

Franklin Center/Clinger Grant Research Summary

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This past summer I had the most extraordinary and educational experience when I spent 12 weeks living in Peru. As a rising senior devoted to Latin American Studies and International Economics, I initiated contact with Carlos Rios, Microfinance Director of the Consorcio de Organizaciones Privadas de Promoción al Desarrollo de la Micro y Pequeña Empresa (COPEME), the largest nonprofit civil associations dedicated to advancing micro and small enterprises in Peru. Our interaction developed into an independent research project, "The Effect of Microcredits on Children's Education" as well as a summer internship. My first week was spent with COPEME learning firsthand how it promotes the development of microfinance institutions (mfis) through my participation in two conferences. I formed a close relationship with Carlos Rios, who is very enthusiastic about my idea of implementing an ongoing program that places students in mfis for internships or research. I also spent this first week adjusting to the Peruvian lifestyle, which was quite a culture shock. I quickly adapted to their way of life - eating big lunches leisurely at 2 pm with small dinners. I took advantage of Lima's cultural richness with visits to some of the most famous museums showcasing breathtaking artifacts and representing Peru's long and intricate history. Throughout the summer, I took every opportunity to enrich my learning experience with trips to local attractions including waterfalls in Tarapoto, many archaeological sites built by Peru's great ancient civilizations (Pachacamac, Chan Chan, Tucume), and more museums (Sipan, Bruning). In addition, I took two weeklong excursions to Iquitos in the heart of the Amazon Jungle and to Cusco, location of Machu Picchu, one of the Seven Wonders of the World.

My summer endeavor was comprised of two parts -a research project and an internship -and divided into two symmetrical segments of four weeks each: the first segment was in Tarapoto, a large town located in San Martin, in the eastern part of Peru near the Amazon jungle, and the second was in Paita, a small city on the northern coast. My research objective was to analyze the impact of microcredits (loans of \$500 or less, as defined in my study) on the education of clients' children. It was also to compare my findings between the two sites to see if my conclusion was unique to the location. The other aspect of my experience was the internship, which provided me with my first exposure to a financial institution. Not only did I learn how the Cooperative and the Municipal Bank's analysts made decisions on loaning credits, I also actively participated in the process. I was excited when I found myself applying my economics knowledge to the job. I accompanied the analysts on their trips to visit clients applying for a loan for their microenterprises, asked questions, analyzed risks, and presented my recommendations. My favorite part of the process was the daily meeting among the analysts and the manager when they debated the pros and cons of the questionable cases. There were so many factors to consider in making a loan decision, including the client's personal and family profiles, his business history and plan, and the general industry environment. I also spent time in other areas including the credit recovery section. I accompanied the mfi employees on their many visits to defaulting and tardy clients.

My research project was equally as successful as my internship experience, even though it did not support my research hypothesis. I had based my original hypothesis on an earlier research study that child labor increases after microenterprise owners receive microcredits, but declines over the course of the loan. I interviewed a total of 70 clients in both Paita and Tarapoto. I asked them questions about their businesses, their perceived effect of the microcredit, and their children's education. My original research plan was to interview microcredit clients along four categories based on the length of their loan (1, 2, 3, and 4 years), but after examining the data I decided to change these categories to percentage of loan completed (0-25%, 25-50%, 50-75%, 75-100%) because it provided a better client distribution over time. This adjustment did not have any bearing on my findings because I discovered that the underlying assumption of my hypothesis was incorrect. I based my belief that microcredits would lead to an initial increase in child labor and a subsequent decline over time because demand for additional labor to support the business would follow the same trajectory. But, my interviewees responded with such a diverse array of answers that it invalidates my assumption. Some clients felt that the first months were the hardest; others thought that the last months were most difficult; the majority said that all months were the same. Since there was no clear correlation

between the length of the loan and demand for additional labor, I was not able to support my original hypothesis that child labor was highest initially.

Furthermore, microentrepreneurs did not increase the amount their children worked in their businesses, if their children even worked at all. In fact, many allocated their profits towards increased spending on their children's education, thus suggesting that microcredits may indirectly encourage education and that a positive relationship exists between microcredits and education. These same responses from two very different cities-Paita, a city located on the northern coast and Tarapoto, a large town in the jungle region-led me to the conclusion that there seems to be an overall strong belief in education in Peru. My findings were corroborated by the Cooperative's employees based on their years of professional experience that microenterprise owners, more so than people in non-business sectors, especially believe that education is the means of advancing their children's access to opportunities. The employees at the Municipal Bank also shared similar views.

I arrived at my conclusions through a series of direct questions including: what kind of school their children attended, whether they participate in any extracurricular activities, and whether they thought the microcredit had an impact on their children's education. The strength of the belief in education became clear since over half of the interviewees responded by saying that they spent more money on their children than before. Some were now able to provide all the necessary school materials-buying the book instead of photocopying pages-while others reinforced their children's school education with private lessons in languages or mathematics for a few hours a week. A handful were even able to afford the expensive cost of upgrading their children's education from public to private schools. They made the choice of sacrificing home improvements and other comforts to provide their children with a dramatically higher quality education. Interacting with Peruvians about their children's education, I learned about the deficiencies in the public school system. I gathered from their remarks (and my personal observations of the school buildings) that the free public schools are understaffed and overcrowded lacking in resources (only a few computers for a hundred students), and deficient in expertise. By chance, I interviewed two microentrepreneurs who were also teachers in public elementary schools. Although, it is common to have more than one occupation, their relatively low teachers' salaries prevented them from dedicating themselves solely to educating children. Thus they divided their time and energy to pursue other means of earning money. One owned a small store in the market, which he attended to in the mornings while teaching in the evenings, and the other rented out several apartments and taught in the mornings. As it is in the US, lower teacher salaries failed to attract top teaching talents in the public schools. The private schools offer much better resources and teachers, but they come at a high price, which is unaffordable for most people. My research has led me to question the true impediments to children's education in Peru. It seems that the commitment to children's education on the part of parents is very strong, while the capabilities of the state to educate are lacking. Leaving Peru, I think that the education system is one of the major weaknesses impeding its development and advancement.

Although I disproved my hypothesis, **I did** discover that one of its basic premises that children would help their parents by working in their business was often true. Almost all the teenagers would help their parents, particularly if the business were a store located in front of their home. Typically these children only worked a few hours a day or only for a short time to fill in for their parents. It was made explicit that education came first. They never missed school for reasons aside from illness (certainly not to help in the business). Most children from a young age dedicated at least a few hours a day to homework. Also, it was rare for children to work for non-family businesses before graduating from high school. Afterwards about half of the microentrepreneurs' children attended 5-year universities or 3-year institutes. Of these lucky children some helped pay for tuition or for their personal spending by working. Most only worked part-time and attended class full-time, but others worked all day and attending classes in the evenings. Overall, the interviews left me with the impression that Peruvian microentrepreneurs' children worked even less than their American counterparts!

I observed that as a developing country, Peru still offered many opportunities for lower and middle class microentrepreneurs to earn a living through ownership of small "mom and pop shops." Western-style

supermarkets were only found in the larger cities and did not exist in either Tarapoto or Paita. Instead, people mostly did their grocery shopping at the central open-air town markets and at small neighborhood stores. My research focus gave me a unique opportunity to interact on a very personal level with the people who were the backbone of these colorful enterprises. The majority of my interviewees were women with two or more children and owned these small stores and stalls in the outdoor markets and neighborhoods. The market storeowners generally worked from 5:30 am to either midday or 5 pm, depending on their product (meat selling ends at lunch). They sold very specialized wares of all kinds such as electronics, produce, spices, cloth and craft items, chicken, or a multitude of other things. In contrast, the neighborhood stores had an interesting collection of those items with variety highly related to its size. They varied greatly in terms of size-from a small comer to an entire living room space partitioned away from the rest of the house. They catered specifically to the nearby households, selling fresh vegetables, fruit, meat, bread, eggs, snacks and sweets that were bought around 6 in the morning from the central market. In addition to these basic items, the larger stores stocked school supplies, clothing, beer, miscellaneous necessities, and even gift items. These higher end products could usually be resold for higher profit margins, but were not definite sells and have longer shelf times. It greatly surprised me that all of these neighborhood minimarkets were able to exist in relatively close proximity to each other, and especially when the actual market is located nearby. These neighborhood storeowners typically kept long hours from 6 or 7 am to 8 to 10pm so as not to lose any extra business. Although they have such long hours, I realized that the unique location of their store as part of their home allowed them to simultaneously juggle attending to the intermittent flow of customers with cooking meals, sending and picking up their children from school (by briefly closing the store), helping their children with homework, and maintaining their homes!

Aside from this dynamic sector of the economy, I also had the opportunity to learn about other sectors and occupations during my research. Other microcredit entrepreneurs whom I interviewed own small restaurants or lunch catering services; rent out rooms above their own homes; own a few acres of farmland and raised animals such as pigs, cows, and chicken or grew crops such as corn, coffee, and rice; and drive or rent mototaxis and cargo pickup trucks. In fact, many people have more than one occupation and own more than one business! Regardless of their business(es), all universally work 6 or 7 days a week with long hours. They also do not earn enough beyond satisfying the family's daily needs and making occasional small improvements to their homes to save money. One of the things that struck me the most is the contrast between their positive and lighthearted "survivor" outlook on life and the frantic anxiety-filled American lifestyle. It amazed me how they could maintain their attitude despite having few opportunities and low living standards. It is especially amazing since by comparison, Americans have so many more reasons to be content and yet seem to be more unsatisfied.

Although I adhered to the set of interview questions that I had developed prior to beginning my research, the interviews would vary from 30 to 60 minutes in length. This was caused by two factors: the language barrier and the verbosity of the interviewee. I found that some people were much more responsive to my prompts, offering me detailed answers and additional information whereas others only gave me brief, direct answers. Through the course of these interviews I realized that I had special access to information from these people. As a foreigner and a student on a research mission guaranteeing confidentiality, they viewed me as an outsider with whom they could speak freely. It was so incredible to hear their personal stories: their plans, their hard work, their struggles, their hardships, their hopes, and their successes. My outsider position also granted me privileged information about the details of their businesses. I remember two instances in particular. One was an older woman (already with grandchildren) who had worked all her life for a big fishing company in Paita, but had decided to start her own (illegal) business of buying fresh pote fish, cooking, drying, then processing it and selling it to a Lima based company for export. Her line of business was declared illegal in Paita because of the offensive smell it produced during the process, so she had to do it secretly in the rural regions outside the city. Her audacity is rewarded by the income it generates, which is quite a bit higher than other types of businesses. Another man initially told me that his only occupation was owner of his own fishing boat that employed 7 men and sold their catch for income. It was only after another 30 minutes of easy conversation that he opened up and told me that he had actually acquired a second boat recently and was also renting out a

rowboat. These added significantly to his income, but he did not want the Municipal Bank to know because it might somehow affect his loan or future loans!

I surprised myself with how adaptable I could be. I overcame many challenges both in the internship and in everyday life. Big hurdles presented themselves in all stages of my research. The first was filtering through the mfris' computer database to isolate the people who fit my interview criteria. At the Cooperative it took one week to gain access to the different sets of data (much permission needed) and to organize them. It took less time at the more efficient Municipal Bank. Both databases, however, had many inaccuracies such as missing or incorrect phone numbers and home addresses, making it very difficult and time-consuming to find the clients. My ability to interview them was further limited by the lack of street planning and house identifiers. Although these problems did impede the pace of my research, which varied from two to five interviews a day, I successfully interviewed 35 people at each location. Language was another barrier that I had to work around everyday. Sometimes interviews would take a long time because the people were unable to understand me through my thick English accent or I was unable to understand their responses. There were a lot of occupational and finance specific terms that I had to learn. This experience taught me the importance of using body language and creatively rephrasing questions with my limited vocabulary. Another useful life skill that I acquired while trying to speed up the pace of my research was the ability to identify the key person with the authority and expertise to help me accomplish the specific task at hand. My success this summer has given me more confidence in myself. I feel that I can overcome any challenges in the future.

My research and internship in Peru this summer was truly a unique, once-a-lifetime experience. It was so incredibly rewarding largely due to the people I met. I made many friends everywhere I traveled: a university student in Lima who introduced me to the world-class museums; a nice Brazilian lady who guided me through the rugged boat trip to Iquitos; my coworkers in Tarapoto who brought me to their favorite restaurants, clubs, and bars; and fellow foreigners who shared travel tips with me. One of the most unexpected relationships I made during the trip was in Tarapoto. I was befriended by Carlos, a socio at San Martin Cooperative who has a socially responsible business that sells musk to companies in Lima. It's remarkable because instead of squeezing the local farmers and taking all the profit, he buys it from them at a price equal to 50% of the profit, which is much higher than any foreign companies. He's interested in establishing a long-term relationship of trust with the Tarapoto farmers. It is actually more like a cooperative than a business! The farmers in his business are so content that they have repeatedly urged him to expand from just musk to more products. I was lucky enough to partake in the development stages of his second product-wood. Carlos and his partner Eric, a wood specialist working for the United Nations, and I spent a week together investigating the market for different types of wood, holding meetings with the farmers, and solving the problem that wood has a longer-term investment return and thus requires more patience from the farmers. This unexpected experience has turned me into a believer of socially responsible business. I am convinced that it is the next economic development frontier after microfinance. I witnessed how different Carlos and Eric's relationship with the farmers were from the often antagonistic, short-term relationships between corporations and farmers. Theirs is clearly marked by cooperation, camaraderie, and shared goals. Eric and Carlos have inspired me to look into creating a socially responsible business of my own. Leaving Peru, I am very excited and determined to start a business in the Peruvian and Bolivian alpaca industry that would encourage development in the Andean highland villages and humane animal practices.

I have also reaffirmed my decision to specialize my studies at SAIS, which I am currently attending, in Latin America and Development Economics. I am very grateful to the Franklin Center Clinger Grant for supporting my research and giving me this invaluable internship experience.