledge their position on the opposite side of this debate—to ask, “[h]ow easily and based on what standard of evidence is the industry prepared to abandon the movement's animating vision of poverty alleviation among the very poor?” (2001:295). Practitioners of poverty-focused microfinance harbor a great deal of anxiety and skepticism about the new direction of the industry and fear that the result will be “a profitable but soulless endeavor.” (2001:296)

### **Integrated Services vs. “Microfinance Minimalism”: Efficiency and Equity**

*Over the years, MFIs have concluded that they can deliver financial services more efficiently and suitably if they focus exclusively on financial business and avoid non-financial services like nutrition, health, and training all together...In*

*addition to issues of efficiency and focus, clients may become confused if the same unit is donating social support to them with one hand while insisting on repayment of loans...with the other. (Hashemi and Rosenberg 2006:2)*

Aside from the loss of focus on the poorest and overwhelming concern for efficiency, the dominant approach to microcredit, as represented by the quote above, has essentially promoted an understanding of ‘poverty’ as being primarily defined and constituted by a lack of liquidity that is overcome by access to credit. In their view, to provide any other services to the poor besides the delivery of credit would be irrational in that its outcome would hold uncertain benefits and could even be potentially harmful in distracting an institution from its comparative advantage. This viewpoint is often summarized by the question: “why can’t they just let bankers be bankers?” Critics raise the possibility that providing other services along with loans could potentially confuse borrowers or lead to increased default, and that requiring agents to be both educators and bankers introduces the danger that neither will be performed effectively. Finally, they argue that history has demonstrated that many “credit-only” programs have catalyzed improvement in broader indicators of social welfare even when they lacked this outcome as an explicit institutional aim. Critics of integration argue these kinds of gains will be achieved anyways through traditional credit-only lending, and that there is therefore no need to risk efficiency and effectiveness to attain them.

Yet the alternative visions of microcredit as a means to achieving improvements in social welfare are founded on a multi-dimensional understanding of the causes of and solutions to poverty. These perspectives acknowledge that poverty entails a host of other equally debilitating obstacles besides lack of credit; the poor struggle with access to education, health care, and all other means of enriching their human potential and opportunities. This situation is frequently compounded by geographic isolation, illiteracy, and the absence of any networks for social support. While “microfinance minimalists” assume credit is the missing puzzle piece for economic success, other institutions with a social welfare focus argue that while microcredit may be a precondition for poverty-alleviation, on its own, it falls far short of being a “magic bullet.”

Microcredit is necessary because it is clear that education alone is not enough to allow one to escape poverty; simply knowing which foods are most nutritious is entirely different from actually being able to purchase those items. But microcredit is also insufficient in overcoming poverty. Quite often credit may be used not for its intended purpose as investment capital, but instead as an emergency source of funds to meet pressing consumption needs, and thus the provision of credit cannot be assumed to translate automatically into increased incomes. Even when credit *does* result in increased incomes, this will not necessarily be reflected by improvements in overall well-being, as borrowers who lack information as to how their incomes would be best allocated—which medicines are most effective, or which investments might have the greatest promise—will be constrained in their ability to realize the full potential of their increased incomes.

As Smith points out, “...[I]ncreasing credit, and even increasing incomes of the poor, without attention to the way these resources are expended within the family may not lead to successful development, or at least not very quickly” (Smith 2001). He goes on to conclude that “such observations suggest to practitioners an interdependency between income, health, and education that is best dealt with through a simultaneous and integrated program strategy” (2001: 708). For significant improvement to be realized in social well-being, loan productivity, and institutional performance, capital and knowledge must go hand in hand.

It is important to note that representatives from both sides of the microfinance schism sees the other approach as essentially threatening the ultimate success of microfinance in achieving what each mutually understands to be its goal: the reduction of poverty. Microfinance minimalists assert that an inefficient institution that wastes money on delivering non-financial services to its clients will end in jeopardizing its own institutional survival and end by compromising their ability to make any significant dent in the problem of poverty. Microfinance organizations with a social welfare focus dismiss the myopic focus on efficiency and institutional sustainability as distracting lenders from the social outcomes which are seen as the true boon of microcredit.

## The ‘Holy Grail of Microfinance’

*Spiritual principles linked to sound financial practices must be a central tenet of the microfinance movement so that this noble effort to eradicate poverty does not simply become business as usual, with money at the bottom line. Again the issue is not only whether we reach the numerical goal, but how that will determine the outcomes. (Woller et al 2000:284)*

In considering this debate, one should be mindful of the dangers of what Woller et al. have called the “dichotomy trap.” They note that, because of the prevailing understanding that one approach must be right and the other wrong, “the discussion has gone the way of too many other discussions in development—it has polarized and it has produced a fruitless debate about who is more truly concerned for the welfare of the poor” (2000:299). In reality, both approaches are useful and will be appropriate for achieving different goals among different sets of clients.

Rather than viewing the approaches as “either-or” options, it is instead more helpful to envision them as representing particular points along a continuum of approaches. This conceptualization of the microfinance schism moves the discussion beyond the bickering of the past and towards an examination of how the best aspects of each might be combined.

Traditional business and traditional social service approaches are familiar polar opposites, the two ends of the microfinance spectrum. What is new and interesting in the microfinance movement is the broad middle ground occupied by the emergent social enterprises specializing in microfinance and related services. This is where the debate over “best practices” for combined impact and sustainability is most productively focused. (Dunford 2000:41)

Ideally such a social enterprise would have a “double bottom line” of financial and social performance; it would strive for social improvements while at the same time maintaining financial sustainability. Dunford has referred to such an organization as “The Holy Grail of Microfinance” and Freedom from Hunger (FFH), of which Dunford is president, has been an early pioneer in progress towards this goal.

FFH claims to target clients “beyond the reach and ‘below the radar screen’” of other microcredit organizations, and via its *Credit with Education* program delivers

training in topics such as health, nutrition, and business development alongside its loans. While the training is explicitly directed at producing broader social improvements, the organization is also vigilant in its adherence to the basic principles of good business practice. In discussing CRECER, a Bolivian subsidiary of FFH, Dunford acknowledges that

...the only way we can achieve our ambitious mission...is to build CRECER into a financially sustainable, growth-oriented, impact-seeking social *enterprise*. As a social *enterprise* CRECER is organized to be market-responsive and competitive, driven to be as efficient as possible in order to minimize or eliminate any need for donor support. (Dunford 2000:42; italics in original)

A survey of microfinance organizations conducted in 1999 found that at least 35 organizations had integrated education with group-based lending, two-thirds of which were located in Africa (Dunford 2001:5). The number of institutions integrating credit with non-financial services such as education has steadily increased in recent years; Arariwa, the Peruvian organization that is the focus of this paper, first introduced its own educational component in 2001. Such institutions assert that linking non-financial services such as education can, in fact, be more efficient in allowing programs to take full advantage of the potentials that microcredit presents or in opening up opportunities for synergies that would otherwise be wasted.

For example, advocates of this approach see the innovation of group-lending as not only a financial technology to circumvent the need for collateral and client risk profiles, but also as a powerful social instrument with latent and unexploited promise. Dunford remarks that the group-lending model “has social as well as economic potential...this dual potential must be realized in order to have a significant impact on poverty” (Dunford 2001:4). In situations where the poor, and especially women, have been bypassed by education and other forms of assistance, the group meetings can provide a point of intervention for the delivery of essential services to those who need them most. In this respect, credit acts as a “carrot” or incentive to attract people to programs “that generate externalities, or benefits of which the participants may be unaware” (Smith 2002:46).

These meetings are also remarkable in that the need to meet periodically to manage loans means that clients who would otherwise be engaged in diverse pursuits are induced into regular contacts with each other and an educator. Assuming gains in self-confidence through borrowers' successful use of loans, the meetings are envisioned as a space where borrowers, encouraged by their success in repayment and newly-gained confidence, come to view themselves as agents capable of enacting change in their lives and thus more receptive to education and more ready to attempt new things. This sentiment is reinforced by the group setting which is perceived to "foster a supportive atmosphere of collective self-interest" (Dunford 2001:10).

MFIs simply aim to capitalize on the fertile opportunities of this group setting. From an institutional perspective, they have much to gain from these kinds of outcomes. Increases in education and skills of borrowers are very likely to make loans more productive and repayment more reliable. Additionally, the joint-liability setting and the interchange of thoughts and experiences in the context of educational sessions can have the effect of generating solidarity, so that if one ailing group member is struggling to make payment, the other group members will come to her aid; this represents a highly advantageous development for the MFI. While some clients may complain about the extra time required for educational sessions, on the whole, adding education can create synergies that can lead to better group relationships and client performance. These improvements then generate increased customer satisfaction which then benefits the institution in terms of higher rates of client retention.

Claims of increases in efficiency—the same concern at the core of the critiques of integration—may present the strongest arguments for the bundling of credit with education. First, there is the argument that adding education is simply a response to a client demand; in a saturated microfinance market, the packaging of additional services can be seen to give some MFIs a competitive advantage. Second, some MFIs argue that their real comparative advantage lies not in the specialized skills of their bankers but instead in their intricate networks and ability to bring together groups of borrowers from dispersed areas, and that allowing this potential to go to waste would be terribly inefficient. And against the conventional wisdom of the merits of specialization to

achieve efficiency, intuitions claim to realize gains in efficiency by multi-tasking their credit officers. While village banking on the whole has very high fixed costs (due to the need to service numerous small loans dispersed among geographically remote areas), the variable costs per borrower of adding education are actually quite low. In this context, the very concept of “efficiency” and the virtues of achieving economies of scale are reconsidered with a view towards the achievement of social outcomes:

There is a different and broader perspective, that of the program designer who gives priority to a development objective, such as alleviating the burden of poverty. This designer is not satisfied with planning for economies of scale for a single service, because there is obvious need, even consumer demand, for multiple services. The designer is trying to achieve economies of scope—packaging two or more services together to minimize delivery and management support costs and to maximize the variety of benefits for peoples multiple needs and wants (Dunford 2001:2)

However these potential gains in efficiency are not achieved without some risk. It is undeniable that the goals of profitability and improved social welfare are not just separate but in some ways even contradictory. Dunford’s comments on the challenges that faced Freedom from Hunger’s integration of education with credit highlight several of the issues that came to the fore in my study of the unified delivery of education at Arariwa. He cautions that

...it can be difficult to maintain balance between and the quality of the two types of services in the recruitment, training, and supervision of staff. Field staff and their managers have to respond to different demands and expectations from the two different sectors of development....Donors and other stakeholders tend to hold up one sector as more important than the other. Management information systems overemphasize the importance of financial performance of the institution vs. economic and social impact for the clients. These internal stresses and contradictions can be difficult to manage. The will to unify service delivery, whether it comes from commitment to a philosophy of development or simply lack of other option or both, is essential for success. (2001:ii)

Thus for Dunford, skill and will must go hand and hand to ensure success. A lack of institutional will or even uneven levels of commitment at different points in the institutional hierarchy, will cripple an MFI’s prospects in meeting this goal.

**Microcredit with Education in Cuzco, Peru**

In the discussion that follows, I will present my data gathered over a three-month period of research at Arariwa, an institution offering credit and education. In my analysis, I will touch on many of the issues raised here as to the efficiency, feasibility or desirability of such an approach. However, on another level, this thesis is also about a different set of questions that go to the very heart of the development enterprise—whether or not such efforts are ultimately helpful or harmful to the “objects” of development. In the next chapter I will present some background on economic crisis and Peru as well as theoretical perspectives within which to frame this question.

## CHAPTER 2

### **POVERTY, NEOLIBERALISM, AND DEVELOPMENT: DOES ‘HELPING THE POOR’ HELP?**

#### **Economic Crisis and Structural Adjustment: The Case of Peru**

In 1990, many Latin American nations were in trouble, but Peru was in a particularly dire state. While the nation—in contrast to most of its neighbors—had so far managed to duck the “painful but necessary” trauma of structural adjustment by ignoring the International Monetary Fund and the World Bank, Peruvians nevertheless suffered in the midst of a bloody guerilla war spreading rapidly through their country. Infrastructure collapsed in the face of widespread violence and economic recession. Roads, hospitals and communications systems deteriorated. Political corruption was widespread, and the prevalence of drug-trafficking, crime and even climactic events such as El Nino further exacerbated the nation’s plight.

The so-called Lost Decade of the 1980’s brought debt and International Monetary Fund-imposed austerity programs to much of Latin America...yet no country shared Peru’s sheer quantity of calamity, recorded in line graphs of health, social welfare, and productivity indicators pitched as steeply downward as the Andes themselves. (Starn et al. 2005:441).

At a 1990 seminar at the Library of Congress, Maureen Taft-Morales, an analyst of Latin American affairs, invoked these problems of political violence, economic recession, and expansions in the illicit drug trade in comparing Peru’s situation to that of “a country concomitantly experiencing the Civil War, the Great Depression and Prohibition” (in Alvarez and Cervantes 2005:147) .

In this same year, Alberto Fujimori, a Japanese-Peruvian better known to Peruvians as “El Chino,” was elected president. During his campaign Fujimori vowed not to institute IMF-prescribed adjustments and he garnered support among many indigenous Peruvians due to his embrace of Quechua traditions and his status as a mixed ethnicity immigrant (Seligman 2004: 8). However, within two weeks of his inauguration, Fujimori

implemented one of the most radical structural adjustment programs ever undertaken in Latin America. The key goals of this program were to stabilize the economy, bring inflation under control, and facilitate Peru's reentry into the good graces of the international financial community (Hays Mitchell 2002:72). In a speech delivered just three years later, he reflected on this decision.

I faced a predicament: either Peru continued walking, quickly headed to the abyss of anarchy and chaos...or I took the risk of providing the state with the necessary instruments for putting an end to the threat...We are now a nation that has its affairs in order. Our country is starting to gain the admiration and respect of citizens in other nations... we have gone from international isolation to a position of hope, not only in Latin America but in the world....We arrived at this point by implementing a firm policy that encompasses the most basic principles of soundness, austerity, and efficiency. (in Starn et al. 2005: 462)

By some accounts, his assessment was justified. By the mid-1990's, spiraling inflation had been brought under control, foreign investment had increased, and devastating political violence had subsided. While for decades the nation had been in an economic free-fall, by 1994 Peru's economy was the most rapidly growing in the world (Hays-Mitchell 2002:71). But while such macroeconomic indicators may tell one kind of story, a closer look tells a much different one.

Despite improved macroeconomic indicators, today more than half of the Peruvian population continues to live in poverty. While the migrant shantytowns surrounding Lima garner the greatest attention, it is also the case that what was once the heart of an Incan empire spanning from Ecuador to Chile is now Peru's poorest region. Nearly three-quarters of the highland population lives on less than a dollar a day (Starn et al. 2005:443). In Peru, as in much of the world, the majority of those living in poverty are women and dependant children (Hays-Mitchell 2002; Tanski 1994).

While the main characteristics of structural adjustment are essentially the same in all countries in which they are implemented, certain features distinguished Peru's process of adjustment from that of its South American neighbors. For one, reforms were implemented at a break-neck speed that "even International Monetary Fund officials found excessive" (Gonzales de Olarte 1996:7). The first phase of implementation was

centered on stabilizing the economy through the elimination of food subsidies and price controls, but for Peruvians these policies meant that inflation got much worse before it got better—almost overnight, prices of goods and services skyrocketed and money became almost worthless. Not only was Peruvian adjustment implemented more rapidly than in other nations, but the government did not show any interest in mitigating its inevitable social costs.

Unlike other initiatives undertaken in the region, Peru's structural adjustment policy lacked the support of a social program designed to ameliorate the negative impact of the program on the most vulnerable sectors of the populations. As a result, poverty levels have increased...and unemployment and underemployment have worsened...The negative social consequences of the adjustment were simply not a concern to those who designed and executed the program (Gonzales de Olarte 1996:7)

President Fujimori's policies were “full-blooded and implemented ‘without anesthetics’” (Crabtree 2002:139) and for these reasons, the dramatic reforms enacted immediately after the election were widely known as ‘Fuji-shock.’ In the long run, these policies did bring inflation under control and lead to modest, but significant, gains in the performance of the Peruvian economy. But it has also had the effect of making the most vulnerable members of society even more vulnerable.

Peruvian adjustment policies—premised on increasing efficiency through the withdrawal of the state via privatization and the elimination of government-provided social supports—have resulted in widespread unemployment and underemployment. Concurrent with the state's withdrawal from the provision of economic security, jobs in industry and manufacturing contracted as cheaper foreign-made manufactured goods flowed in via newly-opened markets. The informal sector, which had already been expanding through the recession and crises of the 70's and 80's, grew even more rapidly and in the 1990's, ninety percent of all new jobs created were in the informal sector (Seligman 2004:28).

Although informal sector jobs are characterized by instability, low wages, poor working conditions, high competition and offer little opportunity for advancement, this growth has generally been perceived as desirable from a macroeconomic perspective.

This sector now accounts for twenty percent of the labor force, and has served a critical role as a redistributive force because it has permitted the survival of vast sectors of the population under conditions of limited state assistance and with relatively little participation in the formal markets (Gonzalez de Olarte 1996:4). Schydlowsky notes that “[w]hile the informal sector has been celebrated for its entrepreneurial content, most of its participants have been pushed unwillingly into this sector and are substantially underemployed” (1996:79).

Those wanting to enter this sector in Peru frequently faced barriers to accessing the capital that they needed to begin their businesses, and microcredit became increasingly popular as a means to address the needs of those abandoned by the state. This link between adjustment and microcredit was emphasized in a 2005 audit of Arariwa, the program which I studied. As background to the report, the auditors declared,

The Peruvian microfinance sector is one of the most dynamic in Latin America. Economic liberalization which began in the 1990s, along with the crisis generated by hyperinflation in the 1980s, induced a restructuring of the financial system which limited the offering of financial services to the working-class sector [*segmentos populares*] (the closure of four development banks, liquidation of commercial banks and of various cooperatives, etc.). In order to respond to the void that had been created, the government established policies that supported microcredit through favorable legislation and financial mechanisms. (Pérez 2005:2)

### **Microcredit and Neoliberalism**

*Despite the awareness among many Peruvians of the growing income disparity between the rich and the poor and greater desperation among lower-class urban residents and peasants in the countryside about how they and their children will survive, many better-off Peruvians and politicians discount the validity of such despair. The age old tenets of modernization theory, together with deeply rooted racism, have been internalized to such an extent that the assumption among politicians and prosperous urban residents is that if people are experiencing economic failure, it is their own fault and they are not following the proper model of development. (Seligman 2004:219)*

While microcredit is often portrayed as a new and innovative solution to poverty representing a definitive break with past approaches, many have pointed out the

compatibility of microcredit approaches with recent reconfigurations of the role of the state. A shift from Keynesian to neoliberal economics among international financial organizations led to the imposition of structural adjustment programs in dozens of countries. As in Peru, the disappearance of state support has disproportionately affected the poor and vulnerable in each country where such policies are implemented. Into this vacuum, microcredit has conveniently emerged as a means for those abandoned by the state to instead “help themselves.”

During her field work at the 1998 Microcredit Summit, a gathering of the most influential leaders of the microfinance movement, Robin Isserles noted the use of neoliberal rhetoric in one panel she attended; speakers described microcredit as a shift “from charity to empowerment” and “a hand-up rather than a hand out.” She also reports that one speaker proclaimed that “[a]ll human beings are entrepreneurs,” which incidentally was followed by a room full of approving applause”(2003:44). In another analysis of the values implicit in microcredit approaches, Morgan Brigg observes that:

[n]otions of individual initiative, determination, and provision of capital to improve people’s situation and increase economic growth are a micro-version of the dominant economic development approach and resonate with aspects of modernization theory which dominated in the 1950s and 1960s. (Brigg 2006:76)

The discourse of empowerment has allowed a reframing of poverty; while it previously pointed to a failure of the state, it now points to the personal failure of the poor themselves. It becomes a condition that can be overcome through hard work within the marketplace, making microcredit approaches “merely a policy version of bootstrap theory, or the economic individualism so prevalent in U.S. political ideology” and here again, “the liberal component to this is that given the right tools...anybody can be economically successful” (Isserles 2003:43). Placing the responsibility for escaping poverty on the individual at the same time acts to depoliticize poverty and divert attention from the structural constraints that are its larger causes.

Heloise Weber frames her critique of microcredit with the assertion that crises are endemic to capitalism and she presents microcredit as a “means to preemptively counter social protest...by using credit to off-set income insecurity in times of crisis and/or

legitimize measures for the management of the crisis” But, like the authors above, she adds that microcredit not only represents a response to the problems of structural adjustment, but also acts to advance the global acceptance of neoliberal ideologies. She states that:

[T]he microcredit approach to poverty reduction is strategically embedded in the global political economy. It has been appropriated primarily to facilitate the implementation of financial sector liberalization on a global scale. Additionally, the contexts in which these programmes are implemented also reflect the motive of achieving a form of social disciplining aimed at commanding compliance for neo-liberal restructuring more generally (2004:356).

The links between microcredit and liberalization are not just argued in the literature but are openly acknowledged by practitioners themselves. At the Microcredit Summit, one interviewee admitted to Robin Isserles that that the shift toward microcredit by international development agencies represents “an implicit acknowledgement of the failures of structural adjustment programs” (2003:42). Another told her:

I don't think it [microcredit] is about empowerment. It's about introducing modern economic forms into the deepest rural areas, the penetration of capital away from the capital cities into rural areas and transforming the way rural societies are structured. Microfinance is a very good way of doing it because it's within the reach of poor people, but it's still governed by the forces of finance, which are decided millions of miles away. (Isserles 2003:51).

### **The Post-Development Critique**

*A further question that should be addressed is what the popularity of microcredit says about how 'development' is defined. Turning people into indebted entrepreneurs and self-employed workers may only serve to intensify the Western ideological assumption that the developing world should mirror the first world. The consequence is an overly narrow conception of what it means to be a "developed society" and what constitutes "progress." (Brigg 2006:55)*

While modernization theory was based in the idea that development was best understood as a Western project of shaping the Third World into its own image by opening up to markets and capitalism, dependency theory that arose in the 1960s countered that it was precisely these macro-economic linkages to the First World which

had created ‘underdevelopment’ in the first place. Echoes of these two theories resonate in current debates about microcredit; one side, drawing on modernization theory, calls credit “a human right” and believes that the solution to poverty is to provide loans to poor would-be entrepreneurs in every corner of the globe. The dependency theory critique asserts the reverse—that microcredit cannot possibly represent a solution to global poverty as it arose directly out of—and in response to—the problems created by capitalism.

In the 1980s a new perspective emerged. While sharing much in common with the earlier Marxist critiques of dependency theory and its variants, post-development arose from a desire to move beyond the prior, singular focus on economic relations which “elides the way in which relations of power proceed through economic and non-economic relations” (Brigg 67:2006). Morgan Brigg points out that the concept of economics itself is a product of eighteenth and nineteenth century Western Europe. Theorists in the post-development tradition draw heavily on Foucault and have “analysed development not only as a form of economic exploitation, but also as environmentally maladaptive, as a discourse, a way of imagining the world, and violence against local and indigenous cultures.” (2005:67)

One of the primary figures in this field is the Columbian anthropologist Arturo Escobar. In a discussion on the politics of Andean anthropology, Orin Starn sums up Escobar’s perspective as follows:

[D]evelopment should be understood as the latest Western-invented mode of domination of the Third World. Reconfigured in the new subjectivities of “illiterate farmer,” “undercapitalized entrepreneur,” and “lactating mother,” the underclasses have become the object of surveillance, intervention, and control by a panoptical bureaucracy including local non-governmental organizations, regional planning agencies, and USAID. (Starn 1994:24)

Development is not an act of goodwill but instead is a disciplinary project, all the more sinister in that it is presented in terms of “helping.” This has the effect of framing any potential resistance to development as resistance to helping, and acts to conceal the true motives that undergird it. This irony recalls Simmel’s statement that “assistance to

the poor offers perhaps the greatest tension between the direct and indirect goals of an action” (1966: 122).

A post-development critique of microcredit rejects the rhetoric of empowerment and instead sees microcredit as a new technology which only serves to deepen and intensify the disciplinary power of the West. First, the technique of targeting specific individuals can be seen as an innovation that both extends the reach and depth of its penetration; it allows “the circulation of the effects of power through progressively finer channels” (Foucault 1980: 151). It is a “micro-physics of power” that, in photographic terms, can be seen to increase the resolution of power and to fix and hold individuals in complete visibility. Second, it is also a more efficient use of power. By exploiting the “social collateral” of borrowers, microcredit allows the risk of default to be shifted from a bank to the borrower’s peers, representing a uniquely efficient ‘economy of power’ in that the individual feels themselves as being controlled and disciplined not by the lending organization but by the gaze of their friends and neighbors.

Finally, and most significantly for the purposes of this thesis concerning education linked with microcredit, microcredit not only represents a “cheaper” form of social control but actually serves a productive, positive function in making individuals who are docile and well-suited to integration into the capitalist world-system. It can be seen as the newest development solution to the essential question that Foucault claims has underlain the entire modern reconfiguration of power, which is

How is power to be strengthened in a way that, far from impeding progress, far from weighing upon it with rules and regulations, it actually facilitates such progress? What intensifier of power will be able at the same time to be a multiplier of production? How will power, by increasing its forces, be able to increase those of society instead of confiscating them or impeding them? (Foucault 1995: 208)

Microcredit acts not just upon bodies but upon minds with the effect of bolstering support for capitalism and the development project as a whole. The prevalence of the discourse of empowerment in microcredit is somewhat ironic, in that it openly admits an operation of power but transposes the relationship of who is being empowered. To quote Brigg once again,

Empowerment in development, along with the related notion of autonomy, is thus both about the construction and positioning of a particular type of self, and a linking of one's self to the question of social development. Hence the application of the notions of empowerment in the Third World context signal both the export of the technologies of subjectification of Western governmentality and the enrollment of Third World subjects in developmental projects through these technologies. (Brigg 75)

It is, in fact, by virtue of this discourse of empowerment that microcredit succeeds in disguising the operations of power behind it—a maneuver which ultimately makes it self-perpetuating as power will be more difficult to resist to the degree that it succeeds in being unrecognized. The final tragedy is that “...the self-positioning of our individual lives within the objectives set by reformers—whether activist or expert—in search of some social good links us to a subjection that is all the more profound because it appears to emanate from our autonomous quest for ourselves, it appears as a matter of our freedom” (Brigg 2006:74). In conclusion, Brigg asserts that despite the fact that microcredit “...exhibits clear discontinuities with earlier and more conventional development practices...[it]deserves not to be viewed as a complete break with the past but instead as a reconfiguring of development practice and its operations of power”(2006:82).

### **“A Citizenship Project”: Linking Education with Credit**

Advocates of packaging non-financial services such as education with microcredit within NGOs justify their position by citing concerns for the welfare of borrowers that are based in a holistic understanding of poverty and a vision of microcredit as but a means to a greater end of social improvements. However, following the arguments above, this purportedly enlightened perspective can be seen as yet another incarnation of a manipulative discourse which obscures the exercise of disciplinary power that is represented in the requirement that borrowers submit to ‘education’ as a condition for loans.

In a study of Bolivian microfinance NGOs incorporating an educational component, anthropologist Sian Lazar grounds her analysis in the concept of the “privatization of citizenship” which she claims is demonstrated not only by the state’s

withdrawal from the provisioning of social welfare but also its retreat from what Foucault had previously identified as its central project, “the conduct of conduct” and the disciplining of bodies. She writes that “...in the case of microcredit, it is not the state that is trying to measure and fix a certain set of subjects/citizens; rather the NGOs and donor agencies do this in its stead” (2004:302).

She views both the microcredit and educational components delivered by NGOs as citizenship projects “...which attempt to modify the ways in which individuals act as economic agents and view themselves” (2004:301). The educational sessions for borrowers that she observed focused on topics such as ‘healthy but not excessive’ reproduction and the superiority of modern medicine to the traditional remedies or the *curanderos* favored by the borrowers, and it incorporated a vision of empowerment that was essentially reducible to access to markets. She notes that the capacity-building sessions are rooted in culturally-specific understanding of womanhood, concluding that:

The dual strategy of provision of credit alongside....education is an attempt to create gendered citizens who are empowered to access formal markets on certain terms and who do not expect the state to provide them with social rights. They should also, ideally, learn to monitor their own health and reproduction and learn to discipline their own bodies by subjecting them to the modern healthcare system. (2004:315)

### **Situating the Present Study**

Many times while I have been researching or writing this thesis I have been asked in casual conversations what my thesis is “about.” I responded that it is about microcredit, and more often than not, the asker would share their opinion that it was a truly inspiring and commendable approach because it “helped people help themselves” and it acknowledged the incipient entrepreneurial spirit of the poor of the world. After a while, I began to agree with critics that the enthusiasm for microcredit is excessive and is often rooted in its accord with cherished values of Western culture. I overwhelmingly agree that the dependency theory and the post-development perspectives highlighting the broader structures which have created and reproduced the conditions of global inequality are a necessary corrective to this uncritical enthusiasm about microcredit as a panacea for

poverty that fails to question why it is that so many are so poor. But at the same time as I acknowledge the need for such critical analysis, I also believe that such perspectives may be going too far in condemning microcredit outright and advocating that the development project has been a total failure which should be scrapped altogether.

I would counter that their analysis is overly focused on the actions and the motives of NGOs and the development community and takes almost no account of the agency and the motives of the ‘targets’ of these development projects. I would even argue that in their efforts to protect or defend those objects of the development in the Third World they have, in some cases, fallen into a trap of seeing participants as helpless victims of Western culture and have failed to notice the ways in which target populations appropriate and manipulate development interactions to meet their own goals. A similar critique is also found in the work of Marshall Sahlins, who, in discussing Wallerstein’s world systems theory (a variant of dependency theory), raises his belief that it is misguided and ultimately dangerous.

In the headier days of World System theory, it had seemed that there was nothing left to do but the global ethnography of capitalism. Anthropology would be manifest destiny. For other societies were regarded as no longer possessing their own “laws of motion”; nor was there any “structure” or “system” to them, except as given by Western-capitalist domination. Yet such ideas, are they not the academic form of the same domination? As though the West, having materially invaded the lives of others, would not intellectually deny them any cultural integrity. World System theory becomes the super-structural expression of the very imperialism it despises—the self-consciousness of the World System itself. (1994:413)

My strongest critique of the post-development perspective is that it is unidimensional, ahistorical, and often displaces the human experience. It ignores the basic reality that borrowers are embedded in a specific local culture which presents them with a unique matrix of values and incentives. These particular beliefs, values, and goals will determine an individual’s response to microcredit, but the critiques of microcredit present Third World citizens as homogeneous and non-cultural.

In *Making Indigenous Citizens*, a book about a development project aimed at indigenous Peruvians, Maria Elena Garcia confronts these same critiques. Her research

presents an interesting parallel with my own, as she also studied the reactions of highlanders in the department of Cuzco to development efforts, which in this case were activists' attempt to institute bilingual education in rural communities. In evaluating the worthiness of this project, she faces the same question that is at the core of my own study—should we view this attempt to implement education along with loans “...as a part of the new inclusive and culturally sensitive ethno-development or a part of the fictions of progress that constitute new disciplinary strategies targeted at subaltern populations?” (2005: 14) I will compare her findings with my own at many points in the discussion that follows, as my findings both aligned and diverged with hers in many interesting and significant aspects. But in answering this central question, I am, like Garcia, “attentive to the questions raised by these perspectives, but skeptical of both views.”

This analysis will focus on presenting the testimonies and viewpoint of those on the receiving end of development; I aim to go beyond a unidimensional presentation of the participants in my study as victims entangled in a global disciplinary project, instead showing the unique ways in which they have responded to the development effort and made it their own. Sherry Ortner has addressed the problems with theories which focus almost entirely on the ineluctable actions of the West, and she points out how ethnographic research can serve as a corrective to such theory. She writes that in such theoretical perspectives,

History is often treated as something that arrives, like a ship, from outside the society in question. Thus we do not get the history *of* that society, but the impact of (our) history *on* that society...The political economists...tend to situate themselves more on the ship of (capitalist) history than on the shore...[However] the attempt to view other systems from the ground level is....anthropology's distinctive contribution to the human sciences. It is our capacity...to take the perspective of the folks on the shore that allows us to learn anything at all—even in our own culture—beyond what we already know. Further, it is our location “on the ground” that puts us in a position to see people not simply as passive reactors to and enactors of some “system,” but as active agents and subjects of their own history. (Ortner 1994:387)

I hope that the findings that I present will show the importance of reinserting lived human experience back into these theoretical debates. I do not claim to be able to speak

for the people with whom I worked, and I hope to escape the “persistence of unselfconscious claims about giving ‘voice’ to the peasantry” which Andean scholars have cautioned against (Starn 1994:17). But in whatever way I can, I would hope that my research can shift the perspective, at least momentarily, to a consideration of the perspectives of the embodied people at the receiving end of microcredit.

I strongly believe that the question as to whether microcredit is ‘empowering’ or subjecting borrowers cannot be answered in the abstract, and that the best way to answer these question is through an up-close qualitative study of the credit and education process which considers the perspectives of all of the actors involved—the credit officers who oversee the loans, the NGOs who design and implement policies, and the borrowers themselves. Development encounters do not take place in a cultural vacuum, and my study will attempt to situate this process in a larger cultural, historical, and even geographical context. The next chapter will present a backdrop for my study and the questions it raises, and will stress that understanding the implications of delivery of education with credit must begin from an awareness of the social forces that structure the distribution and intensity of poverty in Peru, the ways in which inequality is justified and legitimated, and the particular significance that education holds in Cuzco, Peru.

## CHAPTER 3

### ETHNOGRAPHIC CONTEXT

#### Poverty and Indigenous Identity In Peru

According to the CIA World Factbook, the Peruvian population is 45 percent indigenous, 37 percent *mestizo*, and 15 percent European. Although it is clear that indigenous Peruvians suffer poverty at much higher rates than non-indigenous Peruvians, it can be difficult to encounter firm numbers on indigenous poverty, as there is no one marker that identifies someone as indigenous. Generally, indigenous people are defined as monolingual highland-dwelling agriculturalists.

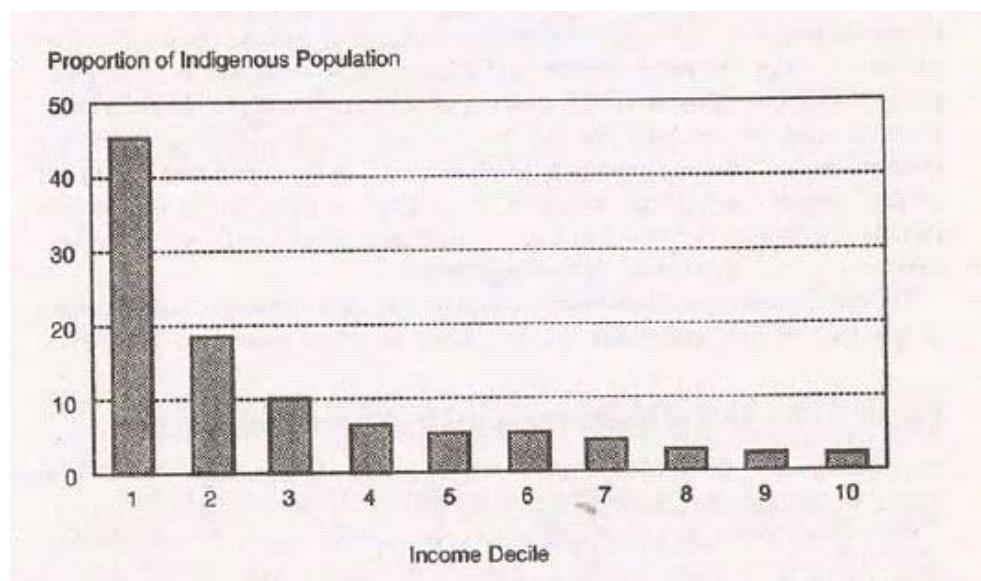
In 1996, two World Bank economists, George Psacharopoulos and Harry Patrinos published a study titled *Indigenous People and Poverty in Latin America: An Empirical Analysis*. Their analysis of the socioeconomic conditions of indigenous people in Peru used data from the 1991 Peruvian Living Standard Survey (PLSS). Psacharopoulos and Patrinos identified as ‘indigenous’ all those from the survey who reported being monolingual Quechua speakers.

The study revealed the ties between the markers of indigeneity and low educational attainment and poverty. The researchers found that 79 percent of indigenous Peruvians lived below poverty line in contrast to 49 percent of non-indigenous people. Among those identified as indigenous, 55 percent were classified as “extremely poor,” while only 19 percent of non-indigenous fell into this category. On the whole, this group is “one and a half times as likely to be poor as non-indigenous people and almost three times as likely to be extremely poor” (1996:171).

Indigenous in Peru are the poorest of the poor—as is shown in Figure 3.1, forty-five percent of all indigenous Peruvians fall into the lowest income decile, while the three lowest deciles account for 74 percent of the indigenous population. There is a strong link between indigenous identity and rurality: while only 13 percent of the non-indigenous population lived in rural areas, this region was home to 76 percent of indigenous Peruvians. While emphasizing that “rural prevalence is important to keep in mind when interpreting information about the indigenous people of Peru” the authors also take care

to point out that although “it is often argued that indigenous people are economically disadvantaged as a consequence of their prevalence in rural areas...rural residence is not solely responsible for the low incomes of indigenous people” (171). This is evidenced by the fact that rural indigenous are 1.3 times as likely to be poor as rural Spanish speakers and twice as likely to be extremely poor.

**Figure 3.1: National Household Income Distribution**



Source: Psacharopoulos and Patrinos 1996: 171

Indigenous people also had consistently lower levels of educational attainment as compared to non-indigenous, and experienced illiteracy at a rate of 5.2 percent in contrast to the national rate of .3 percent. Table 3.1 shows that while 37 percent of non-indigenous Peruvians have attained a primary education or less, more than 60 percent of indigenous fall into this category.

Because of the close correlation between rurality, ethnicity, and class, many scholars and reformers have been inclined to read the inequality of indigenous Peruvians in Marxist class terms. A left-wing military coup in 1968 led to a program of agrarian reform that expropriated and fragmented large land holdings, and renamed indigenous rural highlanders *campesinos*, or peasants. This was an act undertaken “for ideological

reasons, wanting to redefine the subordinate position of Indians in Marxist class terms and seeking to change that situation through the land reform program” (van de Berghe and Primov 1977:127).

**Table 3.1: Highest Educational Achievement of Household Head (*percent*)**

<i>Highest Level of Education Reached</i>	<i>Indigenous</i>	<i>Non-indigenous</i>
None/Initial	1.7	0.5
Incomplete Primary	29.8	14.3
Primary	28.9	22.6
Incomplete Secondary	15.5	13.8
Secondary	18.4	27.3
Non-university Higher	0.5	4.8
Incomplete University	1.5	4.0
Complete University	3.8	12.2
Postgraduate University	0.3	0.7
Total	100.0	100.0

*Source:* PLSS 1991.  
*Note:* Total of columns is not exactly 100 percent because of rounding.

Source: Psacharopoulos and Patrinos 1996: 180

The usage of this term has persisted into the present, and was the exclusive term used to describe rural Peruvians to me in the course of my study. Yet as early as 1977, two authors of a study of inequality in Cuzco, Peru wrote that

Over and above inequalities in relations of power and production that create class stratification, Peruvian society uses cultural and linguistic criteria of status that further entrench and magnify inequalities based on class. Or, to put it in different terms, the class domination of...elites is expressed through a cultural medium that increases the impotence and dependency of the Indian peasants far beyond the disabilities inherent in their class position... (1977:259)

Giving such examples as the literacy requirement for voting, the dominance of Spanish in conduct of business, and the Western values that shape the legal system, the authors

conclude "...Indians are not simply peasants at the bottom of a class order. They are a conquered group ruled by strangers" (1977: 59).

The close correlation between poverty and rurality, rurality and indigenous status, and indigenous status and low levels of education are evidence of more than five hundred years of institutionalized discrimination against indigenous peoples. This classification of Indians as campesinos has only served to elide the racism inherent in their subordinate condition and allowed urban *mestizos* to justify their discriminatory practices by pointing not to racial differences but to rural location and lack of 'culture' as justification for the inequality of the Quechua within the Peruvian state.

### **Racialized Geography**

*The historical fabric of power in [this context] is interwoven with various threads, among which ethnicity, class, and gender are the most important...In the region, ethnic differences between Indians, whites, and mestizos sort out and justify power relations, which historically were constructed on the basis of land monopolization...today differences between mestizo and Indian are represented by perceived differences between country and city. (de la Cadena 1995:342)*

The original Spanish conquerors of Peru attempted to control the Indian populations through spatial organization, concentrating them into Indian communities (*Pueblos de Indios*), and the ongoing process of exclusion has always involved a spatial and geographical aspect. Even as exclusion cast explicitly in terms of race fell out of favor, other codes for indigeneity acted to consign Indians to rural areas and deny them citizenship. Wilson outlines how, at the turn of the nineteenth century, the emerging scientific understanding of disease in terms of the vulnerability of the body to invasive microbes coincided with the desire of elites to construct a modern, orderly urban space. Indigenous Peruvians became targeted as the unclean sources of disease and contagion and "the image of a modern, progressive town gaining ground amongst the white elite was one cleared of an (uncontrolled) Indian presence" (2004:166). New laws, such as the 1896 requirement that the families of the deceased present notification of death to municipal doctors within twenty-four hours in order to receive a death certificate and thus

access to the town cemetery, acted effectively to exclude the rural population from this space entirely (Wilson 2004).

Stepputat notes that in general terms, “the late nineteenth century seems to displace indigeneity or Indianness to the rural hinterlands as new indexes of modernity, stateness, and citizenship are introduced such as property, hygiene, and education” (2005:75). The Agricultural Reform of 1969, which released Indian men from forced labor on *haciendas* and opened up the possibility for waged labor in the cities, only solidified the identification of Indianness with the countryside. This marked a key moment in defining the path to *mestizaje*: “Whereas landownership once defined “*mestizos*” and “whites” as such, now urban residence, employment or lifestyle determined who was non-Indian. The city of Cuzco became the site and symbol of de-Indianization” (de la Cadena 1995:339).

Throughout the Andes, those people living in rural areas are considered to be primitive or backwards, and they enter modernity and civilization only once they have made the physical movement into the cities. The movement of Indians into the cities is widely understood to represent not only a spatial movement but also a transition from primitiveness into a teleological process of evolution—one Ecuadorian textbook asserted that

Those primitives who...came to live within the confines of the Spanish cities...evolved quickly. But those who remained in the countryside...stagnated; and it is there, bound to the earth, that they vegetate still (Cevallos Garcia 1974, cited in Weismantel 2001:4)

Even today, the association between poverty, rurality, and Indian identity is so strong that the words are almost interchangeable. Indians, marginalized both geographically and culturally from urban *mestizos*, can feel invisible and powerless within their own country: “given the extreme centralization of power, geographical mobility becomes a necessary corollary of social mobility” (van den Berghe and Primov 1977:88). But the path to citizenship and participation in ‘modernity’ demands not just a spatial movement but an ethnic transformation.

### Citizenship and Social Mobility as DeIndianization

*Indian peasants live in such a primitive way that communication is practically impossible. It is only when they move to the cities that they have the opportunity to mingle with the other Peru. The price they must pay for their integration is high—renunciation of their language, their beliefs, their traditions, their customs, and the adoption of the culture of their ancient masters. After one generation they become mestizos. They are no longer Indians.*

—Mario Vargas Llosa, 1990 (cited in de la Cadena 2003:1)

Although the ideology of racism asserts a binary distinction between Indians and *mestizos*, in reality there are infinite degrees of separation between these poles, and it is entirely possible for an Indian to transition to *mestizaje* within his lifetime. Indianness is not an innate trait held by an individual, but a socially inferior condition experienced by a group which can be escaped through individual achievement and contact with urban areas. Garcia notes that she was astonished to hear an upwardly mobile Peruvian woman describe herself not as a *mestiza* but an ‘*ex-indígena*.’ When she asked the woman why she had chosen this term, the woman replied,

I refer to myself in that way—as an *ex-indígena*—because I don’t live in my community anymore, I don’t wear my *polleras* [traditional Quechua skirts], and look, I speak English and work on a computer in the Ministry of Education in Lima. My own community calls me a *mestiza* now. I am not a *mestiza*. But I am not a *campesina* anymore either. (2005:135)

When doing her research in an Andean village, de la Cadena reports that often she would ask villagers about the ethnic/class status of other villagers, they would tell her “he is neither one, he is ‘in process’”; she observes that “the idea of being ‘in process’ as a stage in ethnic identity, in spite of its nonfixity and dynamism, implicitly supposes an acceptance of ethnic and racial bipolarity” (de la Cadena 1995:340).

The construction of all that is indigenous as inferior has “inscribed economic and class mobility in terms of an ethnic transformation” (Harris 1995: 376). But, as noted above, this ethnic transformation not only catalyzes social mobility but, more

fundamentally, allows indigenous to emerge out of invisibility into participation in dominant society. Barrig writes that:

There is a kind of violence in the way indigenous Peruvians are forced to begin the process of acquiring rights and citizenship by fleeing from themselves, because to be an Andean peasant from the highlands is to be relegated to the lowest rung of the social stratification ladder...Indigenous people are seen as citizens only at the cost of their identity. In Peru this has meant that they must transform themselves into *cholos* (*mestizos*) giving up their language, dress, and customs. Citizenship has been constructed through forced homogenization, not by recognizing cultural differences. (Barrig 2006:100)

The ultimate effect of the successful transitioning of Indians to cultural *mestizaje* is that Indianness has become negatively construed as a social condition that indicates an individual's failure to "improve." While people may have circulated fluidly from one level to another of Peruvian society, the position of Indians at the very base of the social pyramid has remained fundamentally unchanged. If social mobility and citizenship are only possibly by virtue of a spatial and ethnic transformation, this raises the question as to what becomes of those who are largely denied the very possibility of doing either, for this is the very situation in which rural women find themselves. Given the fact that these women are the primary target of microcredit efforts, it is to their unique position that I will now turn.

### **“Women are more Indian”: Social Mobility, Education, and Gender**

*Within [Peruvian] rural settlements important differences in power and influence originate from class relations as well as from relations between ethnic groups and between the sexes. In some dealings women may be powerful because of their class position, but all women in these communities share one dimension of subordination by virtue of their sex. (Bourque and Warren 1981:83)*

While indigenous identity may be the source of greatest disadvantage in Peruvian society, it is also true that gender discrimination is predominant at every level of society. This is evidenced in Table 3.2, which demonstrates that non-indigenous women have consistently lower levels of university education than non-indigenous men. However, as can be seen in Figure 3.2, in a society where education is crucial to social mobility,

indigenous women in Peru face much greater disadvantages than their non-indigenous counterparts.

**Table 3.2: Highest Educational Achievement (*percent*)**

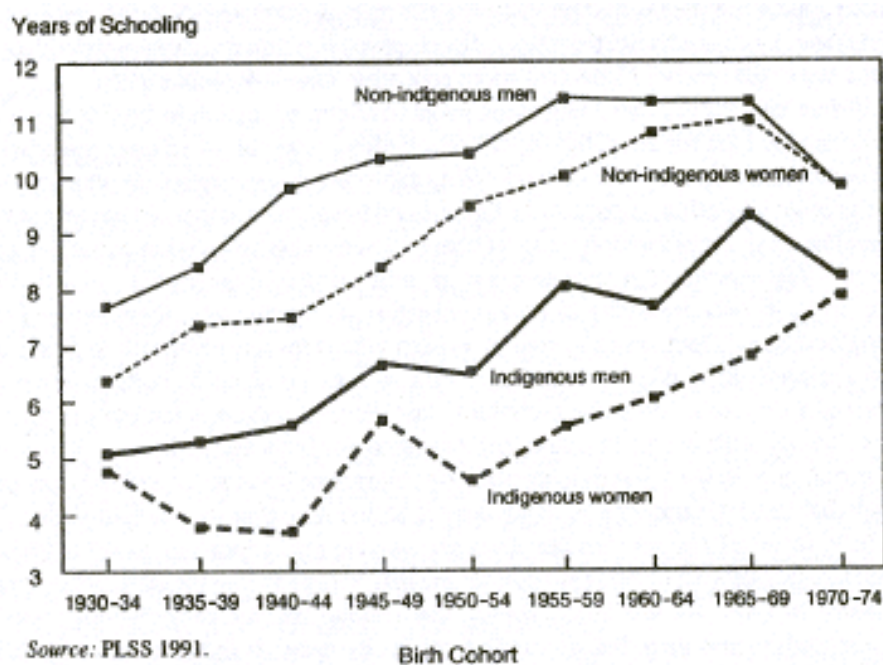
<i>Highest Level of Education Reached</i>	<i>Women</i>		<i>Men</i>	
	<i>Indigenous</i>	<i>Non-indigenous</i>	<i>Indigenous</i>	<i>Non-indigenous</i>
None/Initial	6.9	3.2	5.4	3.5
Incomplete Primary	43.2	21.6	31.3	19.1
Primary	23.4	16.3	23.0	14.0
Incomplete Secondary	16.4	19.9	19.7	22.0
Secondary	6.4	24.1	15.6	22.9
Non-university Higher	0.9	5.2	1.5	5.2
Incomplete University	0.6	3.7	1.0	5.3
Complete University	2.3	5.8	2.4	7.4
Postgraduate University	0.0	0.3	0.2	0.5
Total	100.0	100.0	100.0	100.0

Source: PLSS 1991.

Note: Total of columns is not exactly 100 percent because of rounding.

Source: Psacharopoulos and Patrinos 1996: 181

**Figure 3.2: Formal Education by Birth Cohort**



Source: Psacharopoulos and Patrinos 1996: 181

Although the possibilities for social mobility may have meant the dissolution of the boundary between *mestizo* and Indian for men, it has not had the same significance for indigenous women. Quechua women have become increasingly seen as the torch-bearers of indigenous identity—“modernization has reinforced the Indianization of women, while opening the option of cultural *mestizaje* to most men” (de la Cadena 1995:343). Men freely adopt the symbols of upward mobility, such as speaking Spanish or wearing Western clothes, while women deviating from the established parameters of “Indianness” are accused of inappropriate social conduct.

Barrig quotes Radcliffe as saying that “[u]nder the cultural politics of the indigenous movement, indigenous femininity stands in for the indigenous resistance to the urban, nation, *mestizo* nation-state” (2006:120) and she reports that her fieldwork in Cuzco demonstrated that although the *pollera* indelibly marks wearers as members of an inferior, socially-despised group, women who abandoned traditional clothing were invariably criticized.

Not only are women restricted in these and other efforts to change their identity and achieve upward social mobility, but they are also restricted in their freedom of movement. Rural women are confined to their communities and denied access to urban spaces, which are seen as sexually dangerous. Agrarian reform in 1969 served to further entrench women’s identification with the rural sphere; while it freed men from labor in haciendas and thus opened up the possibility for waged urban labor, this possibility was premised upon the condition that someone else—invariably women—could stay behind to cultivate the land and manage the household.

Concurrent with this feminization of the rural sphere, the city increasingly became a male domain as women were viewed to be unsuited for urban work. Since intra-community power is determined by relative degrees of urban access, “[*m*]estizo male migrants are strategically positioned to exploit knowledge, experience, and contacts in the city, while women remain behind in the village—the last link in the chain of power, and the most “Indian” of all.” (de la Cadena 1995: 337). This situation makes women’s subordinate status self-perpetuating.

Women in this respect are denied the ability to change their social status. Any improvements in women's social status are exclusively derived through marriage, and a woman's potential for advance begins only at the point of her marital engagement. Thus Barrig's statement above that "...to be an Andean peasant from the highlands is to be relegated to the lowest rung of the social stratification ladder" ignores the very real fact of stratification *within* Andean communities. It is perhaps more useful to follow de la Cadena in her assessment that "[i]ndigenous women are the last link in the chain of social subordination: they are the least ethnically or socially mobile, and their Indian identity approaches closure" (1995:333).

### **Legitimizing Inequality: Education and 'The School Myth'**

*[S]ubordinate groups embraced educational differences as legitimating social hierarchies, as did the elites...Thus, shielded by concessions made to Indian-looking individuals if they were 'educated,' dominant sectors acquitted themselves from racism while they continued to openly discriminate against noneducated groups...Elites and commoners eventually came to share beliefs in the power of education and 'culture' to legitimate discrimination and thus silence denunciations of racism, rendering racism hegemonic and eloquently illustrating that 'hegemony at its most effective is mute.' (de la Cadena 2000:9)*

*En nuestro país la raza ya no manda, ahora manda la inteligencia, la educación, la cultura. (In our country, race does not rule anymore; instead, intelligence, education, and culture do)*  
*-Adrianna B., university student, Cuzco, 1992 (de la Cadena 2003:1)*

The exclusion of indigenous from the urban spaces determined their exclusion from education as historically, education could only be accessed in towns (Stepputat 2005). Thus the grounds for denial of citizenship to Indians could shift from racial justifications made on the basis of phenotype to justifications made on the basis of culture, "understood as education, rational reasoning and civilized behavior. Thus, when Indians were excluded from citizenship in the early 1890's it was not because of their race but because they were illiterate and uneducated" (2005:74).

This shift had two implications. For elites, it provided a justification for continuing such practices; as de la Cadena writes, "Peruvians think their discriminatory practices are not racist because they do not connote innate biological differences but

cultural ones” (2003: 2). But on the other hand, for those suffering from discrimination, such a definition provided a pathway out of this undesirable state.

In Peru, contradictory consciousness leads individuals...to deny the existence of insurmountable hierarchies and imminent cultural differences—those that would place “them” in absolute inferior positions—and at the same time acquiesce to the legitimacy of social differences created by educational achievement. This contradiction, by converging with dominant forms of racism, contributes to its hegemony. Intriguingly culture...or “formal education” and individual achievement is the arena where racism and the challenge to it meet in the compromise arrangement that enables dominant forms of racism to prevail (de la Cadena 2003:5).

A common observation of researchers among these populations is that this powerlessness is felt so deeply that those who are illiterate and speak no Spanish will often describe themselves as being blind or deaf. Montoya presents the testimony of a Peruvian farmer, who states that

Because we are Quechua, because we speak our language and live according to our customs, and because we don’t know how to read and write, we live in the world of the night. We have no eyes, and we are invalids like the blind. In contrast, those who know how to read and write live in daylight. They have eyes. It is senseless to stay in the world of darkness because we must progress to be like those who go to school and have eyes. Going to school, we open our eyes, we awaken.” (in Garcia 2003:87)

Garcia characterizes this statement as an example of what researchers of Andean groups have called ‘the school myth,’ or the deeply-rooted idea that, although the process of education in reading and writing may be painful and difficult, it will culminate in permitting the individual at last to ‘see’ and therefore, progress. Processes of modernization have played into this belief as well; while in the past Andean peasants predominantly invested in livestock, the decline of the rural sphere relative to the city brought about by Agrarian reform has meant that Andean parents now invest primarily in the education of their children, hoping it will give them access to urban employment (Harris 1995:370).

However, ‘education’ does not simply entail formal education, but in the more general sense refers to familiarity with dominant culture and adoption of Hispanic cultural markers. As Seligman, an anthropologist who conducted a study of marketwomen in Cuzco, points out,

Because territorial affiliation, the language one speaks, and even one’s skin color are not criteria that define who is Indian and who is not, one critical concept that has come to dominate views of race is a scale of inferiority and superiority that depends heavily on an assessment of whether one is cultured. One can become more cultured by becoming “educated.” As one probes more deeply, however, one discovers that being “cultured” and “educated” depend on with whom one socializes, how one behaves, the clothes one wears, the food one eats, where one lives, and one’s occupation. These are not simply considered differences between people; these aspects of ‘culture’ are viewed hierarchically. (2004:149)

Such indigenous adoption of Hispanic culture as a mean to economic and social mobility is in no way a new phenomenon. Steve Stern has written that this pattern had already been initiated by the beginning of the early 17<sup>th</sup> century, as the conquered natives “embraced strategies and relationships drawn from the dominant, exploiting sector of society...Hispanic models of advancement offered the only way out of confines that shackled most Indians” (2005:133). While he acknowledges that those Indians left behind probably viewed these upwardly mobile Indians with some degree of pride in that “the achievements of an Indian minority flew in the face of natives supposedly inherent degradation...Indian dynamism provided a symbolic counterpoint to stereotypes condemning natives to inferiority and subordination” (2005:144), he maintains that overall the effect on Indian communities and self-confidence was intensely damaging. This is what Stern refers to as the “tragedy of success”:

The achievements of native individuals, in the midst of a society organized to exploit indigenous people, educated Indians to view the Hispanic as superior, the Andean as inferior...The success of a minority amidst growing pauperization created new strains in native Andean life. Indian Hispanism—as a socioeconomic strategy and as a set of cultural symbols—constituted for some a path to economic success and at least the pretense of social respectability. But to those left behind...it represented a powerful, oppressive force in the very heart of rural society. Hispanism symbolized the conversion of Indian society’s foremost figures into partners of colonial rule and exploitation. (2005:140)

## The Tragedy of Success

*Indians are a class to whom accumulation of resources has been denied. The history of Indian identity in the Andes is for most regions a history of wealth turned to poverty. But this poverty is not only the result of colonial and neocolonial extraction...but also because of the process by which those who did accumulate altered their status and “passed” to mestizos...the result has been a simplification of the category of Indian to its current identification. (Harris 1995:375)*

To this day, analysis of this process of indigenous assimilation into Hispanic society often centers upon the impact that upward mobility has on the communities that are left behind. The requirement for geographical movement into cities, intensified by the possibilities created via agricultural reform, now means that “...talent, wealth, success, skills are all sucked up to the larger urban centers, a condition that perpetuates the stagnation and dependency of the hinterland” (van den Berghe and Primov 1977:88). In a manner similar to that described during colonial times by Stern, the success of some indigenous continues to have the ultimate effect of entrenching the inferior status of “Indianness.” In their study of inequality and class in Cuzco, van den Berghe and Primov conclude,

[p]aradoxically, it is the permeability of ethnic boundaries in Peru that keeps those who remain Indians at the very bottom of the social pyramid. Since the individual must by definition cease to be an Indian to achieve economic success, it necessarily follows that Indians remain by definition at the bottom of society. (1977:141).

But perhaps the greater tragedy is that which this process inflicts upon the ethnic identity of the Quechua. In examining this phenomenon of ethnic transformation as a means to upward mobility, many Andean anthropologists have invoked the theory of Marx, Gramsci, and Bourdieu to argue that Indians are the victims of false consciousness and fail to recognize their own interests. In internalizing the views of dominant society about their inferiority and seeking to escape their Indian identity through assimilation, these socially-mobile Indians only perpetuate the established social hierarchy. Each of the authors below offers such an analysis of the condition of indigenous people in the region of Cuzco, the same region where my own study was conducted:

The native populations are victims of what Taylor calls “false recognition. The hegemonic social and political discourse gives them a degrading picture of themselves that is internalized and becomes an instrument of their oppression. (Barrig 2006:118)

Some might argue that...they were seeing themselves...through the eyes of their oppressors. In other words, they were the familiar victims of false consciousness, unable to see clearly the source of their misery or the way to escape from it. (Garcia 2005:101)

In the case of Peruvian racism, the consensus that makes its hegemony possible is the idea that “education”—meaning schooling in all its different degrees—creates legitimate hierarchies...the agreement (based on ideas that education is potentially achievable and cancels out original inferiority) induces self-identification, a condition...decisive of hegemony. (de la Cadena 2000:9)

While not refuting such arguments, I would only point out that while these analysis may be meaningful to academics versed in critical theory, such diagnoses ring hollow to indigenous people themselves who are struggling just to survive or to secure the futures of their children in a grossly unfair society. In evaluating the data which I will present in this thesis, I would encourage readers to bracket such theoretical interpretations in an effort to imagine instead the actual experience of discrimination and social exclusion, as well as the obstacles of poverty, low educational attainment, and geographical isolation which accompany such a position in the social hierarchy.

Such an approach can allow for alternative interpretations of the experience of indigenous Peruvians in which they are not only recognized as the victims of racism and discrimination, but at the same time become visible as adaptive and creative authors of their own lives, navigating the challenges with which they are confronted in ways that are significant yet sometimes not immediately apparent. The possibility of what I am suggesting is revealed in the words of a Quechua man on the outskirts of Cuzco—“It is not that education erases our identity. What it erases, in part, is the identity assigned to us by those who are not like us” (Garcia 2005:94).

## CHAPTER 4:

### RESEARCH METHODS

#### Selection of Site and Research Plans

While working on an internship with Catholic Relief Services (CRS) in Lima, Peru, I was involved in an exploratory microinsurance project. Microinsurance is seen as an important future direction for microfinance services; as MFIs around the world have noted that illness and accident are the primary reason borrowers default on their loans or withdraw, they have increasingly sought to address this problem by offering insurance plans as components of their programs. CRS was interested in investigating the demand for microinsurance among current Peruvian microcredit borrowers and turned to PROMUC, a consortium of twelve different microfinance agencies in Peru, for assistance in organizing focus groups with the clients of several MFIs throughout the country.

It was this project that led me to the offices of Arariwa in Cuzco, and in speaking with the director of the program, I was intrigued to learn that Arariwa offered an educational component along with their loans. As the director proudly showed me the teaching materials, I noted that obvious effort had been made to ensure that the materials were culturally appropriate. These were not “cookie-cutter” lessons pulled from some generic template but instead used photos of indigenous Peruvians and incorporated generous amounts of Quechua. After reading about the microfinance schism in the literature for many months, I was excited to encounter one of the rare institutions defying the prevailing conventional wisdom that MFIs should focus solely on loans. I decided almost immediately to return to Cusco to do an impact evaluation of this program.

From the very beginning, my goals for a potential microcredit research project had been shaped in response to an article I read by Naila Kabeer. In her article, “Conflicts Over Credit,” Kabeer discusses the divergent conclusions various microcredit impact assessments have reached as to whether or not credit is ‘empowering’ for borrowers. Echoing my own frustration with such studies, Kabeer critiques the studies on either side of the debate, first, by pointing out their evaluations are based on

borrowers' conformance to Western or emic notions of what an empowered person 'looks like' and second, that "despite their differences...both sets of evaluations share in common an absence of testimonies by the women loanees themselves as to the impact of credit on their lives" (2003:67). In contrast to such studies, Kabeer launched her own project in which she sought to understand the "lived experience" of those within borrowing communities and she collected testimonies of fifty women and twenty men within microcredit villages in Bangladesh. She asserts that she wanted to judge empowerment according to these testimonials rather than "deducing it from selected aspects of their behavior" (as prior studies had done).

Her findings demonstrated the importance of taking cultural context into account in any microcredit impact evaluation, as well as the need to interpret outcomes in light of the priorities and goals of the borrowers themselves (something which no impact study I had yet encountered had done). While most researchers, for example, looked for increased female autonomy as evidence of empowerment, Kabeer found that what the women in her study sought was not independence but greater equality within their families.

In another example, Kabeer notes that in Bangladeshi society, women's honor is defined by their adherence to *purdah*, or the cultural norm of female seclusion within the home, and that women forced by poverty to work outside their homes would often retreat back into domestic seclusion as soon as they made any economic gains. For researchers who understood empowerment in terms of increased female mobility, this result suggested the loans were not empowering, but from the perspective of the borrowers such loans were liberating in that they granted them the choice to stay at home and avoid the humiliation of badly paid domestic or agricultural work outside the home. As one of the women in her study stated, "I will go without food, but I will not go without *izzah* (honor)". Kabeer therefore argues for a context-specific understanding of empowerment:

If empowerment entails the expanded capacity for making choices, for taking actions which express own values and priorities, then it has to be recognized that these...are likely to be shaped by [those] of the wider community. The paradox is

that in many cases this leads women to opt for some form of *purdah* if they can afford to (2003:71).

She concludes her analysis with the critical point that in future evaluations of microcredit programs, "...we need to make a distinction between forms of change which have been prioritized in the feminist or in the development literature and forms of change valued by those whose lives an intervention is seeking to transform" (2003:81).

This resonated very deeply with me, and from the moment I read this knew that I wanted to do a study that, like Kabeer's, drew on the testimonies of borrowers themselves. My initial research proposals stated that I would go to Cuzco to work with Arariwa, interviewing their clients to assess: a) what kinds of changes they understood as being "empowering," and b) whether or not the educational component was helping or hindering them in reaching their goals.

However, once I got to Cuzco several things happened. First, I realized that my proficiency in Spanish was inadequate to directly address the issue of empowerment. Empowerment is an idea that is inextricably bound up with rationalism and Enlightenment values and was difficult for me to define even in my own language. After several failed attempts to explain my intent to the director and staff at Arariwa, I realized it was going to be next to impossible for me to approach this subject in Spanish with indigenous Andean highlanders. Second, I became aware that the success or failure of my project would be directly related to the amount of support I received from Arariwa. I began to sense that unless they were excited about what I was researching and had some kind of stake in the results, their willingness to assist me would be very limited.

My goals with respect to the educational component were much more feasible. The director of Arariwa introduced me to Clotilde Amable Pinares, the staff member who had developed and implemented the educational component in 2002, and who was currently in charge of monitoring the *asesores*, or credit officers, in their performance of these lessons. As I chatted with Clotilde, she expressed concern that while some groups were regularly receiving these lessons, or *capacitaciones*, there were a significant number of groups that were not. This was occurring for a wide variety of reasons which included time constraints, disorganization in the lending groups, borrower defaults, and the

*asesores*' lack of interest or lack of commitment to conducting them. Cloty was interested in having me do a comparison of those banks that had and had not regularly received these capacity-building sessions. As the designer and promoter of the educational component, she obviously had a personal stake in such a study and I sensed that she was hoping for evidence that would show the importance of the educational component to any within the organization who might remain unconvinced of its merits. Her proposed investigation fit well with my own research interests, so I agreed and we wrote up a proposal, listing goals and indicators, and presented our idea to the director.

Once the project was approved by Arariwa, Clotilde set to work designing a schedule of all the bank meetings I would attend where I would both observe the payment of the loans and the *capacitaciones* and conduct interviews with the borrowers. While she did send me to a few meetings that took place in the city, the bulk of my interviews were conducted in rural areas among indigenous populations. She arranged transportation to these locations and put me in touch with credit officers so that we could coordinate meeting times. I planned to go wherever she advised with the intention of answering the questions that she had raised along with some of my own.

I was less concerned with a strict comparative study and was more interested in investigating broader issues such as whether borrowers (or *socias*, as they were usually called by Arariwa staff) felt this educational component was being forced upon them or whether they appreciated it, and if so, why. I was particularly interested in finding any patterns or regularities as to which clients were interested in which kinds of topics or the educational component on the whole. And while I may have initially backed off from directly investigating the changes understood by borrowers to be empowering, by the end of my study I discovered that my data did in fact address this issue in a way that I had not anticipated. My findings will therefore be addressed in two chapters; Chapter 6 will present my findings with respect to the educational component, while the issue of empowerment with reference to the cultural context and the goals of borrowers themselves will be discussed in Chapter 7.

## **Data Collection**

My research took place over a period of three months, from January to March of 2006, and drew upon three main sources of data: observation of clients and *asesores* at group meetings, analysis of institutional documents, and interviews with Arariwa clients and staff. The use of these three distinct sources allowed me to uncover discrepancies and concordances between the policies and objectives of Arariwa, the conduct of the *asesores*, and the testimonies of the clients themselves. In the field, comparing these sources of data helped me to discover areas of contention and provided new directions for my investigation. In the analysis phase, the triangulation of these sources strengthened my final conclusions.

## **Participant Observation**

In the traditional sense, participant observation entails the ongoing observation of a fixed group of people, and the familiarity bred by a researcher's constant presence can be an important way of building rapport and trust within a community. In my case however, participant observation data was gathered during the meetings in which the members of a lending group gathered to pay monthly installments on their loans. Each time I walked into the room as a complete stranger and I never visited a group more than once. This framework did provide an advantage in that over the course of three months I was able to observe a wide sample of borrowers, but I never had the opportunity to get to know them on anything more than a superficial level. This could be characterized as an approach that sacrificed depth for breadth.

The greatest proportion of the meetings I was scheduled to attend by Cloty were located outside of the city in the rural setting; this also meant that most of my research subjects were indigenous highlanders who were predominantly Quechua-speaking. To reach these places, I would usually meet with a credit officer in Cuzco and travel with them by bus or taxi to the village where the meeting was to take place. After arriving at the village, we would seek out the location where the meeting was to be held. While in bigger cities these meetings might be held at an Arariwa regional office, more frequently meetings were held inside a mud-walled home or village meeting space with no doors.

I would enter the meeting with the credit officer who would introduce me and explain why I was there. At first I was too shy to take much control of this introduction but with time I learned the importance of giving the *asesor* some guidance in what to say. Usually during our travel to the site I would ask the *asesores* to make it very clear that I was not employed by Arariwa, that everything clients said would be anonymous and confidential, and that the aim of the study was to collect constructive criticism as to what was good about the educational sessions and what might need to be improved. The credit officers seemed to generally accept the worthiness of my study and would urge clients to be as honest as possible. I recall that one *asesor* told a group of borrowers, “if you keep telling people you have a headache when what you really have is a stomachache, no one will ever be able to help you.”

Once introduced, I would find a seat to begin making notes. I always tried my best to find an inconspicuous spot, but this was not usually feasible in these often cramped spaces with only long benches pressed against each wall. In fact, I was usually received somewhat ceremoniously and as a foreign guest was expected by all to sit next to the *asesor* at the front of the room. This made me slightly self-conscious in taking notes but there was little I could do about it.

During these meetings my fieldnotes were usually taken in two stages. First, I recorded general data about the gathering, noting how many people were present, how many came in late, and how many never showed up at all. I would note the male to female ratio, the dress and speech of the men and women, and their general demeanor and attitudes. The second part of my fieldnotes began once the *capacitación* began. I would record the topic and the manner in which the *asesor* presented the material. I would write about how many people participated, who participated the most, interesting stories that were related, disputes borrowers had with the material presented, the cultural appropriateness of the lessons, and the amount of interest clients demonstrated in the topic. I would usually also pass the time on the journey back to Cuzco by writing additional observations about the villages I had visited, recording conversations I had had with the credit officers, or noting future areas of study I wanted to explore.

Unfortunately, on my very last day in Cuzco I was walking home alone at night and, just as I turned off a plaza into a small dark alley, I was approached from behind by two young men. One grabbed my bag—in which I carried my notebook, recording equipment, and laptop computer—off of my shoulder, and the two ran off together up a narrow street. It was quite late, and with no one else around to help I attempted to chase the men on my own for a few seconds, but I quickly realized that at such a high altitude I had little chance of catching them and had no idea what I would do even if I could. I felt a sense of despair I will never forget as I watched my interviews, fieldnotes, and laptop (along with my passport and credit cards) disappear forever as the men ran out of sight.

Most, but not all of my interviews with clients had been backed up on CD, but I had waited until my last week in Peru to interview the management of Arariwa so that my Spanish would be at its best and my understanding of the most salient issues would be more complete. In the last two to three days before I left, I conducted at least six detailed, hour-long interviews with staff—between my preparations to depart Peru and a frantic, last-minute push for data, I neglected to back these up and they were lost. My research assistant redid some of these interviews with a list of questions I supplied her, but some crucial quotes and observations from the original versions were missing from these more generic interviews.

Once I returned to the U.S. I did my best to reconstruct my fieldnotes from memory. While losing my notes did represent a major setback, I do not feel that this loss undermined my research. Instead, I feel that the main purpose of the fieldnotes was to help me discover and work through some of the key issues my research would center upon.

### **Arariwa Documents**

A second source of information I drew upon were internal documents produced by Arariwa. One particularly critical document was a 2002 report that summarized the findings of the needs assessment Arariwa conducted in order to develop the materials for the educational component. Having this report confirmed that the lessons were designed with close attention to the expressed needs of clients, but also raised questions as to why

certain topics mentioned in the focus groups were not incorporated in the final design. This report also stated the aims of *capacitación* and set forth the methodology that was to be used.

I also drew upon a master copy of the facilitator's guides for all the lessons. Each guide had a summary of the topic to be addressed, the sequence in which the lesson should be presented with guidelines as to the time spent on each activity, and selected reading materials. This information allowed me to understand the underlying structure behind the *capacitaciones*. It also allowed for comparisons between the idealized lesson as portrayed in the teaching guides and the actual lessons as they were conducted by the *asesor*.

The final source of data I examined were the *fichas del participante*, the handouts with summaries of key points of each lessons designed to help borrowers follow along with the *asesor*. A secondary purpose of these handouts is to give borrowers something to take away from the meeting to refresh their memory or perhaps share with a family member. These sheets distilled the content of the lessons and demonstrated which points the developers of the lessons considered to be the most critical.

## Interviews

My study included interviews with Arariwa managers, *asesores*, and borrowers. The interviews with managers and *asesores* were collected at the main office, while the interviews with clients were conducted at the group meetings. These meetings consisted of two parts: the repayment and the *capacitación*. While the *asesor* was free to determine what order these would occur in, usually the *asesor* prioritized the payment and would do that first. At the beginning of my study I conducted all my interviews at the end of the meetings so that I would be free to give my full attention to observing each part of the process. After about a dozen meetings, however, the repayment process began to seem rather monotonous, so I decided that taking copious notes of the repayment was an unproductive use of time and used this time instead to conduct my interviews.

As many of the borrowers were indigenous and were monolingual in Quechua (which particularly was true of women), I was often accompanied in the field by a

research assistant, Nelly Huaman, who had been referred to me by Clotilde and who spoke Quechua as her first language. Nelly had significant experience in interviewing and transcription and although she conducted her interviews in Quechua, she translated them into Spanish when she typed out her transcriptions. Obviously, my lack of control over her translation was a limitation for this study, but I have no reason to believe she significantly altered any of these interviews through her translation. In the present study, all translations from Spanish to English were done by the author, and all translations from Quechua to Spanish were done by Nelly Huaman.

Nelly and I would arrive at a meeting, and would assess which of the clients felt comfortable speaking in Spanish; I would interview these clients. Those clients who expressed that they were more comfortable speaking in Quechua would be interviewed by Nelly. We used a standard list of questions and we conducted our interviews simultaneously with clients from the same groups and at the same meetings of those groups.

While I would have liked to have a representative sample of the population, this was not a luxury that was available to me. My sample frame was restricted to the members of the banks that Cloty had chosen for me to attend. As I never had a chance to build rapport with any of the clients, they were usually quite shy and unmotivated to participate so I was limited to an opportunity sample of whoever would agree to talk to me. On the whole, Nelly and I interviewed a total of 51 borrowers.

Although I first expected to concentrate my study on the testimonies of female borrowers, the significance of gender as a dividing faultline in Cuzco society was less salient than I had anticipated, a topic to which I will return in Chapter 7. Class—and specifically rural residence was a better predictor of poverty than gender, and accordingly nearly 30 percent of borrowers were male, a very high rate compared to other MFIs. My sample of borrowers includes ten men and forty-one women.

Due to the rigid scheduling of meetings and the multitude of tasks that had to be completed at each one, these client interviews were generally rather short, lasting between 10-15 minutes. Language constraints also limited the length of those interviews as often neither I nor the interviewee could fluently express ourselves in the language in

which the interviews were conducted. At the beginning of my time in Peru, my Spanish was somewhat rudimentary and my initial interviews were conducted in a more structured format where I read questions in sequence from a list. Often I would not fully understand the responses, but would hope that upon listening to the interview again in the future I would be able to discern more accurately what had been said. As my Spanish improved with time, the interviews became less structured as I was able to respond more spontaneously to the comments and opinions people expressed.

My understanding of the elements of the loan process also improved as I conducted more interviews and I discovered which questions worked and which were confusing to the borrowers. After a couple of weeks of interviews, Nelly and I met at my home to discuss our progress and we compared notes on our success with each question. We eliminated or revised questions that we considered redundant and unproductive, and I added some new questions that had emerged as significant based on my prior conversations with borrowers. The quality of my interviews improved dramatically after this revision.

The vocabulary that I used ended up being very significant. An article I had read by Katie Wright, another researcher of microcredit in Peru, had sensitized me to the importance of ‘getting the questions right.’ I learned to recognize the words that were overly formal or confusing to my interviewees such as *impacto* (impact), *frecuencia* (frequency), *módulo* (module), and *autoestima* (self-esteem), *sesiones educativas* (educational sessions) and even *capacitación* (capacity-building session) and to replace them with more accessible words. This not only made my questions clearer, but also demonstrated my familiarity with the subject to borrowers. For example, I learned over time that the borrowers referred to the educational components of the meetings as *charlas*, or chats, and once I adopted this word in my questions I was rewarded with more detailed and less self-conscious responses.

Table 4.1: Count of Interviewees by Group

	Clients				Asesores				Managers	
	Rural		Urban		Rural		Urban			
Gender	F	M	F	M	F	M	F	M	F	M
Count	37	8	3	3	3	2	2	3	2	1
Total by Zone	45		6		5		5		3	
Total for Group	51				10				3	

As mentioned above, I also interviewed Arariwa staff members towards the end of my time in Cuzco (Table 5.1). I had separate sets of questions for the management staff and the *asesores* (see Appendix). However, at this point in my research I did not rely as heavily on the questions as I had in my interviews with borrowers. I was able to conduct the interviews in a more conversational manner and to ask *asesores* to clarify their comments or elaborate on a particular statement. These interviews were usually about half an hour to an hour long.

In the discussion that follows, each quote extracted from an interview will be prefaced with a code. The code F32 will denote a speaker who was the 32nd female borrower whom I interviewed, whereas M5 represents the 5<sup>th</sup> male borrower whom I interviewed. As very few of my respondents came from urban areas, all quotes from clients can be assumed to be taken from rural borrowers except when indicated otherwise. Quotes extracted from interviews with asesores will be prefaced with the code AF3 to indicate a female asesor and AM2 to indicate a male asesor. The same codes will apply to management, so that MF2 second female manager I spoke with.

### Research Ethics and Limitations of the Study

The greatest limitation presented in this research was my lack of complete fluency in Spanish, compounded by the fact that Spanish was a second language for most of the clients whom I interviewed. The primary result of this limitation is that I was unable to understand or sometimes even approach important but culturally-sensitive and nuanced topics such as gender dynamics or ethnic discrimination. My ability to explore such subjects was also severely constrained by the time pressures of the meetings during

which I normally conducted my interviews. The bulk of the discussion of these topics found in this paper is based not on my personal experience, but on materials gathered from the anthropological literature on the region of Cuzco.

The informed consent of research participants is a fundamental tenet of social science research. I ensured that participants understood the purpose of the study and that their participation was completely voluntary. My research assistant, Nelly Huaman, had a full understanding of informed consent and assisted me greatly in communicating this information to Quechua-speakers. While several of the borrowers in the banks were illiterate, I only interviewed those who were able to read my informed consent documents.

It is important to note that although the informed consent documents I brought with me to the field stressed the guarantee of privacy of anything said, this was not a reality that could be borne out in the field. I was often sitting in a tiny room overflowing with twenty-five people crammed onto benches along each wall, and the borrowers gathered together in this space would usually be talking to each other, joking, laughing or tending to crying babies. I was usually directed by the *asesor* to squeeze myself in between two people on a bench and go ahead with my interview in the midst of this general pandemonium. While interviewing, I worried constantly over the quality of my recordings with all the background noise and my self-consciousness in speaking Spanish before a group. The biggest limitation this situation posed was that participants never relaxed completely and wouldn't tell detailed stories or touch on more personal aspects of their lives. This problem was only exacerbated by their preoccupation with the payment and the limited amount of time that was available.

While in many cases interviewing participants without any privacy was a disadvantage, it is also true that sometimes this situation worked in my favor. Those borrowers within earshot listened avidly to my questions and the responses of the interviewee and usually did not hesitate to chime in to contest or confirm what the person had said. This led to heated debates among borrowers and proved to be fertile ground for developing new questions. Also, while many of the attendees were initially very shy to be interviewed by a *gringa* wearing men's clothes (jeans and a t-shirt) armed with a

clipboard and recorder, once they heard my questions and watched the first interview, they would change their minds and were more eager to participate. I also found that hearing the questions in advance by listening to the earlier interviews meant that would-be interviewees had time to formulate more thoughtful responses to my questions.

Another important point that must be mentioned is that in doing ethnography in the Andes, I stepped into a complicated, historically-determined system of relationships among *indígenas* and whites. Since colonial times, both groups have regarded each other with great suspicion and even contempt, and whenever these groups have come into contact, white outsiders have assumed a dominant position of power. As much as I may have been oblivious to this dynamic, I am certain that my interviewees saw me as a representative of white, European society and thus formed their reactions and responses to me in the context of this assessment. One way in which this was perhaps evident is that, in listening to the recordings of my interviews, I realize now that sometimes participants did not understand what I was asking them but were hesitant or even afraid to admit this. Many times when this occurred they would just answer “sí” or repeat back what I said to them. I might have never even noticed this had my research assistant not pointed it out to me when she listened to my interviews.

Over the course of my research I also gradually came to realize how my research was being used by Clotilde. When she sent me out to meetings with *asesores*, she was in effect forcing them to do a lesson at that meeting. The *asesores* were usually on their best behavior when I accompanied them, very polite but often somewhat formal or stiff. As I became more aware of how my research was being used to influence their behavior, I sometimes sensed that they resented having me there, as they were used to conducting the meetings alone without any supervision. My inadvertent role as an enforcer of Arariwa policy probably mediated the results of my research somewhat.

Finally, I also have to acknowledge the problems that may have been presented by borrowers’ suspicions that I was working on behalf of Arariwa and that what they told me might influence future access to loans. It is an open question as to whether or not the generally positive evaluations of the educational component that they all reported were due to their fear of punishment or their desire to please. However, the fact that often the

same people who praised the *capacitaciones* would not hesitate to criticize many other aspects of the program (size of loans, interest rate, etc) does provide some evidence that they were speaking honestly and candidly.

## CHAPTER 5

### INSTITUTIONAL CONTEXT AND THE EDUCATIONAL COMPONENT

#### **Arariwa: Institutional Background**

The name of the institution featured in this study, Arariwa, comes from Quechua and appears in the Inca Chronicles as a figure who is a “caretaker” or “guardian of sowers,” and protector of crops and livestock. The term refers to a kind of spiritual mayor of the countryside who was selected by his community and was not only charged with the protection of crops and the management of the weather, but was also believed to represent the community before the gods and nature and ensure the just distribution of food (Arariwa website). This name originated in a social development project initiated by the archbishop of Cuzco in 1977, which operated in the rural province of Urubamba.

The program was only meant to be temporary, but, according to the Arariwa website, when the program started to be dismantled, “the *campesinos* reacted firmly and insistently with a single directive: ‘You cannot leave, we have to keep working together because you are our *arariwas*.’” The team members met with more than eighty villagers who offered them a permanent home in the countryside, and Arariwa was officially launched as a non-profit organization on October 18, 1984. The significance of this story in institutional folklore is that Arariwa owes its existence to popular rural demand and maintains a focus on client demand to this day.

Today, Arariwa is an NGO with a head office in Cuzco and several satellite offices in nearby towns. The institution first began offering microcredit loans in 1991, and in 1999, the institution created a separate unit that specialized in microcredit. The main objectives of the microfinance unit are:

- To consolidate a self-sustainable financing system which provides access to credit, training, and organizational services to low-income populations
- To develop and validate credit technologies that contribute to the viability of the productive efforts of diverse sectors of the population
- To strengthen the capabilities of the groups organized in credit programs through non-financial services

- To guarantee the self-sustainability of the microfinance unit through the solid base of capital, organizational structure, information support, and a professional team.

(Lingán 2006:8)

As of 2006, Arariwa had more than 12,000 active borrowers (of which 72 percent were female) with an average loan size of \$262. The institution's total loan portfolio exceeds US\$ 2 million, and the microfinance unit employs 41 staff members, with a ratio one staff member for every 292 borrowers.

Arariwa uses the system of communal banks, or mutual support groups composed of 20 to 30 micro-entrepreneurs organized into groups to access credit. Arariwa grants a loan to the group as a whole which they then distribute amongst themselves. Clients, usually referred to as *socias* or “partners”, are required to repay the loans over a period of four months at monthly meetings which are overseen by an *asesor*. These communal banks were officially called *bancos comunales* but were usually referred to as *banquitos* (little banks) by clients and *asesores* alike. Borrowers incur interest on their loans at the rate of 3 percent if they repay in dollars or 4 percent if they repay in soles. As most rural borrowers do not have access to dollars and do not feel confident in dealing with this foreign currency, they tend to repay in soles.

The specific package that Arariwa offers to its clients contains four main elements: (1) credit to boost investment and strengthen small businesses, (2) the encouragement of savings, (3) skill-training at the personal level, and (4) the strengthening of the organizations of poor women from marginal urban and rural sectors. At the beginning of each loan cycle, clients sign contracts that demonstrate their commitment to all four of these components. This package of services is a somewhat more holistic approach to microfinance than that used by many of their competitors within the city of Cuzco which often simply provide loans.

Competition among microfinance organizations in Cuzco was fierce. While most explained the decision to venture deeper and deeper into the surrounding countryside with loans in terms of an institutional goal of reaching the truly needy, I also heard on more than one occasion that this extension into rural areas was, in part, a consequence of

the over-saturated market for microfinance in Cuzco which forced MFIs into the highlands in search of clients.

### **Joining a Communal Bank: Client Requirements and Motivations**

To join a communal bank, clients must have a fixed residence, a national identification card (DNI) and be over the age of 18 years old. They are required either to have a business, no matter how small, or to possess some kind of skill (such as knitting or weaving) that could serve as the basis for a future microenterprise. Officially clients are supposed to come from the poorest sectors and preference should be given to females. Yet both these rules have been relaxed over time—particularly in urban areas where competition between microfinance organizations is intense and demand for new clients is strong.

As stated above, on a monthly basis clients are required not only to make payments on their loans but also to make deposits into a savings account and to participate in the capacity-building sessions or *capacitaciones* led by the *asesor* at each meeting. While some clients enter into these *banquitos* solely for access to loans and see the program as “just money” [*dinero no más*], others place high value on other elements of the program. I found that clients’ approval of the savings and education components usually increased as a positive function of the length of time they had participated; some reported that these had ultimately proven to be more helpful to them than the loan which was their original motivation for joining.

While the primary focus of this thesis is clients’ responses to the *capacitaciones*, it is also important here to emphasize the importance that many of the clients also placed on the savings component. As one *asesora* told me

AsF1: I feel that what the women value the most is the savings and I can affirm that they are most in favor of this component. They know that it could help them at any time, primarily for their families, the education of their children and improvements of the homes, and it is because of this that they are in our group. They tell me ‘I can’t save in my house. Whenever anything comes up I go straight to what I have tried to save at home...for example if my baby gets sick, I tell myself that I’ll put it right back but I just can’t and then I’ve lost all my savings.’ They tell me they can’t touch what they’ve saved in the group and they

value that. I have seen for myself that, thanks to the savings, many people have improved their economic situation.

Clients themselves also frequently mentioned their appreciation of the opportunity to save in the program.

F8: What I like most is the savings that we have. It's different because we can't save in a bank...They put us in groups to save while in a bank it's done individually. In Arariwa we are a solidarity group so we work together.

F30: Most of all [the savings requirement] helps us to be more responsible and to know how to manage our money. I don't waste as much any more. Before I definitely wasted my money....on this and on that...I wasted it and then there was none left. But when we are in the *banquito* we have to save—we have to hold on to our money and we have to be responsible.

### ***Actividades- Meetings as a Social Occasion***

In addition to the educational and the savings components, many of expressed that the opportunities for socialization offered through participation in the *banquito* were what appealed to them most. I will discuss these sentiments in more detail in a subsequent chapter, but for now it is important merely to note one central opportunity for socialization that occurred as a regular feature of every rural (but not urban) meeting—the sharing of a meal as a group. In rural areas, one or two *socias* would cook a small meal for the group, and the official business of the meeting would be postponed until after clients had chatted and joked with each other over a hot meal. Usually, the responsibility for preparing the meal rotated among the bank members. This shared meal was a part of the meeting which fell under the general category of *actividades*, or activities, that the group subsidized through small contributions set aside for this specific purpose each month. The funds set aside for *actividades* were also used by the *socias* to finance group events such as birthday parties or holiday celebrations.

This initial part of meetings when meals were served was a source of great stress for me at the beginning of my research. When I first began my study, I would normally eat a big lunch before heading out to the rural areas in the afternoon, but doing so made it impossible to eat the heaping plates of rice and potatoes that *socias* placed in front of me

at the meetings. I sensed very quickly that in the highlands to decline food or leave food remaining on the plate is extremely rude, but did not realize quite how important this was until one day when I went to a meeting accompanied by Cloty.

We had just eaten a huge lunch before a meeting, but when the *socias* offered us plates, to my great dismay, Cloty cheerfully accepted for both of us. We walked outside together (purportedly to enjoy the food in sunshine) when Cloty turned to me and asked me under her breath if I happened to have a plastic bag with me. I did, in fact, have one which I gave to her, and with a furtive glance in both directions she swept the entire contents of her plate into the bag and stashed the bag in the car. She returned the empty plate to the *socias* as she showered them with compliments about how delicious it had been.

This incident made it clear to me that turning down food was simply not an option. I eventually learned to save my appetite and go into the field as hungry as possible so as not to offend the *socias*. I felt this taboo very strongly; on one occasion when I knew couldn't bear to face another plate of potatoes and meat, I lingered outside of the meeting room until my Quechua translator came to tell me that the meal was over and the coast was clear.

### **Capacitaciones: Development and Structure**

Incorporating the *capacitaciones* into the lending process was a fairly recent development, having only been initiated in 2002 under the leadership of the current director, Hugo Yanque. Mr. Yanque, who is a native of Cuzco, joined Arariwa in the 1980s to work on rural development projects. During his time at the institution he developed an interest in microfinance. In contrast to many of the agronomists, economists and finance specialists who surrounded him at Arariwa, he was firmly committed to a double bottom line of financial and social gains.

He explained to me on one occasion that although he was concerned with institutional sustainability, he also believed that microfinance was not an end in itself, but an instrument to achieve a greater end. He stressed that it was important for the

institution also to aim for broader improvements in borrowers' quality of life, and he linked this goal to the educational component of the program

I believe that an institution such as Arariwa that offers microfinance services is sustained upon two pillars. One is financial performance, which means low default rates, having enough money to cover our costs or to have an acceptable profit margin, and also being self-sustainable. But social performance is the other; it's not just that our microfinance division grows, but also that our clients are satisfied and happy, they are improving their businesses, and they are gaining in power. So *capacitación* is directly linked with social performance and giving money is directly tied to financial performance.

At the end of 2002, Mr. Yanque invited Clotilde—an educator who had previously worked for the government on the intercultural bilingual education program discussed by Garcia—to draw up a proposal for an educational component. Clotilde eventually became a permanent staff member at Arariwa and was my primary contact at the institution. She claimed that at the beginning of the project the planners had expected to start by developing a business management module, but early discussions with *socias* revealed that they had different demands than Arariwa had anticipated.

Cloty: At the very least we had this idea that we were going to do business management, but when we did the investigation on what they were demanding the first priority that emerged was family wellbeing [*bienestar familiar*]. The microfinance people didn't expect that the family would be the priority and not the business! So we started with the module of family well-being because it was a response to the demand.

Development of the modules began with a needs assessment in 2003 which was conducted through focus group research in various rural areas throughout the department of Cusco. No focus groups were conducted in urban areas. In total, one hundred clients—91 women and 9 men—participated in a total of 9 focus groups; of these, 65% were between 20 and 30 years old and the participants had an average of three children. The official institutional report on this project states that all of the participants were bilingual and the focus group discussions were primarily held in Quechua so that there would be greater confidence and participants could express themselves more freely.

The demands expressed by the focus groups fell into four general categories: health, family well-being, business management, and bank organization and management. In relation to health, participants were most concerned with preventing and treating illness in their children, particularly the upper respiratory and intestinal infections which were so common in the highlands. They also expressed a desire for information about nutrition, especially concerning how to balance meals, how to best schedule their children's meals each day, and what kinds of foods to give their children across the life span. The report states that:

...[A]ll participants testified that they breastfeed their children up to a year or longer and that in this period there are seldom any problems with malnutrition. The problem begins when the babies begin to eat solid foods; they stated that "we give them the same food that we eat." (Arariwa 2003:6)

Participants also demonstrated interest in information about female health on topics such as menopause and the treatment and prevention of female-specific issues. The report notes, "when asked if they go to the health center with such problems they said that they didn't out of fear and certain shame during the clinical examination" (Arariwa 2003:7). Similarly, they demanded education in topics related to men's health; interestingly, the participants (and the preparers of the report) included alcoholism as such an issue. Some participants even proposed a community alcoholism awareness event, because "they consider it to be an illness of the entire community and not just their bank and they want the bank to contribute something to resolve this problem."

They expressed frustration at the way they were treated in health centers and complained about the distance they had to travel (and time they had to sacrifice) to visit one of these centers. Some complained that at the clinics, "they give us the same pill for every sickness," and they wanted to know more about medicinal plants and natural medicines they could use within their communities. The section on health in the report concludes with the assertion that a large part of the problem is participants' lack of long-range planning which hinders their ability to take adequate measures to prevent illness when "the effects of the sicknesses are in the long-term."

With respect to family wellbeing, the clients' major concerns related to issues of respect and self-esteem, management of family conflicts, and child rearing. Some of the participants seemed to understand self-esteem as being synonymous with self-presentation such as dressing nicely and being hygienic. Many felt as though they were not treated with respect in their homes and expressed a need to manage conflicts with their spouses. Such conflicts usually centered on the education of their children or the wives' treatment by their husbands. One woman remarked, "I want to go out—they call me to go to these organizations, and I change clothes and get ready to go, but my husband won't let me. He says that I'm a married woman and the only thing I should be concerned with is my children" (Arariwa 2003:7). Another concern was a lack of knowledge about child rearing. Participants wanted to learn about childrens' brain development at early ages and how to teach their children to be "good citizens." The report notes that they all expressed a wish that their children would not have to suffer what they had and that their lives would be better than their own.

With respect to the third theme, bank organization, the women expressed that they often felt uncomfortable or insecure speaking in front of men, who sometimes made fun of their participation. One woman stated

Women are discriminated against, they aren't allowed to go to the assemblies, they are told to talk amongst themselves and no more than that...there's a lot of authoritarianism and they feel so impotent as to not even participate at the assemblies. (2003:16)

All borrowers expressed a need for training in conflict-management in their groups which arose when other members refused to pay fines or to attend regularly. Lastly, comments on the topic of business management revealed a need for more training in formulating a business plan, accounting, recording sales, cultivating proper sales attitudes and marketing strategies, and moving from an orientation in their businesses on subsistence and basic survival to an emphasis on growth and development.

With the needs assessment completed, the team set to work developing the modules. While Cloty herself designed the initial module on family well-being, she called in specialists from outside the institution to assist in the development of the other

modules. Three economists collaborated on the conceptual content of the business management module and a nurse developed the content of the module on health. Once these theoretical components of the content had been developed, Clotilde adapted these elements to a standard methodology she was already using for the family wellbeing module.

Each module contained nine lessons which were divided into three units of three lessons each (Figure 1). *Asesores* may move either horizontally in sequence, completing all nine sections of a module before moving onto a different module, or alternately, may move vertically through the sections, teaching the first unit of each of the modules before moving on to the second and then third units of each modules. A typical loan cycle is four months and one lesson was covered at each monthly meeting with the exception of the final one which was devoted to closing out the cycle. Moving through an entire module, or alternately, completing the first three units of every module, would take a year, and all of the modules could theoretically be completed in three years.

**Table 5.1: Arariwa *Capacitación* Matrix**

	First Year Sessions			Second Year Sessions			Third Year Sessions		
Month	1	2	3	4	5	6	7	8	9
	Identity and Self Esteem			Improving Family Relationships			Child Growth and Development		
Family Well-Being	Who Am I?	Independent & Respected Persons	How would I like to be?	Marital Relationships	Family Harmony	Understanding Each Other	Quality Time with Children	When We Punish Our Children	Adolescents
	Safeguarding My Business			Using Business Data			Improving My Sales		
Business Management	Thinking Like An Entrepreneur	Taking Stock of Our Reality	Planning a Business	Organizing the Family Business	Keeping Records	Taking Out Business Expenses	Knowing My Market	Improving Sales	Identifying New Opportunities
	Promotion of Healthy Habits			Prevention of Children's Illnesses			Balancing Family Meals		
Health	Drinking Safe Water	Personal Hygiene and Managing Excrement	Hygiene in the Home	Vaccines and Acute Respiratory Infections	Diarrheal Illnesses	First Aid	Infants and Childrens Nutritional Needs	Safe Food Handling	Planning and Preparing Meals
Bank Organization	Communal Bank Management			Communal Bank Management			Communal Bank Management		

There is a fourth module, management of communal banks (*gestión de bancos comunales*), that is not formally a part of the sequence matrix and is meant to be more of a remedial or emergency module that can be taught when banks are in crisis. However,

*asesores* usually named this fourth module as their favorite to teach or the one that was most important. In my research, I observed lessons from this module being taught more frequently than any of the other modules. Given that *asesores* are judged by their ability to collect payments on loans rather than their ability to initiate abstract social changes, their enthusiasm for this module seems logical.

*Capacitaciones* are programmed to last at least 45 minutes. However, in practice not all *asesores* would have time for *capacitaciones* after sorting out attendance, checking payments, and (sometimes) chastising *socias* for failing to meet their obligations. When *capacitaciones* were carried out, they did not always last this long, and there was a large variation in the times *asesores* reported devoting to *capacitaciones*—some did no more than a fifteen minute session whereas others might devote an hour or more. The *capacitaciones* could be held either before or after the collection of payments. Although Clotilde recommended that they be held before collecting the money, hardly any *asesores* followed this advice. Their time was very limited and their main priority was making sure that they returned to the office with the proper amount of money in hand.

In designing the content of the lessons, the team had taken great pains to assure that the examples and readings would be culturally appropriate and could be adapted to either a rural or urban audience. There were sometimes separate reading materials for each context with two sets of examples that could be used in teaching in either area. In one case, a completely different lesson was offered in these two contexts. In rural areas the third lesson in the health module addressed the “management of excrement” and the importance of latrines, but in urban zones this lesson emphasized the “management of trash” and protection of the environment.

At most meetings, the *socias* were also provided with *fichas del participante*, or worksheets featuring illustrations and summaries of the main points of the lesson being covered that day. The materials provided to *asesores* for each lesson included a dossier or summary of the topic, a methodological guide containing a suggested program for the lesson (with times assigned), some reading materials relating to the lesson, and other supplementary materials such as flashcards, laminates, games, or cassettes.

The methodological guide suggested three phases for the *capacitación*. First was a warm-up period where the *asesor* would introduce the topic. This was followed by a phase where the *asesor* would go around the room to get the participants to share their experience or pre-existing ideas on the theme. The *asesor* would then introduce new knowledge which the group would analyze through discussion or participatory activities. Finally, the students were supposed to make a written commitment on the back of their worksheets to find ways to incorporate what they had learned into their lives.

This process could also occur in microloops throughout a session. For example, during a *capacitación* on first aid, the lesson addressed various topics such as choking, burns, and flesh wounds. The *asesor* began by asking people about any experiences they or their families had with choking. *Socias* raised their hands and enthusiastically related past incidents of choking in their lives. One talked about a time when she had choked as a little girl and her father had reached down her throat to remove the blockage, while others told the group stories about when their sons or even pets had choked on something and they had hit them on the back to dislodge it.

The *asesor* then said something to the effect of “Yes, those are the two most common ways of dealing with choking, but who here has heard of the Heimlich maneuver?” Most said that they had heard of it, but didn’t really know what it was. So the *asesor* explained the Heimlich and the participants followed along on their worksheets by looking at the illustration of the steps involved in performing the Heimlich upon someone. Next, the *asesor* solicited stories of burns which elicited even more dramatic stories from the clients, and the *asesor* then went on to clarify the difference between first, second, and third degree burns and which kinds of burns would require a trip to the health center. After all the new material was introduced, flashcards were distributed with pictures of different kinds of injuries or situations, and the participants were asked to show their card to the group, explain what was happening in the picture, and then say what the appropriate response to the situation would be. Despite the emphasis on the written commitment on the worksheets, I cannot remember any instance in which this was given any significant attention in practice by the *asesores*.

The lessons were meant to be adapted to each unique situation and the needs or concerns of specific *banquitos*. The *asesores* were encouraged to be creative in adapting the lesson, but this directive also meant that there were no firm rules as to the proper procedures, an ambiguity that was sometimes taken advantage of by the *asesores*. Flexibility and adaptability came at a cost, a topic I will return to later.

### **People: Managers, *Asesores*, and *Socias***

There were three types of subjects in the lending process at Arariwa: the *asesores*, the managerial staff, and the borrowers. The borrowers will be addressed in the next chapter, and in the discussion below I will present the *asesores* and managers, explaining their roles, their primary concerns and their interactions with each other. In both sections I also discuss what proportion of my sample was represented by each group.

#### ***Asesores***

The *asesores* are the mediators between the borrowers and the institution who represent the human face of Arariwa to the *socias*. My study included a total of ten interviews with credit officers. Of these, half were men and half were female. Similarly, within my sample of *asesores*, five worked in rural areas while the other five worked within the city. The *asesores* I interviewed had been with Arariwa for a minimum of 1.5 years and a maximum of 14 years, with a median term of 4.5 years. One male *asesor* with whom I spoke told me that in the past there had been a “taboo” against male field agents. He didn’t say why this was so but I would assume it has to do with the traditional emphasis on reaching women within microfinance, and the idea that a female *asesor* would be more appropriate than a male in serving female borrowers. Yet, perhaps in tandem with Arariwa’s drift away from an exclusive focus on lending to women, the gender representation among staff had shifted to the point that male agents were nearly as common as females at the time of my study.

Most of the credit officers have been trained in economics or have previous job experience in finance. Approximately 70 percent of the *asesores* are bilingual, and

almost all of those assigned to rural areas are fluent in Quechua. Several rural *asesores* told me that they frequently conducted the *capacitaciones* in Quechua, but I never witnessed this. I noticed that even when *asesores* did speak Quechua they would refrain from using it in meetings with the *socias* except to clarify something that was obviously confusing or unclear.

Each credit officer is assigned a certain number of banks which they must visit once a month to collect installments on the loan and give training sessions. Young male *asesores* without families were generally assigned to more distant rural banks while women, particularly those who were pregnant or had young children, were more commonly assigned to the banks in the city which were more convenient for them and their families. The number of banks held by the *asesores* interviewed in this study ranged from a minimum of 20 to a maximum of 27 banks. For rural *asesores*, the median number of banks was 21, while for urban *asesores* the median was 24; this discrepancy seems logical, given the need to accommodate time for travel in the schedule of a rural *asesor*. Yet this number is not an accurate proxy of their workload as the groups varied greatly in size—the *asesores* I interviewed reported having groups ranging from just 12 borrowers up to a maximum of 52. But based on my own observations of meetings, the number of clients per groups was usually between 15 and 30 people. On the whole, a given *asesor* was typically responsible for the loans of between 400 and 500 *socias*.

But again, as *asesores* repeatedly told me, this total number of borrowers or banks under their supervision was only loosely correlated with their workload and stress. The one factor they consistently mentioned as the most important index of their stress was the relative quality or ‘organization’ of the banks under their control, by which they meant the compliance of borrowers with rules. As one *asesora* explained, “when there are problems with debt, ten banks can be too many, but the reverse is also true. If the banks are good, twenty-four banks can be fine. It all depends on the quality of the bank.”

In addition to collecting money and leading *capacitaciones*, the *asesores* were also responsible for recruiting new clients, dismissing clients who failed to repay their loans, preparing and adapting *capacitaciones* to meet the unique needs of particular

banks, counting money, and making deposits of the payments they have collected. Rural *asesores* with banks spread far apart found themselves constantly in a rush, and occasionally *asesores* even had to work on Saturdays to accommodate their clients' schedules. The frequent rotation of *asesores* among banks also created chaos and disorganization that exacerbated stress.

On a typical day an *asesor* spent mornings at the Arariwa office doing paperwork and taking care of other administrative tasks before heading out to visit their banks in the afternoons. Whenever I followed rural *asesores* into the field to observe their meetings, I would usually leave Cuzco around 1 p.m. and arrive back into town at around 7 p.m. A journey required two to four hours round trip but either the travel time or the meeting could be prolonged by any number of unexpected circumstances.

Many of the *asesores* mentioned the danger that was associated with their jobs. Administrating and carrying money saddled all of the *asesores* with a great deal of risk which further contributed to stress. Additional risks for urban *asesores* were a product of their close proximity to their clients, while for rural *asesores* the long distances separating them from their clients created a different set of risks. In the words of an urban *asesora*,

AsF5: In taking over the management of money, we assume responsibility. There is also a risk in that we are in direct contact with our clients; when we decide not to give them a loan, they blackmail us or threaten us here in the city...*la gente del campo* have much stronger values, but in the city people have been corrupted. These are big risks—not just for us, but for our families too. I'll tell you, for safety's sake, not even my friends know where I live. When we collect payments outside the office, we have to carry money and just recently my treasurer was robbed. It wasn't just money either—it ended at the hospital. These are the things that terrify me.

Rural *asesores* assume the risk of transporting money over even longer distances and, due to their dependency on unreliable forms of transportation, face the additional threat of being stranded with large amounts of money alone in an isolated location. Once when visiting a meeting of a borrowers in a tiny highland village two hours from Cusco, I watched the *asesor* drive off on his motorcycle along a precarious mountain road—only

to see him return on foot an hour later, walking the broken-down motorcycle alongside him. In this instance, he was very lucky that we had come to observe his meeting with a very large truck, as he and his motorcycle would have otherwise been stranded. When I interviewed him that day and he told me, “It’s difficult! You saw what happened with the motorcycle, and I don’t have any kind of back-up. It’s a big problem for me, it’s a huge risk...so many things can happen to you in that situation.”

The role of *asesor* presents many inherent tensions. They were required to fill conflicting roles and were faced with competing objectives. In their conduct, they were required to be compassionate and to possess, according to the director, a “certain sensitivity with low-income groups,” but they were required at the same time to be strict and unbending in enforcing institutional policy. They were expected to be meticulous in their handling of money but creative in their adaptation of lessons for each group, to be friendly and engaging with their clients, but also disciplined and vigilant. The contradiction that seemed most obvious to me in my observations was that they assumed a vertical relationship with clients when enforcing payment but then minutes later were expected to establish a warm atmosphere of horizontal participation and discussion during *capacitaciones*. When I pointed this out to Cloty, she told me that this was the main reason she had advised *asesores* to do the *capacitaciones* first.

For the *asesor* this is a difficult situation to manage. There is a lot of tension during the payments and the *asesor* needs to be rigid, but then for the *capacitaciones* they have to smile and be happy. This change is very difficult for them, and this is why we recommend doing the *capacitación* first, but the majority of *asesores* do the collection first because they want to assure themselves of the payment. If the payment is done after the *capacitación*, some of the *socias* might even leave without paying.

Even in their task of conducting *capacitaciones* they are pulled in opposite directions. *Asesores* were provided with institutional teaching materials, trained in a particular methodology and periodically observed and judged in their adherence to these rules, yet at the same time they were asked to be flexible and adapt the lessons to the needs of each of their banks. Adapting modules in this way takes required even more time that the *asesores* simply did not have to spare.

Conflicting objectives, combined with a shortage of time, presented the greatest challenge to the *asesores*. They were officially required to do *capacitación*—“quality” *capacitaciones*, thorough and adapted to each bank—but their job performance was evaluated almost entirely on the basis of their recovery of money. Many *asesores* stated that they enjoyed doing *capacitación*, saw the merits of it, and would in fact even prefer to do only that and not collect money, but were forced to prioritize the payment and sometimes skip the *capacitaciones* altogether. Others admitted they simply were not doing them at all.

### ***Management***

In this study I interviewed four managers: the director of Arariwa, Clotilde, and two individuals responsible for internal control. One of the main issues that concerned these interviewees was the *asesores*’ failure to conduct the *capacitaciones* or to use the recommended methodologies for the *capacitaciones*. They felt that this lack of compliance was partially a product of the solitary nature of the *asesores*’ job.

MgF1: The *asesores* do their work all alone and there is no one who controls this, they are out there all by themselves...I have noticed that each *asesor* has their favorite module, has their own rules...We have 35 analysts who work in 35 different ways, and this isn’t how it should be.

But they also believed that a key part of the problem was a lack of standardized policies and procedures.

MgM1: In Arariwa we need to improve the rules, and every *asesor* needs to respect the rules. These policies need to be clear and institutionalized because right now the *asesores* just work however they want. Half of the *asesores* aren’t doing them at all, and this just isn’t right—working here isn’t just about credit, it’s also about doing the *capacitaciones*.

Another concern of the managerial staff I interviewed was their awareness that many of the current *asesores*, even some of those assigned to rural areas, did not speak Quechua. A previous director of Arariwa (who had recently left his position) had relaxed some of the hiring standards and had hired *asesores* more for their economic experience than their

linguistic or cultural knowledge. Mr. Yanque, the current director, assured me that things had changed since he arrived and that now every new *asesor* hired must speak Quechua. Clotilde explained that speaking Quechua with rural clients during the *capacitaciones* was important for many reasons.

Well, one reason is that it's important to build trust and confidence with the *socias*, because when they hear Spanish they won't feel as close to you. Another is that because they are more fluent in Quechua, the message will connect with them more. One more is that the *asesor* will be able to identify more with the *socias* and the *socias* will be more relaxed. I have seen many *capacitaciones* where it's not done like it should be and this is something we really need to work on with the *asesores*.

One of the internal control staff, who had formerly been an *asesor* himself, told me he had changed his mind on the issue.

MgM1: I didn't used to be convinced about the importance of Quechua, even though it is my maternal language, but now I have been completely convinced by my work in the countryside that all the *asesores* working in rural areas have to know Quechua...if we are in the rural zone the *asesor* needs to be capable of communicating in the language that is dominant there.

## Conclusion

The decision to implement *capacitaciones* in 2002 was not simply a retooling of the loan process, but instead represented a radical shift in the mission and goals of the institution. As a result of this change, Arariwa suddenly found itself confronted with difficult trade-offs in hiring practices and the allocation of limited funds and staff. The consequences of this new policy were felt even more intensely by the *asesores*, who became subject to contradictory and irreconcilable demands which only exacerbated the stresses inherent in their job. While the *asesores* sometimes wished for certain adjustments in institutional policies, on the whole they were committed to the importance of the educational component of the loans. Their enthusiasm for *capacitaciones* in spite of the additional burdens this requirement imposed was based in their understanding that the outcomes of *capacitación* justified their costs. These outcomes, along with the

benefits they conferred to borrowers, *asesores*, and Arariwa itself, are the subject of the next chapter.

## CHAPTER 6

### IMPACTS OF CREDIT WITH EDUCATION

This chapter will address the findings from my research relating to the question raised in Chapter 1 as to the feasibility or desirability of integrating education with credit, while the next chapter will relate these findings to the broader question as to how empowerment was understood by the borrowers whom I interviewed. From the perspective of borrowers, the benefits of this policy clearly outweighed its costs. While urban borrowers did not appreciate the *capacitaciones* to quite the same degree as rural borrowers, when I asked each one directly, not a single client of the fifty-two I interviewed said that they would prefer for the educational component to be eliminated if they had the choice.

From the perspectives of the institution and the *asesores* the picture was much more mixed. Adding education had considerable benefits, which I will describe below, but also imposed considerable costs in that it created conflicting goals and internal tensions; the author is preparing an institution-focused thesis as partial fulfillment of a Masters in Public Policy. However, this thesis focuses on the perspectives of “those whose lives an intervention is seeking to transform” (Kabeer 2003:81). So, the testimonies of the borrowers themselves concerning the outcomes of *capacitación* will be the main focus of the discussion that follows.

As a disclaimer, I have to warn that some of the outcomes that these borrowers listed as benefits will perhaps appear to be otherwise for readers with a background in feminist or post-modern theory. I myself often felt uneasy hearing borrowers denounce their previous ways of being while extolling their increased responsibility, punctuality, willpower, or other attitudes which, to me, smacked of Western ‘indoctrination.’ But the point is that they themselves believed such outcomes represented improvements in their lives, and this, for the moment, is all that matters.

### **Rural vs. Urban Borrowers**

From the very first day of my study, staff began to discuss almost everything they said in terms of the differences between rural and urban banks. While I did attend at least ten meetings in the city, most of my data comes from observations and interviews outside the city. In total, I interviewed approximately fifty borrowers, forty-three of whom lived in rural areas. I realized very early on that this variable of urban or rural residence was the most significant in determining how *asesores* conducted the *capacitaciones* and how borrowers responded to them. Before discussing these differences however, I will contextualize my findings by presenting a brief sketch of the prevailing conditions in the each area.

As was discussed in Chapter 3, borrowers in rural areas clients were indigenous Quechua and significantly poorer and less educated than their urban counterparts. Many men were bilingual, but most women either spoke very rudimentary Spanish or were monolingual in Quechua. A second difference between men and women in this area was that while some men wore machine-made, Western clothing such as blue jeans, women in these areas wore elements of traditional indigenous dress, and wore their long hair in two pigtails (often hooked together in the back) with traditional hats upon their head. As compared to women in urban areas, these women were much more timid and spoke much more softly. As someone relying almost entirely on the quality of my recording to decipher their hushed responses when I got home, I was often frustrated because these same soft-spoken women also usually had small children in their lap who were also vying for their attention or running through the room squealing merrily.

Conversations with Clotilde or with *asesores* revealed many features of rural life that are difficult for me to confirm but are worthy of mention, if only to show the prevailing *cusqueño* impressions of campesinos. Rural areas reportedly had a much higher incidence of alcoholism, violence and abuse. Clotilde claimed that in a previous study she had done in the countryside, she had learned of more than eighty-two different means of punishing children. The aim of her study had been to raise rural parents' awareness [*sensibilizar*] on the issues of violence and punishment, and as part of the project, the researchers asked a group of rural children to draw a picture of themselves at

home and then explain what it meant. Clotilde said that one of the drawings affected her very deeply.

The whole thing was all black except for a tiny little circle of white left in the middle. When I asked the boy to explain it, he said, ‘Look here, you see my father has just punished me, he just hit me, and I hid in my room but now he is outside hitting my mother and I am watching through this little hole.’

She continued by telling me that when the parents arrived, they saw their children’s names on the drawings and at first were very proud and happy, but when they started to read their children’s descriptions they fell silent and began to cry. They later told her, “we never realized before the consequences of punishments but now we understand how much damage it does to our children.”

She also told me that while campesinos would reward their children with small gifts or candy, they were not normally affectionate with either their spouses or their children. She related another story from the period when she was developing the materials for the *capacitaciones*: she was out in a village taking photographs of the rural highlanders to include so that the materials would be more culturally appropriate.

For the quality time lesson, I was trying to take pictures of playing, but none of the mothers there were playing with their children so I couldn’t get the picture. So I asked one mother, ‘Can you play with your child so I can take a photograph?’ and then she asked me, ‘But how should I play with my son?’ So then I played with him so that she would have some ideas about how to do it.

From the point of view of an *asesor* attempting to conduct a *capacitación*, the most important differences between rural and urban areas were in the nature of “work” in the region, the composition of the groups and the facilities that were available. In rural areas, the economy was almost entirely agricultural and was primarily oriented toward subsistence. If and when there was a surplus, rural inhabitants would bring their goods to sell in the markets found in the larger nearby towns. There were few clients with any true “microenterprises” in the traditional sense of the word; at most, a business in a village would be a small store with matches, cigarettes, soft drinks and potato chips. The rural economy is fueled by physical labor, with men and sometimes women and children

working together in the fields all day. Women also commonly contributed to their families by raising small animals such as chickens or guinea pigs around their houses.

The working day was very long in these areas, which meant that meetings of communal banks had to be held either very early in the morning or very late in the evening to accommodate the schedules of these clients. Also, *asesores* told me that the strenuous nature of rural work often left their clients so exhausted that they would fall asleep in the middle of meetings. The high incidence of alcoholism in this region also contributed to this phenomenon.

In urban areas, the nature of work was obviously much different. Physical labor did not figure significantly. Instead, borrowers were often shop owners who found someone to mind their store for them while they went to pay their loan. This led to a very common phenomenon of what *asesores* termed '*pagar y irse*,' or when clients came only to pay and left before the *capacitaciones* were finished or had even begun. They would do this in spite of the fines that were imposed upon those who broke bank rules (the fine amounts were determined collectively by the groups). Another common phenomenon at these banks was that borrowers would send someone else to the meeting to pay their installment on their behalf. Obviously in this case, the *capacitación* would not do the borrower any good. *Asesores* felt that this kind of behavior negatively impacted group solidarity and sometimes even polluted group morale and could lead to the degeneration of the bank.

AsM5: When people don't attend or when they send others to deliver their payments, this creates a contagion in morale and...their group will end up disintegrating and becoming disorganized.

Most of the *asesores* shared this sentiment that urban groups were more 'disorganized' than rural banks. This was usually explained in terms of the degree of similarity or difference among the clients in each group; while urban groups were very diverse, rural groups were much more homogeneous. Rural borrowers tended to earn their living in similar ways, and there were few observable gaps in status, wealth, or education among the clients who participated. Clients knew each other much better and

were more likely to *associate* outside of meetings than the urban borrowers. All clients dressed in similar attire and gossiped with one another in Quechua.

For the *asesores*, such homogeneity increased group cohesion and meant that rural borrowers were likely to comply with rules and to participate in the *capacitaciones*. The disadvantage of rural banks, however, was their remoteness and their lack of appropriate facilities.

AsM1: In rural zones the population is much more homogenous, so there you have different kinds of problems for the credit officer. For example, there is the distance that you have to travel to get there, or the lack of a meeting place with a blackboard. Sometimes you have to meet in a courtyard, or if you can find a place it's extremely cramped and lacks the necessary conditions to accommodate a group of people. There's nowhere to pin up posters, there are no benches to sit on, so sometimes I pin things to the mud walls with twigs or thorns, and that's how we do it. It's a little uncomfortable, that's the main problem. But there is organization in *el campo*, there's good attendance and the majority of the people come to the *capacitaciones*.

Urban banks presented the opposite situation. *Asesores* appreciated having good lighting, adequate seating, a blackboard, solid walls and shelter from the weather but they were usually frustrated that urban groups were much less organized which was portrayed as being a result of the heterogeneity of urban groups. While on the one hand most of these participants spoke fluent Spanish (or were mono-lingual in Spanish) and wore Western clothes, urban borrowers differed from each other along lines of social class and education. Within an urban group it would not be uncommon to see a street vendor sitting next to a sharply dressed white-collar worker. One urban *asesor* with a background in economics diagnosed the primary problem in the city as inadequate market segmentation, telling me that

AM1: It's a big problem when an institution has a *monoproducto* (single product) like in our case. We only have communal banks and we haven't adequately segmented the population that is our target market. If you look at [urban] communal banks, the clients are very heterogeneous—not just in terms of a single characteristic either, but in their level of income, in their education, in all these things, and this is what makes it so complicated. What we have is a little bit of everything! We have some *ambulantes* (itinerant sellers), others with a fixed

location, you have others with large *pollerías* (Peruvian chicken restaurants), as well as professionals like teachers and nurses.

With such a diverse group, it was almost impossible for *asesores* to conduct the *capacitaciones* on a level that was accessible to the least educated but not so basic as to insult the most educated. *Asesores* frequently felt intimidated in groups with clients who were more educated than they themselves were, and they expressed frustration with some urban clients who demanded to be instructed by specialists.

AsF5: The problem is these people who pay and go, the people who think that a doctor can give a better lesson in health or a marketing specialist would be better for the theme of business management.

AsF3: In the posh areas, there are a lot of professionals and they have these superiority complexes like they already know everything.

MgF1: In the urban areas they are a little more pretentious, they don't want the *asesor* to talk to them about hygiene—they want a nurse. They think the *asesor* doesn't know anything more about the subject than they do.

The greater disorganization of urban groups, along with the urban borrowers' perception that the lessons were too simplistic, meant that *capacitaciones* (if they were done at all) were received less enthusiastically in these areas. In the next chapter I will explore these divergent responses in much greater detail, but in the sections below I would like to first present the scope of impacts that borrowers and *asesores* reported.

### **Impacts of Capacitaciones**

Adding *capacitaciones* to loans can lead to outcomes which benefit individuals, households, lending groups, and *asesores*. These benefits, in turn, can lead to higher repayment rates and increased satisfaction among customers and increased job satisfaction for the *asesores*, outcomes which obviously have positive implications for Arariwa as well. In practice it is very difficult in to discern which impacts result simply from access to the loans and which instead result from the *capacitaciones*. As this challenge became clearer to me over the course of my study, I tried to address it by asking clients if they felt the outcomes they reported had more to do with the loan or to

the *capacitaciones*—something that was impossible even for them to know with certainty. In spite of this complication, my research did uncover many examples of impacts that stemmed directly from the *capacitaciones*.

### **Individual/Household Level Impacts**

One reason for the popularity of microcredit among development practitioners and scholars is that it has potential not only to impact the material conditions of borrowers' lives but also to alter borrowers' self-perceptions, attitudes, and behaviors, which in turn can ultimately improve their structural positions in their households and communities. The hypothetical pathway for this process of “empowerment” typically begins with increased economic control which subsequently results in changes in attitudes and behaviors. Adding education to credit delivery works in the reverse direction, intervening first at the level of individual attitudes and behaviors. This may serve to reinforce or strengthen the outcomes created by credit alone.

In this study, urban and rural borrowers alike described changes in their attitudes or self-image, but rural clients were much more likely to claim such changes had directly resulted from the *capacitaciones*. With respect to behavioral changes, urban borrowers rarely reported making any significant adjustments as a result of *capacitaciones*. When they did, the changes were usually relatively minor, such as keeping better business records. Rural clients, on the other hand—particularly female rural clients—would frequently offer anecdotes illustrating how their lives had been improved as a direct consequence of abandoning past behaviors or adopting the new practices promoted by the *capacitaciones*. Many rural borrowers talked about *capacitaciones* as marking a crucial dividing line between “before” and “after.”

### **Attitudes and Self-Image**

Before I began my interviews I wondered if female borrowers might find the lessons on self-esteem and confidence to be irrelevant, or perhaps even condescending. Nothing could have been further from the truth. Both urban and rural women frequently selected this topic as the one they had found most interesting or helpful, but rural women

were much more likely to state that this kind of education had changed their perspectives on their lives. Most commonly, clients discussing such changes described a previous state of fear, uncertainty, or indecisiveness which had been overcome through the *capacitaciones*.

F37: Before I used to be afraid to make decisions, but now after these *capacitaciones* I have confidence and more certainty in what I am going to do.

F21: I am not as afraid anymore.

F26: I have learned to make decisions on my own, which was something I really didn't do much before.

[Me: Do you feel like you make more decisions on your own?]

F12: Yes, before that was never the case, it wasn't our custom, but now after the *capacitaciones*, yes.

Women in particular frequently associated this newfound confidence with greater autonomy.

F27: I have confidence in myself and in my business; I am able to pull together the money to pay the loan all by myself.

F6: Yes, the *capacitaciones* have helped me very much—now I take care of my own health and I also have confidence in myself.

F28: I have matured and now I have more confidence in myself. Before I just did as I was told [*antes hacía lo que me decían*].

The final result of these gains in confidence was that borrowers came to have a much more optimistic view on their lives.

F4: I have learned that I have to value myself, to love myself as I am and I now have a lot more confidence in my business...I have faith that this business is going to go well for me. Now I don't think that I am going to lose but that I am going to win.

F29: Yes, there have been changes, because I value myself, I have confidence in myself that I am going to achieve what I want to—I feel more certain of this than before.

Finally, many borrowers believed that the values emphasized by the lessons had helped them in their businesses and had taught them to work harder [*trabajar con más animo*] and to be more responsible.

F26: The *capacitaciones* in our *banquito* have been very useful to me, they gave me more willpower. Before I didn't sell much, but now I have more clients and more products.

F31: Business management helped us to work harder and to be more responsible.

## **Changed Behaviors and Adoption of New Practices**

### ***Family Relationships***

A great number of participants, both men and women, discussed the impacts that the *capacitaciones* had had in their relationships with other family members. The most common example of this was better communication [*dialogo*] among family members and a reduction in household conflicts. As above, both urban and rural borrowers mentioned this outcome, but while the impacts were relatively minor for urban borrowers, rural borrowers often said the lessons had profoundly changed their past patterns of behavior.

F37: For me, it's helped in my family well being because I used to argue with my children and with my husband, but now I am more aware and I am different because I have realized that its not always possible to solve problems with violence.

F33: When I used to have problems with my husband—whenever I saw him drunk—I would insult him and we would fight, but now I don't insult him anymore. I try to calm myself down and we converse.

In rural areas, clients gave examples of how they or their loved ones had overcome alcoholism as a result of *capacitaciones*, which resulted in greater harmony within the home.

M7: Before I was an alcoholic, I didn't take care of myself and I never conversed with my wife or my children, but after these *capacitaciones*, we are closer [*vivimos en union*].

F39: Before things weren't going well with my husband, he would get drunk all the time and when I said something to him about it he got angry, but now we share more of the work and he has quit drinking.

F30: Most of all it has helped my husband because he used to drink and he would get intoxicated, and now that we have joined the bank he is already more responsible. A lot has changed.

Some even stated that the *capacitaciones* had inspired them to try to make a failing relationship work for the benefit of their children.

M9: I was separated from my wife, but the *capacitaciones* made me think this over, reconsider it and realize that I can live differently; we don't have to fight all the time like in the past. It made me feel differently.

### ***Health and Nutrition***

Improvements in health were reported almost exclusively by rural borrowers. Among this population these were often the most visible or wide-ranging outcomes of the *capacitaciones*. These impacts were generally divided into two categories, nutrition and hygiene. Discussing nutrition, one participant stated

F20: I think my family is better off in every aspect, most of all in nutrition. For example, I learned about preparing meals and how to combine things...I learned which products have energetic nutrients [carbohydrates] and I learned how to balance meals. Before I just cooked whatever, just in the way that our mothers taught us, but now we know what nutrients are in a potato, in quinoa, and that milk has calcium, and that our children need all of this. Health isn't just about hygiene, it's also about nutrition.

Borrowers also felt that better nutrition had made them less vulnerable to illness:

M7: Before we didn't feed ourselves very well but now we eat the best way we can, we live the best way we can, so I think that now we are going to prevent sicknesses.

The most important health-related impact derived from the emphasis in the *capacitaciones* on using latrines. Participants in two separate villages independently reported that the construction of latrines had led to observable improvements in community health.

F25: The lessons are useful ...I learned many important things that I didn't know before like about the construction of latrines...now already we are a little bit cleaner and we know where to urinate and there is less sickness. We can now see a difference in the health of our children.

F21: I think the module of health has been the most useful to me because there you learn about hygiene and how to use latrines...We don't have running water out here, so now with the construction of the latrines there is a lot less sickness; before, my son suffered a lot with his stomach but now he doesn't get sick anymore.

### ***Money Management and Business Practices***

Finally, many participants reported that the most valuable lessons they had learned in the *capacitaciones* were how to manage their money and run their businesses. On the whole, men were more likely than women to discuss the benefits of capacitation in terms of money.

F6: They taught us to invest, before we just did it according to our own criteria, but now in this *banquito* they've taught us how to run a business and that made a big impact on me.

F26: It's taught me to treat my customers more affectionately...before I just ran my business without thinking, I didn't know to figure my costs. After the training, I learned to calculate my expenses, increase my savings...there have been changes.

F18: It's taught me to manage my money better, how to invest...before I didn't know anything about that.

Many of these borrowers reported that without such education they would have failed with their loans or at the very least would not have been able to use the loan as

effectively. Since they often viewed such knowledge as a necessary to be able to use their loans properly, some borrowers said that the education had been more valuable than the loan itself.

M7: The *capacitación* is almost more important than the loan because sometimes someone can have money but not know how to distribute it.

M10: I think the *capacitaciones* have been more useful than the loan in some ways because in the past, even though I had money I still had economic problems. The *capacitaciones* have really helped me and my wife.

F4: Without the lessons we would fail, because the money that we take out would be wasted and we would have problems repaying, so *capacitación* is very important.

F6: Without *capacitación*, how would we manage the money that they lend us?

### **Holism: Interactions of Individual- and Family-Level Effects**

All of these outcomes—changes in self-image, improvements in household relationships, better money management skills, reduced rates of illness, and improvements in nutrition—did not occur in isolation but instead interacted with and reinforced each other. Increased income from better business management could alleviate stress over finances and translate into reductions in marital conflict. Better health allowed borrowers to avoid costly trips to the hospital and instead use their savings to pay for their children's education or make investments in their businesses. The connections among these various outcomes were often mentioned by borrowers.

F37: I think the most important thing in life is good family relations. To be a fulfilled and happy person who is capable of undertaking a successful business, all will depend on how you live in your house and how you get along with others.

F2: When you have a home where there is harmony and understanding it is possible to achieve many things with your business.

AsM2: Each one of the themes is important for the family, to have a better quality of life—each one. The theme of health is very important because with good

health you can do everything, but if you don't have health, if you're sick, you can't work at all.

F20: I think health is the most important thing because if you don't have your health, you don't have anything—you'll be dead.

### **Group-Level Impacts**

In addition to the individual- and household-level outcomes described above, for some groups, *capacitación* also led to positive implications for the lending group as a whole. *Capacitaciones* enabled improvements in bank functioning, created an enjoyable social space for female participation and exchange, and strengthened relationships among group members. Such outcomes created a feedback loop of greater customer satisfaction and improved organization that were mutually beneficial to both the clients and Arariwa.

### ***Improvements in Bank Functioning***

In one sense, the *capacitaciones* had straightforward effects on overall group functioning by instructing clients in the basics of what was expected of them; basic information about borrower requirements made up the content of the module called “Management of Communal Banks.” Likewise, some clients also felt that *capacitaciones* had led to better group outcomes because they stressed the kinds of values and attitudes that were essential to group success, such as responsibility, punctuality, discipline, and compliance.

F30: Without *capacitación*, there wouldn't be responsibility.

F26: It helps us to comply with our payments because for many people, when they don't receive this *capacitación*, they don't comply. The *capacitación* teaches us to be responsible and to meet our obligations.

F7: I believe the *capacitaciones* teach us to be more punctual.

F21: When you teach someone, there is more responsibility. So with more enthusiasm, with the things that they have said to them, with this thought in mind, they will work.

More significantly, improvements in the functioning and organization of the group were a by-product of the individual-level outcomes described above, as such changes not only interacted with each other but also increased a borrowers' ability to repay their loans. This link between the success of each member and the overall success of the group was mentioned often.

M5: It teaches us how to finance our businesses and to pay on time, and in this way we support the communal bank and with this it will be successful.

F26: Without *capacitación* our bank would not function as well [*no caminaría bien*].

M4: Without *capacitación*, our bank would fail because with these lessons we know how to manage our money, how to work, and how to manage our households.

Adding education can be seen as capitalizing on this interdependency and harnessing the potential for individual improvements to have repercussions at the level of the group. As borrowers were “empowered” in all dimensions of their lives, they were more able to meet the obligation to attend meetings regularly and repay their loans. For the group as a whole, this outcome meant less time was spent accounting for absent members, explaining reasons for default, resolving problems, assigning blame, or chastising failing groups. These improvements in organization created a positive feedback loop wherein better group organization left more time available for *capacitaciones* which in turn led to even higher levels of group organization.

### ***A Social “Space” for Relaxation and Fun***

The participatory, discussion-based format of the lessons provides an opportunity for group members and the *asesor* to exchange opinions and experiences. Clients' participation often strengthened relationships among group members and between group members and the *asesor*. Many clients expressed that this was one of the most enjoyable aspects of participation in the communal bank. One *socia* asserted, “It's better that they

do *capacitaciones*, because with these chats we can forget our worries for a moment and just enjoy ourselves, and then go back to our homes more relaxed.”

When clients come to view the meetings not just as a duty but as something inherently enjoyable they were also more likely to attend regularly and repay. This not only benefited the group but also made the *asesores*’ job easier. Several *asesores* confirmed that their *socias* relished these opportunities for relaxation and socializing, and one even admitted that in some cases, this potential of meetings is what motivated clients to join a communal bank in the first place.

AsF1: In the majority of groups they enjoy being in this space, they enjoy meeting up, sharing experiences, being in a group, and they really value this space and at the very least they say, “here we can put our minds at rest”

AsM4: For about 80% of clients, they see *capacitación* as a stress reliever—they come and they get together and it’s a form of relaxation, in one way or another it de-stresses them ...So here we see that the *socias* have a need to get together, to share.

AsM1: Yes, in the communal bank there are some *socias* who don’t need credit and they don’t want to save either. They come with the intention of sharing a few hours in a group with food, with conversations; this is what they see and this is what interests them most. It’s a space to share, to make friends. Meetings can sometimes go longer than expected—when they are all participating and laughing they goes much longer.

The communal bank is a rather interesting social space; it’s not just useful for giving credit and savings but it’s something much bigger, with the meals, with *capacitación*... and it also helps to build solidarity. For example, one of the clients gave birth and the *socias* all threw in some money together and bought her a present. They do the same whenever someone gets sick and also for certain holidays like Christmas, New Year’s, Valentine’s Day. They celebrate Mother’s Day and Father’s Day....its a really interesting social space. What the *asesor* needs to promote is this lively space where the *socias* get to know each other, become friends, and socialize, despite whatever worries or difficulties the *socias* may have.

Clients’ appreciation of this opportunity for interaction and socialization translated not only into higher levels of attendance and organization but also into higher levels of customer satisfaction with the Arariwa.

F38: I want to congratulate Arariwa because apart from providing us with financial support when we need it the most, it's also a gathering among the women and we share moments of fun. Despite living so close together we often don't meet and I think it's really good for us to get together and just relax a little bit.

F31: In the other bank I was in they didn't do *capacitación*. I mean, they explained to us on the first day that you had to pay back the sum they were receiving, that we shouldn't disappoint them and that we needed to be punctual. But it wasn't like this *banquito*—it was just a loan [*era un prestamo, no más*]. In Arariwa there is...a lot of sharing, but in that bank we only showed up to pay and pay and pay until it was over—we hardly ever even got to know each other. It wasn't a *banquito*, it was just a loan, nothing more. Because of that I quit, I withdrew [*Como era prestamo no más, terminé, me retiré*].

### ***Improvements in Intra-Group Relationships and Solidarity***

Under certain conditions, the interactions of borrowers during the *capacitaciones* can end in building friendships among the clients. While on the one hand the perception that the meeting was fun and relaxing could lead to higher customer satisfaction and attendance, another important potential effect of the interactions of *socias* was that the *socias* who have developed friendships are more likely to help each other in meeting problems that arise, including problems with repayment. These networks of mutual support forged through *capacitaciones* were usually described in terms of 'solidarity' and, as was expressed by one client, this support can take many forms: "There is a great deal of solidarity in our group because we support each other morally and economically." Her sentiments were echoed by many borrowers.

F2: It always informs us about sharing food and this helps us get to know each other better. When one of our *compañeras* has a problem, we try to help her—there is solidarity among us.

F12: When we are together we are able to talk to each other, to be more sociable and more supportive.

F39: When we can't pay the loan, we can borrow amongst other *socias* to be able to pay them back.

F8: *Capacitación* helps us to be supportive of one another. We make plates of food, and we all eat and we get to know each other better, and if there's someone who is short two *soles* or a little bit of milk, we help her. It's really nice.

F19: We have learned to value ourselves and to help one another if, for example, one of our members doesn't have enough money. We help each other mutually.

These new relationships not only had positive repercussions at the level of the group but also could have spill-over effects in increasing the social capital of the communities in which borrowers lived.

M8: After the *capacitación*, we get together our “canasta navideña.” We do Mother's Day and we just build a lot of goodwill [*generamos mucha amistad*]. We are actually thinking of organizing a barbeque and charging ten *soles* entrance to help any member of our group that might fall ill, because in situations like that no institution and not even your relatives are able to help you and in this case the treasury will be able to lend a hand. This way we'll have a fund that would be given to those who need it.

F39: In our village we used to just say ‘hi’ when we walked past one another, but now we stop and talk—there's a lot more friendship [*amistad*].

### iii. Potential Impacts for *Asesores*

*Capacitación* not only had potential benefits for clients, groups, and the institution, but could also benefit *asesores*. On a purely practical level, when the lessons resulted in higher attendance and repayment and greater organization, this improved bank functioning made the job of an *asesor* much easier.

AsF1: I like doing *capacitación* in the theme of organization and I feel that it helps me a lot with my work and helps the *socias* as well to understand the *tecnología* because there are a lot of people who struggle to understand it. The theme of organization [*gestión de bancos comunales*] has helped me with this.

AsF3: The theme of management of communal banks is useful to us because it allows us to improve our level of organization.

AsF4 *Capacitación* permits us to be a more integrated group, it allows for better communication so that we start to function like an organized group and it won't just be this fact of us just paying and leaving [*pagar e irnos*].

Aside from such practical benefits of the lessons, *asesores* also derived satisfaction from better relationships with clients afforded by *capacitación* and they appreciated the opportunity to do something more for their clients than simply give them loans.

AsF4: [Doing *capacitaciones*] is really satisfying. It's sharing this experience with them and getting to know them a little better—this is what it allows [*eso te permite*].

AsF2: I feel that my own life has meaning when I am doing the *capacitaciones* because no one is born knowing everything and no one can say that they have stopped learning. On the way we will keep learning...we all have the need to want to keep learning.

AsF5: [*Capacitación*] is really what I enjoy the most and I would like to only do that and not collect payments at all...If I stay in this job it's because there are some people who are really worth putting yourself out for and there are some people at a very low economic level and when you see a change over time it's really satisfying. If you were to ask me to choose between the two, I would wholeheartedly choose *capacitación* [*con mucho gusto elegiría y prefería capacitación*].

AsM5: Yes, I like it because it's a way of interacting with the *socias*; through these *capacitaciones*, you get to know a little more of their reality and with that you can start to understand them better. Through the *capacitaciones* we [*asesores*] also can look for some kind of improvement in their lives; if they were just to pay and that was the end of it, the relationship would be pretty weak.

However, despite their appreciation of the potentials of *capacitación*, *asesores* also struggled with the competing demands that the requirement to collect repayments and to teach placed upon them:

AsF3: Yes, but it's very difficult to combine the financial part with *capacitación*. Personally, I love doing the *capacitaciones* and if they were to tell me, 'Do the *capacitaciones* and don't collect the money,' I would do it with pleasure. I do the *capacitaciones* after the payment when I have the time, but the ideal is to do them first.

AsF5: If I had the chance to do *capacitaciones* and that alone I would just do that. It gives me a lot of satisfaction that people have improved over the years with the

banks and the *capacitación*. It's a shame that here they evaluate us more on the side of microfinance because in all my banks I would just do the *capacitaciones* and wouldn't be interested at all in collecting the money.

## Conclusions

Despite the criticism that combining credit with education can 'confuse' borrowers, I found no evidence that borrowers were confused by the side-by-side delivery of these two services; if anything, the fusion of economic with domestic interchanges made the meetings more appealing, as I will discuss in the next chapter. In contrast to the criticisms that adding in education will lead to a loss of comparative advantage for MFIs and thus be inefficient, I found instead that *capacitaciones* could lead to even greater 'bang for the buck' for Arariwa in that they created synergies or led to benefits that would have been unrealized with credit alone.

However, as is alluded to in the comments of the *asesores*, these potential benefits came at a cost. Managing the tensions between social and financial goals can be a difficult task for the institution, and integrating education with credit is a policy that should be undertaken with great caution. *Capacitaciones* will only even be possible to institute when lending groups possess a certain basic level of organization, a requirement that can be difficult for many groups to meet.

Yet the most important prerequisite for successful integration is client participation, which will occur only when clients believe that the lessons and the content they contain are useful to them in some way. Therefore, the *capacitaciones* must be designed with careful attention to the demands and the goals of the borrowers themselves. In this case, the widespread approval for the *capacitaciones* suggests that the *capacitaciones* did meet this requirement, a finding which I will examine in more detail in the next chapter.

## CHAPTER 7

### EXPLAINING DEMAND—WHO IS EDUCATION ‘FOR’?

*Between me and the other world there is ever an unasked question... How does it feel to be a problem? And yet, being a problem is a strange experience,—peculiar even for one who has never been anything else... it dawned upon me with a certain suddenness that I was different from the others; or like, mayhap, in heart and life and longing, but shut out from their world by a vast veil...the worlds I longed for, and all their dazzling opportunities, were theirs, not mine...*

*-W.E.B. DuBois, 1903*

With the words above, W.E.B. DuBois was describing the situation of blacks in America at the turn of the nineteenth century. Yet, I include his statement here both because the situation of exclusion that Du Bois describes has much in common with the situation faced by Quechua in Peru, and because his words draw the focus of attention to the lived experience of discrimination felt by the individual. In his famous work, *The Souls of Black Folk*, he uses the metaphor of ‘the veil’ to describe an impenetrable barrier between blacks and whites in the United States that nevertheless allows each group to view one another. Because of this ever-present gaze of dominant white society, blacks in America were subject to a

...peculiar sensation...[of] double consciousness, this sense of always looking at one’s self through the eyes of others, of measuring one’s soul by the tape of a world that looks on in amused contempt and pity. One ever feels his twoness—an American, a Negro; two souls, two thoughts, two unreconciled strivings; two warring ideals in one dark body, whose dogged strength alone keeps it from being torn asunder. ([1903] 2004:173)

The situation is much the same for indigenous people in Peru; because the right to belong to Peruvian society has always been defined against the markers of indigeneity, it is simply not possible to be Quechua and to be a full-fledged Peruvian citizen. This is the dilemma faced by the rural, indigenous borrowers whom I interviewed in this study.

So, while the strategy of combining credit with education might be interpreted as mostly successful in this case, the success of this or any similar program is entirely dependent on whether the program addresses the needs and goals of its borrowers. If the goals of a development project do not match the goals and demands of the participants,

the project will be met with resistance, as is demonstrated in the research of Maria Elena Garcia, a Peruvian-American anthropologist.

In her book, *Making Indigenous Citizens*, she discusses the responses of Quechua parents to bilingual education programs which activists were attempting to implement in rural schools in the 1990s. Like me, Garcia gathered her data by moving among the city of Cuzco and the highland villages surrounding it, and thus the participants involved in her project were drawn from the same population as mine. However, in contrast to the generally positive evaluations of the participants in Arariwa's program, the participants in Garcia's study reacted with anger and protest to the bilingual education program.

This bilingual language program emerged from a national concern for "interculturality," conceived as a process of overcoming the challenges of multiculturalism in Peru by promoting interchange among various cultures rather than just coexistence. Through bilingual education, *cusqueño* activists sought to preserve the language and culture of the Quechua and to instill in them a sense of pride and cultural awareness. Garcia notes that one of the key features of this ideology is a link between language and identity; activists believed that "if language is lost, identity, history, and personhood are lost" (2005:121). Bilingual education was intended to valorize Quechua and cultivate an indigenous consciousness. As one bilingual teacher stated:

One of the best things for Quechua, and crucial for their survival as a people—is the development of cultural pride...we can teach them in their language—about their cultural identity, provide them with self-esteem, and make them aware of their social place in the national sphere. (2005:113)

However, the goals of the activists were not shared by the highlanders themselves; while in my study the reaction to microcredit and *capacitación* was widespread approval, Garcia describes the indigenous reaction she witnessed as a mass mobilization in protest against the bilingual education project. She explains their somewhat unexpected reaction in terms of an ideological gap in that "...the abstract ideals of interculturality seem secondary to Quechua parents who see the practical and real needs very differently than activists do" (2005: 131). They see the activists' attempt

to educate their children in their native language as negating the essential purpose of education—at community meetings, parents spoke out:

We do not think this change is good for our children. They speak Quechua with us, and they should speak Spanish in school. That is what school is for...being a citizen means speaking in Spanish.

We are not in favor of this change...you want our children to stay poor and be like us. What I want for my son is that he is not a *campesino* like me. And being an Indian is worse! So you shouldn't tell our children to be Indian!

The Quechua resented the intrusive actions of outsiders who wanted to interfere with their children's schooling, and parents interpreted the efforts of the activists not as an act of goodwill but as a hostile attempt to hold them down and prevent them from being able to be included (*insertarnos*) in the "*mestizo* world."

We are peasants, farmers, and poor. What I want most for my children is for them to become more than just peasants, more than us, so that they can have a better life. Being an *indígena*, like these white outsiders want us to be, would only be worse. (2005:125)

The populations in my and Garcia's study were the same, and the participants in both of our studies expressed similar goals. However, because the activists promoting bilingual education had not taken these goals of the Quechua into account in designing their program, it was met with almost universal rejection. The widespread approval of the credit-with-education program which I observed among these populations provides some evidence that the goals and outcomes of the program did accord with their objectives.

Urban borrowers in my study, while not rejecting the program entirely, did not embrace the credit-with-education program to the same degree as the rural borrowers. These divergent reactions can be explained by the fact that rural and urban borrowers have different understandings of their needs; borrowers who see their needs as purely economic, as many urban borrowers do, often feel that *capacitaciones* are a waste of time. But for rural borrowers, who understand their problem to be not poverty but an

inferior position in the social hierarchy, such lessons hold strategic value as a primer in the cultural codes of the dominant society.

To understand the rural demand for education, it is necessary to recall that in the beginning of the 19<sup>th</sup> century, definitions of race on the basis of phenotype began to be subverted by the use of 'culture' as a basis for discrimination:

Subordinate groups embraced educational differences as legitimating social hierarchies, as did the elite...elites and commoners eventually came to share beliefs in the power of education and "culture" to legitimate discrimination and thus silence denunciations of racism (de la Cadena 2000:9)

Implicit in this agreement is the consensus that Indianess represents an undesirable social condition experienced by a group yet which can be overcome through individual educational achievement. This historical reality has shaped indigenous highlanders' understanding of what 'empowerment' means and the process by which it occurs. In the discussion that follows, I aim to approach the broader theoretical question as to whether credit with education is ultimately empowering or disempowering to borrowers; does it liberate them or further subjugate them?

Drawing on Kabeer's insights in Bangladesh about the need to separate the goals of researchers from the goals of the people whose lives an intervention is seeking to transform, my argument throughout this essay has been that this question can only be answered with reference to specific context and in light of the actual testimonies of the borrowers involved. In embracing knowledge about Western values and behaviors, indigenous borrowers both challenge and entrench the social system which has treated them so unfairly. Analyzing the multiple axes of oppression faced by borrowers provides some insight into explaining the variations in demand for education between rural and urban areas, and between men and women, which will be major theme of this chapter.

Making sense of the seemingly contradictory responses of rural borrowers to credit-with-education requires a departure from totalizing theoretical critiques in favor of an embedded, ground-level perspective which takes account of the experience of an indigenous Peruvian relegated to the bottom strata of society and who inhabits, in the words of Du Bois, "a world which yields him no true self-consciousness, but only lets

him see himself through the revelation of the other world.” (in Farganis 2004:173). Interpreting the reactions of indigenous Peruvians to this program requires a shift in focus to the embodied realities of being excluded and marginalized in Cuzco, and its starting point must be the question posed by Du Bois, “How does it feel to be a problem?”

### **Indigenous Self-Image**

My interviews with clients strongly suggest that indigenous Peruvians accept and have internalized an understanding of Indianness as an inferior, stagnant social condition. The extensiveness of this self-image became clear to me through three patterns that emerged from my interviews with borrowers. First was the repeated invocation of the metaphor of sight, which has been noted by other researchers in the Andes (Ortiz 1970; van den Berghe and Primov 1977; Montoya 1990, Garcia 2005) who report that rural indigenous Peruvians who are monolingual in Quechua feel themselves to be so powerless in *mestizo* society that they will often compare their situation to that of someone who is blind or mute. In my own research I found that associations of *capacitaciones* with reference to metaphors of sight (and a pre-educational state with blindness) were indeed common:

M9: *Capacitación* helps us to see how we live.

F33: It's good because it really makes you see reality [*te hace ver la realidad*].

M8: Before I just worked blindly [*a la ciego*], but now with these *capacitaciones*, I am prepared.

F31: Maybe we haven't seen some of the mistakes that we've made and with the *capacitaciones*, they make us see things more clearly and to realize.

A second pattern that emerged was the frequency in their use of the verb “*desconocer*” to describe their condition. Although the word has no exact equivalent in English, an approximate translation would be “to be unaware, to not know.” They often justified their need for *capacitaciones* with the assertion, “*desconocimos mucho*”; this

was invariably stated in the plural (never “*desconozco mucho*”), implying that respondents felt their plight was not theirs alone but that of the entire group. By implication, the cause of this situation was not individual failure of some kind but a shared position of inferiority in the social hierarchy.

F24: It would be really good because we always need someone to guide us because we really don't know much.

F2: We need information on health because there is a lot that we don't know, particularly about diseases.

F23: It [*capacitación*] helps us to improve because there are so many things that we didn't know. [*nos ayuda a mejorar porque desconocíamos muchas cosas*]

The third pattern that I noticed in these interviews with these rural borrowers was their assertion that they appreciated the education because “it teaches us how we should live,” and they would often draw a comparison between the lives they lived before the *capacitaciones* and their current, improved situations.

F10: Before we lived kind of badly because I didn't understand [*no sabía*] some things.

M9: I suggest that they teach us more things because truly when someone teaches us, we now have much better ideas.

Rural borrowers' comments expressing their desire to be taught “how to live”—the desire not just for economic improvements but for access to knowledge about Hispanic social codes of behavior—crystallizes the sense of cultural and social inferiority that was so pervasive among rural borrowers. *Capacitación*, however, seemed to represent to them a potential pathway out of this condition. When I asked some borrowers who had not yet participated in a *capacitación* if they thought the experience might be useful, they told me:

F38: It would help us to know how we should live, how we should do business, how I can sustain myself.

F9: Yes, I would like to learn how we should live in our homes, how we should educate our children.

F25: They should give us *capacitaciones* on how we should live as spouses with our children, and how we should educate them and raise them.

### **Education as Cultural Capital**

One of the questions that I posed to every participant in my study—borrowers, *asesores*, and managers alike—was: “who benefits the most from these *capacitaciones*--who do you think they are ‘for’?” The responses usually identified one of four subsets of society, all of which shared in common the attribute of being marginalized. Perhaps the most frequent answer was that they were for women, and I will address the unique perspectives of women in a section below. But the three other answers I encountered were that *capacitaciones* were most suited to those living in rural areas, the least-educated, and the poorest. Many of the responses blended two or more of these characteristics:

F12: They are more important in rural areas because the economic level there is much lower.

AsF2: The *capacitaciones* are more important in the rural zones, because in the urban zone they already have those opportunities and there are people who are more educated ...but in rural areas they learn a lot.

M8: I would suggest that they bring us more *capacitaciones*, all that they can, and in every kind of theme, so that we come out well prepared because for us—we didn’t go out to the city to continue with higher studies. Some of us only went to the fifth grade, or the first or third grade, so we need this education.

These comments highlight the interchangeability of rurality, lack of education, and poverty which were a constant feature of these discussions, and recall the point made by Paul Farmer (2002:433) as to how such social disadvantages overlap and compound each other as multiple axes of suffering.

Yet borrowers seemed to feel that *capacitaciones*, and the broader issue of education which they represented, were the keys to the emancipation from these

oppressions. As one borrower told me, “[The *capacitaciones*] are helpful because they let us escape from shame.” Some of their statements about the potential of *capacitaciones* suggested a vision of education as the catalyst for an evolutionary process out of a kind of primordial ignorance.

F20: If we didn’t have *capacitaciones*, we wouldn’t know anything, and we wouldn’t be able to improve out of the position we are in. If we attend the *capacitaciones* then we can already begin to have a little bit of knowledge.

F18: Its important for my family because with this guidance they are already changing. Those who don’t get educated [*no se capacitan*] just go on like they’ve always been, but we are already starting to change.

M7: I think that it should be for our whole village because there are many people who aren’t able to develop and to come out ahead [*que no pueden desenvolver y no pueden salir adelante*].

These statements portray progress in terms of a movement from a static state of blindness or ignorance into a dynamic process of self-improvement, and suggest that these borrowers believe that money alone will not suffice in overcoming these multiple oppressions of which their poverty was but a symptom.

On the surface, the *capacitaciones* offer practical advice on conducting business, raising children, and keeping living spaces clean. But on a more profound level, they represent a larger attempt to bring order to chaos, wherein order is equated with European values and practices and chaos with indigenous ones. The lessons instruct borrowers to be disciplined, responsible, and punctual. They present cleanliness in terms of separation and instruct borrowers to keep pets out of bedrooms, keep dangerous chemicals outside the house, to separate the organic from inorganic garbage, and to relegate bodily functions to a designated space. Mary Douglas has pointed out the relationship between ideas of dirt and order, writing that in “chasing dirt, in papering, decorating, tidying, we are not governed by anxiety to escape disease but are positively reordering our environment, making it conform to an idea” (in Wilson 2004:166). Weismantel employs Douglas’ notion of a “moral hygenics” in her analysis of Peruvian marketwomen, who bring domesticity and chaos into the public, urban sphere. In this discussion, she

highlights a conclusion made by Leslie Gill in her research among white women in La Paz, Bolivia:

White notions of cleanliness encompass much more than basic concepts of health and sanitation. They are related to questions of lifestyle and morality. Cleanliness means not being poor. It entails living in a home separated from productive labor and equipped with indoor plumbing (in Weismantel 2001:76).

In what most critics writing from a Foucaudian perspective would point to as an example of disguised disciplinary power aimed at “the conduct of conduct,” lessons on family well-being provide models of a proper family and household, laying emphasis on sharing housework, spending “quality time” with children, and showing displays of affection to family members. However, from the perspective of these rural borrowers, these lessons offer a window into the values and expected behaviors in the dominant society from which they have been excluded. Some borrowers even discussed the lessons in terms of moral transformation at the level of the group.

F6: All three of the modules have helped me, they teach us how to live, and afterwards we won’t lie or be selfish among each other but we will all be equals.

The *capacitaciones* had practical value, as is evident from improvements in health outcomes, but they also had strategic value as cultural capital and were a source of information about the values and behaviors appropriate in urban, Hispanic society.

F9: Because of the way we are living in the country like this, understanding things like this is a necessity for us. It would be beneficial to all of us because we are from the countryside and so we hardly have any kind of *capacitaciones*.

F4: If I could choose, I would come even more even if there wasn’t a loan, just to become aware, because that’s how education is—it might help us somewhere down the road.

Not only did borrowers see both cultural *and* economic capital as necessary to escape their disadvantaged position, but they also understood these forms of capital to be interchangeable, a fact demonstrated by their dedication to finance their children’s

education in spite of the dismal quality of rural schools. While education has represented a path to citizenship since the late 19<sup>th</sup> century, its importance was amplified by the land reform which released peasants from forced labor on haciendas and opened up the possibility for urban migration. Van den Berge and Primov observed just a few years after the reform was initiated that "...while in the past Andean peasants predominantly invested in livestock, the decline of the rural sphere relative to the city brought about by agrarian reform has meant that Andean parents now invest primarily in the education of their children, hoping it will give them access to urban employment (1977:133).

Among the most common reasons I heard borrowers express for joining their village bank was the need to pay for their childrens' schooling. They spoke of education as if it had transformative power, propelling not just an evolutionary cultural movement from ignorance to modernity but also a spatial movement into the cities. Two of the clients I spoke to in rural areas touched upon this; when I asked one woman which of the modules was most important, she replied,

F19: I think the Family Well-being module is the most important so that our children will be educated and so that they won't be like us *en el campo*, but will instead will have a much better life in the city. We parents always want our children to be better than we were. But there are some children who are held back from studying by lack of money, so they just finish high school and get married. With this loan, we are emphasizing the education of our children, and this is what they teach in that module.

A second borrower also discussed education as enabling a move to the city. Discussing his relationship with his wife, he told me

M8: We work together in making decisions such as those about the education of our children so that they won't just stay in the countryside hoping someone will leave them an inheritance. They need to learn to defend themselves in life and that their inheritance will be their education.

These statements seem to echo Pierre Bourdieu's perspectives on social inequality and power. Bourdieu understood the unequal distribution of cultural capital among different social classes to be a major basis of social inequality in modern societies.

According to Swartz, Bourdieu envisioned power as being analogous to energy in that it occurs in many forms, and he therefore laid out a “general science of the various forms of capital and the laws of their interconvertability...capital is a kind of ‘social physics’ that can exist in a variety of forms and under certain conditions and exchange rates can interconvert from one into another.”(1998:78).

A similar type of reasoning seems implicit in many of the borrowers’ statements above. *Capacitaciones* not only provided practical advice to rural borrowers, but also served as a source of cultural capital that could provide a path to entry into a job in the city and thus increased economic capital. The conversion could equally occur in the opposite direction—economic capital funneled into children’s education could be converted into cultural capital, an “inheritance” that would allow them to escape the countryside.

The key point here is that for rural residents, the appreciation for the educational component may stem from an understanding of the loan and the *capacitaciones* as representing two sides of the same coin. Both were useful in opening the possibility for cultural and spatial movement out of their current condition, a process Marisol de la Cadena has called “de-Indianization.” Yet for women, the possibility for either of such movements is largely denied by cultural norms that restrict women to the home and make them the “torch-bearers” of indigenous identity. For this reason, many rural women in my study valued *capacitaciones* more as an opportunity for social interaction than as a source of cultural capital enabling social mobility.

### **Women: Self-Image and Identity**

*In the Peruvian case, the restrictions on freedom of movement for many women in Andean areas have resulted in the limitation of their cultural portfolios, which are broadened when people move from one structural context to the next and learn how to act appropriately in different settings. This process is enriched by communication and interaction with others. The density of an individual’s daily life experiences, a product of real or symbolic migrations, creates the capacity to choose between a plurality of identities. Andean peasant women are denied this freedom and capacity. (Barrig 2006:121)*

In an analysis of Andean marketwomen, Mary Weismantel describes them as being profoundly unsettling to urban residents in that “they violate a cultural order in which the public sphere is masculine, while feminine realms are enclosed and hidden away from the intrusive eyes of strangers” (2001:47). She presents the market as offering a valuable space to women. It is

[a] refuge from the inhospitability from the rest of Andean social space, where men dominate and women must submit...In actuality, the markets are largely constrained by men. But the opportunities for independence they provide, partial though they may be, create a social realm [entirely] different from the world outside. (2001:57)

In my own research, I eventually came to understand the *capacitaciones* conducted during the monthly meetings of the lending group as a comparable to the much-discussed markets in the Andes in that they also represent an irruption in the prevailing social order and offer women a similar opportunity for homosociality.

F23: It makes us participate more, and so each member of the group can express what they think and feel.

F31: It's good that they do these *capacitaciones* because it gives us confidence to speak. Perhaps in another place we wouldn't be able to speak, but here its like being in a family, we talk and converse.

A significant feature of my research is the frequency with which women in rural areas spoke of *capacitaciones* as meeting a previously unfulfilled need for human interaction. In such statements, women often described their daily lives in terms of imprisonment and isolation, an existence that many encapsulated in using the phrase “*casa no más.*” Attending the meetings was important to them in that it allowed them to break out of this situation.

F20: If a person doesn't leave their home, they don't know anything and they don't know anyone; you don't have any kind of interchange, and each one of us has different ideas that need to be shared.

F14: They need to at least have *capacitaciones* for the women in the campo like us, we are just in our houses all the time [*estamos en casa no más*], but now with the *asesor*, we are already starting to learn.

F31: When we get together like this between *compañeras* ...it leads to more participation. Because when one doesn't get out like this, to go to their *banquito*, there isn't any...you are just in the house and there isn't much else. We are more confined. But, on the other hand, when we have this group here and we leave our houses and go outside...now we know [*ya sabemos*].

The home is implicitly associated with ignorance, which is contrasted with the knowledge and awareness that comes from interactions outside the home. This framing of the “knowing” in terms of movement from the private home to the public meeting space mirrors the broader social understanding of knowledge entailing a movement from the rural to urban areas. Like indigenous men who moved to the cities, rural women challenged their marginality in their excursions to the meetings and the public sphere. Rural women expressed that participation in the microcredit program and the *capacitaciones* had led to a change in their sense of self-worth and capabilities.

F28: The topic of self-esteem, which is to say family wellbeing, was most helpful for me because out here men are very *machistas*, and so women don't value themselves. In our [lending] group we are mostly women and a couple of men working together and we respect ourselves and one another.

F16: Yes, they are very helpful for us. Sometimes we don't know anything about self-esteem here in *el campo*. There isn't any self-esteem—they mistreat us psychologically—but with these *capacitaciones* things are changing little by little, and now I have more confidence.

While it is important to recognize that within rural communities, gender is the defining faultline between the powerful and the powerless, at the same time it must not be forgotten that in wider Peruvian society the class divide is all important.

The greater importance of class lines in Peruvian society is illustrated by an anecdote recounted by Mary Weismantel. She describes an occasion when she was puzzled to observe a marketwoman refuse to sell her apples to a wealthy woman; when she related the story to her taxi driver, he commented, “I know exactly what happened.

Those rich women, they walk in there like they own the place...They just throw down some money, grab what they want, and walk away. The women working there can't stand them, that's why they won't talk to them" (2001:56). Considering the taxi driver's assessment of the marketwoman's reaction, Weismantel concludes that "[c]lass affiliation, then, undercuts the power of gender. A man like Julio has immediate sympathy for women who, like himself, struggle to keep their dignity in the face of upper class arrogance" (2001:56).

When I began the study I intended to direct my attention to the different responses to *capacitación* between men and women. However, with time I came to the same realization as Weismantel that class trumps gender in Peru. It was class divisions, rather than gender divisions, that were the most important factor in explaining the variations in borrowers' responses to—and demand for—*capacitaciones*. This conclusion is further underscored by the data presented in Figure 3.2; while it is undeniable that women as a whole are consistently disadvantaged in Peruvian society, it is also clear that the greatest chasm is that between indigenous and non-indigenous Peruvians.

### **Explaining Variations in Demand for Capacitación**

This divide between urban and rural borrowers and the suitability of certain kinds of "knowledge" to each was illustrated by the different modules that each group tended to prefer. Rural borrowers were receptive to all the modules, but were particularly interested in health and family wellbeing as these addressed the most urgent problems that they faced.

F21: Health was most useful for us, because from that one we learned how to use latrines, and about nutrition and how to balance grains in our diet.

F38: I am interested in the themes of family violence, alcoholism—I think they should focus on things like that because this is something very widespread in this region and in our communities.

When speaking of the family wellbeing module in particular, the borrowers often talked about the wider impacts these kinds of *capacitaciones* had effected in their lives;

F6: The theme of family well-being was the one that interested me the most because it taught us how we should attend to and care for our children, how we should live with our spouse, things like that...because before the *capacitaciones* we lived very differently.

F19: I think the theme of family well-being was the most important, because many of my friends don't know how to make others respect them and they are mistreated by their husbands. Now after these explanations they converse and they aren't mistreated anymore and neither are their children—and it's not simply because of the loan, but instead it's caused by the *capacitaciones*.

Urban borrowers on the other hand generally preferred the more practical module of business management and, in the judgment of some of the *asesores*, these borrowers were sometimes annoyed by the very same topics demanded by rural borrowers.

AsM3: In *el campo*, they are interested in everything; here in the city I have done family wellbeing, but the theme of marital relations and conflict seems to bother them.

AsF5: Generally speaking the people who put the most effort into the *capacitaciones* are those who are least educated...the more educated people on the other hand don't accept family wellbeing—for them it's boring. Even though they themselves make these errors they don't want to admit it, or they are too ashamed, or they think they already know it...so they denigrate it. In the urban zone, I am not doing health—they just ask for a specialist.

Urban residents, who perceived themselves to be on the opposite side of the faultline from social exclusion, did not generally imagine themselves to be in need of such cultural capital as these modules offered. They preferred more practical themes and resisted or resented the presentations of family life inherent in the lessons. One urban man told me:

M11: Yes, [*capacitaciones*] are more useful to some because not all of us are in the same economic position...the *capacitaciones* are only for those in the lowest condition. In truth, I have a well-organized and responsible home and we all share the housework, so the *capacitaciones* haven't really helped me because I am already doing all of these things. But I know that for other people it has been very helpful. However, the one about business management did help me.

In one particularly interesting example, an urban woman described the changes that had occurred in her marriage, but took care to clarify that this was a product *only* of the loan and not the *capacitaciones*.

F40: When it comes to doing something in the house I don't have to wait for my husband to tell me what to do. It's not because of the *capacitaciones*, but instead it's the economic control that makes me feel better; I am someone else now, I am not submissive.

One possible explanation for this defensive reaction of urban residents to the modules of health and family well-being is that they trespass the divide between the public and the private, the domestic realm and the marketplace. In contrast, as Weismantel points out, within indigenous communities what has been called the “schizophrenia of the public/private divide in capitalist society” does not reign absolute (2001:75). She quotes a group of Aymara scholars who claim that in the Andes, “unlike urban or proletarian women...indigenous women cannot clearly separate the sphere of production from that of reproduction” (2001:76). Weismantel adds to this the observation that for indigenous highlanders, “peeling potatoes to make soup is simply one of the last actions in a process which began when the earth was turned over for planting.”

Thus, mixing discussions of health and family relationships with a financial transaction is perhaps much more palatable to rural than to urban Peruvians, which could also explain why *capacitaciones* were seen much more favorably in rural areas and why the same modules favored by rural borrowers were rejected by urban ones. Ultimately, the credit-with-education program offered by Arariwa not only offered desirable cultural capital to rural residents, but did so in a format that meshed with an understanding of the inherent continuity between the spheres of production and reproduction.

## Conclusion

There is some degree of paradox implicit in the fact that credit with education imports capitalism into rural communities but at the same time acknowledges the holism

in productive and reproductive activities that capitalism fundamentally denies. Viewing microcredit with education in this way demands a reexamination of the charge that introducing such programs is nothing but the attempt to erase indigenous cultures and advance Western, capitalist ways of thinking and being. In the next chapter I will return to the critiques of microcredit, addressing the ways in which my research reiterates some of the charges against microcredit development, while also highlighting the need for caution when making hasty judgments about whether or not such programs can be empowering.

In Peru, the understandings of empowerment have been determined by the particular way exclusion and powerlessness has been defined over time. Like black Americans at the beginning of the twentieth century, the indigenous Peruvian must grapple with the “...peculiar sensation...of always looking at one’s self through the eyes of others, of measuring one’s soul by the tape of a world that looks on in amused contempt and pity” ([1903] 2004:173). The difference, however, is that while the veil separating Du Bois from the world of opportunity can never be breached, the veil that separates the Indian and *mestizo* can be overcome by definition through individual achievement and the pursuit of ‘culture’ via education. This fact is the immediate reality of indigenous Peruvians and their source of hope—at both the local and national levels, education is the pathway to liberation from oppression. Yet at the same time, it is also true that costs of such social mobility are the same today as they were in the early 17<sup>th</sup> century: “the tragedy of Indian success lay in the way it recruited dynamic, powerful, or fortunate individuals to adopt Hispanic styles and relationships, thereby buttressing colonial domination” (Stern 2005:141).

## Conclusions and Recommendations

Previous researchers investigating whether or not microcredit programs are ‘empowering’ to borrowers have treated the concept of empowerment as if it is an objective phenomenon, and have based their evaluations on borrowers’ conformity to Western assumptions about what empowerment should ‘look like.’ They have usually failed to acknowledge the perspectives of borrowers themselves who hold diverse, culture-specific understandings of empowerment. As Kabeer has pointed out, such assumptions have often led researchers to misread borrowers’ responses and have blinded them to subtle and significant ways in which borrowers use loans to achieve goals which are meaningful to them. She stresses the need to

...ground the conceptualization of empowerment in an understanding of the relationships of dependence, interdependence, and autonomy which characterize...relations in different cultures, the structures of risks, incentives, and opportunities which they generate and therefore the particular trajectory processes of empowerment are likely to take. (2001:81)

I have taken Kabeer’s insights as my basic point of departure, and approached this research with the aim of understanding of what kinds of changes are desired and sought out by borrowers in Cuzco, Peru. While Kabeer provided a clear model for methodology, I was less successful in finding theory in which to ground an analysis of borrowers’ perspectives. Modernization theory inherently lacks an appropriate level of attention to the ways in which development efforts impact the lives of people at whom they are aimed. But Marxist, political economy, and postdevelopment theories, for all their outrage at what is ‘being done’ to subaltern subjects in the Third World, pay no heed to the separate question of what these people are themselves ‘doing’ and thinking.

In a manner closely related to the ways in which researchers have failed to take account of the motives and testimonies of borrowers themselves, theoretical critiques have failed to adequately represent the actions and attitudes of “the other.” Such critiques are so focused on the imposition of the global development project and the disciplinary efforts of NGOs that such objects of development enter into the picture only

secondarily, as homogenous victims who are helpless to resist or even recognize the inexorable disciplinary power to which they are subject.

From such a perspective, only development practitioners and NGOs are constituted as subjects and granted agency; they alone possess the capability of ‘acting’ whereas the objects of development are relegated to simply reacting. Sian Lazar discussed a Bolivian NGO offering microcredit with education, characterizing the program as a “citizenship project which attempts to modify the ways in which individuals act as economic agents and view themselves” (2004:301). Brigg writes that development represents “a process in which people are acted upon by others and act upon themselves.” (2006:75). The possibility that the objects of development might possess some agency is hardly considered.

While not dismissing the necessity and the validity of the postdevelopment critique, I think it is important to point out its shortcomings. Among those, I believe, is the picture it paints of development as the modern inheritor of colonialism—an ineluctable force steamrolling helpless indigenous cultures and destroying their cultures. This presentation, while well-intended, can have the ultimate effect of precluding analysis of the creative ways in which indigenous cultures have responded to and even shaped the development encounter and the ways in which they have maintained their culture in the face of these changes. This presentation of the encounter with ‘the other’ has a long history—as Sahlins has written, “for a long time anthropologists and historians were taken in by a certain mystique of Western domination: the conceit that the world expansion of capitalism brings all other cultural history to an end” (1994:413).

Sahlins claims to align himself with “the anthropological chorus of protest against the idea that the global expansion of Western capitalism, or the World-System so called, has made the colonized and peripheral people the passive objects of their own history and not its authors,”; to support his case he invokes Eric Wolf’s work, *Europe and the People Without A History* wherein “Wolf is compelled to argue that attention must be paid to these people, that they are in fact historical beings, somebody more than just ‘victims and silent witnesses’” (1994:413).

### ***Socias, Asesores, Arariwa***

*Governmentality literature has shown that subjects are constituted through processes of subjectification which are infused with operations of power, and that the directing of our own actions is bound with this governance. The (self-) positioning of our individual lives within the objectives set by reformers...links us to a subjection that is all the more profound because it appears to emanate from our autonomous quest for ourselves, it appears as a matter of our own freedom...The application of notions of autonomy and empowerment in the Third World context signal both the export of the technologies of subjectification of Western governmentality and the enrollment of Third World subjects in development processes through these technologies. (Brigg 2006:74)*

*Pablo: Why are we here? They just want us here so they can brainwash us. They call it “consciousness-raising.”*

*Heraclio: What do you care why they want us here? What’s important is what we can get out of it. Look, first we were indios and we had no rights. Then we were campesinos and we received some benefits. Now they say we are indígenas, and the being indígenas and Peruvian means that we’ll get more benefits, like better education for our wawas [children]. Until now, being Peruvian campesinos hasn’t given us a thing. Maybe being indigenous citizens will.*

*-Quechua men discussing intercultural activists’ efforts (Garcia 2005:157)*

Similarly to the men quoted above, the borrowers in my study were by no means ignorant of the power dynamics that underlay their participation in the microcredit program. Because of the way that discriminatory practices have been mapped out over time—what van den Berghe and Primov have called the ‘racialization of geography’ in Peru—it is an established fact that whites live in cities and Indians live in the country, and violations of this principle are intensely uncomfortable for either group. This is a theme of Weismantel’s work, *Cholas and Pishtacos*, in which she presents the legend of the *pishtaco*, a nightmarish white boogeyman who preys on Indians in their villages, eviscerating them with a knife and extracting their body fat. She describes that this fear of whites is rooted in the treatment to which Indians have been subjected since the Conquest, and cites Anthony Oliver Smith’s assertion that the *pishtaco* is an “institution of fear” which maintained the social distance between Indians and whites, and united the Indian community in the face of the “*mestizo* threat” (2005:7).

However, in spite of this widely held vision of whites in rural communities, indigenous highlanders nevertheless voluntarily joined the microcredit programs imported by whites from outside because they saw instrumental value in participation. On the one hand, the borrowers perceived the meetings as a means for social mobility. Not only did the *capacitaciones* provide them with insight and familiarity with the values and code of dominant culture, but the discussions that took place during the *capacitaciones* provided Quechua speakers with a valuable opportunity to learn and to practice speaking Spanish. The content of the modules was designed with careful attention to the demands of rural borrowers, and the lessons were not rigidly imposed upon borrowers, nor received passively—*socias* demanded certain modules over other ones and resisted modules they didn't like or didn't find useful. The *asesor* generally responded to their demands and, in defiance of the guidelines of Arariwa, would sometimes teach the same modules repeatedly if the borrowers in their banks were asking for them.

Their involvement in the program was not simply a matter of them being “acted upon by others and acting upon themselves.” Instead, borrowers exploited the opportunities that participation presented and molded the process to meet their own aims. Women used participation in the group as a means to challenge social norms relegating them to the private sphere of the home. They appropriated the meetings as an opportunity for homosociality that was otherwise rare in their lives; often the loan itself seemed to be merely a pretext for the real business of sharing meals, stories, and advice. Additionally, borrowers used the occasion provided by the gathering to celebrate holidays and birthdays or even to organize community events.

A theory that takes as its fundamental point of departure the idea that these ‘objects of development’ are helpless victims subject to a disciplinary power they can neither recognize nor resist would fundamentally misread their responses and overlook the important ways in which borrowers manipulated this encounter to realize their own goals. Garcia makes a similar point in her analysis:

Through their responses, indigenous people are engaged both in “self-making”...and in negotiating the various currents of power that flow through the

discourses and resources of international donors, local NGOs, and the state. In all these interactions indigenous people are very much aware of the unequal power relations that characterize development encounters. Yet they navigate these inequalities through performative tactics that acknowledge the authority of outside officials and agents while simultaneously transforming and adapting outside forces to local contexts. (Garcia 2005:167)

### **Empowerment or a “Citizenship Project?”**

*[Microcredit] NGOs operate from a basis of transnational discourses of citizenship conceived in an individualized neoliberal framework. Their activities can be understood as a set of citizenship projects which attempt to modify the ways in which individuals act as economic agents and view themselves...The...focus on entrepreneurial activity assumes a market-based economic rationality and combines this with capacity-building in a ‘human development’ model. This combination reveals much about the kind of...citizens that [they] seek to create: ‘empowered,’ individual, entrepreneurial, active citizens who will take responsibility for their own and their families welfare, and who are prepared for the market rather than the state to provide for their social rights.* (Lazar 2004:301)

So was this project emancipatory or “empowering” for borrowers? If the focus is on the priorities of the people whose lives the intervention is trying to transform, the answer is clearly that it was empowering in that it gave them the means to advance towards their goals. In this case, their goal was social mobility, yet in Peru, “multifarious historical processes...have inscribed economic and class mobility in terms of an ethnic transformation” (Harris 1995:376). Because of the ways in which citizenship has been continuously defined against “Indianness” as an attempt by *mestizos* to justify and excuse the inferior condition of Quechua, indigenous Peruvians can feel as though they are strangers in their own country. Barrig writes that “indigenous people are seen as citizens only at the cost of their identity. In Peru this has meant that they must transform themselves into *cholos* (*mestizos*) giving up their language, dress, and customs. Citizenship has been constructed through forced homogenization, not by recognizing cultural differences” (2006:100).

In this respect, what is going on in these meetings that I observed was very much a citizenship project. First, borrowers were to some extent shedding the traits that made

them indigenous, and refashioning their lives in accordance with the new values and practices they learned. Second, they were certainly being linked to worldwide markets and drawn into transnational forces of globalization through their participation in these programs. Critiques of development have portrayed this process as undesirable and tragic in light of their judgment that their participation in these projects, while seeming empowering, only compounds indigenous subjugation. Not only that, but the embrace of a homogenized global values liquidates their culture in a process of “slow ethnocide” (van den Berghe and Primov 1977)

I would not argue with any of these points. I am very much in agreement with de la Cadena’s observation that, “intriguingly culture...or “formal education” and individual achievement is the arena where racism and the challenge to it meet in the compromise arrangement that enables dominant forms of racism to prevail” (de la Cadena 2003:5). As was mentioned in Chapter 3, many scholars, in examining the willingness of Indians to abandon their identities and remake themselves as *mestizos* have invoked Gramsci, Marx, and Bourdieu and similar theorists and argue that Indians are the victims of hegemony, false consciousness, and symbolic violence. In internalizing the views of dominant society about their inferiority and seeking to escape their Indian identity through assimilation, these upwardly-mobile ex-Indians only serve to perpetuate the social hierarchy.

While there may be much truth to this evaluation, after speaking with borrowers I also cannot help but feel that such interpretations are disconnected from the daily realities of those who are struggling simply to survive and in a society that systematically denies them opportunities. Dismissing their actions as false consciousness not only minimizes the validity of the borrowers’ concerns but also implies that they are less ‘enlightened’ or aware than we are, and that we, knowing better than they what actions they should or should not take, have an imperative to save them from themselves.

Once again, Garcia’s research provides an excellent example of the point I am making. She recounts the frustration of intercultural activists at the indigenous parents’ “lack of understanding” and rejection of bilingual education, recalling that one activist told her, “I wish they would see we’re working for them and that what we want is for

them to realize they have rights” (2005:101). Some even questioned the capability of indigenous parents to choose what is best for their children:

Quechua need to discover new possibilities of reading their own reality. Unfortunately, unless you can look ahead—and I know it’s hard to do when you have to look at your present, not your future, to survive—parents will remain opposed to bilingual intercultural education and to us. This also means that because of their attitude, parents will keep their children in existing conditions of marginalization. (2005:105)

But Garcia counters that Quechua parents were well aware of this sentiment. One mother told Garcia,

They think we’re stupid. They talk to us as if we’re dumb. Why would they think we want to hurt our children? If this education they proposed proved better, then we’d accept it. They’ve given us no results. And *we* live in this reality. They are outsiders. We know what our children need, so that they don’t have to experience the same kind of marginalization we have. (2005:105)

In judging their reactions with appeals to Western academic theory, we run the risk of imposing a kind of dominant ‘expert’ knowledge that is no different from the expert knowledge of developers decried in postmodern critiques. While we should certainly fight against the unfair structural conditions that make this process of de-Indiannization necessary in Peru, this does not mean at the same time that microcredit or ‘development’ should always and everywhere be condemned and dismissed as a disciplinary project. Engagement with the actual realities of people in Peru presents a picture much more complex than theory would suggest.

*Close ethnographic study of the new opportunities and dangers of changing development agendas and community responses reveals a dynamic field of contestation where possibilities are not defined by the goals of international development organizations or the pessimism of Foucauldian views of power.... Local ethnography is a corrective to postmodernist indictments against development writ large that often operate at such a high level of abstraction that the subaltern victims of alleged discursive crimes are ironically far beyond the analytical horizon. The desire for development looks very different after one has spoken with Quechua parents who are concerned about the all-too-real material*

*limitations of rural life, and who fear for futures of sons and daughters whose best option is often to move to faraway cities. (Garcia 2005:13)*



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**APPENDIX**

## APPENDIX A

### INTERVIEW QUESTIONS - ENGLISH VERSION

#### I. *Asesores*

1. How long have you been an *asesor*? Have you taught clients in another NGO?
2. Do you work in urban or rural areas?
3. How many banks are you responsible for? Is it too many or the right amount?
4. What is a typical day like for you?
5. How were you trained to be an *asesor*? What aspects were emphasized?
6. How were you trained to do *capacitaciones*? What was emphasized?
7. How do you think the *capacitaciones* can benefit the *socias*?
8. Which kinds of borrowers benefit or do not benefit from the lessons?
9. Which themes do the *socias* find most interesting?
10. Which kinds of *socias* participate the most in the *capacitaciones*?
11. Do you think the lessons are more useful for some *socias* than others? Which types of *socias* and why?
12. Do you enjoy doing the *capacitaciones*? Why or why not?
13. Do you think it makes sense to do the *capacitaciones*?
14. Which themes do you most enjoy teaching?
15. Do you think the lessons are culturally appropriate?
16. Which modules do you think are the most pertinent to the *socias*?
17. Which of the modules do you think may need to be improved? How would you improve them?
18. How do you teach the *capacitaciones*? How much time do you usually spend on teaching them?
19. Do the banks with more *capacitaciones* have less default than the banks that don't do the *capacitaciones*?
20. How many of the *socias* are illiterate? Do these *socias* ever have problems with repayments?
21. Do the *socias* ever argue or contest the material in the lessons if they don't agree with it?
22. What is most important with the loan—profitability or the ability to improve borrowers' lives and reduce poverty?
23. Why is there an emphasis on lending to women?
24. Is there anything else you'd like to add?

#### II. *Socias*

##### a) Clients in banks with frequent *capacitaciones*

1. What is your name/age/business/marital status/number of children?
2. How long have you participated in a communal bank? How many cycles have you completed?

3. How often do you attend the *capacitaciones*?
4. How do you feel about the *capacitaciones*?
5. How does the *asesor* usually do the *capacitaciones* in your communal bank?
6. When are the *capacitaciones* normally done during the meeting?
7. Have you ever participated in the past with another NGO that did not have *capacitaciones*? Which do you like more?
8. Do you feel that the *capacitaciones* are useful? Why or why not?
9. Would you prefer that there were no *capacitaciones* during the meetings—if you only had to come and pay each month without also attending the educational sessions?
10. Which has been most helpful to you in your life—the loan or the *capacitaciones*?
11. Which of the themes have you learned about in your communal bank?
12. Which of the themes or lessons has helped you most and why?
13. With regard to decision making, do you feel that you make more decisions alone than before? Which kinds? Which do you make with your husband?
14. Can you tell me a story or give me a concrete example of how the *capacitaciones* have helped you in your life?
15. How else have the *capacitaciones* helped you? What have been the impacts:
  - ...in your self-esteem and confidence?
  - ...in your relations with your family?
  - ...in your business?
16. Do you have confidence in your capacity to direct your business and manage your finances and household in the future? More than before?
17. Do you believe that you and your family have better health and less risk or vulnerability as a result of the *capacitaciones*?
18. Do you think that you could give advice to others about health/business management/family wellbeing? More so than in the past (before the *capacitaciones*)?
19. Do you participate in your community (events, organizations)?
20. Do you believe that the *capacitaciones* are more useful for some people than for others? For whom and why?
21. Which of the modules did you find most/least interesting and why?
22. If you could choose the themes of the *capacitaciones*, would you be more interested or attend more frequently? Which themes would you choose?
23. Which of the themes do you think is the most important or useful?
24. Do you believe that the *capacitaciones* contribute to the success of your communal bank? Why?

25. Is there more friendship or solidarity among your group as a result of the *capacitaciones*?
26. What would you suggest to Arariwa to improve the *capacitaciones*? Is there anything else you'd like to ask or to add?

**b) Clients in banks with infrequent capacitaciones or lacking capacitaciones**

1. What is your name/age/business/marital status/number of children?
2. How long have you participated in a communal bank? How many cycles have you completed?
3. How often do you attend the meetings?
4. How would you feel about receiving *capacitaciones* in your communal bank?
5. Which themes would interest you the most and why?
6. How might the *capacitaciones* benefit you and the other *socias*?
7. What would you suggest to Arariwa?
8. Is there anything else you'd like to say or to ask?

## APPENDIX A

## INTERVIEW QUESTIONS - SPANISH VERSION

I. *Asesores*

1. ¿Hace cuanto tiempo es *asesor*? ¿ha capacitado en otra ONG?
2. ¿Dónde trabaja en zonas rurales o urbanas?
3. ¿Cuántos *banquitos* tienes? ¿es demasiado o suficiente?
4. ¿Qué es un día típico para Ud.?
5. ¿Cómo se ha capacitado para ser *asesor* de crédito? ¿en que se ha enfatizado?
6. ¿Cómo se ha capacitado para ser capacitador(a)? ¿En que se ha enfatizado?
7. ¿En qué les beneficia las *capacitaciones* a las *socias*?
8. ¿A que tipo de *socias* beneficia y a que tipo de *socias* no beneficia?
9. ¿En qué temas se interesan mas los socios?
10. ¿Quiénes son los *socias* que participa con frecuentemente?
11. ¿Cree Ud. que las *capacitaciones* son mas útiles para algunos socios que para otros?
12. ¿A Ud. le gusta dar *capacitaciones*? ¿Por que?
13. ¿Crees que tienes sentido capacitar a *socias*? ¿por que?
14. ¿En qué temas le interesaría capacitarse mas a Ud?
15. ¿Crees Ud. que los módulos de *capacitación* culturalmente son apropiados?
16. ¿Qué módulos cree que son pertinentes para los socios? ¿Por que?
17. ¿Qué módulos hay que mejorar? ¿En que y como?
18. ¿Cómo das las *capacitaciones*? ¿Cuanto tiempo?
19. ¿los bancos que tienen frecuencia de *capacitación* pagan puntuales o hay morosidad?
20. ¿Cuántos de los socios son iletrados (analfabetos)? ¿tienen problemas con los pagos del préstamo?
21. ¿Algunas veces las *socias* discuten la información en las *capacitaciones* cuando no están de acuerdo?
22. ¿Qué es más importante con el préstamo: la ganancia o la capacidad de mejorar las vidas de las *socias* y reducir la pobreza?
23. ¿Por qué hay énfasis en dar préstamo a mujeres?
24. ¿Hay algo más que quisieras decir?

II. *Socias*

## a) con frecuencia de ir a capacitaciones

1. ¿Cuál es su nombre/edad/negocio/estado civil/numero de hijos?
2. ¿Cuánto tiempo hace que participa en un banco comunal? ¿Cuantos ciclos ha hecho?

3. ¿Con qué frecuencia asiste a las sesiones educativas?
4. ¿Cómo percibe la *capacitación* en el banco comunal?
5. ¿Cómo se da la *capacitación* en el banco comunal?
6. ¿Cuándo se da la *capacitación* en el banco comunal?
7. ¿Ha estado con otro ONG en el pasado sin sesiones educativas? Que le gusta más?
8. ¿Cree usted que la *capacitación* de Arariwa es útil o no? Por qué o por qué no?
9. ¿Prefería que no hubiera *capacitaciones* en las reuniones? Si solamente tenía que pagar cada mes sin asistir a las sesiones educativos?
10. ¿Qué le ha ayudado más en su vida- el préstamo o las *capacitaciones*?
11. ¿Qué de los módulos (temas) ha hecho?
12. ¿Qué de los módulos le han ayudado más y por qué?
13. ¿En relación a tomar decisiones...
  - ¿siente que ahora toma decisiones sola? Cuáles?
  - ¿ Y Cuáles toma consultando a su pareja?
  - ¿ A nivel de su persona qué decisiones toma?
  - ¿y a nivel de su familia?
  - ¿Y a nivel de su negocio que decisiones ha tomado?
14. ¿Puede usted contarme una historia o darme un ejemplo concreto de cómo las *capacitaciones* le han ayudado en su vida?
15. ¿De qué otras maneras las sesiones educativas le han ayudado en tu vida?
  - ¿Que son los impactos...
    - en su autoestima y confianza?
    - en las relaciones con su familia (su pareja, sus hijos)?
    - en su negocio (inversiones, ventas, ganancias)?
16. ¿Tiene usted confianza en su capacidad de dirigir su negocio y manejar sus finanzas y su casa en el futuro? Más que antes?
17. ¿Cree usted que usted y su familia tiene mejor salud y menos riesgo o vulnerabilidad por las *capacitaciones*?
18. ¿Cree usted que ya podría dar consejos a otras personas sobre salud/gestión empresarial/bienestar familiar? Más que en el pasado (antes de las *capacitaciones*)?
19. ¿Ya participa más que antes en su comunidad (asuntos políticos, organización de actividades)?
20. ¿Cree usted que las sesiones educativas son más útil para algunas personas que otras? Para quienes y por qué?
21. ¿Qué de los módulos (temas) le han interesado más/menos y por qué?
22. ¿Sí podría elegir la tema de las sesiones educativas, interesaría/asistiría más? Qué tema escogería?

23. ¿Qué temas le parece lo más importante o útil? Por qué?
24. ¿Cree usted que la *capacitación* ayuda al funcionamiento/ éxito de su banco comunal? Cómo?
25. ¿Hay más amistad/solidaridad entre las *socias* por las *capacitaciones*?
26. ¿Qué sugiere a Arariwa para mejorar las *capacitaciones*? ¿Hay algo más que quiere decir o preguntar?

**b) sin frecuencia de ir a capacitaciones**

1. ¿Cuál es su nombre/edad/negocio/estado civil/numero de hijos?
2. ¿Cuánto tiempo hace que participa en un banco comunal? ¿Cuántos ciclos ha hecho?
3. ¿Con qué frecuencia asiste al banco comunal?
4. ¿Con qué frecuencia asiste a las sesiones educativas?
5. ¿Cómo lo vería si en el banco comunal recibiría *capacitaciones*?
6. ¿En que temas interesaría más? Por qué?
7. ¿En que beneficiaría las *capacitaciones* a Ud.? Y a las otras *socias*?
8. ¿Qué sugiere a Arariwa?
9. ¿Hay algo más que quiere decir o preguntar?