

MICROFINANCE AND ECONOMIC INEQUALITY IN THE PERUVIAN HIGHLANDS

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Microfinance programs have increased across the globe to help reduce poverty through access to small-scale capital. The spread has often dovetailed with structural adjustment policies in an attempt to address the financial needs of those in the informal economy. While microfinance institutions grow wealthier, their ability to enhance the financial stability of borrowers is tenuous. Research on microfinance programs in the rural highlands of Peru illustrates how they can undermine the financial security of borrowers, increase economic inequality, and decrease food security. Research findings also suggest that microfinance programs are unable to address the needs of women in the informal sector and that it is necessary to evaluate the effects of microfinance programs beyond that of the individual borrower. (Microfinance, Peru, economic development, women, empowerment)

Microfinance programs are celebrated as saviors in economic systems with few formal jobs, since they provide individuals with access to capital and thereby a means to survive in the informal sector (Yunus 2003; see also Bayulgen 2008; Khandker 1998; Mayoux 1998; Morduch 1999). De Soto (1989:xvii) argues, “The real revolutionary class in Peru is made up of the micro, small, and medium-sized entrepreneurs...who represent the majority—around 60–80 percent of the nation’s population.” De Soto (1989), who promotes the informal economy, regards microfinance as providing a metaphorical key to unlocking poverty in much of Peru. The actual effect of microfinance programs in the rural Andes, however, is complex. As competition increases in the marketplace, in conjunction with a differential ability to successfully utilize loans, an increased need to use costly inputs, and the decline of the Andean food exchange system (known as *trueque*) could exacerbate economic inequality and negatively affect nutrition in rural highland communities. Such consequences illustrate the inability of microfinance programs to decrease the vulnerability of those in the informal sector. They also demonstrate the need to evaluate the impact of microfinance programs in a context larger than the individual borrower and to consider the importance of expanding financial services to include communal savings or insurance programs.

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MICROFINANCE AS A DEVELOPMENT STRATEGY

Microfinance began with the work of Muhammad Yunus, an economist in Bangladesh who received the Nobel Peace Prize in 2006 for developing microfinance programs through the creation of the Grameen Bank. Microfinance programs provide small loans to groups of individuals (primarily women) who would be ineligible for conventional bank loans (due to a lack of capital and/or literacy) or subject to the high interest rates of informal lenders (Hermes and Lensink 2007; Yunus 1995). Microfinance, as a development strategy, can be traced to the Women in Development (WID) movement in the 1970s, which asserts that not only do women need development, but development needs women (Chant and Gutmann 2005; Fernando 1997). Microfinance programs primarily serve women because women are understood to be more credit-disadvantaged than men (equity), women tend to share the benefits of microfinance with family and the community (impact), and women have proven to be better credit risks (Coyle 2001; see also Khandker 1998, 2003, and Mayoux 1998).

From the mid-to late 1980s, microfinance spread to development institutions in the World Bank and International Monetary Fund, to nongovernmental agencies, and to small grassroots organizations that have implemented microfinance programs throughout Asia, Africa, Latin America, Western Europe, Canada, and the United States (Coyle 2001; Morduch 1999). In 1997 there were 618 microfinance institutions (MFIs) serving 13.5 million individuals, and by 2005 the number of MFIs rose to 3,133, with 113.3 million borrowers; 84.4 percent of these were women (Daley-Harris 2006).

Microfinance programs emerged when developing countries were increasingly implementing neoliberal economic structural adjustment policies (e.g., privatization, deregulation, reduction of trade barriers) aimed at reducing fiscal imbalances. While the International Monetary Fund and the World Bank have argued that the social costs of the reforms represent symptoms of the economic crisis that structural adjustment policies were designed to cure, such policies led to drastic reductions in social sector spending, high unemployment, and the absence of social safety nets (Fernando 1997), effectively deepening rather than narrowing the social and economic divides between the global North and South (Stiglitz 2002). The costs of structural adjustment policies have proven to disproportionately hurt the poor --

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impoverished women in particular (Chant and Craske 2002; Gunewardena and Kingsolver 2007; Harrison 1997; Sassen 2006), leading to reduced food intake and lack of health care (Fernando 1997).

Microfinance programs developed as a new approach to poverty alleviation because they do not appear to threaten the existing institutional order, while they also foster the interaction of women and create education

programs. They potentially also affect social change. NGOs became the favored means to initiate microfinance reform due to their small-scale operation, flexible approaches, and access to indigenous knowledge and social networks (Fernando 1997; Kabeer 1996, 1999). Consequently, NGOs throughout the world began to adopt microfinance as the best strategy for poverty alleviation. However, formal financial intermediaries are beginning to outpace small NGOs in the increasing professionalization and commercialization of microfinance programs, particularly in Latin America (Christen 2000; Jansson 2001).

Microfinance programs generally follow the poverty alleviation model espoused by Yunus, or that of a financial systems, or financial self-sustainability, approach (Matin, Hulme, and Rutherford 2002; Robinson 2001). The poverty alleviation model focuses on ~~reducing~~ ~~alleviating~~ household poverty and increasing the well-being of the poor through community collective action and a variety of financial services such as savings, non-directed loans, and low-interest or selectively subsidized credit. The poverty alleviation model relies on a small staff well versed in development and welfare programs and offers a range of complimentary education services. Conversely, the financial systems, or financial self-sustainability, approach focuses more on access to microfinance services for poor entrepreneurs through minimalist programs based on banking models. It stresses the importance of financial self-sufficiency, professional staff, and cost efficiency for clients.

Each of these systems has proponents and critics citing various positions on financial independence and subsidized interest rates, while also questioning whose interests each model best serves (Cull, Demirgüç-Kunt, and Morduch 2009; Mayoux 1998; Milgram 2001; Vyas 2001). As increasing numbers of microfinance institutions shift from a poverty-reduction to a financial systems approach, scholars have asked if a relationship between profitability and outreach to the poor cause some institutions to move away from serving the poorest in a society (Cull, Demirgüç-Kunt, and Morduch 2006).

Early studies touted the initial success of microfinance initiatives, claiming they provided cost-effective sustainable development by increasing the incomes of the poorest, thereby improving their quality of life (Khandker 2003, 2005; Todd 1996; Von Pischke 1992; Yunus 1995). Recent literature, however, assesses microfinance not ~~to~~ as a sure route out of poverty, but rather ~~as~~ a gap between the “rhetoric and reality” (Isserles 2003:38). Studies show that many microfinance programs often fail to reach the poorest people (Chowdury 2000; Copestake et al. 2005; McKee 1989), improve women’s status (Hashemi, Schuler, and Riley 1996), expand household income (Wood and Sharif 1997), or address the social and systematic causes (as opposed to

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symptoms) of poverty (Rogaly 1996). The programs have also been criticized for creating a cycle of debt (Karim 2011; Kellett 2009; Olteanu 2011), not addressing the prohibitive logistical costs of obtaining credit (Brett 2006), and failing to respond to larger market issues (Mahmud 2003).

MICROFINANCE IN PERU

Peru has one of the fastest growing economies in South America, despite the global economic downturn. This growth stems largely from a steep rise in the price of minerals and Peru's expanded production and export of consumer items, such as clothing and produce (Acosta 2011). Much of the growth in the formal sector is focused on urban coastal regions as opposed to rural highland provinces. Only 27 percent of the population in the highland department of Apurímac is waged workers, compared to 60 percent in Lima (Acosta 2011). The wages of those in the formal sector continue to rise while the economic status of individuals in the informal sector remains largely unchanged, maintaining economic inequality (Acosta 2011). This is reflected in Lima's malnutrition and poverty rates, some of the lowest in Latin America, while the highland province of Huancavelica has a malnutrition rate comparable with Burundi, Madagascar, and Malawi (UNICEF 2009). Despite growth in the national economy, Peru continues to have a large informal sector, particularly in the rural highlands. Consequently, microfinance has become and continues to be utilized as a major development strategy to reduce poverty in the region.

The informal sector grows as unemployment increases. Structural adjustment policies that promote privatization to reduce the fiscal deficit exacerbate unemployment by the withdrawal of the public sector as an employer (Tokman 2007). Favorable attitudes and policies towards the informal economy in Peru were largely spurred by Hernando de Soto's (1989) influential book, *The Other Path*, which highlights the importance of the informal sector. The government of Peru, under the administration of Alan García (1985–1990), recognized the importance of the informal economy and established the Institute for the Development of the Informal Sector (IDESI), through which government and other funds could be channeled. The Sector Guarantee Fund (FOGASI) was also established to support loans for microenterprises. These efforts, however, were limited because they were based on spending Peru's foreign exchange reserves and making international debt repayments (Creevey 1996).

Alberto Fujimori's administration (1990–2000) also had a favorable attitude towards the informal sector and tried to stabilize the economy but faced restrictions due to claims of corruption (Creevey 1996). Nevertheless, *Cajas Rurales de Ahorro y Crédito* (Rural House of Savings and Credit) was established, filling a gap left by the closure of *Banco Agrario* (Agrarian Bank),

as well as specialized microfinance firms, *Microempresas y Empresas de Desarrollo de la Pequeña y Micro Empresa* (Microenterprises and Small and Micro Development Businesses, “EDPYMES”), designed to incorporate nongovernmental organizations offering financial services to small producers in the regulated sector (Pait 2009; Valdivia and Bauchet 2003). Subsequent administrations in Peru (2001–2011) also eliminated barriers to the formation of microenterprises and simplified certain formalities, which allowed more credit to become available for microcredit enterprises. This has continued into the present.

Microfinance programs are now well established in Peru. By the end of 2004, 40 microfinance institutions in Peru had assets of U.S. \$1.2 billion, representing 5.8 percent of the total assets for the entire Peruvian financial system (Ebentreich 2005). As of 2005, the microenterprise and small business sector represented an estimated 42 percent of Peru’s gross domestic product and 74 percent of its economically active population (*Instituto Nacional de Estadística e Informática*, “INEI” 2005).¹

There has been some research on microfinance in rural regions of Peru (Creevey 1996) and some ethnographic explorations into how borrowing groups operate (Wright 2005), but much of current research on microfinancing in Peru employs a macro perspective and looks primarily at urban areas (Dunn 1999; Olteanu 2011; Trivelli et al. 2004). This research also focuses on particular issues such as outreach (Copestake et al. 2005; Fernando 2003; Tedeschi 2008; Zeller and Johannsen 2006), cost-efficiency (Gregoire and Tuya 2006), increasing commercialization (Christen 2000; Jansson 2001), and efforts to further regulate the industry (Ebentreich 2005; Jansson 2001; Janvry et al. 2003).

People in the rural Andes face constraints distinct from urban dwellers that greatly impair their ability to climb out of poverty via microfinance. The majority of women obtaining credit in the rural south central highlands live with highly seasonal income patterns and low population densities, conditions under which microfinance has had limited success (Morduch 1999). Moreover, contrary to traditional agricultural credit models, households in the rural Andes do not typically have one source of income, which makes it difficult to examine the effect of microfinance programs in quantitative terms (Hulme and Mosley 1997). Microfinance institutions are often examined “through the lens of economics, finance, or through a more policy-oriented, development framework” (Ghodsee 2003:65), yet ethnography and participant observation in the study of microfinance are important, “since understanding the successes and failures of these programs depends very much on understanding the lived experiences of those seeking and utilizing the loans” (Ghodsee 2003:65; see also Kobb 1997).

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Due to a lack of qualitative research on microfinance programs in rural highland Peru, as well as the inherent difficulties assessing the effect of microfinance programs in the region quantitatively, I explored the microfinance programs in the south central rural Andes with ethnographic research. Fieldwork in 2005–2006 was conducted in and around the city of Andahuaylas, the capital of the Department of Apurímac, having approximately 32,000 inhabitants (INEI 2006). The Departments of Apurímac, Huancavelica, Cajamarca, Huánuco, and Ayacucho have the highest rates of poverty in Peru -- between 53 and 57 percent (INEI 2010)-- and many of these departments have experienced a huge increase in microfinance organizations (Trivelli et al. 2004). I worked in collaboration with a nongovernmental microfinance institution, SOAR (one of four microfinance institutions in Andahuaylas), and focused on SOAR's female-focused, rural-based group lending program called *Madres Unidas*.⁴²

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Research was based in the small community of Sacclaya, about one and a half-hour's drive from Andahuaylas. Sacclaya, with its 105 households, is situated at about 3,600 meters (11,800 feet) elevation and has few amenities. It is an agriculturally based community and predominantly Quechua-speaking, although men and younger women also speak Spanish. Research of 13 months in Peru consisted of participant observation, informal and semi-structured interviews with borrowers, non-borrowers, and their families, as well as interviews with development workers. I also conducted nine focus groups with female borrowers in surrounding communities to place Sacclaya within the context of the larger valley.

COMPETITION

Andahuaylas hosts the second largest regional market in Peru. People from the entire valley, neighboring departments, and even the coast and rainforest many miles away come to the Andahuaylas Sunday market to sell, buy, and trade goods. Individuals in Andahuaylas talk about how the market continues to grow in size each year. A woman in Andahuaylas said that ten years ago the market was only a few blocks long, but in 2005–2006 it stretched the entire length of the city, about two and a half to three miles.

SOAR provided much of the capital to buy animals and expand production in the fields, but its success in attracting clients increased competition and resulted in an inadvertent decline of economic success. As SOAR and the other microfinance organizations increased their number of clients, more people began selling more of the same items in the valley, driving prices and profits down. For example, a woman who worked on a contractual basis with SOAR said, "There is so much competition now that more women have loans.

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Now everyone is selling guinea pigs, roosters, etc., at the market and there is just too much competition to make a profit.”

Generally, when a person takes a loan in a borrowing group, the entire group is penalized if that person fails to repay. So each borrower in hundreds of groups in the area must turn a profit in order to insure her own repayment and avoid having her entire group lose its borrowing privileges. Because so many borrowers made and sold the same things, the women became positioned, directly or indirectly, in competition with one another. Therefore, group collaboration turned into individual competitiveness. In a focus group, a participant stated:

Before when we invested whatever amount of money we would gain money, but now there is lots of competition. Everyone works with loans now and does business, so we don't earn anything. Before there weren't that many women in SOAR, but now there are over 2,000. We are all doing the same thing, so no one can make any money.

Men and women in the group discussed at length their inability to sell their animals and products for a high enough price to make a profit, due to the competition. A woman from Sacclaya who did not have loans said:

I have talked with lots of people with loans here and they say they don't make anything from using loans. They spend it on pesticides, fertilizers, etc., for the fields or to buy and sell animals or start an artisan business or store, but due to all of the competition they can't make anything. That is how it is for us when we don't have an established business. We go to the market to sell a pig, but that day the prices are low.

Greater market competition also encouraged higher production. Higher production required increasing amounts of expensive agrochemicals. Men and women discussed the need to use fertilizers and pesticides to produce enough to compete in the market. They described how 12 to 14 years earlier they did not use chemicals, just *caca de corral* (animal dung), had no problems with insects, and still produced big fruits. But then agrochemicals were introduced to the community in order to grow bigger and better produce. Men and women said agrochemicals had become necessary “because the ground is bad,” and if you did not use them you would have a total failure due to infestations of worms and insects. As a young man stated, “You need to use chemicals now to produce for the market because you need big wormless pretty products to sell in the market. For [home] consumption that is not as important.” A woman added that even agrochemicals had become ineffective: “When you get worms in the fields it is a complete failure and the stuff to prevent them doesn't work anymore.”

Many families could not afford chemical fertilizers and pesticides and discussed the lack of government support in providing such inputs.

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Consequently, women and men took out loans to pay for agrochemicals in order to be competitive in the marketplace; yet, with the increasing competition, they often did not earn enough money to pay back their loans with interest and turn a meaningful profit. One woman from a community near Sacclaya discussed this dilemma:

Almost all the capital that they lent me I invested in buying fertilizer for the planting. When I take out some products from the field I sell them in Andahuaylas. Not always with the agriculture do I gain, at times I lose. When this happens we are very concerned for our responsibility to pay the interest.

Increased competition also did not allow people to leave the land fallow for an adequate amount of time. Many planted their fields in a rotation to renew the soil, perhaps first potatoes, then *ullucu* (an Andean tuber) or barley or wheat, and then *habas* (flat beans) and back to potatoes. However, due to the pressure to continually produce food for the market as well as for consumption, not everyone could afford to leave the land fallow. A woman in Sacclaya pointed out:

If you don't apply fertilizers the land won't produce enough. It used to, but not anymore. If the land rests for a while it is better, but sometimes you can't let the land rest [if you] need food... One year we didn't apply enough fertilizers to one of our fields—spent about 400 *soles* [about \$120 U.S. dollars] on it, but only produced enough to sell 200 soles worth of potatoes, so we lost 200 soles... when you have a loan it is worse. You don't have money to pay [back] the loan.

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Highland agriculturalists became trapped in a debilitating catch-22 situation. Increased competition in the market economy led to continuous use of the land, which caused soil depletion, requiring further chemical inputs. The use of costly agrochemicals generated financial dependency on loans, which became increasingly difficult to repay due to increased competition in the market economy.

ACCESSING LOANS

Not only did the increased number of individuals accessing credit contribute to competition and thereby intensify the need for expensive inputs, but the credit system also accentuated economic inequality. People repeatedly mentioned that those who obtained loans either had sufficient resources to invest or had virtually nothing and needed loans to cover basic expenses. Those lying near the middle of the socio-economic spectrum commonly said that they did not need or want loans, as their needs were being met and they did not have substantial resources for investment.

Those with greater resources (i.e., larger land holdings, access to remittances, small business owners) obtained credit to expand their production—to invest in greater amounts of fertilizers and pesticides, rent a tractor, pay for labor, or rent a truck to take their products to better markets in Lima, Nazca, or Cusco.²³ Such farmers were able to produce a larger quantity of products and sell them at a higher price.³⁴

In comparison, individuals with few assets (i.e., smaller land holdings, no access to remittances) also accessed loans to invest in fields, but often were unable to transport their products to the better markets. They tended to invest in small livestock (e.g., chickens, ducks, guinea pigs), fatten them to sell at market, buy materials to knit sweaters or weave *mantas* (a shawl or small blanket women use to carry items on their backs) for sale, or access loans to cover consumption needs. One woman pointed out, “people take out loans because they don’t have enough money to cover expenses,” and another believed that “people only take money when it is very necessary—when they have no capital of their own [or] when there is a failure in the field and no animals to sell and they need money to plant fields.” People in the middle of the socio-economic spectrum in Sacclaya felt that they did not need to access loans, as they were earning enough money to survive as laborers, or that they did not have sufficient assets to make investing worthwhile. They said that loans were for those with lots of land to invest in their fields.

Some individuals also believed that loans actually hindered their ability to get ahead, like a young man from Sacclaya who stated, “People with their own money can make more because others with loans have to pay back with interest.” One woman had a neighbor like that:

Teodora’s mom works all day and night to pay the [SOAR] office, but sometimes people have no other choice—she can’t cover school expenses and other costs without a loan, but then a lot of the money she works so hard to earn is lost in interest....When there is interest there is not enough food for kids; it all goes away. People work for the interest.

In addition to paying interest, borrowers must contend with the logistical costs of loans, such as the transportation cost to and from SOAR’s office to obtain loans and make payments. [At the time of my research,](#) depending on the location of the community, it often costs seven soles or more for round-trip travel to and from Andahuaylas, almost as much as one could earn at the going rate for a full day’s work in the fields ~~of~~ [at](#) ten soles (approximately U.S. \$3.00). Many people desired access to credit, whereas others asserted, “We are happier when we don’t need a loan.”

A CYCLE OF DEBT

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To avoid preventing others in the borrowing group from having access to loans, borrowers faced great pressure to remain in good financial standing with microfinance institutions. When poor borrowers with little financial cushion experienced failures or unexpected expenses, such as unanticipated medical costs, failed crops, or the death of an animal, they found themselves in a precarious situation. Due to the pressure to repay loans, individuals were often compelled to borrow money from a family member or neighbor to pay off their debt to SOAR, only to take out another loan to repay the relative or neighbor. “A lot of people who have loans from a bank or NGO take out a loan from other people like me to pay off their loans. Then they need to take out more money from the bank to pay me off,” said one woman. The commonplace lending of money through formal and informal channels is a means to survive. The expectation to lend money to those in need, regardless of one’s personal financial status or debt, also hinders the ability of any person or household to get ahead financially.

People would sell an animal to pay off their loans during emergencies, but often were forced to sell the animal at a time when prices were low or when the animal had not fattened sufficiently to earn invested profit, and so they lost money. As a woman explained, “sometimes you have to sell items—products and animals—when the price is low, sometimes lower than you paid for it or invested in it, so you have a complete failure.” A focus group participant also discussed the dilemma:

In reality it takes too long to pay off a loan from SOAR by just working, so we often have to sell an animal. We also usually borrow from a neighbor or family. But with this you have to pay them back, so we have to take out another loan from SOAR to pay them back, but then you have no money to invest, which creates a total failure.

A man with two children explained that he had to sell an animal to pay off his loan because his son was sick and needed surgery costing 450 soles. “I asked SOAR if our family could have a six-month extension. They said ‘no,’ so I had to sell our pigs and other animals at a low price to pay off the loan.” A woman complained that when you do not have money to pay your loan, “SOAR and other banks say it is your fault and you need to pay—[they] don’t give extensions or anything.”

In some instances, people took out loans from one microfinance institution with a lower interest rate to pay off their loan with SOAR, a process otherwise known as the bicycling of loans. A focus group participant stated: “Lots of people take out another loan to pay off SOAR loans and then take SOAR loans to pay off other loans.” A man agreed and added, “Some people take loans from one NGO like SOAR and they can’t pay, so they take a loan from the other organization to pay and get trapped between paying each other off.”

In the above circumstances, the individuals no longer had money to invest in their fields, animals, weavings, or other ventures. They found themselves in a cycle of debt nearly impossible to escape.⁴⁵ People regarded these circumstances as shameful and could not discuss them with SOAR employees.

Microfinance programs have had an indirect negative effect on the practice of trueque, a bartering system employed throughout the Andes, characterized by trading agricultural, pastoral, and industrial products between different climatic zones (Brush 1977; Bolin 1998). Bartering products from different ecological zones has been documented in Andean countries such as Peru, Ecuador, Bolivia, and Colombia (Bolin 1998; Falla 2008; Humphrey and Hugh-Jones 1998; Orlove 1986; Mitchell 1991a; Paerregaard 1994; Verzariu 1985). Trueque is a key means to assure nutritional variety, which is imperative in high-altitude communities largely reliant on tubers.

One morning, upon hearing a loud horn coming from the plaza, Flora, the mother of the household where I stayed, sent her daughter to see who had arrived. A truck from Andahuaylas had come with a load of produce to trade. Flora then instructed all of us to gather some bags of ullucu, habas, potatoes, and *chuño* (freeze dried potatoes). These were brought to the truck where others had gathered with their own produce to trade for *arrobas*⁶ of apples and corn.⁵ Flora said that about once a month a truck from lower altitudes arrives in Sacclaya to trade, and that a lot of people from communities around Andahuaylas prefer to come to Sacclaya to trade in trueque because Sacclaya is known for having an abundance of tubers and *chuño*.

People in Sacclaya and other rural communities used to operate solely in trueque, but as more families produced for the market economy, the collaborative system of trueque was being replaced by a competitive market model. Flora prefers trueque because it assures that they will have a variety of food, whereas when they are solely dependent on the market, they can only acquire foods with cash. Without extra money, they can only consume what they themselves produce.

Most residents in Sacclaya reported (as I observed) that they only eat what they produce because they cannot afford to buy additional produce from stores or the market. Women frequently described being limited to eating merely potatoes, saying “We just eat potatoes because we are *campesinos* (peasants) and poor and can’t buy things at the store.” In such circumstances people enjoyed the ability to buy products in the market or store on the rare occasions when extra cash was available, but they ultimately preferred trueque because it allowed them to expand their diet beyond local products.

Only a few families in Sacclaya reported consuming a varied diet that included produce not grown locally. These tended to be families with substantial land holdings or those with income from outside the community.

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Not surprisingly, these families preferred the market economy because they could purchase a greater variety of produce at a store or regional market. A young man whose family had access to remittances believed that the cash economy provided better nutrition than trueque. He described how his parents' generation merely traded products in trueque but now had money to buy food that allowed them to progress and feed their kids well. On the other hand, he noted that "when there is no money, kids have malnutrition."

With the waning of trueque, families with limited capital were constrained to consume what they themselves produced, which is largely a tuber-based diet. In Sacclaya, the move away from trueque and towards the market economy could expand the gap between the haves and have-nots regarding food security. As families become further incorporated into a market economy largely influenced by structural adjustment policies, the future of trueque is uncertain.

MAINTAINING EQUALITY

Bourque and Warren (1981) found that membership in the Andean community of Mayobamba was traditionally defined by collaborative work, yet increasing economic stratification had led to a more individualist model of community. Microfinance programs have the potential to increase economic inequality and thus instigate this more individualist model of community. Nevertheless, in Sacclaya the cultural obligation of well-off community members to support those in need through labor and financial resources, as well as the stigma associated with accumulating substantially more wealth than others remained strong. Such processes served as a social leveling mechanism (Lee 1969) that could temper economic stratification and individualist models of community as well as influence the overall economic impact of microfinance programs.

Pressure to participate in communal labor exchange practices in Sacclaya demonstrates how labor is a valuable resource in the Andean highlands (Mitchell 1991b). *Ayni*, *minka*, and *faena* distinguish three main ways to trade labor communally. While each of these terms has been variously defined (Guillet 1980; Harris 1982; Isbell 1978; Mayer 2002; Mitchell 1991b; Orlove 1976; Skar 1982; Stein 1961), and their meanings are context specific, the overall content is somewhat similar. *Ayni* at its most basic level means mutual assistance (Mishkin 1963[1946]), or "a form of balanced reciprocity used to obtain services and goods" (Mitchell 1991b:201), and *it* is often employed to plant and cultivate fields. *Minka* moves the exchange from an individual to a group level in the form of a "festive work group" (Mitchell 1991b:197). Stephen Brush (1977:133) describes *minka* as a series of relationships that constitute the village economic system "in which labor is given for food,

aguardiente [sugar cane alcohol], coca plus payment in cash, or crops.” A common use of *minka* is when a family asks community members to assist them in planting or harvesting a large field or building a house. *Faena* entails labor exchange on an even larger level and has been defined as “compulsory labor on public works, road building, sanitation, etc.” (Mishkin 1963[1946]:444). The community president often asserts authority in determining when a *faena* is to be conducted.

People in Sacclaya reported a general decline in the use of *ayni* due to an increasing need for money, and thus a focus on paid labor. Nevertheless, *ayni* continued to be deemed important, and those who did not participate in *ayni*, *minkas*, or *faenas* were harshly criticized. *Minka* attendees commonly noted who was present and who was not. One woman condemned a family for rarely participating in a *wasi wasi* (house-building *minka*), arguing that no one would help them when they might need to build a new house and stating that such communal participation was “important to survive.” In exploring the role of reciprocity in the Andean community of Quinua, Mitchell (1991b:202) argued that “generalized economic help is indispensable in an environment in which crop failure and other risks are common.” While some individuals may reach an economic status that allows them to pay for all required labor and thus not need to partake in communal labor exchange practices, they are still vulnerable to agricultural risks.

Those who failed to participate in *ayni*, *minka*, and *faena* or attend communal events lost respect and authority in the community. The Ppresident of Sacclaya described the importance of attending communal labor exchange events such as *faenas* and *minkas* stating, “If people go to things irregularly their voice doesn’t carry much weight—they lose respect in the *asambleas* [community meetings].” Conversely, those who routinely participated in *ayni*, *minkas*, and *faenas* and also regularly attended community meetings gained what Bourdieu (1977&6:89, 182) refers to as “cultural capital” that in at least one instance even superseded “economic capital.” Although leadership positions typically correlated with economic status (i.e., those with larger land holdings were often elected into community leadership roles), a young man from a distant province with no land holdings of his own and only one year of formal education was elected into a community leadership position. The rationale behind his selection was his dedication to the community through his constant participation in communal labor duties and community meetings.

Individuals with financial resources were expected to help those in need, which was illustrated in the informal and formal exchange of loans previously discussed. In addition, if individuals with substantial resources asked for financial help, they were viewed with suspicion and harshly criticized. For instance, a number of women became upset when my husband and I were

Comment [nck5]: There really should be no plural – it should just always say *ayni*, *faena*, *minka*.

Comment [a6]: In other instances, these are shown as working in a plural sense without the –s ending. (See prev page.) What is the proper way to show these words in the plural? The same question applies to *ayna/ayni*, I suppose.

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asked to be godparents to a high school student, which entailed funding a field trip for his promotion. They claimed that this particular family had substantial resources to pay for the trip: “They have lots of money—they take products to the coast to sell three to four times a year and have two sons working in Andahuaylas with their own house and car.” They asserted that it was shameful for this family to ask for help and stated, “We are not equal here in Sacclaya.”

When people were perceived to be rising too far above their fellow *comuneros* (community members), others sometimes sabotaged their success. A female SOAR borrower reported being robbed by her neighbors solely because they believed she was advancing too much beyond others in her community. She described her experience: “I began working with knitting blankets.... I saw with much emotion that the capital was growing and there were jealous people from how much we were progressing. When we were just three days from paying SOAR, they robbed 1500 soles from me.” I heard accounts of similar events occurring in other communities throughout the valley.

The stigma and jealousy associated with accumulating more wealth than others extended beyond the community and impacted inter-community relations. Although individuals from nearby communities often intermarried, there were well established factions between certain communities in the Andahuaylas valley. Individuals in Sacclaya commonly discussed how other communities were jealous of them for being well-organized and hosting numerous festivals. I heard people make jealous comments regarding individuals from other communities that were receiving more financial assistance from the regional government, nongovernmental organizations, or private entities. A regional leader described the persistence of jealousy in Sacclaya and the valley stating, “There still exists in this world, in this country, in this town more than anything, many divisions. There is conformity, divisiveness, and a jealous vision.”

Pressure to provide labor and resources to those in need as well as stigma associated with accumulating substantially more wealth than others could possibly override any growing economic inequality stemming from microfinance. On the other hand, when jealousy and suspicion spill over to inter-community relations without labor or produce exchange practices that bind one another in trade, divisions can develop preventing collaboration.

CONCLUSION

Microfinance as a poverty-reduction strategy is directed towards the informal sector, making it particularly suitable in developing countries where a high percentage of the citizenry cannot participate in the formal economy. In

recognition of the high percentage of those in Peru's informal sector, as well as their economic potential, de Soto (1989) argued for the expansion of property rights in the informal sector and policy reform that reduces regulations that create barriers to the entry of informal entrepreneurs into the formal economy. In response to de Soto's research, Peru implemented policies that facilitated the integration of hundreds of thousands of small enterprises into the formal economy, contributing to its tax revenue (López 2005). Microfinance programs also emerged during this period to support the informal economy by offering capital to people typically ineligible for bank loans. While the motivation in supporting the informal sector was to draw workers into a more formal system, ironically microfinance programs have contributed to unregulated growth within the informal sector without providing the support necessary to assure success. Consequently, the informal sector remains parallel to and separate from the formal sector, without added economic security and with greater financial risk.

Because there is no limit to the number of microenterprises in the region, other than the amount of available capital and borrowers, and because the market itself is limited by a small geographical area, competition has driven down prices and profits, reducing the ability of debtors to repay their loans. In addition, whereas variation in existing resources can determine one's ability to succeed in any economy (formal or informal), such differences are exacerbated within the agricultural informal sector. Because loans are largely being invested in existing agricultural resources (as opposed to developing an actual microenterprise), the amount of resources available upon acquiring credit (i.e., landholdings and livestock) allows certain individuals to weather setbacks such as crop failure, death of an animal, or health problems more effectively. Such individuals are also able to increase profits by accessing higher paying markets and bringing more products to sale. On the other hand, individuals involved in agriculture with few assets at the time of obtaining loans are more vulnerable to unanticipated expenses. They are also subject to greater competition in the local economy, since they typically do not have the resources to take their goods to a higher paying market or the quantity of products to justify such a trip. As certain families are able to use credit to expand production and acquire a higher price for their yield, other families fall into a cycle of debt, and economic inequality in rural communities rises.

The expectation to assist those in need by providing financial and labor resources, as well as the pressure to remain at the same economic level as others, could temper inequality within a community. Yet these mechanisms could also inhibit the financial success of some families. The bicycling of loans and non-lucrative forms of repaying loans during times of emergencies could be largely avoided if individuals had access to savings and insurance

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programs. Women would have available capital to use in emergencies and would be less likely to default on their loans or end up in a cycle of debt in an attempt to remain in good standing with the lending institution. Consequently, SOAR could benefit by an increase in timely loan payments, providing the organization greater financial security.

Nevertheless, savings programs could be challenging in highland Peru due to seasonality and synchronic timing of agricultural activities. For example, when depositors and borrowers are both engaged in cultivation, depositors will likely withdraw deposits when borrowers strive to borrow -- during planting season. Likewise, depositors will tend to make deposits when borrowers make repayments after the harvest (Matin, Hulme and Rutherford 2002). Moreover, since SOAR cannot offer savings programs due to restrictions on nongovernmental organizations in Peru, mutual savings devices such as Rotating Savings and Credit Associations and Accumulating Savings and Credit Associations could be a practical option (Ambec and Treich 2007; Anderson and Baland 2002; Arun et al. 2005). These could be implemented in lieu of, or in addition to, formal microfinance programs.

The continued practice, and even expansion, of trueque would be an important component of food security, allowing highland farmers the option of trading tubers for other nutritiously rich foods when cash is unavailable. Falla (2008) has documented a resurgence of trueque among the Koconuco of Colombia to enhance food autonomy in response to Free Trade Agreements. Other examples of communities employing alternatives to the market economy include barter and local currency systems in Colombia (Burke 2012), worker-owned factories in Argentina (North 2007), bartering groups in Mexico City (Santana 2008), Local Employment and Trading Systems around the world (North 2007), and unemployed worker movements in Argentina (Chatterton 2005).

The attributes of women that caused them to become targets for microfinance programs (i.e., their lack of access to credit, their likelihood of sharing the financial benefits with their family and community, and their likelihood of being good credit risks) appear to serve microfinance institutions while disadvantaging the women. Those who most need credit are often the ones least able to capitalize on loans through investment and are more prone to falling into debt. Women do share the benefits of microfinance with their families and communities, but the use of loans through informal and formal channels in order to help others survive adversely affects the ability of households to get ahead financially. The pressure placed on women to repay their loans often makes them good credit risks at the cost of sacrificing their own financial stability. The success of microfinance institutions, therefore, can be directly tied to its clients' failures.

Comment [a7]: Is this where you intended endnote 7 to go? I searched the document and didn't find it.

Comment [nck8]: Yes. 😊

Microfinance programs have the potential to expand the economies of individuals, households, and communities and to be financially sustainable if adequately regulated (e.g., track outstanding loans, require active business plans), but only if they include a communal savings or insurance program. Enhanced regulation and savings programs are particularly necessary in areas marked by unpredictability and seasonality, such as the rural Peruvian highlands.

Microfinance is not a panacea for poverty reduction, nor is it a worthless effort. These programs emerged as a means to prevent the exploitation of the most vulnerable and to help the poor move out of poverty. Microfinance practitioners need to redesign their programs. Instead of applying a uniform approach across the globe, they ought to understand the lived experiences of those seeking and utilizing the loans (Ghodsee 2003:65). Programs can then be tailored to particular necessities and become more likely to lead to financial sustainability and the well-being of borrowers, their families, and their regions.

NOTES

1-4. 4.—The website for the Instituto Nacional de Estadística e Informática represents the central location for all national census data. It includes economic, social, agricultural, and business information as well as national strategic development plans, a digital library of federal resources, and other national and regional data. Through this website I found detailed information on Peru's gross domestic products, population data, and poverty rates by department. Data for this article ~~were~~ collected from the years 2005, 2006, and 2010.

1-2. SOAR and Madres Unidas are pseudonyms to protect the anonymity of the organization. Pseudonyms are also used with individuals for confidentiality.

2-3. 2.—In many communities fields were plowed with a *yuhoo taklla*, a yoke using two cows. Others used loans to rent a tractor for plowing. A field that would take five hours to plow with a *yuhoo taklla* would take about 15–30 minutes with a tractor. Families who can afford to rent a tractor for 40 soles a day (equivalent to four days of labor in the fields) can easily out-compete those relying on a *yuhoo taklla* or *pico* (pick axe).

3-4. 3.—While higher prices for products were possible in the large urban markets, transporting goods to these places posed potentially great risk. There were many reports of individuals being robbed on highways after selling the bulk of their harvest, leaving them in dire financial straits, especially if they had a loan to repay.

4-5. 4.—To prevent the bicycling of loans, some microfinance institutions in Andahuaylas required individuals to obtain a signed receipt from SOAR claiming that they did not have an outstanding debt with them. SOAR, on the other hand, did not require such documentation.

5-6. 5.—*Arroba* is a unit of measurement for produce introduced by the Spanish that continues to be used. An arroba is roughly 11.3 kilos (25 pounds) or 16 liters (4 gallons).

6-7. 6.—This institution is considered a co-operative and therefore may not have as many restrictions as an established NGO in Peru. In 2012 SOAR began exploring the possibility of changing to a co-operative and being able to offer savings programs.

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Comment [nck9]: So sorry about this. Yes this should be 1994 – the "Reversed Realities: Gender Hierarchies in Developmental Thought" book – not the Martha Chen piece.

Comment [a10]: Reversed Realities seems to be a 1994 publication with the subheading "Gender Hierarchies in Development Thought." Transition in Rural Bangladesh seems tied to a publication by Martha Chen called "A Quiet Revolution." Could you provide some clarity here?

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