MICROLENDING

Microlending, also sometimes referred to as microcredit or microfinancing, is the process of distributing and managing **microloans**. As the name suggests, microloans are small loans often given to people experiencing poverty who do not have access to standard credit or regular banks. A majority of recipients are women. These loans are used to start or grow a business and help people achieve more financial stability. Microloans usually fund businesses in the arenas of commerce, food production or sales of services or crafts. Many microlending projects require loan recipients to become part of a lending group. Often each group member contributes a certain amount and the fund is loaned to one member. Once the first member pays back the loan, another group member receives the funds, and so on. These loans help recipients strengthen their self-esteem, business skills and decision-making skills. In some cases, loan recipients take part in business education, training and financial counseling before receiving a loan. These additional steps help individuals have the tools and skills they need to use their loans most effectively. Of course, a lot depends on the structure of the microloan program and its management, because it may not be enough to look at repayment rates alone to determine the efficacy of a microlending model.[1]

INFORMAL ECONOMY

According to the World Bank, nearly 80 percent of people working in Bolivia are employed in the **informal sector**, which means their work is not taxed, regulated or monitored by the government, nor are they supported by formal benefits. Often it is difficult and expensive for small businesses to gain recognition by the Bolivian government because the process to become a formal business is complex and not well understood by or communicated to the general public. This complexity, in combination with a lack of available jobs, results in many people working in the informal economy. However, the informal sector has its downfalls. Without adequate financial means, people who work in the informal sector tend to be less productive, less financially stable and have less growth because of limited access to financial and human capital. The World Bank also suggests that the massive informal sector may limit the country's ability to develop economically, politically and socially.

1 http://blog.givewell.org/2009/09/18/what-does-the-repayment-rate-really-tell-you-about-the-impact-of-microfinance/