Institutional Structure of a Microcrecredit Policy Cluster and Its Impact on Policy Outcomes: Case Study of PRODEM/BancoSol in Bolivia

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Introduction

The Word Bank estimates that now there are over 7000 microfinance institutions, which serve to some 16 million poor people in developing countries. The total cash turnover of MFIs world-wide is estimated at $2.5 million and the potential for new growth is outstanding (Virtual Library or Microcredit, 1999). At the same time an official from one of the United Nations noted during an interview (1999) that only 2% of all the microfinance institutions manage to achieve financial sustainability and transform themselves into a commercial bank. According to the respondent, it is the highest indicator of a success for the microfinance institutions. This statement immediately brings up a critical question that each microcredit practitioner poses: whether commercialization is a desirable outcome. Moreover, is there is a trade off between the sustainability of the network mainly achieved through commercialization and targeting the poorest.

In this research I explores the links between the policy objectives of the microfinance institution (commercialization versus development) and the institutional design of the microfinance projects in the regions. Moreover, depending where the microfinance institution positions itself on the commercialization – development spectrum, its direct and indirect policy impact also drastically varies. I argue that these factors are critical to understanding the success of the programs and making any recommendations in replicating the model elsewhere. I by no means downplay the importance of other domestic contextual factors as well as external interventions in a specific region in shaping a successful program. However, I do point out the necessity of fit between the policy aims of the institution and its institutional structure as central for the success of the program. Finally, in this paper I argue about the importance of linking the top-down development of microcredit projects in the localities to the larger policy priorities and developmental patterns of the country. Depending on the developmental patterns and developmental needs of the country, the target group of the microcredit programs will differ, the formation of clientele, entry niche into the local financial market and the partnerships with local players will vary. Hence, in the implementation stage of the policy it becomes an issue which forces to mobilize for the implementation, what types of partnerships to seek and what

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1 Microcredit public policy network clusters are defined as partnerships between microcredit NGOs, grassroots and local commercial banks, which primarily are supported by national governments, international governmental organizational and international donor and business communities. The aggregation of separate network clusters in Latin America, Africa, Asia and, now in Eastern Europe make up the microcredit public policy network. It has started out as an informal enterprise in 1960-70s and
geographical regions to focus on for the delivery of microfinance services. In other words, links between the institutional design of the microcredit projects and the developmental patterns and objectives of the countries should be established to sharpen to policy impact and increase the efficiencies of policy outcomes in the local levels.

To examine these issues the paper explores the case of PRODEM/BancoSol due to its hybrid organizational structure. While PRODEM is specializing in experimental programs and developing rural credits, which are not necessarily profitable, BansoSol was crafted particularly for the reasons of commercialization and sustainability. This path of development is very close to the ideal type of microfinance institution development, ranging from operational sustainability (covering the operational costs), financial sustainability (making a profit) and transformation into a commercial bank.

PROJECT DESCRIPTION: FROM PRODEM TO BANCOSOL: HISTORICAL BACKGROUND AND PRECONDITIONS OF SUCCESS

In this section the paper will examine the formation of PRODEM/BancoSol and its current institutional design, geopolitical scope of operation and number of clients and retail offices in the local levels. These issues will be examined in the context of reform attempts of the national government in the realm of poverty eradication and harnessing economic growth.

Initiation of PRODEM/BancoSol

In late 1980s Micro and Small Enterprise Development Project was launched by the USAID (United States Agency for International Development). It was implemented by three Bolivian organizations: The Bolivian National Federation of Credit Unions (FENACRE), the Bolivian National Federation of Small and Micro Enterprises (FEOPI), and the Foundation for the Development of the Microenterprise Sector (PRODEM). Technical assistance to these organizations was given by US-based NGOs: the World Council of Credit Unions and ACCION International, which mainly entered into partnership with the PRODEM (Katsuma, 1997). Later on, due to the internal and external pressures to diversify its funding sources and to mobilize savings, in February of 1992 BancoSol was established. It is a commercial bank that was evolved into greater formalization, institutionalization and commercialization in late 1980s and early 1990s. Formation of PRODEM/BancoSol was a development in the later phase of network evolution.

2 Most of the microcredit institutions are composed of a superstructure and retail offices. (Rhyne and Rotblatt, 1992). While the superstructure is engaged in policy formulations, providing technical assistance to the retail offices and obtaining funds for the projects, the retail offices are engage in the implementation stage of policy making, monitoring and maintenance of the projects. Retail offices are the closest link of the microcredit project to the grass roots level.
launched in San Pedro in La Paz, Bolivia. BancoSol was formed with a specific focus of serving microenterprises, which normally fall outside of mainstream commercial banking because of high administrative costs to process the small loans and lack of collateral that many of the microenterprises are able to present. The overarching objective of BancoSol was to harness small-scale enterprises and self-employed, which in the conditions of high levels of unemployment, poverty rate and large informal sector seemed a legitimate developmental route to take.

Different sources cite various numbers concerning the BancoSol branches. According to Katsuma (1997) as of 1996 BancoSol has 33 branches in the cities of La Paz, El Alto, Cochabamba, Santa Cruz and Oruro. Rhyne and Rotblatt (1997) argue that the number is 18, which operate in four cities of Bolivia. Despite the divergence of numerical indicators both sources point out the urban concentration of BancoSol branches, which is a factor to be addressed in a greater detail at the end of this study. As of December 1993 the number of active BancoSol borrowers is 46,428 (Rhyne and Rotblatt, 1997). The percentage of female borrowers is 71%. Average outstanding loan size is $534. Average duration for the return of the loan is 5 months. Effective interest rate is 53% in bolivianos and 31% in US$. Volume of savings and deposits is $3.1 million. (Rhyne and Rotblatt, 1997).

Along with Bank Rakyat Indonesia and Grameen Bank, BancoSol as a licensed commercial bank, introduced a new dimension to the banking system and the financial products offered. To understand these outcomes at a deeper level the politics of historical evolution of PRODEM/BancoSol should be addressed. How that hybrid model came into existence and what were the factors to trigger that particular route of organizational change within the unit will be addressed below.

**Failed Reforms and Successful Projects**

Despite previous legacies of small enterprises in the informal sector (Hudson and Hanratty, 1989) and high poverty levels, which should trigger a social change, BancoSol did not come into existence until 1992. Prior to that, the government was experimenting with various developmental instruments, which proved to be futile and did not have a significant impact on the poverty levels. The main poverty eradication vehicles that have been tried are the control of prices on essential goods, which in the conditions of liberalization of economies almost worldwide proved to be difficult to sustain. Regulatory policies did not provide the answer to the poverty of the majority of populous. This approach was abandoned in 1980s (Katsuma, 1997) and was followed by welfare, the land reform, human resource development and the income generation approaches emerged as alternatives.
Welfare reform approach was targeted to the income transfer across economically privileged and marginalized groups. This approach was not very sustainable and was hard to maintain in the conditions of structural adjustment reforms of the World Bank and budget limitations of the government. Land reform was connected with intense politics if resource redistribution. All of land reform attempts have been surrounded with political upheaval and disturbance in the local levels. The vagueness of the reforms, which were open to interpretation (Gill, 1987), the power of economic elite to take over the process of land redistribution and lack of equipment among the poor to cultivate the land, highly complicated this particular reform as a legitimate channel of poverty eradication. Land reform implemented at different historical periods did not result the expected outcomes and contributed to the migration into areas, specifically Santa Cruz, which were offering some opportunities of wage labor (Gill, 1987).

Human resource development and income generation approaches were the other two potential policy interventions for the poverty alleviation, which also carried a promise of bringing certain degree of economic development in these regions. It is important to note that microcredit, mainly perceived as an economic phenomenon, is rooted in the capacity building among the applicants, because the majority of microcredit institutions provide technical assistance and business training to the applicants. Hence, microcredit as a poverty alleviation measure is not only an income generation vehicle, but also an instrument of human resource development, which also is referred as human capital (Clague, 1997). The formation of PRODEM as a part of income generation and human capital development instrument was triggered after the failure of the other two attempts of poverty alleviation.

Preconditions of Success

The success of PRODEM/BancoSol to establish itself as a potent vehicle of poverty alleviation was a result of interaction effect among domestic and external factors listed below. 

*Domestic Factors.* The long tradition of collective agriculture in the country (Hudson and Hanratty, 1989) carried out through *ayllu* has created a socio-cultural environment in Bolivia conducive to collective agriculture in general and microcredit in particular. The role of previous historical patterns of development in shaping the current dynamics of economic development has been quite persuasively discussed by Putnam (1993). So this study will not delve on how and why

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3 *Ayllu* is a self-governing and land-owning peasant community in Bolivia. May refer to either a village, a kinship group or a clan-like organization, which usually were based on collective agriculture. This system was prevalent in present-day Bolivia until 1532, when Spanish arrived and replaced that system with *encomienda*, which granted the right over Indian labor to individual colonists in return for assuming the responsibility of supervision and religious education of the Indians (Hudson and Hanratty, 1989).
The ayllu system is related to the success of microcredit enterprises, which are mainly conducted through group lending models, similar to previous collective agricultural structures of Bolivia. It is suffices to say that the grassroots have developed an entrepreneurial culture of group work and teamwork, which are essential for the success of microcredit projects.

Second contributing factor was the crisis in the development policies promoted by the government, increasing unemployment rates and impotency of the mainstream economy to absorb the labor force. Moreover, the neoliberal reforms of structural adjustments sweeping Bolivia in 1980s (Hudson and Hanratty, 1989) had facilitated the strengthening of microcredit programs, because of their strong emphasis on private ownership and an initiative to start up a business. Although these microcredit programs mostly are not regulated, in certain instances, as in the case of Grameen Bank, they perform social welfare and social policy functions. For these reasons microcredit Yonus refers to these projects as pillars of social capitalism (Bornstein, 1997).

Foreign Factors. The main external factor that has contributed to the success of PRODEM/BancoSol is a systemic one. The microcredit enterprise in the global level was formed around policy networks (Thatcher, 1998), and in late 1980s it entered into its second phase of transformation, which, as it was mentioned earlier, is expressed by institutionalization of the network in the global level, its formalization and appearance on the agendas of international governmental organizations and developmental institutions. One of the major foreign factors contributing to the success of PRODEM/BancoSol is its partnership with ACCION International, which is a US based non-governmental organization. This partnership increased the commercialization of the PRODEM/BancoSol and linked this organization to the Western commercial actors. This partnership will be discussed in a greater length in the next section.

INSTITUTIONAL EVOLUTION OF PRODEM/BANCOSOL AND ITS POLICY OUTCOMES

This section examines the institutional change of PRODEM/BancoSol and how it has resulted into transformations in its service delivery capacities and influenced the strength of its policy impact. Understanding the interrelationship between the aforementioned factors is to serve a strong ground for any policy recommendations to be made in terms of enhancing the program as well as replicating it in other regions. Since any changes in the policy designs primarily occur through organizational changes, this issue becomes critical to explore in order to come up with a legitimate set of policy recommendations.

Institutional Evolution of PRODEM/BancoSol: Triggers of Change
There were two factors that instigated the organizational change of the PRODEM and its transformation into a financial intermediary – BancoSol. Both factors are strongly interrelated, although in this piece they will be discussed separately. The first factor was the importance to mobilize savings and inability of PRODEM as an NGO to act in that capacity. The second one was the need to commercialize and diversify funding sources.

Mobilization of savings is an essential element for the microcredit enterprise to thrive. Since one of the main objectives of microcredit institution is to foster economic development and improve the living standards for the poor, creating institutional incentives for the clients to save, eventually results not only in their economic betterment, but also increases their credibility as borrowers. Secondly, mobilizing savings are critical for the microfinance institutions, because they allow those programs to “recycle” the funds back into the field, which allows to extend credit lines to more marginalized groups and extend the client base of the project. Moreover, availability of savings is essential for the sustainability of the microcredit institution. By the nature of its organizational structure PRODEM was not able to mobilize savings, which became a big obstacle for its subsequent growth. The need for microcredit in the local levels was growing, yet finding the financial means to respond to those needs was a big issue for PRODEM. At the same time the number of microcredit projects increased worldwide, which translated into pressures on private foundations. Hence, PRODEM was faced with the necessity to create internal mechanisms of self-reliance. As an NGO it was a hard task to accomplish. By forming the BancoSol, PRODEM had more financial leverage and institutional power to procure savings, which were so necessary to meet the growing microcredit needs.

Moreover, creating BancoSol PRODEM opened doors for financial investments from the business community. The organizational change of the organization allowed the consideration of new financial mechanisms and establishment of qualitatively new partnerships with other commercial banks and business actors. The most important development in this regard is the Bridge Fund, which was designed by ACCION International and was applied in the context of Latin American countries as well as within the US. For PRODEM/BancoSol the partnership with ACCION International was the strategic one, because it linked the project to Western commercial actors, such as Calvert Group, Citibank, Chase Manhattan Bank, etc (ACCION International, 1996). ACCION institutionalized its involvement with the microcredit projects in Latin America as well as in the US by designing Bridge Funds. Bridge Funds are financial instruments, that

3 NGO is not considered a financial institution. To mobilize savings the institution has to receive a permission from the Central Bank. The transformation of PRODEM and formation of BancoSol created bases for the Central Bank to allow PRODEM/BancoSol to mobilize savings.
allowed the microenterprise programs associated with ACION to bridge their own financial gaps through formal financial sector of the US (Drake and Otero, 1992).

Bridge Funds (in US dollars) received from various donations from individuals, developmental agencies (such as UNDP), private foundations, and most importantly from USAID, are deposited in the US Banks. After having money deposited in their facilities, the US banks issue credit letters to the local commercial banks in Latin America, including Bolivia. The credit letter serves as collateral and a loan guarantee for the local commercial banks, which allows local microentrepreneurs to receive the credit needed for the enterprise development. In case of the failure of the applicant to pay back the loan, the local commercial banks are guaranteed the refund of their resources by the US banks. This instrument allowed the commercial banks to conform to those banking regulations, that required collateral or “real” guarantees against the credit lines provided to the poor (Drake and Otero, 1992). In 1996 the Latin America Bridge Fund in ACCION International was 1,451,028, which was listed as restricted investments (ACCION International, 1996).

The commercialization of PRODEM and formation of BancoSol opened up a possibility to enter into commercial transactions with the Western partners, which is a major benefit of the changes in the organizational structure of BancoSol. This form of linkages between the Northern capital and Southern entrepreneurs raises a point about the feasibility of restructuring the foreign aid packages designed for the developing world.

The commercialization of PRODEM can not be accounted only by its internal learning processes (Haas, 1990). It was also partly a function of banking reforms and regulations that took place in Bolivia concurrently with the formation of BancoSol. Those reforms created the legal framework for BancoSol to operate as a commercial bank without requiring collateral from its clients. This was a huge step away from the traditional or “Western” banking that operate around the world. Traditional Western-style banking systems that function in developing countries serve no more than 20% of the adult population. In Africa this indicator is only 5% (Aryeetey et al 1997 and Steel et al. 1997, cited in Berenbach, Churchill, Steel and Randhawa, 1998). By contrast, the banking system in the United States captures 95% of population (Meagher and Mwiinga, 1999). The huge gap between the local socio-economic, political and cultural contexts of the developing world and the economic reforms and models presented from the industrialized countries hinders the economic development and financial deepening of the developing world. Moreover, microcredit as a commercial enterprise, is an institutional innovation that taps into qualitatively new market and builds up new category of clientele. The acknowledgment of this fact should be reinforced by appropriate measures of legal reform that will be able to fill the void
between the microcredit, a new financial product, and the traditional legal-political frameworks that operate in the developing world. In this regard, the legal reforms in Bolivia became an extremely important push in the politics of microfinance commercial banks. The formation of BancoSol has occurred in the background of legal reforms and banking regulations in Bolivia that had eased the conversion of microfinance NGOs into a commercial bank.

**Organizational Structure of PRODEM/BancoSol and Its Policy Implications**

Currently, PRODEM is still up and running as an NGO along with BancoSol, as a commercial bank. After the formation of BancoSol, PRODEM’s portfolio and big section of its staff were transferred to BancoSol in return for ownership shares (Rhyne and Rotblatt, 1997). At this point PRODEM is engaged in more experiential activities, while BancoSol follows the commercialized pattern of microcredit delivery. Moreover, the branch offices of BancoSol are located mainly in urban areas with higher population density, which creates more vibrant economic environment for the microentrepreneurs. PRODEM continues to cater semi-urban and rural towns and areas, where the poverty is concentrated most and where difficulty to employ interest with market rates is prevalent. Hence, there is more need of subsidies in PRODEM, which supports less sustainable institutions, which is clearly not the case for BancoSol. Interestingly, only the financially profitable branches were transferred to BancoSol (Katsuma, 1997), which is yet another indicator of strong stress on commercialization in the operation of BancoSol.

Due to the interaction of domestic and foreign factors, the institutional evolution of PRODEM resulted in a mixed model, composed of highly commercialized (BancoSol) and partially developmental (PRODEM) pillars. This particular microcredit cluster is unique due to its hybrid nature, which sharply contrasts the conceptual crisis within the microcredit community concerning employing microcredit as a developmental instrument or a commercial enterprise. The main characteristics of the model is the specialization within this cluster, which has resulted both to institutional separation of PRODEM and BancoSol and to their operational unity. Thanks to this unique institutional structure the program manages two policy objectives concurrently.

Another dilemma widely discussed among the practitioners in various informal forums (listerves, conferences) is the concentration of poverty in the rural areas, where the microcredit programs are hesitant to go. Number of interviews conducted with the microcredit NGO community pointed out that microcredit network is NGO driven. Because of budgetary constraints of the NGO, the geopolitical mobility of the network becomes bound to the transportation costs. Moreover, these NGOs prefer to land in urban areas, where the population density is higher, which drastically increases the possibility of success. Of course, one should not
downplay those NGOs, which were established particularly to operate in rural areas, such as ACDI/VOCA. However, overall, there is a trade off between “good” targeting (including the poorest of the poor) and sustainability (decrease of reliance on foundations and employment of sophisticated financial mechanisms of credit delivery through diverse partnerships with private sector). In this regard, PRODEM/BancoSol shifted the targeting concerns to PRODEM, while the commercialization of BancoSol allowed to bring more capital into the project and enhance the targeting strategies used by the cluster.

**Policy Outcomes of PRODEM/BancoSol**

‘Few microenterprises will grow beyond two to three employees, but they are nevertheless part of the continuous process of creation and destruction of businesses that lead to improve productivity and growth’ (Berger, 1999, 6)

This statement captures the essence of interrelation between the microcredit projects and economic growth and is potent enough to address the issue of not so successful programs, majority of which fail to climb the ladder of operational and financial sustainability. While acknowledging the economic impact of microcredit projects for the society, one should not downplay the potential and feasibility of social services delivery through microcredit projects as well as the political impact achieved in local contexts.

This section explores the economic impact of microcredit projects in Bolivia and proceeds to discuss the potential socio-political impact of economic policies. Lastly, the paper will proceed to discuss the feasibility of adding new institutional pillars to PRODEM/BancoSol, which will engage in the delivery of social programs. This portion of the study will be completed with a set of policy recommendations concerning enhancing the social impact of PRODEM/BancoSol in the local levels. The paper argues about the institutional power of PRODEM/BancoSol to do so, which, based on the literature reviewed, is not being employed to its maximum capacities.

**Economic Policy Impact of BancoSol.** The ability of the microcredit projects to influence the labor market by decreasing the unemployment rate is the most vivid argument concerning the economic impact of the projects. It has been argued that microenterprises employ a significant share of the labor force, which ranges from one-third in Panama to almost 60% in Bolivia (Berger, 1999). The economically active population in Bolivia is 2,530,409, 1,419,559 out of which are in microenterprise sector. Self-employed microentrepreneurs compose the 37%. Microenterprise workers make up the 19% (Panorama Laboral, 1995). These numbers are quite encouraging and are strong evidence on how the microcredit taps into labor market in Bolivia.
However, one also should consider that the microcredit projects grew out of already existing informal sector, which is an intervening variable for exploring any causality between the microcredit projects and the labor market. At any rate, the microcredit projects in Bolivia had provided the institutional environment for the informal sector to perform in a qualitatively new manner and dimension, characterized by strong links with foreign commercial actors as well as local ones. This step has required legitimacy of those institutions granted by the banking superintendency organizations. Legitimacy was a necessary, but not a sufficient factor to push these projects into the realms of profit. Trust of the commercial actors as well as donor was the second crucial motivator for these projects to thrive. The trust and sustainability of the PRODEM/BancoSol were harnessed by the institutional transformations that this particular cluster went through. Particularly, its strong emphasis on self-sustainability attracted much needed support of business community, which is a gigantic step in the evolution of the program.

The impact of microcredit projects on the poverty levels remains contested. In order for the microcredit project to be sustainable and successful, commercialization becomes a necessary objective to aim. However, targeting the poorest, who are the least educated, do not possess any land or equipment, becomes problematic, if not an impossible task to achieve. This research argues that efficiency-targeting trade off remains problematic, if the microcredit policy network as a whole does not adjust its policy objectives on the one hand to its mechanisms employed and institutional structures of the separate clusters on the another hand. Specifically, the specialization within and among these clusters is critical for the network to become sustainable and perform in its developmental capacity. The case of mixed model of PRODEM/BancoSol points out how the specialization within the cluster may facilitate two categories of policy impact: sustainability and targeting. Hence, to enhance the economic impact of microcredit projects the conceptual crisis of the microcredit network as a whole should be responded by specialization within the networks and thickening of the linkages between the specialized units.

Enhancing the socio-political impact of microcredit projects. Aside from extending the access of institutionalized credit to the poor, number of microcredit projects are engaged in local capacity building, which is achieved by providing technical assistance as well as conducting training in business management, accounting, etc. Moreover, the increase of client base predominantly translates into increase of local retail outlets, which further strengthens the local outlets of economic participation. At the same time, the economic participation through retail outlets models the political participation and transparent decision making, which are necessary to run a

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4 More detailed account of the mechanisms that could thicken the linkages between the specialized units is provided in the “Linking Welfare and Private Sector Development” paper prepared for PPA 730.
successful solidarity group (Bornstein, 1997). Number of microcredit projects, such as Actuar Bogota, engage in social welfare provision, and implement social policies. For example, Grameen Bank initiated programs that assist the clients with building houses. One of the most recent innovations of Grameen Bank is the start up of the cellular phone service, which was argued to have a strong positive correlation with the productivity (Sellwood, 1999).

For the project to have significant economic as well as socio-political impact, its institutional growth should be accompanied with organizational decentralization at the local levels. The rationale of decentralized organizational structure is based on the flexibility of the decentralized structures, their conduciveness to the feedback from the local levels, their proximity to the locals levels, and hence, their responsiveness to the changes of local needs.

As it appears from the literature reviewed the scope of operation of PRODEM/BancoSol does not involve social policy delivery. Apparently, the institutional identity of BancoSol (commercial bank) precludes it from delivering social services. Moreover, the operation of BancoSol and its political management are distinguished with a heavy stress on commercialization. PRODEM is specializing in experimental projects, particularly in rural credit. Hence, as it appears, socio-political impact of the policies are not as significant as those in other microcredit NGOs network clusters, such as Pact, Trickle Up or Results. While by its institutional design the project PRODEM is capable to deliver social services, and experiment in that regard, it is not engaged in any visible projects in that realm. On the other hand, an argument can be made that by triggering strong economic impact the project will automatically translate into political transformations of the society and social betterment of the marginalized groups. However, an economic development does not necessarily transform the political values and norms, which are engrained in hierarchical and top down decision making modes. The economic development should be managed in the political contexts. In other words, economic as well political aspects of development should be considered. In this regard, the role of institutional changes becomes instrumental in managing the economic development. So the income generation is necessary, but not a sufficient measure for development. Creation of institutions that manage the social services and social development must not be overlooked. By its institutional design PRODEM/BancoSol is conducive to enhance its socio-political impact in the local levels. The program is highly decentralized, which, as it was demonstrated earlier, is a necessary precondition for the success of microcredit projects. The increase of clients and organizational growth of the project is accompanied by formation of new retail outlets in various regions, which makes the projects manageable and close to the clients.
High number of retail outlets/branch offices is not the only decentralization indicator. The organizational magnitude of the superstructure is yet another important measure to be employed. By this measure BancoSol is categorized as a ‘top-heavy’ organization (Rhyne and Rotrblatt, 1992). The percentage of staff employed in the main unit is 30% out of the all the employees working in the Bank. This indicator is 10% for Bank Rakyat Indonesia, 25% for Actuar Bogota and 15% for Grameen Bank. It is argued that the increase of clients will result in emergence of new retail outlets rather than expansion of the superstructure. This development will only increase the institutional capabilities of BancoSol to better the social policy delivery mechanisms and increase its flexibility.

The Internal Specialization of PRODEm/BancoSol and Its Impact on the Organizational Culture of PRODEm/BancoSol

In this paper I argued about the advantages of internal specialization within PRODEM/BancoSol for the enhanced policy impact of the organization on the environment where it operates. In this section I will underline some potential tensions of that internal specialization, which may arise within the organization and between the organization and its environment. Due to absence of data pertaining to the organizational culture of PRODEM/BancoSol this section of the research is highly speculative. It draws from the some academic sources on organizational development and some cases of non-profit organizations, which are characterized by duality of their mission and their organizational structure.

Glagow (1982) points out that state transmits itself to the society by means of hierarchy. Market engages in the same goal by contractual structures of exchange. For the increasingly growing Third Sector, i.e. the NGO community, it is the solidarity with the society that connects the NGO with the social context. However, Reichard (1988) goes on to argue that solidarity only is not a satisfactory selection criterion, but has to be complemented with (a) sufficient autonomy of external influences (e.g. of the state); (b) non profit-orientaiton, based on the achievement of certain aims of an obvious public interest (public welfare); (c) relative informal structures of membership, which are characterized by voluntariness and services on an honorary basis of most of the members and (d) showing solidarity to members and clients.

The aforementioned set of criteria is quite representative of the existing literature pertaining to the NGO identity. Non-profit orientation and relative informal structures of membership are indeed the main pillars of NGO organizational identity that put the NGO in a diametrically opposing institutional position relative to the state and the market. By adding a commercial pillar the institutional identity of the NGO and the bases of its formation become
endangered. Specifically, non-profit bases of NGO operation ensure a certain degree of autonomy from the external environment, which is one of the main factors that made the NGO as a driving vehicle for civil society. By creating structures that connect the NGO to the private sector and add the commercialization as a social goal NGO threatens the underlying bases of its organizational identity. Secondly, relatively non-formal membership structures and relatively flat membership structures become engendered by internal specialization of the organization, because the specialization has the potential to translate into complication of the organizational structures. Subsequently, the simplicity of organizational structures and flat patterns of decision making seem to be under a possible pressure. The question in this regard, becomes whether these new breed of organizations will be effective in achieving its goals and fulfilling their missions.

Next possible intraorganizational tension is to what extent the organization will be able to negotiate the differences between the commercial goals and welfare objectives. Whether these two qualitatively differing goals may necessarily go hand in hand. In regard to dual organizational structures in the realms of microcredit delivery a respondent from the United Nations pointed out in an interview (1999) that the possibility of the integration of commercial and welfare objectives into one organizational structure is close to zero. The reasoning behind this statement is that for the commercial microcredit NGOs to survive the relationships with the client-applicants are not paternalistic, rather equal. While in the case of welfare oriented microcredit NGOs the focus may become a donation, a charity, which may undermine the commercial objectives of the rest of the divisions of the NGO.

The last intraorganizational tension that I will highlight is the transformation of the power structures within the organization, which is not always welcomed by the key decision-makers. For instance, in 1995 Yerevan Office of Eurasia Foundation started up a Small Loan Program. Prior to formation of Small Loan Program the primary mission of this particular organization is to promote democratic values and engage in capacity building. The addition of Small Loan Program was a clearly a commercial objective, which necessitates internal organizational changes. A former employee of Small Loan Program (1999) indicated that the formation of Small Loan Programs triggered internal resistance from the local administration, and further have translated into alienation of the two divisions from each other.

However, by no means the aforementioned example is generalizable. Pact, which is a non-profit organization based in DC., also went through internal structural changes with the addition of Microfinance Unit. The formation of the new unit was marked with increasing the funding opportunities for the organizational as a whole. Thus, the organizational change did not meet any internal resistance from within. Unlike the case of Pact, Yerevan branch of Eurasia
Foundation is funded by the Headquarters, which makes obtaining the funds not as urgent as in the case of Pact.

The dynamics of two pillars of specialization within Pact points out another possible trend: incorporating the new goals (in this case the microcredit) to already existing objectives and mission. For instance, Pact aims at developing civil societies and places a heavy stress on the participatory development approaches at the community level (Pact, 1998), which is an objective conducive to microenterprise development. This overarching policy mission provided an easy entry of the microcredit projects into the Pact’s policy priorities, because the microcredit is an instrument of participatory development and community building. The heavy stress on civil society development and promotion of economic, social and environmental justice (Pact, 1998) contributed to the formation of Capital PLUS model of microcredit, which underlines not only the credit delivery, but also institution building and human capital development that would support the microcredit projects. This process of fusion of two institutions and their organizational goals is referred to as an ‘institutional nesting’ (Aggarwal, 1998).

Despite the sources of tensions internal and external to the organization, the commercialization of the non-profit organizations seems to be a phenomenon that is here to stay. In the field of microcredit new, more contractual terms of solidarity between the NGO and the society seem to be negotiated, which contributes to the autonomy of the NGO and its financial independence from the state structures. This last factor was noted as critical for the formation of NGOs as a driving force of the civil society. At the same time, in the field of microcredit the commercialization and thickening of the linkages with the private sector seem to diversify the funding sources of the NGO. However, at the same time those linkages tend to merge the NGOs with the market. The commercialization of the microcredit NGOs occurs through the formation of public-private partnerships, which collapses the institutional isolation of the NGO from the state and the market. Therefore, it seems that the commercialization of microcredit NGOs and formation of dual structures drastically changes the internal management structure of NGO, subsequently changing the modes of its operation. Therefore, qualitatively new types of NGOs seem to emerge, which in the ‘age of uncertainty’ (Galaskiewicz and Bielfeld, 1998) are the most adaptive ones and inclined to organizational growth.

Thus, despite the potential tensions within the organization and the organization and larger societal context, the dual organizational structures of NGOs are necessary strategies for the non-profits to survive in the environment with limited funding opportunities and uncertainty of
market-state-society relations. The case of PRODEM/BancoSol points out the importance of new approaches to studying NGOs, because the formation of hybrid organizations may be a signal of the formation of qualitatively new types of NGOs, which are much closer to the state and market, yet have the potential to maintain their institutional autonomy.

LESSONS LEARNED AND POLICY RECOMMENDATIONS

Lessons Learned. PRODEM/BancoSol is considered as one of the most successful microcredit enterprises due to its commercialization patterns and strong linkages with the Northern Commercial partners. Along with Grameen Bank BancoSol has added a new dimension to banking and as well as developmental instruments. The contribution that the BancoSol made to the banking system is to operate in the absence of collateral and employ innovative financial instruments and financial products. Trickle up approach to development and self-help component of microlending in engaging the grassroots to solving their own problems was drastically different from the top-downs modes of structural adjustment reforms and paternalistic designs of aid packages delivered by the mainstream developmental community. Microcredit thrives on the local practical knowledge – *metis* – (Scott, 1998), because its is up to the locals what to grow, and how to grow it. One could argue that this a major paradigm shift in the philosophies of development employed by the North.

The major learning outcome of this case study is the role of institutional design of the microcredit projects in delivering certain policy objectives. Regardless whether the project is on the developmental or commercial end of the spectrum, decentralization is a necessary factor both for commercial and developmental ends. Decentralized institutional design of PRODEM/BancoSol has been critical to increase its flexibility and geographical mobility across regions. Proximity from the grass roots allows the organization to be responsive to the local needs, which in most of the cases translates into designing new financial products and services.

Third factor that deserves a careful elaboration is the institutionalized specialization within the organization. The formation of BancoSol, as a response to the crisis of limited funds and demands to sustainability is an organizational learning outcome (Haas, 1990). The birth of BancoSol was a successful devise to manage crisis and social change. The specialization not only facilitated to attract much needed capital, but also allowed continuation of experimenting with new products in the semi-urban and rural areas. Rural credit is a financial product, which is hard to utilize with a profit. In this regard, PRODEM’s continuing work in this realm amidst the commercialization of the organization as a whole should be highlighted. The specialization left the possibilities open to cater both to developmental and business needs of the local communities.
PRODEM/BancoSol model of microcredit provides number of answers to the conceptual crisis that the microcredit community faces. It points out new avenues of dealing with the trade of between development and commercialization.

Fourth, previous legacies of group work embedded in the Bolivian culture created a fertile ground for microcredit projects. This factor, coupled with the reforms in banking sector of Bolivia, which eased the entry of new financial entities into the banking system, facilitated the successful operation of PRODEM/BancoSol and decreased the gap between the large “unbankable” Bolivians and the Western models of banking and economic development. Hence, in starting up a new microcredit project the contextual factors such as cultural characteristics of the locality and peculiarities of political culture are critical to be assessed. Moreover, the developmental objectives of the national governments is yet another set of factors that are capable to bridge the trickle up developmental trends of microcredit with a larger macroeconomic developmental patterns of the country.

Policy Recommendations. Giving the credit to the aforementioned attributes of PRODEM/BancoSol, this research argues that despite its highly decentralized design PRODEM/BancoSol is not assertive in terms of enhancing the socio-political impact of its economic policies. In this nutshell, the concept of success needs a redefinition and broadening to include the degree of socio-political impact of implemented policies in the developing world. Development is not only an economic enterprise, but also socio-political one. Hence, commercialization or development as policy objectives for microcredit projects do not capture the depth of problematic areas that the developing world is facing. Thus, capabilities of the microcredit projects to deliver social policy outcomes as well as foster new values of political participation are yet other important variables to be considered for the microcredit start up projects. In other words, the socio-political capacity of microcredit project needs to be employed to its maximum. Microcredit is a powerful instrument to bring about an incremental social change from within the political systems. Therefore, further specialization of PRODEM/BancoSol and setting up units that focus on social service delivery\(^5\) as well as political education\(^6\), would be a constructive step to take towards acknowledging the socio-political avenue of social change that

\(^5\) The most realistic focus of social service delivery through hybrid organizational structures of microcredit is the provision of unemployment benefits, technical expertise and training to the unemployed and further linking it with the labor market. More detailed analysis of this mechanism is provided in the “Linking Welfare and Private Sector Development” prepared for PPA 730.

\(^6\) Focus on political education through delivery of microcredit can be best achieved by modeling transparent decision making and accountability of the upper echelons of the decision making groups to the rest of the group. Questioning the authority and critical thinking are qualities that have been suppressed in the developing world. The lack of these political values became counterproductive to social justice and equitable distribution of economic and political resources.
the microcredit is in a position to trigger. Specifically, since the social service delivery and political education is not the primary focus of PRODEM/BancoSol, the specialization should start from the superstructure, which functions as a policy design vehicle. The specialization at this level would allow to build these socio-political objectives into the loan delivery mechanisms. In other words, the research argues about the need of political management (Lindenberg and Crosby, 1981) of microcredit enterprise. This proposal might be met with a resistance by the practitioners, because it advocates a certain degree of control to this highly loose and flexible enterprise. However, this proposal does not undermine that flexibility. It does try to enhance its policy impact and delivery mechanisms by introducing more holistic measures to delivery of microcredits and social services as well as transforming the values of political culture. For instance, while the increasing number of women become microlenders, they become unable to spend as much time with their children as they used to. It seems to be an inevitable outcome of the spread of entrepreneurial culture, and microcredit is a big part of it. While in the United States this phenomenon is counterbalanced with the social service systems maintained by the state, in the developing world there is an absence of any sophisticated methods of social service delivery. In this sense, microcredit negatively impacts the family structure by leaving the children unattended. Hence, provision of certain social services by the microcredit policy clusters would mitigate that negative impact on the clients. In this case children represent an interest groups, that is unable to voice concerns in the process of microcredit project delivery. Lindenberg and Crosby (1981) refer to groups who do not take part in the political process as unconsolidated sectors, which for an efficient political management, need to be taken into account.

Secondly, there is a need to connect the bottom up models of microcredit with the larger developmental goals of the national government as well as the health care programs implemented by the international developmental agencies. World Bank has been critical in providing funds for health care systems in various countries, which normally are directed to the Health Ministries of those countries. This research argues that the institutional structure of microcredit enterprise offers unique outlets for absorbing those funds and providing the health care in the local levels through creating partnerships with the local hospitals and other specialized health care agencies. Again, this intervention strategy might be more constructively implemented by being addressed at the superstructure level of the microcredit projects, which also would be possible to connect with the main health care units of the country. True, this intervention strategy would trigger the opposition of the health care professional community, which are part of the national governing structures. The politics of the proposed reforms is an important issue, but it is not in the scope of this research, which is why the paper will not address that argument in this forum.
Conclusion

By discussing the case of PRODEM/BancoSol this research examined the importance of concurrent development of institutional structure of the organization and the policy objectives it aims. In this nutshell, the internal specialization of the microcredit project is a critical pillar in dealing with the developmental versus commercial objectives of the programs. Due to the limited funds and subsidies available for microcredit projects, the sustainability and commercialization are almost inevitable for microcredit projects to grow. However, the success in this context should be assessed by asking if commercialization is achieved at the expense of targeting the poor and developmental aims of the project. PRODEM/BancoSol is a case where the organization tried not to commercialize at the expense of development, although in this case the developmental aim is defined in its narrowest sense – provision of rural credit. The research argues that by making adjustments in the organizational structure of microcredit projects, these network clusters are capable to commercialize without loosing the developmental objectives from their perspectives.

Moreover, the research argues that the definition of the successful microcredit projects should be expanded to include the extent to which those projects employ their capacities to trigger and manage socio-political change in the local levels. In this regard, the paper proposed number of policy recommendations that stress the social service delivery through the superstructure of PRODEM/BancoSol. This measure would be more effective in case if the further specialization at the superstructure level would be accomplished. This policy recommendation is in accord with the main research question explored in this study: the link between institutional structure and the policy objectives and the policy impact of the program.

Also, it is critical to point out that the microcredit projects are not a panacea for all of the social ills that a certain society may possess. Therefore, before considering the application of this model in other regions, the public administrator needs to take account the legacies of previous political culture and economic policies implemented. In the case of Bolivia the legacies of ayllu, large informal sector and reform of banking system have been identified as the three main factors that shaped an environment conducive to the expansion of microcredit projects. Moreover, due to failed land reforms in 1950s and 1960s there was a high number of microenterprises in the region, which facilitated the more institutionalized attempts of international community to develop microcredit institutions, such as PRODEM/BancSol.

Lastly, the research pointed out that decentralization is the main institutional vehicle through which the microcredit projects expand. It provides a unique opportunity windows to foster political participation in the local levels, since these decentralized pillars of economic
enterprise model transparent decision making and democratic values in the governing process in
the local levels. Although the research did not delve on the political aspect of
PRODEM/BansoSol, it pointed out the need to address that issue in a greater length.

Also, the positioning of the microcredit project on the development – commercialization
spectrum should be in tuned with the developmental needs and policy priorities of the region.
Therefore, success is an elusive concept applied in the case of microcredit enterprise, and should
be assessed in relation to the developmental needs of the country as well as the potency of the
program to trigger multifaceted changed by employing its maximum institutional capacities.

Summarizing, I would argue that despite the possible tensions within the hybrid
organizations the internal specialization of the non-profit organizations in general, and
microcredit NGOs in particular are waves of the future in the policymkaiung environment of the
developing world. In this regard I would like to underscore the importance to research the non-
profit organizations with dual structures and to what extend the trend to commercialize is likely to
transform these types of non-profits into a new category of policy-making agency.
Bibliography


he lack of economic growth is also a function of rigid decision making patterns in the political institutions, that do not allow innovation, creativity and flexibility. Social capital, which has been extensively elaborated by Robert Putnam (199x) is a necessary precondition for economic growth. The previous legacies of ayllu and reforms in banking regulation in Bolivia and their impact on the success of microcredit institutions in the country reinforce the role of institutions and previous legacies for the current economic development.

However, this research argues that the measures of success for the case of microcredit need a careful examination. Specifically, employing the commercialization and/or developmental objectives as the only two indicators dismisses the socio-political impact that microcredit projects are positioned to deliver. True, up to this point, the economics of microcredit is better explored than the politics of its. While this research was not an attempt to fill that gap, but did try to point out the importance of treating political management of the systems in the context of economic issues.

Institutional structure, conceptual spectrum and the outcomes delivered

POLICY RECOMMENDATIONS
How to connect the developmental and commercialization: is there a trade off or not?

Most of the microcredit programs, including BancoSol, are composed of superstructure and retail outlets (Rhyne and Rotblatt, 1992). While superstructure is engaged in technical support, finance and management, the retail outlets are implementing the program and have a big role to play in monitoring the small enterprises to ensure small delinquency rates.

A major case of capacity building is the project in Nepal, where Pact has introduced Capital PLUS model of microcredit. The model is composed of three pillars: LSIT. The implementation of this model in Nepal assumed institution building in the local, municipal and national levels, with a strong emphasis on providing skills of critical thinking, and active political participation. The model is unique to the extend that it blends the economic and political aspects of development and economic growth.

In fact, the delivery of microcredit in a systemic form has started with PRODEM (Fundacion para la Promocion y Desarrollo de la Microempresa/the Foundation for the Microenterprise Development Sector) in 1986, which declared the birth of institutionalized microcredit delivery systems in the country. The triggers for the start up of PRODEM are both socio-political and economic. The PRODEM was a response to the high poverty level in the country and previous failed attempts of the government and international governmental organizations to trigger sustainable development in the country. There have been four systemic attempts of poverty eradication:

Limitations and Potentials
Lessons Learned: fit between institutional structure and policy objectives
Policy recommendations: how to connect the developmental and commercialization: is there a trade off or not?
Conclusion
Research Question (why BancoSol was successful: describe the project)
Institutional structure as a Causal mechanism
Level of effectiveness and why: why institutional structure matters
Critical factor – fit between the structure and policy objectives
Lessons learned: concerning the institutional structure

Commercialization of the Microcredit Enterprise: Case Study of Banco Solidario in Bangladesh

Public Administration and Democracy
How the institutional structures supporting microcredit project impact its policy outcomes? To examine this research question the paper will focus on the case of BancoSol in Bolivia due to its success and commercialization patterns.

Microcredit is a global policy network, which necessitates an examination of domestic and external policy domains in order to capture the institutional structure of the project in its depth and scope and come up with valid and generalizable propositions. In this regard, the paper will concentrate on the fiscal policies of the Bolivian government, legacies of previous political developments and current design of political institutions within the country. Furthermore, the nature of partnership established between BancoSol and ACCION Internacional will be examined in order to discuss the external triggers of the network management.

After tackling the political policy outcomes for the clientele of BancoSol the paper will examine the feasibility and significance of those outcomes for the current societal needs of the Republic of Armenia. This section of the research will be grounded on a discussion of prospects and potentials of commercialization of microcredit institutions in Armenia.

Public Administration and Development

Political Management of Microcredit Enterprise in the Republic of Armenia: Strategy of Implementation

The paper aims to discuss the feasibility and potential of microcredit projects in the republic of Armenia. Using stakeholder analysis of political management the paper will propose an implementation strategy to establish sustainable microfinance institutions in the country. Who the implementing actors and the driving force of the enterprise should be in order to develop sustainable institutions with a promise of commercialization? What targeting and monitoring mechanisms should be employed? Are there existing public or
private institutions which are fit to carry out this task or one should look for a new avenues of network mobilization?

The paper will be composed of normative, descriptive and prescriptive pillars, all of which will be at the bases of the policy recommendations and implementation strategy proposed in the paper.