



Guillermo Quintana

# The road to progress

Microsolutions to poverty

**Proemprender**   
pasión por emprender

The road to progress.  
Microsolutions to poverty  
Guillermo Quintana

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*To my dear grandfather Guillermo,  
I know you live in me since you left.*

*To all my dear family; wife,  
daughters; parents, sister! Thanks for  
life!*

*I have to start first by thanking God, who gave me the health, wisdom and time available to write all these lines.*

*Since 2007, when I began to get to know and work closely with entrepreneurs, carrying out socio-economic projects, giving conferences, trainings and workshops, the need arose in me for the passion to search for tools to eradicate poverty and to be able to express in a book my theory on socio-business tools to get out of poverty.*

*Therefore, since then, I have used my free time to give shape and content to this text; As I got to know new realities and collected more information, everything was put together like a big puzzle in my mind; developing the scheme and the great theory of The Microsolutions to poverty step by step.*

*I thank all the public and private organizations that relied on our Microfranchise Model to develop projects to benefit the entrepreneurial communities; among them ranchers, artisanal fishermen, market traders, kiosks, taxi drivers, restaurant and gastronomic entrepreneurs, farmers, parcels, suppliers of mining companies, winemakers, artisans, yogurt producers, among many other microenterprise entrepreneurs, who opened us up the doors of their businesses and on many occasions, they even gave us access to their homes to listen and learn about their business experiences.*

*I am grateful to the institutions that have awarded and has given us recognition at national and international level; which strengthen us and challenge us to continue with this challenge of contributing to the eradication of poverty through the microsolutions that we have been preaching.*

*A special thanks to the team of consultants and volunteers of Proemprender, who have been faithful companions of various forays, trips, visits and socio-economic projects with entrepreneurs in different cities.*

*I thank, of course, my family for supporting me and understanding the time I spent on this great project.*

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*Guillermo is a pioneer and main promoter of the concept of Microfranchising in Peru and Latin America as a tool to eradicate poverty and generate collective entrepreneurship; He is CEO and founder of Proemprender (2008), an organization that promotes entrepreneurship (School of Entrepreneurship - Innovation) and considered the first business incubator with a focus on Microfranchising on the planet (www.proemprender.com).*

*With this organization, it has provided training to more than 6,000 entrepreneurs in various regions of Peru and Latin American countries; Advised a large number of SMEs to formalize, expand and migrate to the Microfranchise Model. Guillermo was honored with the 2013 Peruvian Pride Award and honored by the Congress of the Republic; for the commendable work of promoting Microfranchises in the country and contributing to the reduction of poverty.*

*Selected among the 20 Best Entrepreneurial Leaders in the Franchise World at the World Franchise Convention San Antonio Texas USA (Feb 2016) by the International Franchise Association IFA (Washington DC) with the NextGen award for New Generation in Franchising 2016 Winner; by create Proemprender the 1st Business Incubator with a focus on Microfranchises on the planet. This allowed us to be trained by the best references, owners and CEO of the largest franchise companies in the world and to be partners of the IFA for 2 years.*

*Member of the International Franchise Association IFA USA (2016-2017). Largest and oldest organization in the world that represents the Franchise. Member of the Peruvian Chamber of Franchise (2016-2017). Member of the Indian Chamber of Commerce in Peru -Incham (2018-2019). Chairman of the Incham Franchise Committee.*

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## Preface

Latin America, and particularly Peru, stand out for having a significant proportion of its economically active population involved in some type of entrepreneurship. The Global Entrepreneurship Monitor records that Peru is one of the countries with the highest perception of opportunities for a business, with an entrepreneurial rate of 23%; that is, one in five Peruvians is doing some kind of entrepreneurship.

98% of the business universe of Peru are micro- and small businesses, of which 80% are created by entrepreneurs. Each year, SUNAT registers 300,000 new small productive units, but two out of three, that is, 200,000, die in the attempt because of their low productivity, basically because they do not have the financing that allows them to consolidate to enter the market economy..

In any case, many of the surviving ventures remain in subsistence living “day by day”, due to the lack of access to adequate and effective financing applied to the productive process and business management, which prevents them from raising their potential to become in dynamic and competitive companies.

One of the last works that raises this problem and provides the paths for its solution is this book, *The Road to Progress. Microsolutions to poverty*, by Guillermo “Memo” Quintana, a young Lima business consultant and active social entrepreneur, master in Business Administration from Campbellsville University, in Kentucky, United States.

It should be stressed that, as a premise, this book that we extend with particular pleasure states that the most suitable strategy for the population to escape the slavery of poverty and the trap of welfare is the impulse and effective promotion of the immense creative capacity of entrepreneurs of microenterprises, which in 67% in Peru are involved in commerce and services. The Lima Chamber of Commerce and the business union that represents the strength of entrepreneurs fully share this premise.

With the support of figures, examples and valuable testimonies, the document addresses and presents the development in Peru of microenterprise, microcredit and microfranchising, such as the three microsolutions to effectively address poverty and generate economic development in emerging societies such as ours.

After referring to microenterprise as the entrepreneurial motor entity of the enterprise, it describes its evolution and characteristics, mentioning the development of Villa El Salvador Industrial Park and Gamarra Textile Emporium. As small economic units, microenterprises are generated by entrepreneurs to create their own sources of employment in the absence of work and as an immediate solution for survival and subsistence.

There is a great informality in the taxi service, but other sectors are gradually migrating to business legality. Therefore, microenterprises have become the growth engine of the economy, under the impetus of entrepreneurs who have decided to get rid of poverty in search of creating wealth to become the protagonists of development.

With regard to microcredit, which provides the necessary financial leverage for the microentrepreneur to obtain his own assets and work tools, the book describes its evolution and characteristics; the role of Mibanco and the municipal savings banks, the mutual funds of microenterprises and microinsurance in microfinance; highlighting the importance of women (representing 74% of the twenty million people who access the financial system through micro-credit) for the proper use and return of these credits. Similarly, it mentions the importance of microcredit in the profitable mototaxi service.

Emphasizes that microfinance and self-financing programs, such as financial catalysts, provide economic relief to microenterprises through small loans or collective funds, in addition to their incentive to build a culture of savings and economic planning. The microfinance system is vital in all societies to promote small-scale monetary flow, prior to its insertion into the business economic system.

Finally, the book addresses the importance of microfranchising, as the best internal management tool for business management. When referring to associativity through microfranchising, it mentions the successful cases of the Veguetano yogurt producers (Chancay-Huacho) and the Ichimay Wari microfranchise, of Ayacucho artisans.

As examples of successful market insertions through microfranchises, it mentions D'Onofrio ice cream makers, Puma Coffee producers and gastronomic microfranchises that account for 70% of businesses. As regards the insertion of credit through microfranchises, it refers to the success of small rural agribusinesses.

The author emphasizes that microfranchising is the best tool for associativity, ordering and cloning, which provides the solution for microenterprises to be sustainable and solid in the market, encouraging them to work within a defined legal framework and to develop a culture of collective entrepreneurship, creating a business symbiosis that increases its value chains and consequent competitiveness.

In short, The road to progress. Microsolutions to poverty, by Guillermo "Memo" Quintana, constitutes a valuable intellectual contribution whose reading, in addition to facilitating the access of entrepreneurs to socio-business tools to promote the sustainable development of emerging societies, will contribute to social inclusion to eradicate the poverty.

Lima, September 2013

Samuel Gleiser Katz  
President of The Lima Chamber of Commerce

## Introduction

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At present, poverty affects a quarter of the population of the developing world. In the group of underdeveloped countries, currently 1.3 billion people live on less than one dollar a day and about 3 billion, almost half of the world's population, with less than two dollars. In this group of countries, in which our beloved Peru is located, there is a predominance of the poor population, and a minority of the population where wealth is concentrated, causing a marked social polarity.

In our reality, 30% of the population of our nation is immersed in poverty, therefore 9,000,000 Peruvians live with this reality on a daily basis. This means that this population of inhabitants lives excluded from the economic-social circuit; they lack work, income, social security, health service and housing.

Our country, for 20 years, is in an era of constant and exponential growth; However, high levels of poverty continue to show that the fruits of the country's growth have not yet reached a fair socio-economic inclusion where there is an improvement in the economic health of the less fortunate. Therefore, the level of poverty that exists shows that income distribution is not yet sufficiently equivalent for various strata in our society.

This economic growth of the country has generated a clear advance in the quality of life of the middle class, however, a large majority of the population has still been relegated to poverty and extreme poverty, since they do not participate in the growing economic health of Peru. We are also aware of the lack of an adequate and beneficial legal framework for the populations immersed in the poverty of our country. It is concluded that there is no adequate distribution of wealth in Peruvian society, thus causing greater growth of the needy; widening the base of the country's socioeconomic pyramid.

There are several mechanisms that give people the opportunity to escape the slavery of poverty and start creating wealth. However, the first step is the integration of these marginalized populations into socioeconomic activity of the country.

This integration will contribute to the development of a common social system in which it allows citizens to cooperate to create capital in each of the communities.

Likewise, we are aware that our country has been witnessing and has been involved, within the last fifteen years, in a great revolution of corporate social entrepreneurship of a new generation of small entrepreneurs who have begun to insert themselves into the financial economic system. This new economic phenomenon has allowed the insertion of many people who were in extreme poverty to the business economic market.

It should be mentioned that the activity of microfinance in the country has played an important role in this great revolution, being the financial lever for the creation of microenterprises throughout the national territory.

In the particular case of our capital, the majority of small entrepreneurs are immigrants from the interior of the country arriving from the provinces to the great metropolitan city in search of better resources and better quality of life.

While this great socio-business revolution was developing, there was also a growing demand for this new microcredit service that was generated in society. Therefore, organizations such as municipal savings banks emerged, with the purpose of converting small municipal financial organizations into large rural banks. Therefore, a full commitment of microfinance organizations to the low-income population emerged. This interesting evolution of microfinance in the country has been of great contribution so that many low-income people can build their credit histories. Undoubtedly, this originated and forced traditional banks to decide to venture into offering financial services to low-income clients, concluding that it was a potentially emerging and growing market.

Banks began to provide flexible, convenient financial services and in response to the needs of the low-income population's demand. This led to the creation of a network of microfinance entities in rural and remote areas with the objective of promoting local development and reducing migration to large cities. The capital movement originated by these financial entities in each community has allowed the achievement of the entrepreneurial success of many small entrepreneurs.

This financial economic revolution continues to be replicated to the present in our society, in the same way in each community around our country, always with the purpose of supporting the less fortunate and needy people; revolution that has helped many people achieve the dream of owning their own assets, through hard work, responsibility and sacrifice.

Unfortunately, this revolution, growth and expansion of microenterprises has developed in a disorganized and atomized way in the different communities; therefore, small business units have been grouped into associations and cooperatives seeking to achieve collective work.

In conclusion, this revolution has developed the perfect platform and conjuncture for the emergence of micro solutions to poverty in our nation. Therefore, microenterprise, microcredit and microfranchising are the three socio-business micro solutions that we propose in this text as tools for poverty eradication in our country and in various societies. The application of these tools working as inseparable pillars will soon make the poverty of our country become history, marking a milestone in the development of Peru.

*The road to progress. Micro solutions to poverty* is a book that aims to expose how, maintaining permanent cohesion and synergy, they give most of the less fortunate people the opportunity to get out of poverty and start generating capital by improving their quality of life.

Micro solutions to poverty constitute a platform that, with increasing incidence, allows the most unfortunate people to own their own destinies. It offers the citizens of each community the means to produce their own capital by achieving and contributing to reduce the immense extra-legal activity existing in Peruvian society. This platform fits perfectly to channel a more inclusive globalization in our Peruvian society; thus, generating a permanent sustainable development.

Similarly, micro solutions to poverty provide the appropriate channel to develop a better legal documentation system for the poor, and also promote a culture of productive investment, credit and savings. Therefore, micro solutions would help convert the work and savings of the poor into capital.

The best solutions we can offer to eradicate poverty and social injustice are those that are born directly from the experiences of the poor themselves, those solutions that are affirmed as a response and alternative to the limitations that they face daily. Precisely of these socio-business solutions, which have been originated by the entrepreneurs themselves, is the focus of this text. Microsolutions to poverty, as outlined in this book, contain the key to sustained socioeconomic progress, for all underdeveloped societies. In the context of our country as an underdeveloped society, microsolutions to poverty propose that poverty is not the problem; on the contrary, it is the same solution and an alternative development challenge of our society.



## Microenterprise

This chapter will present the first microsolutions, which cite the entrepreneurial initiative that has as its main protagonist the low-income entrepreneur who, with his sacrifice, creativity and perseverance, builds his microenterprise. Business unit that emerges as a crucial source of income and tool, to get rid of the poverty of the inhabitants who are at the base of the socioeconomic pyramid of each community. Many times, these small business entities arise within an illegal framework subject to various informal activities as an excuse to get injected into commercial activity and, gradually, to migrate towards formality. These business initiatives have achieved the growth of various economies in different underdeveloped countries, allowing them to generate employment and reduce poverty levels. Microenterprises, because of their size, choose a great virtue that allows them to address activities that cannot be developed by large companies: their size gives them agility, flexibility and reflexes to face the complex market and permanent changes. Consequently, the dynamism of microenterprises is presented as the backbone of economies providing production and employment. This guarantees a sustained demand, generating progress and conferring a healthy socioeconomic balance.

### 1.1. Microenterprise

It is a term that we have become accustomed to listening to cite the entrepreneurial initiative of low-income entrepreneurs. The word "microenterprise" is becoming increasingly important in the development of the country. In most cases, these entrepreneurial initiatives have emerged from unemployed entrepreneurs, and the need to stop the slavery of poverty and start an income-generating engine.

In different circumstances, other entrepreneurs decided the business venture in order to complement their sources of income and use their skills and abilities to try to achieve success.

Therefore, microenterprise, as an organ within Peruvian society, takes on the role of an economic social cell, since it is made up of citizens and is inserted in society in order to be a productive entity that generates employment and local economic development.

Obviously, the microenterprise has a limited and small business format in terms of number of workers, sales level, accounting information, technology, among other aspects. However, its impact and influence are prominent in society.

Microenterprises have been developing and evolving in all productive areas of Peruvian society, so their essence is quite diverse and heterogeneous.

In emerging societies, much has been linked to microenterprise as a subsistence sector within the informal system of the economy, therefore the microenterprise model becomes the only and vital option for low-income entrepreneurs with the purpose of Try to achieve their financial independence, formalization, and achieve goals and objectives. This is because these social sectors are presented as one of the most disadvantaged by the governments of the day.



In many cases, microenterprises are developed by small-scale producers in the same area in order to establish their own sources of work in an associated manner, seeking to create a greater productive capacity in the face of market demand.

The microenterprise format is characterized by its flexibility both at a personal and multidisciplinary level, as well as its flexibility for geographic availability, rapid transformation, agile decision making and product adaptability to the market.

Characteristic that entrepreneurs who are at the base of the socioeconomic pyramid of each specific community take advantage of, in order to achieve a space in the market, which by itself is already quite competitive and full of risks. This malleability to transform and adapt from microenterprise is due to the fact that it does not have a rigid and structured structure.

The main limitation of the microenterprise model is the lack of sufficient and effective financing applied to the business management of each small business; so that the entrepreneur can set higher goals in shorter timeframes. Therefore, this factor limits the possibilities of technological and geographical expansion. This causes a vicious circle where microenterprise is stranded in problems of competitiveness, which makes it forced to limit its market and segment. However, we are aware that there is a financial platform created specifically for this business model where municipal funds and microfinance financial institutions participate, with a leading role.

Microenterprise has become more relevant in our society, since the business model of these organizations has the capacity to generate jobs with lower capital requirements. This is a great contribution to emerging economies, since in most societies in underdeveloped countries the generation of jobs by the State and corporations has not had the expected growth impact, so that governments and the private sector, through large and medium enterprises, have not been able to absorb most of the economically active population.

In the same way, microenterprise manifests itself through the undertaking of personal creativity that, in addition, contributes, at the collective level, to community development, and consequently strengthens the economic structures of a society. This type of entrepreneurship usually originates with the contribution of family members, local resources and low capital resources, initiated with precarious technology, and a predominance of intensive use of labor and an unskilled labor force.

With the passage of time, and when the need came to really explore in greater depth and give due recognition to this business model, it was resolved that entrepreneurial initiative is focused on self-employment, on an engine of economic unity that gave meaning to work and individual creativity.

Thus, the recognition of microenterprises caused them to begin to take a leading role in the economy of emerging societies; despite the fact that many of the small business operations were carried out by people who had very low levels of capital, lack of business education and were also in conditions of quite precariousness.

In this way, this small-scale business model began to represent new forms of work and occupational formats that, over time, are being refined businessly.

Societies in all emerging countries have changed their perspective about microenterprises; that is, if they are viewed with a marginal nature of the informal market, they are now part of the nations development economic policies, since they contribute to commercial production, social economic development and, likewise, generate employment.

Therefore, the vast majority of low-income entrepreneurs who found themselves unemployed, and living with poverty began their own entrepreneurial initiatives, full of passion and perseverance, without being aware and without planning, they became entrepreneurs of the microenterprise. This allowed them to begin to defeat poverty, generate wealth and contribute to the development of their own communities.

## 1.2. Microenterprise and its characteristics

The format of a microenterprise has the following basic components;

- Entrepreneur. He is the low-income person who ventures into the business initiative. This person is responsible for the business adventure and bets with all their commitment, sacrifice and passion in the small business in order to generate income and free themselves from poverty.
- Work tool. It is the necessary asset to start the commercial activity, which will be the source of production and income generator. This tool, in most cases, is obtained through a loan.
- Social object. Service provided or productive activity performed. It is the reason for the small business that can be broad or specific.
- Space. It is the place, area, position or geographical scope that small business has.

- Brand. Name of the business, which identifies and characterizes it. In most cases, it is related to the business sector and the segment that is addressed.
- License. It is the document that grants the authorization to the entrepreneur to carry out the business activity. It can be an operating license or some registration document of the respective municipality.

These basic components vary and are added according to the level of formality, economic resources, level of knowledge, level of urban planning, state policies, level of capital of assets, level of technology, market development, culture and society, in which microenterprises work. Being still aware that there is a lot of improvisation and ignorance of the entrepreneur, and a lack of state capacity to channel and satisfy the most elementary aspirations and components of microenterprises that operate in informality.

Likewise, microenterprise was characterized by the number of workers working in it, establishing that it was considered as microenterprise business units those with a maximum of ten workers, and business initiatives with a range of ten to twenty employees would call small business.

- Case: taxi company microenterprise. In the capital city we have a population of 250,000 car microenterprises; 67% of these are still in informality.
  - Entrepreneur (taxi driver). Low-income citizen, who has an average secondary education profile. Work approximately twelve hours a day. 32% have been working as a taxi driver for about seven years. The average family number of this entrepreneur is five members per household. Entrepreneurs who are in the formal sector have a uniform, a photocheck of the company in which they are affiliated, and their respective driver's license



- Work tool (car). Vehicle unit that is a work tool and source of income. The car has its respective property card, SOAT, insurance policy, and its safety implements. Most entrepreneurs acquire their own unit through financing, although there is a group of them that rents the car to perform their daily tasks.
- Corporate purpose (taxi service). They provide the service of transport and urban displacement of passengers.
- Space (post). The geographical scope of the transport service is in Metropolitan Lima, with sporadic special services to the peripheries of the city.
- Brand. It is the name or badge of the microenterprise. Mostly, taxis do not have a specific brand. However, members of the formal sector share the brand of the company to which they belong.
- License. It is the document that gives the entrepreneur legal authorization to operate. Entrepreneurs must manage the road safety card through the office of the Metropolitan Taxi Service (SETAME), which will be their license to formally operate as a taxi driver in the city.

### 1.3. Microenterprise Development

In the 1980s, a phenomenon called “micromigrations” originated in Lima, where the inhabitants of the province decided to the great metropolitan capital in search of new economic opportunities in order to improve their quality of life; also, because many fled from the plague of terrorism that had contaminated and taken control of their communities and geographical areas surrounding their villages.



This migratory phenomenon, which progressively increased, brought a transformation in the population structure of the capital, generating a

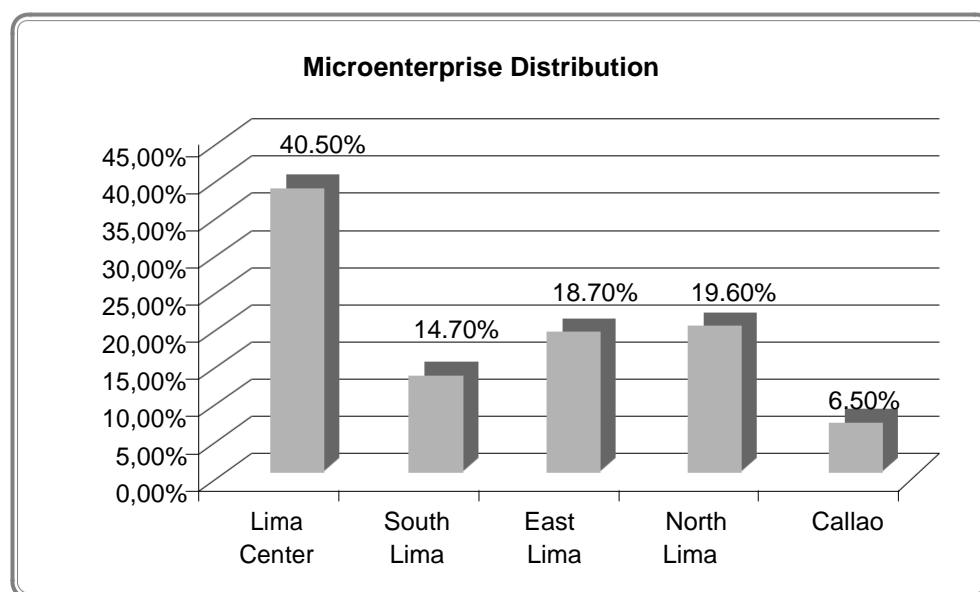
population growth in the peripheries of the city of Lima. Together with this new population development, in parallel, the development of micro- and small businesses was born; in its large number located operating in the new demographic areas of the city, and others also located in the oldest areas of the capital.

This development and exponential growth of small businesses was due to the injection of small capital provided by financial institutions through loans to low-income entrepreneurs; others formed their small businesses with their own minimum capital. Also, many entrepreneurs contributed their savings to be able to disburse an initial fee and thus obtain an asset through a loan.

INEI data show that in the capital, Metropolitan Lima, at the end of the 20th century, the level of micro- and small businesses amounted to 160 050, ventures not including several tens of thousands of sole proprietorships and others immersed in the informality that coexist in the same economic market.

In the INEI study, the distribution of the growth of micro- and small businesses in the first years of the 1990s, in the following districts of Metropolitan Lima, was shown as follows: Lima Cercado 10%; La Victoria 8.6%; San Juan de Lurigancho 6.6%; Comas 5.5%; San Martín de Porres 5.3%; Callao 4.8%. With a higher growth trend of small businesses in the periphery districts of the capital in the suburban areas of the city where the satellite cities of Greater Lima are located. In this account of demographic growth of small business initiatives in the capital, we can cite the replica of what happened in other capitals of underdeveloped countries, generating great economic and socio-business dynamism thanks to microenterprises.

In recent years, Lima had an important growth in its peripheries, which was necessary to divide the city into the so-called "Cones", where each Cone groups a certain number of districts. Now they are known as the "new Limas." The current scenario of micro- and small businesses, according to their dynamics and operability, is distributed in the various cones and regions of Metropolitan Lima: Lima Center concentrates 40.5%; East Lima represents 18.7%; South Lima, 14.7%; Lima North, 19.6% (being the districts of Comas and San Martín de Porres those that show greater commercial dynamism), and, finally, Callao with 6.5%.



Source: INEI, census 2007

From what is seen in the graph, each region of the capital has had a generating role for microenterprises. Each growth of commercial entrepreneurship had its own characteristics according to the location of each Cone (new Limas) or demographic region in the capital. For example, the Eastern Cone, with almost 19% microenterprise development, had the advantage of being the most elongated; a large part of its perimeter is strategically located in the industrial zones on the axis of the Central Highway, which is like a commercial funnel for entry and exit to the country's highlands.

Something similar, and with great dynamism and commercial entrepreneurship, happens in the North Cone, with almost 20% of small business development; It was formed along the axis along the North Panamerican Highway, forming an entrepreneurial commercial channel for entering and leaving the markets in the north of the country. The Southern Cone, with a 14.7% microenterprise venture, was structured along the borders of the South Panamerican Highway, which was the road that connected the city with the southern seaside districts, and was also the exit channel to the Southern markets of the country. Gradually, poles of business and industrial development were created, as is the Industrial Park of South Lima, in Villa El Salvador.

In the case of the Lima Center area, which concentrates the greatest amount of microenterprise development, with 40.5%. The districts of this region had a

structural development different from that of the periphery districts that, for the most part, were formed by invasion of migrants from the interior of the country, forming cooperatives, State housing programs or associations of human settlements. These districts were already part of the metropolis of Lima for years, and the occupation was carried out in a more orderly way through the acquisition of lots of land enabled by private urbanizations. Most of these lands had been used for the agricultural activity of the large landowners of the capital.

In the case of Callao, with only 6.5% of small business development, the structuring of its demographic growth was through four modalities: invasion, urbanization, informal ratings and, to a greater extent, State housing programs. This region is also connected to the exit channel of roads to the northern markets of the country, which contributes to the commercial flow of the area.

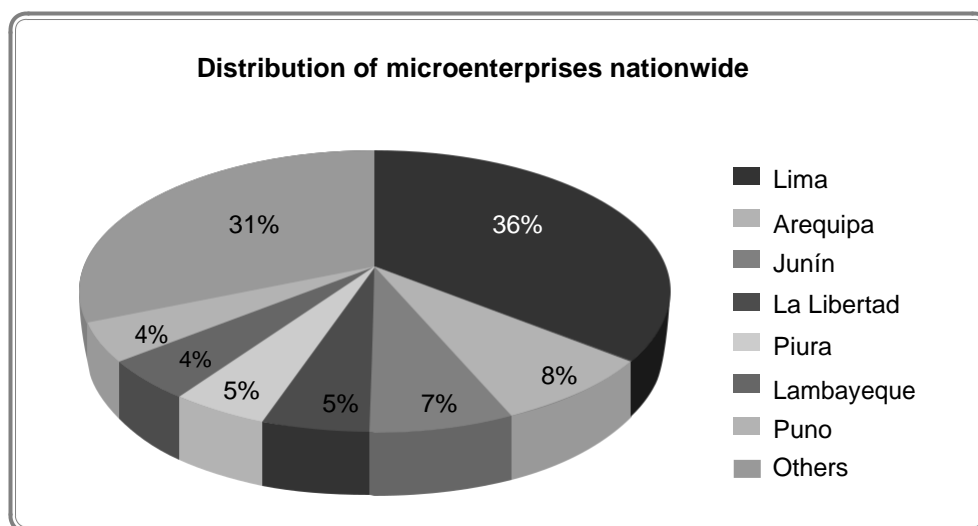
All these regions, with their structural, socio-economic and cultural differences, have been the development poles of the Peruvian capital through the generation of micro- and small businesses, which allows us to understand the dynamics of entrepreneurial entrepreneurship that began to take shape from the migration of the inhabitants of the interior of the country to the great capital in the seventies, being at present each one of these zones a place with potential of continuous exponential growth and local socioeconomic development. Therefore, this phenomenon caused an entrepreneurial pilgrimage from the countryside to the city.

The items in which microenterprises operate in commercial economic activity are diverse and heterogeneous, with commerce and services being the most important activities. Indeed, 67% is dedicated to the trade and services of vehicle repairs and personal effects, where the majority, 28% of the entrepreneurs, decided on the store business; 9.5% of entrepreneurs opted for the restaurant and hotel business; 10.8% favored the small-scale manufacturing industry; 3.3%, to the hairdressing salon business; and 3.2%, to the vulcanizer business (INEI Source).

This phenomenon of the generation of microenterprises from the informal market, and having as a source the population restructuring caused by the internal micromigrations of a country, is not something exclusive to our capital, because

It has been replicated in various societies in developing countries, such as Brazil, Bolivia, Chile, India, various countries in Africa; among others.

According to studies and research carried out in 2003, the total of 231,248 micro- and small businesses is distributed as follows, nationwide (Source INEI):



In the capital city, 36% of micro- and small businesses are concentrated, the province of Arequipa has an outstanding participation in small business development with 8%, mostly dedicated to the commercial issue and vehicle repairs and a minority dedicated to the restaurant and hotel business. It is followed by the province of Junín which, due to its proximity to the capital, has 7% participation in microenterprise development. Then come La Libertad and Piura with 5%, respectively. Finally, Lambayeque and Puno with 4% participation, both provinces with a large presence of artisans and retailers. In the rest of the departments that are distributed, that is, the remaining 32%, commerce and tertiary activities are the activities most carried out by microentrepreneurs.

#### 1.4. Microenterprise development poles

We cite two model cases of small business development poles through the organization, association, organization and tireless effort of entrepreneurial groups determined to venture into a certain area of commercial activity.

#### 1.4.1. Entrepreneurial Industrial Park of Villa El Salvador

A great example and pilot

Project of entrepreneurship  
Liable to be replicated is the Industrial Park of Villa El Salvador, located in the Siuthern Cone. A city which Was only constituted as a Community of homes



Distributed in human settlements of humble families from different provinces of the interior of the country, mostly in the mountains; Over the years, gradually, by the decisive decision and great effort of its inhabitants, it became a city of a purely productive nature.

Today, this great experience of local economic development generates 12,000 permanent jobs and 25,000 seasonal jobs. This thanks to a large number of associations of microentrepreneurs that were grouped to dispense quality goods and services generating wealth and a constant commercial activity for the benefit of the entire community.

In the order of the Industrial Park of Villa El Salvador, the microentrepreneurs dedicated to the same item in the same blocks were grouped and located. The seven main commercial and industrial activities or items were wood and metal carpentry, foundry, clothing, footwear, leather products, handicrafts and food industry. Partnerships were created by activity for each group of microentrepreneurs. The development of the Industrial Park of Villa El Salvador had the focus of energizing the small-scale production of the entrepreneurs of Villa El Salvador, always with the intention of inserting them into the formal economy.

The Villa El Salvador Park has now become a great entrepreneurial engine thanks to the clusters or conglomerates of different productive associations; to date, microentrepreneurs

produce high quality products for the domestic market and the foreign market. This commercial and economic dynamism has allowed a large number of families out of poverty, producing wealth through their sources of income, which were their work tools and small businesses.

#### 1.4.2. Gamarra, textile emporium of Peru

A large conglomerate of

more than thirty-five blocks located in the heart from La Victoria district hosts the main textile and clothing emporium of Peru and America. This important textile and clothing



sector has been developed thanks to the effort and perseverance of all the microentrepreneurs that make it up. This work was not simple since those areas, years ago, were areas of poor living and crime outbreaks. While commercial activity and entrepreneurship were conquering the bad habits of the place, the canteens became shops and hostels in large galleries, becoming the great commercial emporium that we see today.

Entrepreneurship in the textile emporium originated and became possible thanks to the coexistence, symbiosis and synergy between Arab and Jewish immigrants, owners of factories and workshops, and small provincial entrepreneurs. The success was due to the tenacity, sacrifice, ingenuity and incessant work of each member of the emporium. Due to the high quality of its clothing, the raw material used and the timeliness of delivery of orders, the emporium no longer only covers the local national market, it also exports to various countries, such as Ecuador, Venezuela, Chile, Bolivia, States United, and others located in Europe.

At the beginning, provincial microentrepreneurs did not have capital, so they were forced to obtain their work tools and

rent their respective establishments. Which meant that small entrepreneurs lend money to take off commercially and then, in a short time, find their economic balance.

The conglomerate currently brings together 16,500 small businesses and generates 55,000 jobs. This commercial dynamic produces a large flow of money annually to the community of microentrepreneurs.

Being a considerable group of microentrepreneurs competing in the same space and in the same area, a large number of brands were raised to capture the flow of captive clients. Also, many entrepreneurs decided to have more than one point of sale with the prospect of expanding the market reach.

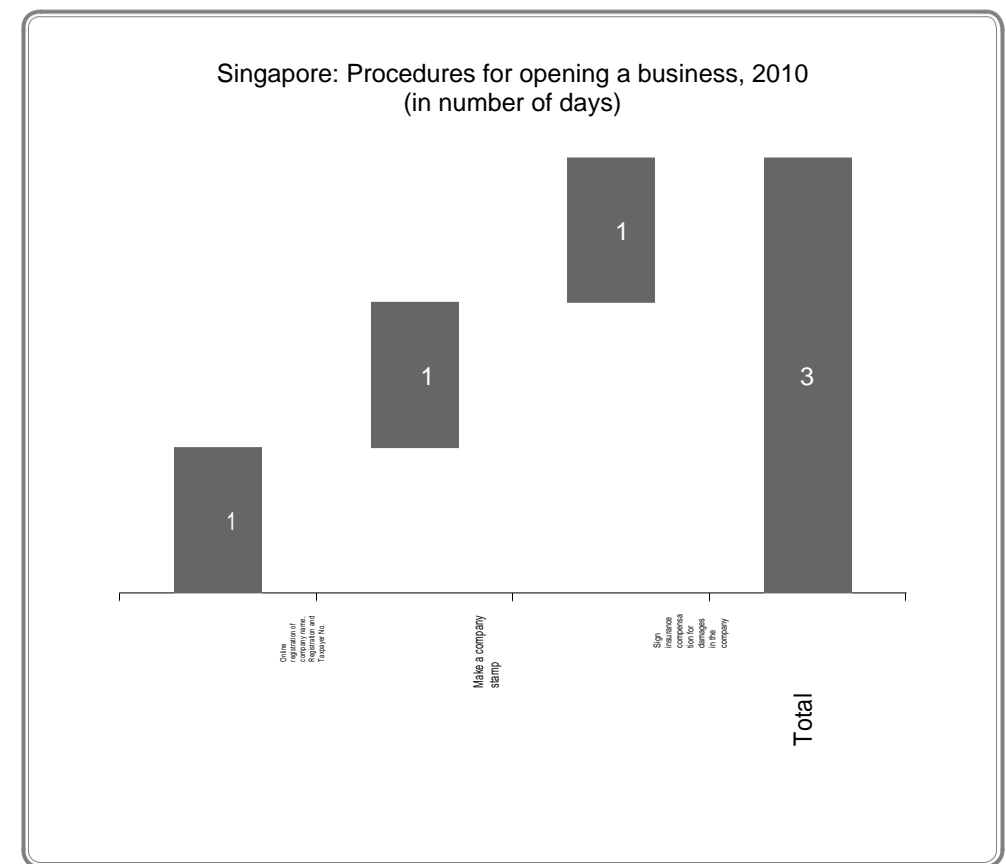
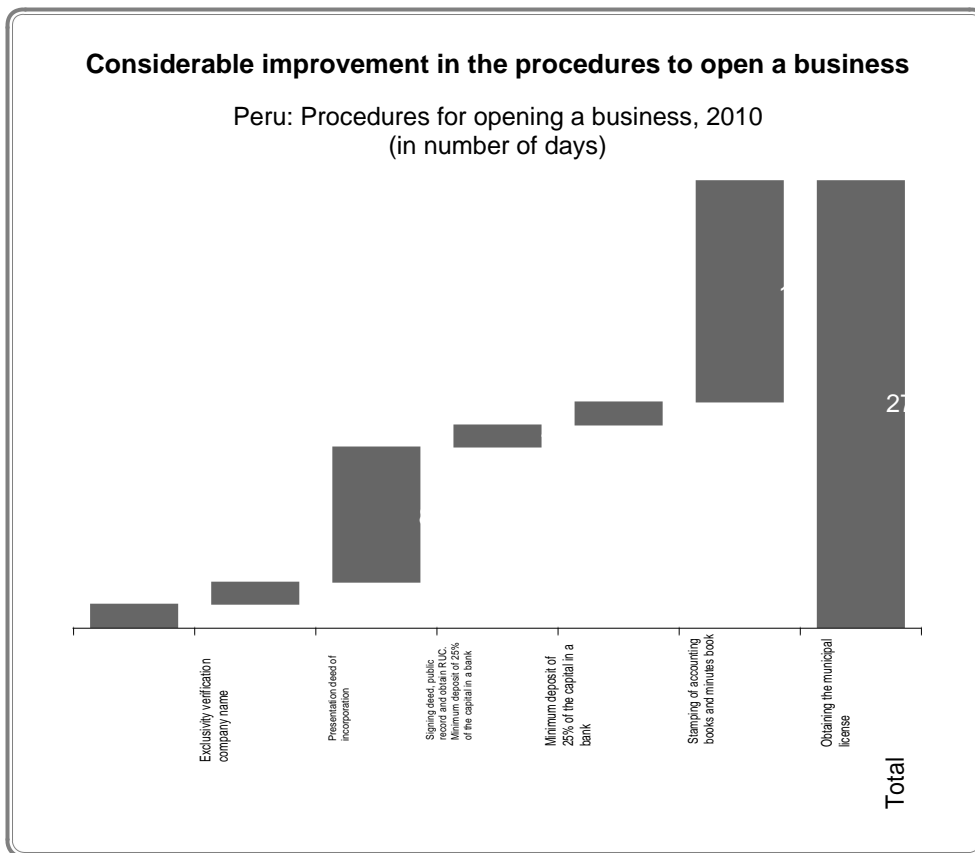
From its origin until today, the great commercial success of this remarkable textile entrepreneurship community was reaped thanks to the sacrifice, perseverance and constant work of all microentrepreneurs, who learned over the years about accounting, marketing, training, production, finance, among other management issues. Although, it should be noted, they still lack some type of centralized administration of the entire emporium in order to be able to generate policies and codes of conduct for the entire commercial community, and they also lack an arrangement in associations; Gamarra's success is indisputable, it is a model to replicate.

#### 1.5. Formalization of microenterprises

While it is true that microenterprise development is a vital asset to be able to get rid of poverty, many of these ventures have been generated from informality, that is, from the empirical activity of low-income entrepreneurs, who operate at margin of the institutional framework, without permission or license, without accounting and tax obligations, and without legal protection of its workers.

Therefore, when citing the formalization of microenterprises, it is possible to immerse themselves in the subject of their informality, since it is a state inherent in many of the small business initiatives. Informality that does not constitute a

problem - as many sectors of society try to typecast it - but rather it means a spontaneous, creative and improvised popular response or reaction to the state's inability to provide the mechanisms and channels to satisfy the basic aspirations and resources of the most marginalized sectors, immersed in poverty. Marginalized sectors that have great barriers to access the legal platform, such as the cost of legality and the great bureaucracy that exists to access that platform in matters of requesting licenses, procedures, payments for administrative procedures to public entities that act so that it seems that they only want to absorb in different ways the little economic capital that entrepreneurs have, without generating anything in return for the benefit of what is really generating the economic development of each community. This causes in the microentrepreneur a feeling of fear and rejection against the State. Therefore, the entrepreneur of modest economic resources has no other alternative than illegality and choose to work and invent their self-employment outside the law, in order to survive.



Source: Doing Business 2011, World Bank

However, informal business activity and dynamism produces employment, commercial economic increase in societies, new markets and conglomerates a great wealth and capital. Proving that social default would become legal under thanks to the courage, imagination, dedication and commitment to the development of their families and society in general. It turns out that in the least predictable way this informal business pilgrimage preached by so many low-income entrepreneurs have opted for the leadership of leading the fight against backwardness and poverty in their communities. Entrepreneurs mired in informality, within their informal scheme and framework, have an unsuspected organization that establishes internal rules and norms that they have developed in parallel to the laws that the State has failed to apply or offer them in the most compatible and adequate way. Consequently, these individuals decide to take refuge in illegality when the costs of complying with the laws exceed their benefits.

As already mentioned, informality is a way to initiate sources of economic resources spontaneously and freely, causing immediate benefits and quick access to the market and commerce, although without any protection or rights or long-term stability. Therefore, acting within the illegality denotes a series of limitations that are presented against informal microenterprises, preventing them from normal growth, projection, specialization or protection; being, of this luck, vulnerable before any eventual crisis.

Informality also has a correlative impact on the final consumer, that is, distrust, discredit and rejection of access to products and services from the informal market. Similarly, informal dynamism promotes the emergence of accumulated piracy markets, the operation of pseudo-entrepreneurs who use the business channel to commit crimes and fall into permanent corruption.

As good migrants, informal microenterprise entrepreneurs always have a permanent desire to migrate to formality and insert themselves into the benefits of legality. It is enough to verify the anxiety shown daily by the informal taxi driver for having his license; that of the itinerant, for having a fixed place; that of the shoeshine, for having its formal module; that of the mototaxi driver, for being part of a formal association; the one of the entrepreneur of the small mechanical workshops, for having his municipal license, and among many other formats of micro enterprises that coexist in informality. Ideally, all the productivity motivity of informal microenterprises can be merged into an authentic social market economy without acting outside the law and, rather, operating within a fair legality, sponsored and encouraged by the state.

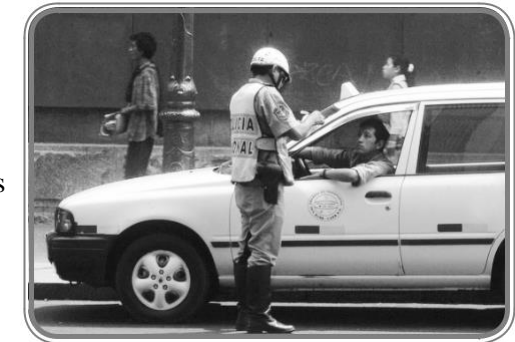
This informal business class occurs in all developing countries. Every time it has been taking greater emphasis by the role that it has played in the transformation and economic development of its societies, for which this phenomenon of business informality has become a starting point for the solution to poverty and misery in countries from Asia, Africa and Latin America.

#### 1.5.1. Informality at the wheel

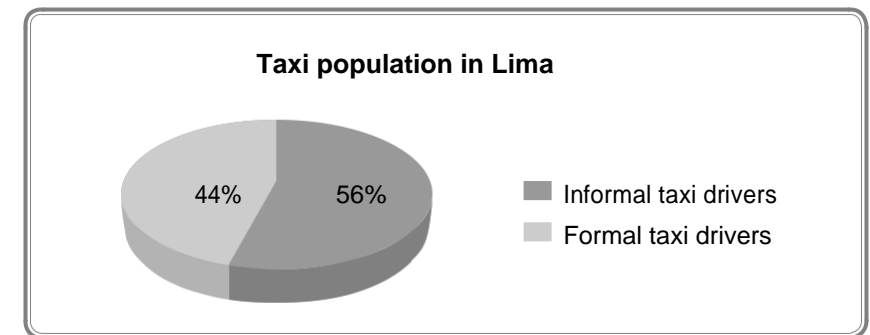
In the case of the taxi market sector in the capital of Peru, the city is invaded by 250,000 taxi drivers or microentrepreneurs, as we call them for their great work and service

that provide society.

Of this large population of entrepreneurs, 56% of them are still anchored in informality, which means that this sector provides 140 000 jobs informally;



however, these mobile business units operating in illegality support the economy of 140,000 families, presenting an average family size consisting of five members. Many of these taxi drivers do not even own their work assets. There are a large number of these microentrepreneurs who rent their business units to be able to survive and solve their families in this way until, gradually, if their situation allows them, they will save and thus be able to reach the payment of a initial fee and obtain their own assets, through their insertion in the financial sector, starting their credit history at the time of obtaining the respective microcredit. Other taxi drivers simply operate with their private cars without having any formal traffic license, thus taking them back, daily, to the law.



#### 1.5.2. Informality on the coast

Knowing that our country has a rich history as a fishing nation, having been in different opportunities world power in this area thanks to our blessed sea, Peru has a huge variety of ichthyological resources for both human consumption and for the production of fishmeal and fishoil. At present, the fishing sector is one of the most fundamental roles in the economy of the country, however there is still a great deal of informality in this sector. There is a large population of informal artisanal fishermen throughout the Peruvian coast, who have been dedicated to this activity for many years; Even their own families live only from this activity. The vast majority of these informal fishermen are not subject to credit. According to INEI research, it is estimated that there are 50 000 entrepreneurs of artisanal fisheries.

#### Fishing entrepreneurs

Usually grouped and associated in Fishermen's guilds according to Various areas of the coast, however There are few who really Are organized and strengthened in Formal associations. These Entrepreneurs are classified According to the activities they Perform in the fishing, can be Drivers, sailors, ropes and Shipowners. The fishermen who Remain very near the port, offer the stowage service to the fishing Companies. During the closed season, fishermen work in the Construction and commerce sector to continue generating sources of Income.



Their boats, depending on the areas on the Peruvian coast, are theirs, are family owned and in some cases lent or rented. These fishing entrepreneurs leave the coast and board their boats on an afloat adventure in search of the capture of ichthyological resources, among fish and other species that swarm in our generous sea. An entrepreneurial activity that implies a lot of patience, sacrifice, technique and passion. There are currently 4000 artisanal business units (boats) on the coast; however, even their piers are in poor condition.

The few fishing entrepreneurs who decide to formalize have to follow a series of steps, such as training at FONDEPES, where they obtain a first certificate; then they obtain a health certificate that covers fisherman's insurance; Then they go to register in the Captaincy of the respective port, where they deliver their fishing operation card, and finally register in DIGEPA as registered artisanal fishermen.

The fishing activity in Peru achieves a great impact on the national economy, due to the large quantities of production; thanks to the abundance of ichthyological resources in our sea. Similarly, fishing generates a considerable amount of direct and indirect employment both in the extractive phases and in the transformation phases. Peru is a leading nation in fisheries exports, although there is still a great deal of informality in the sector; a large population of artisanal fishermen located throughout the Peruvian coast who are still slaves of illegality and informality.

#### 1.6. Marketing Informality

An economic activity that began to massively conglomerate many low-income entrepreneurs was commerce. The streets and sidewalks gradually became reserved for the coordinated implementation of trade areas, regardless of state laws and regulations. These entrepreneurs were called "traveling merchants" for their itinerant movement of position and location. They migrated little by little with the aim of establishing themselves in stationary markets to achieve better stability, and reduce the risks of navigating the city streets.

Street traders, encouraged by the impulse to undertake and the desire to enter the commercial economic market, did not hesitate to invade the public highway and use it for their commercial operations, without having a license, invoices or paying taxes.

Anecdotaly, the municipalities affected by this invasion of entrepreneurs in their avenues, streets and sidewalks, instead of looking for ways to insert street traders into formality, chose to market tributarily with the informality state of street entrepreneurs, charging them a tax

called “armhole”, for exercising informal and illegal trade in the public areas of each district. For this reason, informal street merchants chose to accept paying this tax as a measure of protection and stability for the time they were kept at certain points of the public highway. The municipal authorities saw in this situation a great opportunity to generate fiscal funds and take advantage, through these taxes, of the informality that they, supposedly, should fight with harmony, since each informal itinerant paid more for the square meter used, than formal traders established in permanent points.



The evolution of the street merchant was that, progressively, could identify a fixed or stable place and stop wandering the streets. This implied an explicit invasion of a space on the public highway, carried out in a planned way and studied according to the valuation of the location and location of the space. This valuation was related to the market study of potential customers existing in that geographic location on public roads, and the level of competition existing by other street traders already located in the same area. This invasion of the public roads by the merchants is progressively taking place, and when it is already consolidated with a group of merchants established in the same area, they create their informal organizations to achieve a certain collective protection. This means that each of this group has already obtained a fixed establishment on the street, which mostly prefer to use “the wheelbarrow” as their small business in which they offer and display the products they sell daily.

The next step of the street vendors who decide to leave the streets due to the insecurity, risks and instability of maintaining the public roads is the construction of their own informal markets. Informal street merchants

migrate to the markets, since being on public roads means living with a series of limitations, and not having, in addition, their own space in the long term. The municipalities, seeing again this initiative of building markets by street entrepreneurs, decided to enable fairgrounds as a way of relocating the street vendors that operated on public roads. Some examples of the fairgrounds are Blue Powders, Amazonas, Naranjal, Pink Powders and the Falklands. These fairgrounds consisted of precarious markets built with mats and wood in the same streets.

It is evident, then, that the anxiety of informal street traders to have their own private and secure area has always existed. In this sector of informal commerce, the story is repeated again that these entrepreneurs do not expect the State to provide them with anything; on the contrary, thanks to their courage, decision and collective work they have been able to achieve savings and social funds with which they have managed to build the desired markets to access their own fixed position. This possibility of being able to own your own commercial space gives the entrepreneur the power to use that position as collateral or guarantee to obtain a microcredit that contributes to the growth of the business.

### 1.7. Towards Formalization

It is true that the majority of micro- and small business entrepreneurship has emerged from informality, however, it is currently impossible to do successful business, expand and grow in the market if you do not act within the parameters of the formality.

Warned and being aware of the disadvantages that arise when being framed in informality, knowing that there is not yet an efficient, adequate and articulated system by the State, formality constitutes a requirement to grow and insert ourselves in the market with our small initiatives business.

In the formal market, large customers demand an invoice, since they need it to avoid paying so many taxes. Therefore, micro businesses that have long been immersed in informality will have to change their paradigms, whether they like it or not, in order to succeed and grow in the market.

Registering a microenterprise in the formal market produces legal status, which gives birth to an entity different from that of the entrepreneur, since this will be the

responsible for answering for your debts and obligations. Consequently, this entity responds with its assets and not with the properties of its owners. Therefore, the formalization provides in the background a protection to the assets of each entrepreneur.

Consequently, formal companies or legal persons serve to protect entrepreneurs, because they function as a shield that preserves the personal assets of each entrepreneur, since it separates the assets of the company. However, many of the entrepreneurs of the micro- and small informal enterprises are unaware of this virtue and still think that the State will appropriate the few resources they have if they register formally.

In the case of Peru, the initial direct proposal to migrate microentrepreneurs from informality to the formal market was the system of registration of business initiatives to public registries, as a conditional for access to formal credit.

Although the informal entrepreneurship sector affects the public system and the market society, there is no doubt that informal microenterprises are a survival mechanism for the poorest sectors. Over time, these small informal companies have been taking on greater role and importance in the dynamism of the economy with its growth potential. For this, the first public policies aimed at formalizing and improving the competitiveness and productivity of micro and small enterprises were born, an initiative that culminated in the creation of the Center for Promotion of Micro and Small Enterprise PromPyme as a channel and migratory entity towards formality. Since then, a significant number of microenterprises have been formalized, choosing access to resources and benefits of the formal market format.

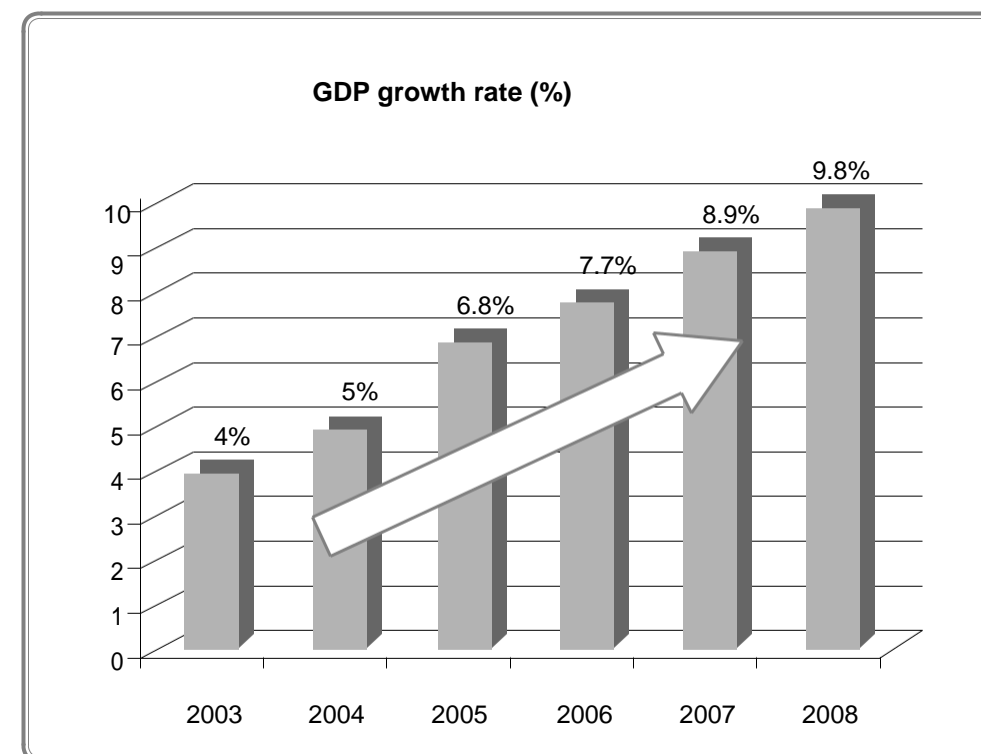
However, the majority of microentrepreneurs immersed in informality are still incredulous about the advantages of the formal sector and claim the high costs of formalization, strict labor legislation and high labor costs; reasons why the degree of informality of the country's microenterprise sector is still very high. So, it is indisputable that there is still insufficient adequate incentives and attractive policies to promote the mass formalization of micro-entrepreneurs.

## 1.8. Role of microenterprises in the economy

The development of entrepreneurship has become the only spontaneous and effective way to get rid of poverty, given the incapacity and state indifference that lasts over time. It is necessary, however, to know the functioning of the dynamism of microenterprises as a fundamental piece in the economies of nations.

Various economies such as Singapore, South Korea, Taiwan, China, India, and even our neighboring country, Chile, have been able to emerge and reduce their poverty levels in recent years through the generation of self-employment with the emergence of small units' business, successfully.

In the case of our country, the growth and expansion of microenterprises has been a great contribution to the constant growth of the national GDP in the last six years; nowadays, micro- and small businesses are able to contribute 61% of the national GDP, which is why they are the base, engine and backbone of the Peruvian economy.



The large-scale development of micro and small businesses in the country has made it possible for the economy to achieve a relevant revitalization; in the generation of employment, increase in the supply of the market, increase in the level of exports, positive balance of payment, productive diversification of the market, development of new services and light industries.

With regard to the generation of employment in Peru, microenterprises represent 75% of the national occupied EAP. This figure shows that these small business units not only generate self-employment through the entrepreneurship of the business owners, but also provide and promote employment for the citizens of each locality. It follows from this fact that the majority of Peruvians work within small business units.

Although it is true our country is considered a mining country, the national global economy has its bases and pillars in the productive and commercial activity in all medium and small business units that contribute 61% of GDP and represent 75% of the EAP.

Microenterprises have been emerging in various sectors, such as driving engines and promoters of local businesses. The emergence of these business units has had greater prominence in the commercial sector of transport, services, fisheries, textiles, among other commercial economic axes fundamental to society. The contribution of each of these socio-business sectors to the country's economy is vast, knowing that many families depend directly and indirectly on these activities.

This generation of small business initiatives, operating in society in a productive and commercial way, has been gradually shaping what we call market economies from the socio-business demand and supply of each community. However, decades have passed when most of the underdeveloped countries missed this progress in their own market economies - even with the necessary domestic resources - and have found themselves immersed in a crossroads, drowned by the poor efforts of the legal public institutions that have regulated their lives and economies for long periods of time and, even, in some cases, until today.

Having a positive balance of payments today, in our country, is thanks to the contribution of growth and expansion of micro- and small businesses that

working collectively has made possible the growth of the country's exports achieving a trade balance Positive on a permanent basis, this commercial dynamism of SMEs abroad has in turn made a great economic contribution to the level of international reserves that Peru has.

This growth in the level of exports has allowed Peru to sign a series of free trade agreements with countries from different continents, including the most important markets worldwide, such as the United States and China. This international commercial dynamism of Peru with the other continents has allowed the country to have a healthy balance of payments of \$ 12,583 million, which has contributed to achieve a high level in saving international reserves of \$ 45,465 million, which provides an adequate degree of international liquidity to our country, which allows to reduce adjustment costs against external imbalances and possible crises.

We conclude that the development of microenterprises in recent years has greatly contributed to a healthy and enviable economy in Peru, presenting an inflation of 2.5%: one of the lowest in Latin America and the world; an economy that constantly attracts foreign investment, and that has recently raised its credit rating to BBB within the investment grade, thanks to an efficient macroeconomic policy.



Thus, microenterprise is presented as a source of business initiatives and small economic units, which are generated by low-income entrepreneurs to face the absence of work, that is, it stands as an alternative instrument of income source and wealth generation. The logic that underlies the

origin of microenterprises is survival and subsistence; It is understood then that its motivation to create, work and grow incessantly is undoubted. In the microenterprises sector the income generated is destined to the satisfaction of basic daily necessities, while in the sector of the big companies the profitability is channeled towards the accumulation of capital.

The activity of microenterprises, due to their low working capital, has a small-scale market productivity, limiting them, in most cases, to grow and expand. They present, however, a potential if they themselves associate and enter the market collectively, thereby generating a greater productive capacity to meet the various demands.

Microenterprise has emerged in economic societies as an alternative for the invention of their own employment, since these small business units require little income capital and few management tools to enter the market. This explains the reason why many times these business incursions are born in informality as the first attempt to improvise and participate in the market. Subsequently, they are migrating towards the legality and formality of the system, knowing and being aware of its benefits.

These small business units have been able to energize and be the engine of growth of different underdeveloped economies, from different continents, which thanks to the attitude of low-income entrepreneurial citizens, who decided to transform poverty into wealth, were able to move forward and, without giving account of the dimension of their sacrifice, work and daily work have contributed enormously, with their socio-economic role, to build healthy, solid and stable economies..

Therefore, we must be aware that small winemakers, market traders, artisanal fishermen, shippers and dockers from Gamarra, ice cream parlors, bakers, recyclers, sandwich makers, taxi drivers, shoeshiners, farmers, fruit sellers, artisans, carpenters, mototaxi drivers, mechanics, ice cream parlors, street vendors, merchants from Gamarra, photocopiers, among many other microentrepreneurs with whom we interact often, are the real protagonists, precursors and promoters of the growth of various economies; generating a sustainable expansion of microenterprises in underdeveloped societies.



## The microcredit

This chapter covers the second microsolution to poverty, citing the credit system as a financial leverage mechanism that grants seed capital to microenterprises through microcredits. Microcredits that act as a financial tool, which constitutes the working capital for microenterprises with the purpose of obtaining an asset or working instrument.

The microcredit system, presented as the microenterprise bank, favors social and economic well-being, since it provides and distributes reduced working capital costs, generates a culture of planned spending, contributes to risk reduction and channels saving towards investment.

Microfinance, therefore, constitutes the credit apparatus that grants growth and economic development to microenterprises, reducing poverty in different societies. It is a system adapted to finance the needs of small business projects, many of them without equity guarantees or guarantees of the informal and domestic economy of underdeveloped countries.

The microcredit also contributes to the development and construction of new sources of future income for microentrepreneurs, takes the role of a financial tool that responds more naturally to the dynamics induced by market demand, assuming the responsibility and commitment of the loan, obtaining a way out of poverty, and therefore improving their quality of life.

These credits of reduced amounts are injected as financial concessions to the neediest entrepreneurs, so that they can start up and / or strengthen their small businesses, which will be sources of income with which they will be able to improve their standard of living.



Microcredit has contributed largely to various economies from different continents to reduce poverty, boost productive activities and promote the shift to formality.

## 2.1. Microcredit

The microcredit, by its typology, is presented as a loan provided with specific conditions, unlike conventional loans. The amounts borrowed are usually much lower than the amounts granted for a traditional loan and are commonly accompanied by counseling, training and supervision programs for beneficiary microentrepreneurs. Microcredits due to their size and flexibility have very varied rates, depending on different factors such as the business sector, the requested capital, the currency, the repayment term, the level of business risk and the microentrepreneur's guarantees.

Consequently, microcredits have sparked the economic revolution of low-income entrepreneurs, assuming a kind of financial leverage for all business initiatives of microentrepreneurs, thus contributing development, economic growth and a healthy socio-financial balance to societies.

## 2.2. Evolution of microcredits

As we have seen the evolution of microenterprises in Chapter I; The history of microcredit development has gone hand in hand with the growth of microenterprises. While the development and expansion of microenterprises grew accordingly, a great demand for working capital was also forged in the new business society.

When the expansion of microenterprises began, mostly since informality, they were excluded from access to financial and banking services. In some cases, only they came to alternative financing channels. Traditional banks did not give the importance due to this high demand of microenterprises, they simply considered them part of an informal economy. It is precisely this great demand for working capital and financial exclusion that made the development of microfinance possible in the 1970s.

Latin America has witnessed and starred in a long revolution in the development of a culture of entrepreneurship generating microenterprises. This

fact has allowed the inclusion of many people who were in extreme poverty to the social economy of the business market. Therefore, the microfinance system has played an important role in this revolution. The microfinance system has been responsible for the creation of many microenterprises throughout Latin America. Particularly in South America, many of these microentrepreneurs have been immigrants from the interiors to large cities (capitals and metropolitan cities). This phenomenon of micromigrations is very common in South America, since there is a large number of marginalized and resourceless rural communities. The reason why these settlers migrated to the big cities was the legitimate search and persecution of a better quality of life. While this economic revolution began to flourish, at the same time there was a great demand for basic financial services. Therefore, micro-credits began to be dispensed as a financial tool in unlimited amounts. However, much innovation was needed to achieve the socio-economic objectives that were required by the banks.

Some financial entities tuned to the productive activities and culture of microenterprises began to emerge; they were the so-called "municipal savings banks", with the intention of converting small banks into large rural banks. The financial entities of the microfinance and cooperative banks in Latin America, not long ago - 25 years ago - have begun issuing microcredits to low-income entrepreneurs.

However, during the last decade, traditional banks decided to expand their financial services to the microenterprise segment, knowing that they would meet many needs of a large population that demanded financial services.

This revolution continues to be replicated to the present in our society, in the same way in each community around our country, always with the aim of supporting the less fortunate and needy people. Revolution that has helped many people achieve their dreams of owning their own assets, through hard work, responsibility and sacrifice.

Therefore, it is legitimate to mention that the activity of microfinance in the country has owned and has an important role in this great revolution, being the core financial device for the creation of microenterprises throughout the national territory.



### 2.3. Microcredits and their characteristics

Microcredits as a tool for financial leverage of microenterprises have many characteristics, such as the interest rate, term, currency, the destination that will be given to money or the guarantees granted by microcredit.

- Interest rate. It is the percentage in which a capital is invested in a specific interval of time; It represents a balance between risk and the possible profit from the use of the sum of money in a given situation and time. In that sense, the interest rate is the price of money in the financial market, which must be paid for borrowing it through microcredits in each business productive sector.

Consequently, the microcredit interest rate will be higher, as long as the microenterprise business or sector has greater risk variables and uncertainties in the market.

The interest rate can be a *fixed rate*, which does not change over time; or *variable rate*, which goes up or down depending on the situation of the economy.

- The term: The duration of the micro loan can be short term; when the return period is less than one-year, medium term; when the period is between one and three years, long term; when the period is longer than three years. The term granted for a microcredit should allow the microenterprise to return it without major problems with what the business produces. It is important that microenterprises evaluate well the time it would take to obtain income from the investment made, to define the correct term of microcredit.
- The coin. Micro loans can be granted in national currency, in soles, or in foreign currency. The most common in this case are the American dollars; however, they can also be delivered in euros or yen, and other currencies.
- The guarantee Created to support financial institutions in case of non-payment of microcredits. The guarantees can be pledged; in this case, these are constituted on assets other than real estate, such as jewels pledged, fixed term impositions, participations in investment funds, shares, among others, which will be deposited in the same financial entity.

Another type of guarantee is mortgages, where microcredit guarantees

are a property, such as a house, land or premises; properties usually acquired with the amount of the same microcredit. The third type of guarantee is through guarantors; When the low-income entrepreneur lacks the guarantees available, he chooses to transfer the guarantee to a third party who assumes the same and the value of the microcredit by the holder.

The analysis of the guarantees in the delivery of a microcredit is extremely important to avoid incurring a default that would affect the credit history and family economic status of the entrepreneur.

- Destination or type of need. This is the destination that will be given to the money obtained through microcredit.

*Microcredits of working capital*; they are the credits necessary to open or operate a business or microenterprise. Ex.: money to cover merchandise or salaries and office expenses while charging from your customers. These microcredits can be of two types:

- Structural. When it covers a need for permanent liquidity.
- Conjunctural. When it covers a need for short-term liquidity.
- Microcredits of capital goods. These are the credits that allow microenterprises to complete their facilities, such as acquiring a store; build it, implementing equipment and machinery, equipping and decorating a room, etc.

It is important that microenterprises, before requesting a microcredit, have established how much money they need for working capital and how much money for capital goods.

### 2.4. Mi banco and municipal savings banks as the financial arm of microenterprises

An interesting case is presented in our country, a bank called Mi banco that was created purely to meet the financial needs of the low-income population. This segment of the population needed to enter the financial system to build their credit histories. So, Mi banco began to provide mass loans for the opening of various microenterprises in the country quite successfully. This success was due, for the most part, to the extensive exploration and research that Mi banco conducted to this segment of the national population.

Undoubtedly, Mi banco's exponential growth in the microfinance sector attracted the attention of many financial entities. Many of the traditional banks and the local financial system were predominantly interested in learning about this potential market; Thus, a series of municipal savings banks and financial institutions specialized in this segment of the population began to emerge.

There are many factors that contributed to the success of Mi banco. First, we could cite the entity's commitment to the segment of the low-income population, which was perceived by the general public as a fast, exclusive and quality service, aimed at meeting their needs.

Another influential factor was that Mi banco provided flexible, consistent and convenient financial services to the diverse needs of the low-income population. This flexibility managed to generate a diverse and broad portfolio of innovative financial services. Consequently, Mi banco provided services based on the needs of its customers.

This case of Mi banco is interesting, since the financial entity has adapted its internal capacity to make its financial services compatible with the real demand of the segment; instead of forcing the segment to tune into the capacity of the financial entity. Even Mi banco has developed a network of banks in rural and remote areas, where there was a great lack of financial services in order to promote and boost the economy and local development, and thus contribute to reducing the migration of this population to large cities. Mi banco has managed to develop capital flows to various communities, supporting the socioeconomic development of each province and region of the country.

Mi banco has allowed and encouraged the movement of capital through microcredits to each community, helping microentrepreneurs access commercial economic success. This strategy of placing and locating small financial entities in the most marginalized and needy communities has helped to replicate and build a network of agencies nationwide. This approach of only serving the low-income segment was considered high risk, but in reality, this challenge was one of the reasons for Mi banco's success.

This same phenomenon of financial incursion, through the creation of networks of banking agencies throughout the country, was replicated by the municipal funds of all provinces, with the purpose of converting small financial organizations into large rural banks. Therefore

a full commitment of microfinance organizations to the low-income population emerged. This interesting revolution and financial propagation of the municipal savings banks in all the provinces of the country has been of great contribution so that many low-income people can build their credit histories. Undoubtedly, this also caused and forced traditional banks to decide to enter into financial services for low-income clients, creating their own microfinance entities, concluding that it was a potential and growing market.

These new banks began to provide flexible, convenient financial services and in response to the needs of the low-income population's demand. This led to the creation of a network of microfinance entities in rural and remote areas with the objective of promoting local development and reducing migration to large cities. The capital movement originated by these financial entities in each community has allowed the achievement of the commercial economic success of many entrepreneurs.

In conclusion, this phenomenon of microfinance expansion has been replicated in the same way across many countries in South America and many underdeveloped countries belonging to other continents. This microfinance trend has helped traditional banks realize the growth potential in this customer segment. This phenomenon has made possible the paradigm shifts of traditional banks in South America. This financial economic revolution has favored decisively to help many segments of the neediest population. It has also contributed to many people to achieve their dreams of owning their own assets and generating socio-economic wealth based on permanent sacrifice, work and responsibility.

## 2.5. Microcredits as a tool for self-sustainability

Microcredit programs not only provide capital to those most in need, but also facilitate the empowerment and training of the beneficiary through multiple training, monitoring and advice systems; getting to alleviate, in many cases, improvisation and the effects of a bad management of their businesses.

Microfinance has been the tool by which financial systems have managed to boost the economy of many underdeveloped countries, working for the benefit of the population segment with the greatest economic resource needs.

We understand, therefore, that microfinance plays an essentially relevant role in these countries, because they allow greater financial penetration through local institutions close to the needs of the population.

Microfinance institutions specialize in offering basic financial services, primarily microcredits, to a large part of the population excluded from access to capital, and whose economic activity, for the most part, is in the so-called informal economy. Microfinance serves a market of the population that is marginalized and neglected by the traditional financial system.

Among the studies carried out, it is estimated that the informal economy in Latin America generates 50% of employment. This informal economy is based on family self-employment economies with scarce capital goods. These levels of informality are not included in the economic statistics of the countries and neither do they contribute to their respective countries.

Microfinance has contributed greatly to reducing levels of informality, by inserting microenterprises into the financial system, asking them as a primary requirement to be formal microenterprises, in order to obtain some microcredit.

In many Latin American countries, more than 40% of the PEA survives economically thanks to self-employment business initiatives, which are microenterprises. These, in turn, survive thanks to the financial support of microcredits.

The most outstanding socio-economic benefits of microcredits are:

- To favor and contribute to the process of acquiring assets or work tools for the poorest sectors, which will generate future income and economic income.
- To allow the poorest segments or sectors to start productive activities according to their locality, and obtain a permanent regular income.
- To favor small business initiatives arising from informality, so that they can migrate to formality and thus obtain a large series of benefits by entering the financial system.

- To contribute to the development of the entrepreneurial and commercial capacities of microenterprise entrepreneurs.
- To allow building a great social capital in the youth and women of the localities, empowering and enhancing their roles and roles in society as sustainable economic entities.
- To allow access to capital, which is the basic resource in many cases to access other fundamental rights, such as the right to work, the right to a work asset / tool, and property of a small company.

Therefore, the presence of microfinance in the excluded sectors and emerging economies is extremely essential, since they contribute to stimulate the economy through the culture of savings, work and financial investment, generating a flow and sustainable economic development in each community.

## 2.6. The economic flow of microcredit

The financial component of microcredit is of great importance in the economic flow of marginalized companies, since healthy and sustainable economies have been achieved thanks to this credit dynamism.

Microcredits have made it possible to build a commercial productive segment of micro-enterprises equipped with the tools and assets necessary to achieve competitiveness and efficiently meet the demands of the markets. local and foreign.

Microcredits, as credit instruments, make it possible to transfer financing between financial institutions and low-income entrepreneurs.

The financial institution provides a loan to the microentrepreneur in the financial conditions corresponding to the risk and credit history of the latter, in order to acquire an asset or work tool. This same microentrepreneur becomes the bearer of the debt, which will be amortized in installments and in the duration of the microcredit.

In many cases, microentrepreneurs are required to present a guarantee in order to obtain their microcredit, since most of them do not have a prior credit history and, in addition, they have emerged from informality.

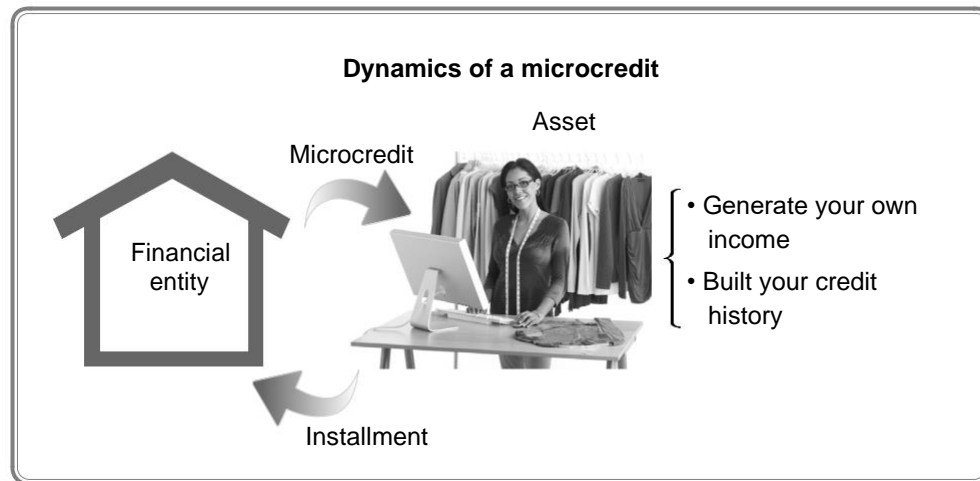
The great benefit of obtaining microcredits for entrepreneurs is that they can acquire their assets or work machinery to equip their microenterprises and thus be able to start generating their income; therefore, start credit experiences and stories.

The development of microfinance has generated new mechanisms that facilitate the transmission of financial flows, the extension and growth of markets and their economies.

Therefore, microfinance, through the issuance of microcredits and their contribution to the development of microenterprises, affirm the direct relationship in which the financial development of communities contributes to their economic growth. Thus, there is a favorable direct link between the financial wealth and the economic wealth of a society. Thus, the construction of the financing system for marginalized populations through capitalization and monetary flow is essential for the sustainable growth of their own economies.

The microfinance system allows channeling the culture of savings and investment in the microenterprise segment, helping to reduce risk and increase profitability. Therefore, the microcredit system stimulates the growth process of microenterprises. However, it is necessary to structure an efficient microfinance system adapted to the culture of micro-enterprises, guaranteeing the quality and accessibility of financial services that can truly achieve inclusive development and growth.

#### • Economic dynamics of a microcredit



Microfinance financial institutions have the ability to raise funds from international institutions and the local public on a reimbursable basis and invest them through microcredit. Microfinance financial institutions put surplus units in contact with savings units.

Most micro-enterprises that have a surplus of money from the productivity of their assets and work tools inject their savings into the microfinance bank, which guarantees them a minimum of security, liquidity and profitability.

Likewise, micro-companies that need assets or work tools go to request micro-credits at reasonable conditions of interest rate, term and amortization installments. However, microfinance entities carry out respective risk analyzes beforehand to assess the viability of financing each microenterprise, to ensure that the business unit is sufficiently capable of ensuring the repayment of the loan and its corresponding interests.

These guarantees for financing can be expressed in various ways such as:

- an additional source of income;
- the monthly profitability of the microenterprise;
- an estate that guarantees the loan amount;
- a third-party guarantee with the necessary guarantee conditions.

So, it is logical that not all microenterprises will be subject to credit and be able to obtain their requested loans, for this there is the alternative of collective funds, which is a mechanism that allows entrepreneurs to associate and create their self-financing through collective savings. These function as programmed savings or mutual funds for microenterprises. These savings will be deposited in the same financial entities to generate security and monthly interest.

Consequently, microfinance entities are the main organizations that provide capital through microcredit to the economies of

emerging market. Therefore, the financial role of microfinance institutions is decisive for the access of micro-enterprises to the credit system.

Microfinance institutions play a fundamental role in the balanced development of regions, provinces, districts and communities by providing financing to smaller economic agents, who are located in peripheral and marginalized areas, as is usual in the context of the traditional financial system. A notable advantage is that the microfinance entities have privileged information on the socio-cultural and economic reality of the communities, due to their permanent contact with the small businesses and entrepreneurs of each locality; in this way, they follow and apply policies oriented towards the local economy of each community, something that would hardly be applied by large and traditional banking entities.

Financial entities have been able to achieve an efficient financial system for the microenterprise segment, since they have managed to guarantee the quality and accessibility of basic financial services to all economic agents in each locality. This financial system has also contributed to creating an investment-oriented saving culture. This process of financial immersion and access to capital have a direct and far-reaching impact on the economic and real development of the countries' economies.

The expansion and proliferation of microfinance entities have contributed tremendously to the development of markets, using financial instruments such as microcredit, conditioning the improvement of local economies.

The existence of financial institutions in the different communities and societies activates and energizes marginalized populations, immersed in poverty and informality, managing to inject and generate fresh capital flows, structuring a sustainable economic system in the different sectors of each social reality.

Consequently, knowing the importance of the microfinance financial system, the achievement of the financial stability of the system must be pursued, so it is important to regulate and supervise the structure that guarantees the payment system, protects the low-income savers and microenterprises, thus guaranteeing the solvency and liquidity of microfinance institutions, reducing the risks assumed by their own activities. Financial stability is based on three basic elements: an adequate economic infrastructure, a stable macroeconomic environment and a solid financial system with

relevant supervision. In the case of our country, conjuncturally we have positive indicators in the aforementioned elements.

In conclusion, the economic flow of microfinance plays a relevant role in underdeveloped countries, since it allows greater financial penetration through local microfinance entities in each community, since they are close to the needs of the population. These specialized financial entities are therefore in a position to provide microcredit to the segment of the population excluded from access to capital, most of which are anchored in informality. Microcredits, as basic financial products, become tools to fight against the social and financial exclusion of the most urgent populations.

In the case of Peru, the evolution and consolidation of microfinance has contributed to granting the country the highest rate of entrepreneurial activity worldwide, with a level of 40.20% (General Entrepreneurship Monitor (GEM)). This is due to the fact that our country has the best microfinance platform in Latin America.

#### 2.6.1. Profitable and credit motorcycle taxis

The motorcycle taxis are presented as a transport business unit, adapted on a linear motorcycle, used for the transfer of passengers; presents a tin chassis on three wheels, with a cabin for the conductor in the front and a seat in the back for two passengers, with a open awning type. This little transport unit can reach a maximum speed 50 km / h, conditions that allows great ease of mobility in cities.



This micro-company known as “mototaxi” is a tool for Public transport extremely popular in many countries, for example in the Philippines, Indonesia, Thailand, Malaysia, China and India, producing a large number of employment units through this tool. Motorcycle taxis started to be manufactured in Thailand, and thanks

to the export they have different denominations: auto-rickshaws in India; phat-aphats in Delhi; baby taxis in Bangladesh; tuck-tuks in Thailand; “Toritos” in Central America, and motorcycle taxis in Peru, Colombia and other countries in South America

Peru was the first country in Latin America to adopt its offer from public transport to motorcycle taxis, due to its versatility and adaptability to the different types of geography of the country; first in the Peruvian jungle, where they became popular in the 1980s, and then in the 1990s they established themselves massively in Lima and Callao.

This particular microenterprise has been proliferating on the outskirts of the country's capital, and has been acquired by a large number of entrepreneurs thanks to microcredit. Many of the entrepreneurs who decided to venture into the motorcycle taxi company have been migrants from provinces who, constrained in informality, found in the motorcycle taxi a way of life, subsistence and a source of income for these entrepreneurs and their families; Most of them acquired them thanks to a microcredit or some amount of money saved. Consequently, the motorcycle taxi has become a working tool for many residents of the peripheral areas of Lima. The motorcycle taxi microenterprise reports to the entrepreneur an average income of 30 soles per day; obtaining then a liquid income at the end of the month of 900 soles per day; amount that exceeds the minimum living wage. For this reason, it is considered to be a profitable venture for a low-income entrepreneur.

According to statistics recorded by detailed studies, there are 22,348 formal motorcycle taxi entrepreneurs in the capital, who have an average family size of five members. It is also estimated that there are 60,000 informal motorcycle taxi drivers in Lima and Callao. This means that around 350,000 people in these areas depend on this economic activity in society; apart, of course, from the indirect work that is generated in workshops, assemblers, parts stores and mechanics.

The amount required to set up this micro-enterprise fluctuates between 900 and 1,200 soles, a quantity quite affordable through microcredit or

or some respective savings; this affordable price for many low-income entrepreneurs confirms a great trend of the motorcycle taxi population in society.

Although it is true that the majority of entrepreneurs dedicated to the motorcycle taxi service are inserted in the field of informality, they have gradually been grouping together, establishing formal associations and companies, being, at present, the Transport Company of Mototaxis Cristo Blanco the one with the most affiliates: 194 mototaxis; as well as the El Progreso de Carabayllo Motorcycle Association and the Incas Association of the Northern Cone, which host a fairly significant number of motorcycle taxi entrepreneurs.

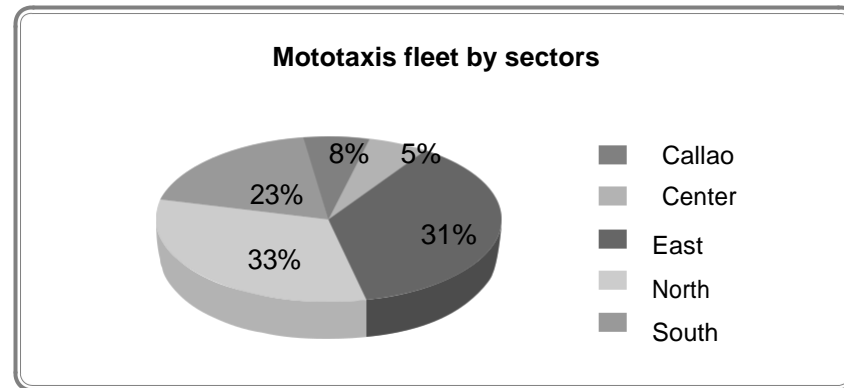
This migration towards the formality of motorcycle taxis collectively has helped them to organize, improve and standardize their service, using a common brand for each company or motorcycle taxi association. Standardization that has even caused each group of motorcycle taxis to use the same color of chassis, and the entrepreneurs to wear the same uniform that identifies them as members of each association.

The supervision and support of the local municipalities has managed to create whereabouts in different geographical points and special routes for the motorcycle taxi service in each district where they operate.

The motorcycle taxis have positioned their operations on the outskirts of the city, mostly in the cones: especially in the densely populated East and North cones, that is, more than 7000 vehicles operating each. With regard to districts, San Juan de Lurigancho, with 2,616 motorcycle taxis, is shown as the one with the largest fleet of units; followed by Comas (2,561 units), and San Juan de Miraflores (2,200 units); being the three districts with the highest number of motorcycle taxis in Lima.

Since in most of the districts of the periphery of Lima the people live in areas of difficult access, such as human settlements located on the slopes of the hills, the motorcycle taxi service is more than necessary to transport and link people from their homes to the city's mass bus transportation system.

## Cone-mototaxis population



In conclusion, the motorcycle taxi service in Lima and Callao works as a complement to regular public transport, since it covers an unsatisfied demand for mobility, of short stretches, by the conventional system on the outskirts of the city; Likewise, this small business unit has become a relevant source of income for a large number of entrepreneurs and their families, which range between 23,000 and 60,000 motorcycle taxi entrepreneurs throughout Lima and Callao. It is also confirmed that this motorcycle taxi company expanded and positioned itself on the outskirts of Lima, thanks to the disorderly growth of the city, the result of invasions and migrations from the province, which led to the development of populated centers without access and services. of sufficient transports.

Just as motorcycle taxis have conquered the peripheries of Lima and Callao, they have also positioned their operations in the various provinces of the country, consequently generating employment and economic well-being for many families, through business units that provide transportation and mobility on linear motorcycles.

### 2.7. Micro-business mutual funds

Collective savings or mutual funds for microentrepreneurs are born out of the need of many low-income entrepreneurs who do not manage to be subject to credit and be able to receive a microcredit; for this reason, mutual funds or collective savings mean a collective self-financing mechanism for micro-enterprises.

Different groups of micro-businesses from the same sector come together and form an association in order to collect funds from their own members in order to generate their self-financing in this way. These groups opt for this self-financing mechanism since they have repeatedly found it difficult to obtain microcredits, because many of them do not have any guarantees and are not, in addition, subject to credit. Thanks to the creativity that low-income entrepreneurs have, they have been able to develop this special associative savings and self-financing system.

The collective fund consists of the modality where microentrepreneurs can acquire their assets and work tools for their microenterprises via daily, fortnightly or monthly contributions from associated entrepreneurs, as established by the members of each entrepreneurial business association. Through the collective fund, entrepreneurs can even schedule their purchases in advance.

In all collective funds, each association of microentrepreneurs of any business category designates a treasurer within the group, who manages the funds collected and saved; however, currently the modality is that this fund can be deposited in a savings account of the same association in order to generate greater security and trust for all members and to also earn a certain interest in the financial institution.

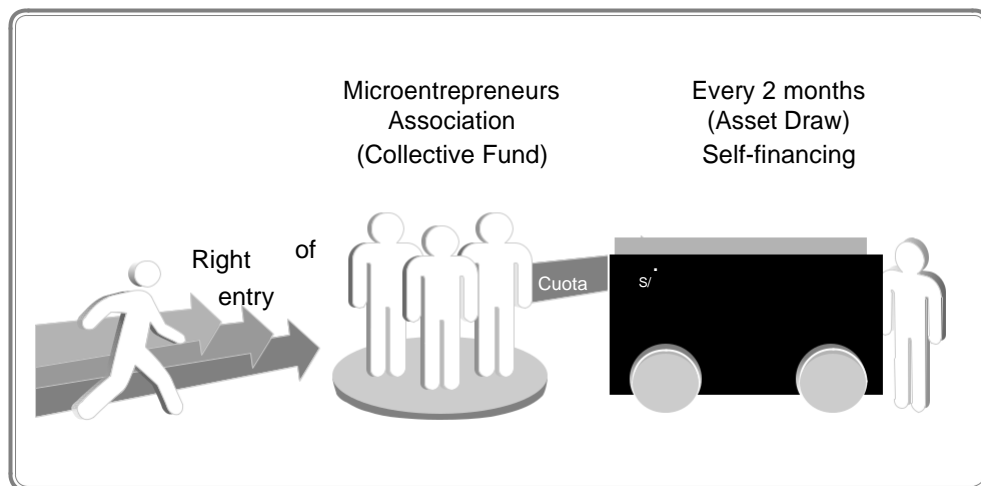
The Association of Microentrepreneurs, in its respective assembly, decides which asset or tool to acquire; Likewise, what will be the monthly fee to be contributed by each partner to generate the collective fund or communal savings, in order to be able to raffle this saved fund every certain number of months in order for the entrepreneurs to be awarded the asset or the amount of the initial fee of the work tool, and, thus, successively so that it corresponds to all the members of the association who continue to contribute their fees over time.

The benefits of microenterprise mutual funds are as follows:

- Lowers investment risk.
- Generates financing for low-income entrepreneurs who do not have access to traditional credit or microcredit.
- There is no need for the entrepreneur to require a guarantee.

- It is possible to make a scheduled purchase in advance of any work tool, asset or supplies (machinery, motorcycle, premises, raw material, automobile, work tools, stands, etc.).
- Collective funds avoid the high interest rates of some financing from financial institutions.
- Placing the collective fund in a bank account generates an interest income accumulated in savings.
- Works as a directed savings or mutual fund.

#### Collective fund dynamics



##### 2.7.1. Taxi drivers' associations

An exemplary case of the application of collective funds is the one usually used by taxi drivers' associations, in which a certain number of these workers are grouped in order to be able to produce their own collective savings in order to be awarded the initial fee for their units, vehicles, and in this way be able to self-finance their work tool thanks to the collective contribution of all the taxi drivers of the association.

Taxi drivers are grouped into groups or associations of 30 to 80 people. Each group is an independent collective fund; they constitute

a legal person through the association modality, and they open a bank account to deposit the collective savings of the members, where each member has an identification code. In addition, the taxi drivers in their respective assemblies agree on the amount that each of them will contribute daily — frequently they contribute ten soles a day, which allows them to raffle the initial quota of the assigned vehicle every two months to the raffled taxi driver — and they will continue to pay their contributions themselves until they finish paying the entire car.

Among some of the groups of taxi drivers who have opted for this type of collective savings are the Effort is Success Association; the God is the Light Association; the Mano de Dios Association, which is the most successful and pioneering; among many other Associations that have been formed for the same purpose of self-financing their business units (automobiles).

This modality has helped many of the entrepreneurs at the wheel to achieve their dream of owning their own cars without having to go to any financial institution. Likewise, it has helped to generate a culture of saving in the lifestyle of taxi drivers, something that is not very common in these microentrepreneurs. The fact of being the owner of the asset gives many benefits such as getting inserted into the financial system, assigning it as a guarantee, having an asset to be able to inherit it from predecessors, including renting it to a third party in a situation that implies preferring to dedicate to another deal.

The modality of collective funds has been adopted by many groups of microentrepreneurs from various productive and business sectors, such as agriculture, handicrafts, fishing, footwear, commerce, winemakers, restaurants, among many others.

Thanks to this collective self-financing mechanism, groups of micro-entrepreneurs have been able to acquire their own agricultural plots, market stalls, stands, artisanal fishing boats, textile machines, motorcycles; among many other assets and work tools that have allowed them to generate the necessary profitability for their microenterprises.

Collective funds have been a way widely used by the diverse low-income communities in India, Asia, Africa, and other underdeveloped regions and countries, to generate collective self-financing for innumerable low-income people, and thus allow them to insert them into the economic business society, manage to stimulate their respective local economies and contribute effectively to reducing poverty.

In summary, microenterprise mutual funds are presented as one more solution to poverty and an attractive alternative to generate wealth through the delivery of assets and work tools to so many entrepreneurs who have chosen a culture of savings associated with entrepreneurs who bet for the same business and business sector.

## 2.8. Microinsurance in microfinance

Low-income entrepreneurs are exposed to thousands of different risks. Most of the time, to enter into business activity, they risk all their family assets and savings in order to continue, outside of all the external risks that the business market itself already implies, and external factors that always generate latent risks, such as climatic, economic crises, regulations, political, social, claims, among many other aspects that increase the imponderables in socio-business activity. Most of these entrepreneurs lack health and life insurance, which makes them even more vulnerable than everyday risks. Therefore, an oversight or an eyelash in the lives of low-income entrepreneurs can cause great and permanent consequences, since they live on the verge of being constantly trapped by poverty.

The high level of risk with which low-income entrepreneurs live has caused them to lack access to insurance services. For this reason, formal insurance services of various kinds are very rare among low-income entrepreneurs. They do not have access to health, climate, asset, life, livestock, or merchandise insurance; which are safe standards offered for other socioeconomic sectors.

Microfinance has identified a great opportunity to reduce the risk levels of low-income entrepreneurs by attaching microinsurance services as part of microcredit. Consequently, these entrepreneurs

will be able, thanks to reasonable and economic premiums, to insure their lives, health, their assets (machines, livestock, crops), businesses, among many other factors. An effective solution for a large number of entrepreneurs in poverty would be to safeguard them through economic and fair insurance for their economies. Microinsurance channeled through microcredit has the appropriate market platform for its efficient management and supervision. Microfinance institutions currently offer microinsurance to their clients through their financial products, thanks to the fact that they have a good relationship and permanent communication with low-income entrepreneurs.

Obviously, microinsurance is offered by financial institutions as a protection and risk reduction option for low-income entrepreneurs, on a voluntary basis. Microinsurance is slowly penetrating the minds of entrepreneurs as a necessary solution to the high levels of risks with which they have to live daily; likewise, they are gaining the credibility and trust of entrepreneurs over time.

Microinsurance has been a solution adopted by several underdeveloped nations, such as India, Africa, Asia, and Latin America; in most cases through their respective microcredit systems. However, sometimes microinsurance has been provided by the states of these nations as temporary subsidies, through public funds, in order to give low-income entrepreneurs, the opportunity to have financial support to acquire the premiums of their respective microinsurance.

The combination of microcredit and microinsurance in different societies reproduces an economic multiplier effect, contributing substantially to reducing poverty.

## 2.9. The feminine side in microfinance

Through the evolution of microfinance, in underdeveloped countries, the female sex has been identified as the one with the greatest acceptance, commitment and responsibility in the face of the granting and provision of microcredits. This feminine factor of

Microfinance was confirmed by the World Bank, by various financial entities, non-governmental organizations and also by the Nobel Peace Prize winner Muhammad Yunus, when he established the Grameen Bank, a bank made up primarily of women; 95% of its members are low-income women

that they committed to microcredit as a tool to transform their lives and emancipate themselves from poverty. This factor was also identified in the same way in Africa, Asian countries such as India; also, in Mexico and in all Latin American countries.

Women were constituted as better payers than men and, that, in addition, the use of microcredits had a much greater impact on their prospective families. It was found that in the societies with high levels of poverty the woman is the best administrator of resources, transferring benefits automatically to their families. The priority of women, when they commit financially with the aim of improving their economies, is in their respective children: in their education, health and well-being future. This reality does not detract from the existence of men who are very good apayers and who obviously also think of their families; however, the balance of statistics leans towards the feminine side as the most compliant in their financial commitments and with a great culture of savings and planning.

In identifying this factor, financial entities focused their goals on placing economic power in the hands of women, in the various underdeveloped societies, as they were more responsible and concerned about the social and economic development of their families.

Currently, women are the main recipients of microcredit; These women constitute 74% of the 20 million people who have accessed the financial system through microcredit. Most of these women gain access to microcredit to invest in their own business initiatives.

The fact that microfinance has channeled the vast majority of microcredit to women has benefited the promotion of a culture of entrepreneurship among women who did not previously have it. In the case of our country, Peruvian women present themselves as the most enterprising in the region in



comparison with men and other countries in Latin America. Currently, Peruvian women have the highest rate of entrepreneurship, managing to lead and manage 44% of companies in the country. However, due to the responsibilities of women in the care of the home and the upbringing of their children, they adopt flexibility in business, distributing their daily agenda between household chores and their business activity.

In sum, microcredits and collective self-financing tools have been providing leverage and financial relief to thousands of thousands of low-income entrepreneurs who are gradually disengaging from poverty, arriving at a better lifestyle. The permanent opening of new agencies of microfinance financial entities, such as municipal savings banks, EDPYMES, among others in rural areas, manage to boost local economies and reduce poverty.

This financial model adapted for microenterprises has generated the appropriate platform that contributes to entrepreneurs becoming owners of their own assets and work tools, and in turn building their credit histories.

The behavior of entrepreneurs, honoring their financial commitments, gradually manages to self-generate a culture of savings and economic planning that offers them many benefits for the future. Similarly, insertion into the credit system promotes the formalization of micro-enterprises.

Microcredits work hand in hand with microenterprises, since the microfinance system must know in depth and detail the operations of microenterprises; and each time the financial products are mutating and adapting to each reality of each microenterprise in particular.

We know that today's emerging economies are based on socio-business tools, such as microenterprise and microcredit. This is because these new and small business initiatives group together, innovate and restructure local economies, and influence the development of sustainable production chains.

Microcredits are the financial catalysts that enable the inhabitants of the peripheries and marginalized areas to enter, with a small working capital, the economic system from which they were excluded.

The inclusion of low-income entrepreneurs in the financial system has led to the development of collective self-financing, generating mutual funds for various associations of micro-entrepreneurs, thus managing to build collective savings communities to obtain assets and work tools on a regular and orderly basis.

Likewise, microfinance has managed to help entrepreneurs reduce the level of risk with which they live; thanks to the offer of various microinsurance for their respective microenterprises. These caring and inexpensive microinsurance builds greater protection and confidence for your future financial projections and investments.

Additionally, it was established that the microcredits channeled through women directly impacted their respective families, since the feminine side had more projection and concern for the future of their next generations than the men themselves. Women presented themselves as the best administrators of economic funds, so most microcredits are concentrated on the female side.

Microfinance banking is crucial for the monetary flow in the various economies, generating dynamization and circulation of money; if this monetary flow is reduced or stopped, the respective economies go into crisis; generating unemployment, commercial debacle and poverty. The flow of money is the blood source of a society's economy.

Undoubtedly, microfinance has become a financial economic solution for microenterprises in emerging economies in the different continents, since it has provided them with the capital necessary to enter the commercial business market.

Consequently, microcredit is not only a tool that generates income and wealth for entrepreneurs; it is undoubtedly a solution for poverty.



## Microfranchises

This last chapter presents the third micro-solution to poverty, which cites collective entrepreneurship through the generation of a microfranchise network. As we have been able to observe in the two previous chapters, the development of micro-enterprises has occurred in a massive way in various productive sectors; This revolution has generated a disorganized and atomized growth of business units. Consequently, the microfranchise emerges as the organization and association tool for the different micro-enterprises of each productive category. Microenterprises, thanks to the microfranchise tool, can generate sustainable growth, since it is a multiplier effect that develops exponential economic growth through the cooperativity of all the microenterprises that are part of each microfranchise network. Likewise, microfranchises promote formalization, urban planning and commercial growth of the various societies. The development of microfranchises has led to the reorganization of small business units in different underdeveloped countries, allowing the formation of sustainable micro-businesses, contributing considerably to poverty reduction. Consequently, the application of the most successful business model worldwide, "the franchise" on a micro scale, is the most efficient tool today to create thousands of self-sustaining microenterprise networks in emerging, underdeveloped societies.

### 3.1. Microfranchise

The microfranchise is a business model that consists of developing a platform for collective entrepreneurship of micro-businesses from the same business category; allowing to standardize through manuals and processes the structure

of each of the business units, which will share and use the same common brand.



The microfranchise is an organizational tool for microenterprise networks, since it contributes knowledge and processes, from how to produce the product, to how to deliver the product to the final customer. Through the application of the microfranchise model, a simpler and more practical way of replicating each business in each business and / or industrial sector is projected.

Each microfranchise network is made up of entrepreneurs committed to entrepreneurship in the same business, through each of their businesses that promote and use the same brand, achieving a business symbiosis, where each helps the other, and vice versa, to together achieve the business objectives outlined as partners of the microfranchise network.

Each member of the network is granted the license for the use and exploitation of the common brand, which will have internal parameters and rules for the respective use and maintenance of the same.

Within each microfranchise network, the percentage or royalty that each member belonging to the network will have to contribute monthly is established, for the profitability generated, for the collective support received through the brand's training, advertising and marketing programs. common; They also define the right of entry for new members who wish to join the network.

The microfranchise works hand in hand with microcredit, thus generating specific financial support and leverage for each microfranchise network. However, the initial investment channeled through microfinance to acquire

the assets or work tools to form the microfranchise are financed through parameters according to the sector of each business.

Furthermore, the development of microfranchises in a society democratizes business initiatives, since it reduces and counteracts the existence of monopolies allowing free price competition. Therefore, it could be said that microfranchises configure a business model that de-monopolizes the market and achieves the inclusion of various business units in the same market.

The development of microfranchise networks allows the rapid expansion of small businesses, and the dominance and positioning in the market, since they generate a community of small self-sustaining business initiatives, replicating the same format in each geographical point.

Each small business with a business activity takes advantage of the resources and skills of the network's entrepreneurs, and expands through the community conquering new markets. The objective is to package small businesses creating manuals, processes, specialized training programs, and flow charts, and then replicate them in different markets, where each microentrepreneur, owner of his or her own microenterprise, generates a strong impact on economic development. Promote the multiplier effect, creating new businesses.

Microfranchises develop microenterprises or small turnkey businesses for low-income entrepreneurs; in this way, each new member of a microfranchise network finds an already structured and packaged business ready, simply, to operate it according to the respective manuals and processes.

Standardization through manuals and processes, and the associativity of collective enterprises facilitate the application of electronic and virtual technology to microfranchise networks.

This collective entrepreneurship tool enables low-income communities to generate business economic opportunities that, even without necessarily having a great entrepreneurial spirit or technical ability, can still develop and operate a structured and successful business.

The development of microfranchise networks has contributed to the economic development and poverty reduction of various countries in Africa, Asia, India and Latin American countries. In our country, three years ago, this tool has been dabbling and successfully applying it in various emerging sectors.

### 3.2. The benefits of microfranchises

There is a range of benefits that microfranchises provide to underdeveloped societies. However, the most prominent are:

- reduces poverty;
- generate employment;
- generates a multiplier business effect;
- improves the quality of life of the microentrepreneur;
- standardizes the production of the provided product or service;
- generates greater brand prestige;
- generates new micro-business ideas;
- permanent training;
- formalization of microenterprises;
- decentralization of microenterprises;
- market growth and expansion;
- acquired knowledge (know how), shared among entrepreneurs;
- generates prestige and image of micro-enterprises;
- intellectual property protection;
- access to new markets;
- cost optimization;
- standardized processes and systems;
- common benefit and risk reduction;
- access to capital markets;
- promotes standardized and uniform production;
- brand development and national identity;

- supports and pushes the economic development of societies;
- generates collective financial leverage.

Without a doubt, the development and application of microfranchises in any society guarantees potential economic growth and reduction of poverty levels. Therefore, the application of this sustainable collective entrepreneurship tool has contributed to improving the economies and status of so many micro-businesses on different continents.

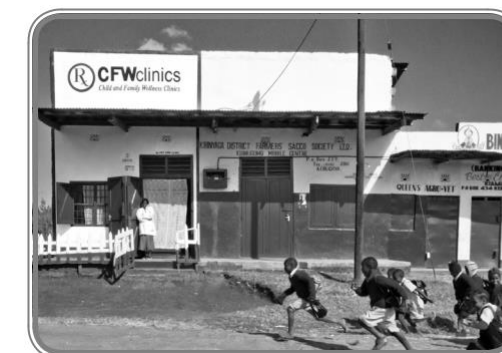
Emerging countries have been able to achieve sustainable economic development thanks to the empowerment of their business initiatives, protecting their properties and assets, generating microfranchise networks.

Among some success stories, we can mention the creation of the Milk Fan Ice Cream Microfranchise Network on the African continent; specifically, in the country of Ghana, where 10,000 young microentrepreneurs gathered, who chose to use their own bicycles as a work tool; these were all painted on



blue color and they adapted a small freezer compartment to transport and keep the ice cream they made in their own houses. These compartments had the brand name of the Fan Milk ice cream, and each of them wore the same white uniform, which had the Fan Milk brand name embroidered which characterizes and identifies them as members of that microfranchise.

Another particular case on the African continent, in the country of Kenya is the creation of the Microfranchises of CFW Small Pharmacy Networks Shops, where mothers were trained of human settlements, until they became pharmaceutical entrepreneurs and could operate their small pharmacy; each of them counted



with the same format, standardization of pharmaceutical products and customer service. In this pharmacy microfranchise, 65 small business units were created, operating in various communities, contributing substantially to the reduction of malaria in their respective populations.

Another case to cite is that of the Mechanical Entrepreneur Microfranchises in the rural communities of Suriname, where a network of micro-franchise service for motor mechanics and sale of spare parts has been developed, generating 60 micro-enterprises. This network of sustainable microenterprises provides mechanical service to remote areas. It also provides a service solution to remote locations where transportation is crucial to the lives of citizens of local communities. The business model consists of workshops for the repair of engines (boat engines, generators and water pumps) in rural communities in the interior of the country. The network will be based on authorized service workshops, thanks to the design and financing of the Yamaha brand.

### 3.3. Microfranchises and their characteristics

The format of a microfranchise network has the following basic components:

- **Franchisor.** He is the entrepreneur who developed the first small pilot business unit, which was the basis of structure and replication for the other micro-companies of each microfranchise network, maintaining the same brand, processes and operation and service manuals. This first business unit accumulates the acquired knowledge and manages to establish the business learning curve and then replicate it as an incubator in the other micro-businesses in the network.
- In certain cases of associations of entrepreneurs of the same category, the current steering committee acts as franchisor or administrator of the microfranchise network. The franchisor develops the franchise agreement for the franchised members of the network with its respective clauses, determining the internal rules, use of the brand, royalties and right of entry.
- **Franchisees.** They are the partners and members of each microfranchise network that have been joining the network, providing their right of entry and committing to operate their respective business units based on

established manuals and processes. Also complying with brand usage regulations, and contributing the monthly royalties established in the microfranchise network.

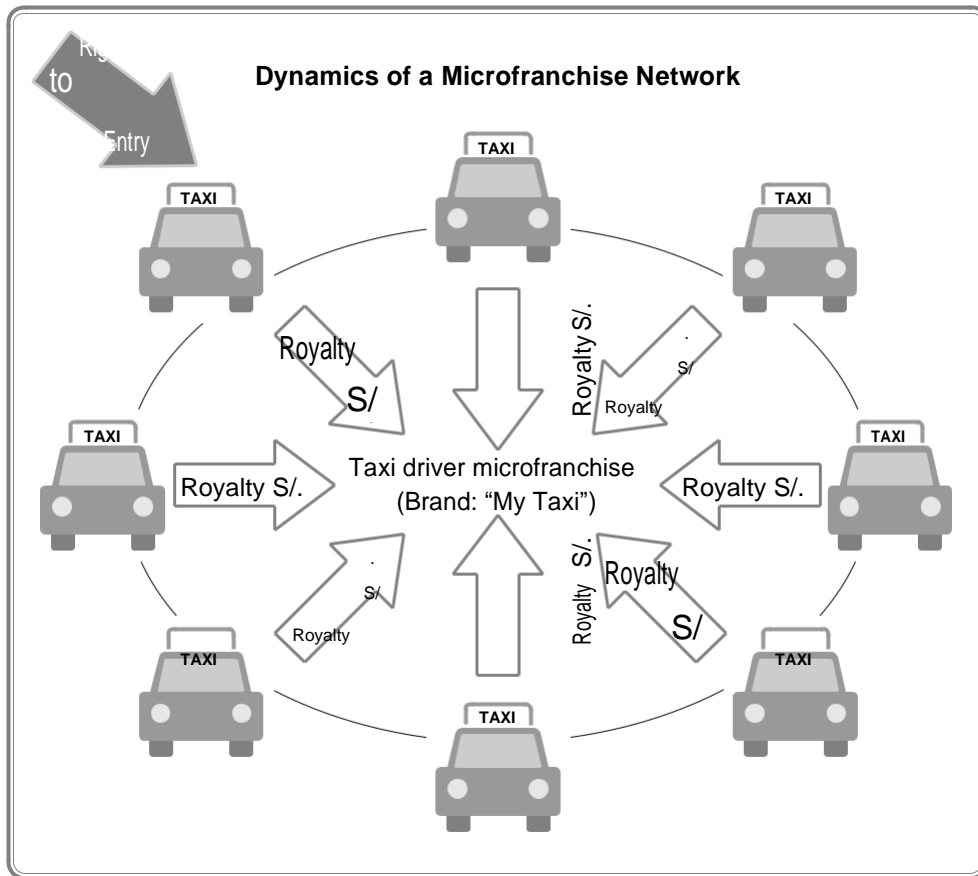
- **Brand.** It is the distinctive sign of collective entrepreneurship, whether it is a product or a service, which generates its own identification of entrepreneurial initiative in the market. That mark will have to be registered and patented; likewise, it will have a regulation of use for all members of the microfranchise network.
- **Association of entrepreneurs.** Each microfranchise network must have a group of entrepreneurs dedicated to the same business activity, legally registered as an association in the respective public registries; Thus, each association will have a board of directors made up of a president, a vice president, a secretary, a treasurer, a prosecutor and a member. Likewise, each association must define its respective general assembly, which is the highest organ of administration and government of the association; This will be constituted by the meeting of the members who are up to date in their monthly financial obligations duly called. That meetings or sessions will be directed by the president of the board of directors or his respective representative.

Each association must establish their respective internal rules and regulations of association to maintain an order based on the manuals and processes of the product or service that they offer in the market.

Likewise, each association of entrepreneurs must design and formulate training programs for the franchise network, in order to grant the respective maintenance of business standards.

- **Geographical scope.** It defines the scope or geographical limit in which each respective microfranchise network can operate. It also contributes to achieving territorial protection for each small business unit, and thus sharing the market in an orderly and systematic way.
- **Right of entry.** It is the amount defined by the association of entrepreneurs, which will be the payment of income for each partner or new member who wants to be part of the microfranchise network.

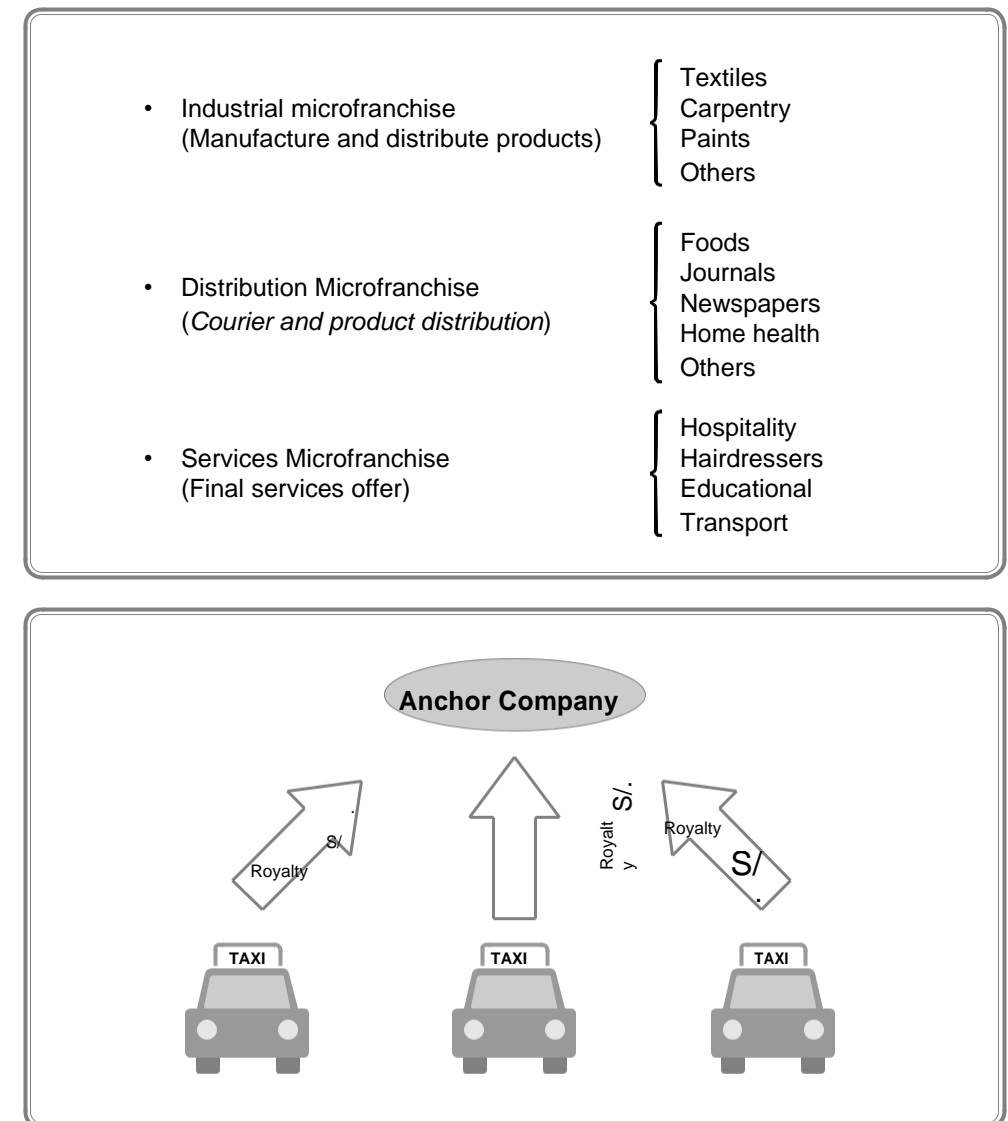
- **Royalty (royalty).** It is the monthly payment that all members of the microfranchise network have to pay to their respective association, for being an affiliate, for having the right to use the brand, for having obtained the business operating knowledge of the business and for receiving all benefits of training, advertising, business support, among many others. This royalty is defined as a percentage of the monthly profitability of each small business unit.



When looking at the graph of the dynamics of the microfranchise networks, we can mention that they generate a business symbiosis, where each of the members supports each other, and all help to achieve the business objectives of collective entrepreneurship. The benefits are adherent both for the association of entrepreneurs as a whole and for each entrepreneur and business unit.

Each microfranchise network applies a decentralization strategy, conquering new geographic markets without neglecting cultural adaptability to each market. All members of the network access training programs on how to run the business, notions of accounting, customer service, among many other tools that support maintaining their own business with high potential for success.

### 3.4. Types of microfranchises



Some criteria to start the replication process of a micro-business, and to create a network of micro-franchises, are based on having value-added ventures to satisfy needs in different geographical points. Likewise, microenterprises must provide basic services and products such as food, lodging, maintenance, etc.

It is crucial that small businesses are small capital and with a small number of collaborators. Also, that they have simple and well-structured processes, and simple logistics. The technology applied to each microenterprise must be geographically transferable. The brand of the microfranchise network must be sociable, with a cultural-global identity, and easy to remember.

### 3.5. Associativity through microfranchises

We know that in our society, as in other underdeveloped countries, a great business economic revolution has been generated, with exponential expansion of microenterprises; however, unfortunately this growth has been carried out in a fragmented and atomized way, without any order or planning; For this reason, the microfranchise model is presented as the best association and organization tool for so many existing small business units that are dedicated to the same business or activity.

Knowing that microfranchises are a network of micro-enterprises of collective enterprises, associativity is a primary factor of internal structure for each microfranchise network. The micro-franchise is the best way of associating for the micro-businesses of the same heading since they are organized creating a platform of processes and developing a common brand in order to replicate within a respective market.

This association builds a business symbiosis between all members, contributing to achieving greater production and supply capacity in the market, and greater negotiating power with suppliers and customers.

By belonging to a microfranchise network, each entrepreneur operates his microenterprise for himself; This means that each entrepreneur is his own boss and owns his own business. However, it receives the permanent support of all members the network and the brand franchisor.

The associativity that contributes to the development of microfranchises greatly helps to increase the profitability and productivity of each micro-enterprise that makes up the Network.

In each microfranchise all members commit time and resources to develop a collective business system, where they collectively take and take risks, to acquire assets and work tools, and thus create profitable and sustainable micro-enterprises.

Therefore, the microfranchise model is a mechanism where micro-businesses train other companies within a shared and structured business network with common goals and benefits. It is the great potential of micro-franchises as a tool for economic development, since they create waves of entrepreneurs that train new entrepreneurs, using successful business models for an initial investment amount accessible to a greater number of people in society.

We know that worldwide there are different associations and cooperatives of producers of different products and services; However, the application and adaptation of the microfranchise model to these associations and cooperatives generate a real association, which provides sustainability and solidity in the market. Microenterprise entrepreneurs meet in conglomerates or clusters that have the same specific production or service in the market.

In our country, microfranchises are shown as the best associative mechanism for the many micro-enterprises that operate in isolation in the various productive and commercial sectors in Peru, since through the application of microfranchises a standardization is established of the commercial, productive and management processes, using the same brand in common in the market. This generates that the productive capacity increases in each network of microentrepreneurs, and that they offer quality products on a large scale.

The microfranchise is the best way of associating for the micro-enterprises of the same heading, since they are organized and create a platform of processes and manuals, developing a common brand in order to replicate within a respective market. At the stage of development of this unique brand, for each specific microfranchise network, it is possible to identify innovations and characteristics that generate unique values for the network, which are part of the franchise structure. This brand, with its characteristics and unique knowledge, motivates other micro-entrepreneurs to be part of the network as microfranchisees and, in turn, form part of the image position in the market.

In our country, the level of association is closely linked to family participation in business initiatives, although it is true that associations and cooperatives have tried to obtain the welfare of their members over time; in urban and rural areas "the extended family" has become a network of commercial or productive relationships; Economic entrepreneurial activities carried out between cousins and uncles are now the normal feature at the family business associative level.

#### 3.5.1. Veguetano yogurt producers

In the Vegueta district, in the province

of Huaura, Lima (fifteen minutes from the city of Huacho), four associations of yogurt-producing joined and formed a Microfranchise. That microfranchise, At present, is conformed by 16 enterprise Women which produce artisan strawberry Yogurt with the Yogurt Vegueta Brand.



Before establishing the microfranchise, each association produced yogurt in isolation and had its own forms of production process. Now, when they are united, the four associations produce in a standard way, that is, they use the same inputs and apply the same way of processing artisan yogurt. The fact of grouping in a microfranchise network has allowed them to increase their production from 370 liters to 500 liters of yogurt and thus expand their market. The microfranchise is currently in the stage of expanding its distribution point channels with new sales positions strategically located in the district and surrounding cities before establishing the microfranchise

#### 3.5.2. Ichimay Wari Ayacucho Artisans

An interesting case to cite is that of the Ichimay Wari Microfranchise Network of Ayacucho Artisans, which includes an association of fifteen artisan entrepreneurs who migrated from the province of Ayacucho to the capital; they work inherited crafts from pre-Inca times. This microfranchise network, through the Association of Artisans, has contributed to the development of each of them and to their local community in the Lurín Valley neighborhood.

These artisans have organized in a very peculiar way, through which they manage to increase production capacity, each working from their own workshops in their respective homes. This has allowed them to start exporting their crafts to various countries.



The unique way to identify as a community association in the Lurín artisans' neighborhood has been to paint the facades of their homes (family workshops) uniformly to identify the brand and image of the Ichimay Wari Artisans Microfranchise. This peculiar way of identifying has also had a strong impact on local tourism. This great initiative has managed to strengthen and contribute positively in its community, and generate greater economic activity for the benefit of all the inhabitants.

#### 3.6. The evolution of microfranchises

As mentioned above, microfranchising is the most successful application of the business model worldwide, for the benefit of micro-enterprises. The microfranchise model has been developing and applied for approximately six years in different underdeveloped countries, such as those located in Asia and Africa; similarly, in Latin America.

Various universities have investigated, analyzed and improved this tool for collective entrepreneurship in different countries, obtaining great results in poverty reduction and business economic development in various societies.

Institutions such as Brigham Young University, located in the state of Utah, United States, through the Marriott School of Management, has promoted and disseminated the microfranchise model in different continents through its

advisory committee consisting of Jason Fairbourne, Kirk Magleby, Steve Gibson, and other college students.

The first franchise that ventured into Peru was the Kentucky Fried Chicken fast food chain, in 1981, with great acceptance in the local market. However, it would be in the first years of the 90s that the economic situation allowed the spread and opening, in a massive way, to foreign franchises in the national market. That is how they then opened their doors: McDonald's, Burger King, Pizza Hut, Blockbuster, Tony Roma's, Domino's Pizza, Dunkin Donuts, among others.

Seeing the expansion and commercial success of foreign franchises in our society, the first Peruvian franchises began to appear in the market, such as Bambos, Mediterráneo Chicken, Pardo's Chicken, La Romana, Pastipizza, Rosatel, Marco Antonio, La Mar, Bohemia, etc., the vast majority of franchises in the gastronomic sector and others in the optical, educational centers and handicrafts sectors.

Currently, the Peruvian franchise market is characterized by being concentrated in the gastronomy sector with a 68% share (6% *fast food* formats), followed by the educational sector with 10%; and then by the sectors of handicrafts, aesthetics, hardware stores, coffee chains, juice shops, among others.

Since 2000, thanks to the country's economic growth, an evolution and development of Peruvian franchises has been generated; however, it has not yet managed to have a massive impact on the entire national business sector. Currently, the low number of companies that have chosen to apply the franchise system as a way to consolidate and expand in our market is highlighted. There is a lack of promotion and dissemination of the application of this successful business model in the economic environment of society in general.

Peruvian franchises have only managed to establish 417 units, of which 65% of them are located in the capital, 20% have managed to internationalize and only 15% have been able to expand to provinces, being the chosen ones: Arequipa, Ica, Piura, Trujillo, Cajamarca, Cusco, Chiclayo, Junín, Ayacucho and some regions of the jungle.

The current business situation in Peru shows that 95% of companies are micro- and small, which is why our country shows itself as a potential market for

Small franchises. Likewise, the country's economic situation shows an economic market prepared to expand this commercial formula in a massive way in the capital and provinces through the development of microfranchises.

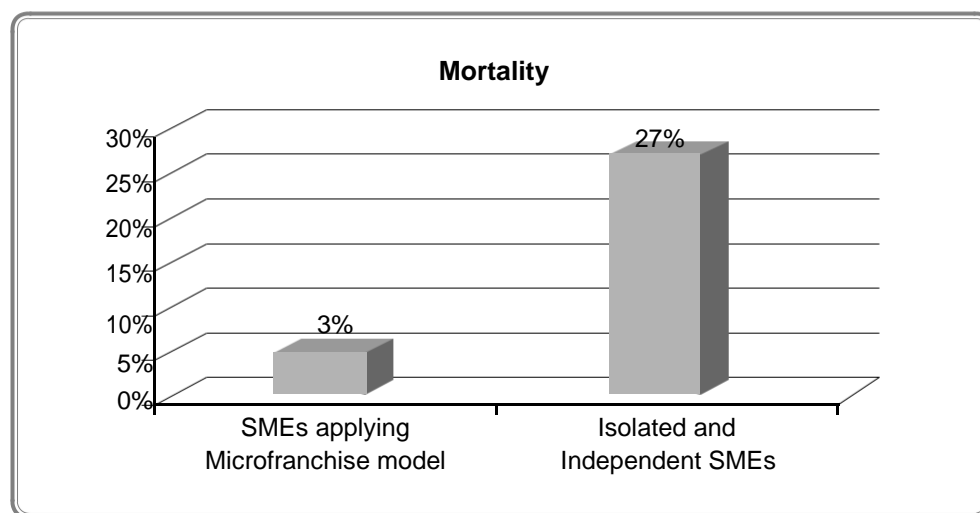
The foray into the microfranchise model in Peru began four years ago with different successful cases, in different business sectors, with a great socioeconomic projection throughout the national territory, helping to formalize, organize and grow so many business initiatives. This development and expansion of microfranchises has gone hand in hand and supported by the country's microfinance; granting the necessary financial platform to provide the necessary assets and tools to the microenterprises that make up each microfranchise network.

### 3.7. Market insertion through microfranchises

As we have been mentioning during this chapter, the underdeveloped countries have experienced a great revolution and expansion of microenterprises in their respective societies; This growth, however, has led to a disorganized and fragmented geographical distribution and location of the same in the market. These micro-companies, for the most part, have been growing in isolation and without any type of planning.

Also, opening a business through the microfranchise model is one of the surest ways to start and achieve sustainability in the market. Statistics reinforce this statement, since small and micro-enterprises that start and operate in isolation and empirically have a mortality of 27% in the first two years of existence; however, the mortality of small business units that have applied the microfranchise model only reaches 3%, the first two years.

Many micro-companies find it very difficult to access the market efficiently, as they do not have planning and knowledge of their respective market segments. Through the microfranchise model, a location of the business units is carried out strategically, achieving territorial market protection for each micro-company; In this way, they do not compete with each other and actually manage to offer their products or services to each of their respective market demands.



In addition, through microfranchises, entrepreneurs who are in the first stage of the production chain of a service or product can gain access to the market through the placement of modules, stands or mini-locations strategically located to offer their final products or services to the market; in this way, closing the circle of the value chain, a fairer and more united trade is achieved.

### 3.7.1. Puma Coffee growers



The Association of Producers of the Central Café & Cacao have designed the Puma Coffee Microfranchise Chain, made up of 9,130 entrepreneurial coffee producers, located in the Huánuco, Junín, Ayacucho, Cusco and Puno regions. The Puma Coffee microfranchise has allowed the products of rural entrepreneurs to access the market

in the best, fair and supportive way, showing all its benefits and splendor to the domestic market. Consequently, at Puma Coffee you can see a shared work where all the actors in the production chain have invested their time and effort to offer the market a quality product. Thanks to the effort and passion of these entrepreneurs, our Peruvian coffee has been positioned in the international market.

### 3.7.2. D'Onofrio ice cream makers

The prestigious and well-known company D'Onofrio has created a large network of ice cream maker microfranchises, each of which operates its own micro-business - in this case, its truck - using a uniform that distinguishes it with the D'Onofrio ice cream brand. This large collective enterprise has generated thousands of jobs, achieving a market entry strategy with a battalion of entrepreneurs who offer the products of the same brand and in a standardized way to the end customer.



Microfranchises ensure a planned and sustainable market entry since their application generates the development of replication and cloning of different micro-companies with the same format in different geographical points of each society, and with a limited scope according to their own market segment; in this way, jobs are created for many entrepreneurs.

When locating business units in the market, they are established in kiosk formats: small carts, restaurants, small shops, modules, wheelbarrows, stands, among other versions; thus, keeping low and controlled operating costs.

### 3.7.3. Gastronomic microfranchises

Thanks to the gastronomic boom and the internationalization of Peruvian food, the development of gastronomic microfranchises in the country represents 70% of the initiatives of the total small franchises; For this reason, a large number of microfranchise chains have been developed in the sector, thus promoting small business initiatives with great creativity and differentiation that spread and promote Peruvian food by associating and expanding in different geographical points in the market with their respective brands. Currently, there is a great boom in gastronomic modules, mini-restaurants, grocery stores and fast food format stands where they offer various meals and snacks, such as anticuchos, picarones, grilled chicken, ceviche, sandwiches, desserts, corn, among other Peruvian varieties. This format of gastronomic microfranchises has had exponential growth thanks to the low investment required and the high rate of return they generate in the market.



### 3.8. Insertion to credit through microfranchises

As mentioned throughout this chapter, the development of microfranchises works hand in hand with microcredit, since each business unit will have to acquire its own assets through its respective financing.

Access to the credit system is always easier if it is done collectively. Therefore, the microfranchise model makes it easier for micro-enterprises to obtain financing for their working capital and corresponding assets.

Also, in the second chapter of the book we were able to learn about self-financing through collective funds. This modality fits perfectly with the microfranchise model, which helps to generate savings for the advance purchases of each microenterprise that is part of the collective enterprise.

Access to credit for the different microenterprise networks helps entrepreneurs to start their own credit histories, and thus obtain a considerable status in the credit system of their respective companies. Therefore, each microenterprise that is part of a microfranchise network must comply with the internal rules of its own structure; but, also, it implies assuming obligations and a series of financial considerations with responsibility.

Microfranchises take measures that help reduce informality in microenterprises, encouraging migration towards formality and improving their prestige in the market. This access to formality also strengthens the entry of micro-enterprises into the microfinance system.

Since the initial investment for each microfranchise is affordable, and in most cases ranges from \$ 2000 to \$ 25,000, financing is channeled through microcredit. Usually, this is requested for working capital and to obtain the respective indispensable tools for each micro-enterprise.

#### 3.8.1. Small rural agro-industries

The concept of microfranchising has also been applied in the agricultural and livestock sector, with the aim of promoting associative development of the small plots that plant the same agricultural product. This work of collective agricultural ventures has considerably contributed to the increase in agricultural and livestock

Production in the various products, such as potatoes, rice, wheat, soybeans, corn, coffee, eggs, milk, beef, meat, among many others.

The development of these agro-industrial microfranchise networks made it possible to increase the income and savings level of the families of agricultural entrepreneurs. The application of centralized collection and the use of the same brand for each network of small agribusinesses increased their export levels. These entrepreneurs, in addition to agriculture, have been able to receive microcredits to apply efficient technology to their agricultural fields.

Since Peru is one of the countries with the lowest index of arable land per capita in the world, which means that for every Peruvian there is very little land usable for agriculture, the application of the generation of microfranchise helps and spreads the collective and associative work in agriculture, grouping and organizing an infinity of small owners. Thus, they are also included in the value chains that serve national and foreign markets.

This connection of rural entrepreneurs with cities through productive chains stimulates rural economies, creating employment and value. Similarly, associative and organized work improves their position by negotiating the purchase of seeds and fertilizers, as well as the supply of their crop production. Finally, the collective organization of agricultural entrepreneurs also enables a transfer of knowledge, skills, and access to technology and financing.



In conclusion, microfranchises, as a third microsolution, contribute to reducing poverty and stimulating business economic development in societies, since their application generates a massive replication and cloning of different micro-enterprises, maintaining the same format in different geographical points in each locality, promoting jobs for many entrepreneurs.

Also, as mentioned in this chapter, in many underdeveloped countries there is a large population of micro-enterprises that are fragmented and atomized in the market with a high level of informality; therefore, the concept of microfranchising encourages migrating to formality, operating legally and increasing the prestige of small companies in society.

The application of the concept of the microfranchise, in different societies, helps to promote brands of national value, in addition to promoting the local culture in an organized and formalized way. So that the microfranchise, in certain cases, projects a future replica in other countries, as a tool for export, promotion and cultural liaison. It also motivates the organization towards the collective action of the communities, based on their own cultural value systems. The application of the microfranchise in a society produces the interaction between the people, the market and the State, as a common object to eradicate poverty.

Microfranchises are developed and generated within a defined and pre-established legal framework, practicing a culture of compliance with legality in small business units, abiding by regulations and protecting private property. The microfranchise model applies intellectual property protections both to specialized knowledge of the business and to their respective brands; This helps to create a barrier against piracy, which, as we know, constitutes an endemic evil in many of the societies of underdeveloped countries.

Many microfranchise networks organize into associations and cooperatives of entrepreneurs to protect and promote their common interests. Research shows that humans can achieve

their highest levels of productivity, personal satisfaction and create wealth when they really work cooperatively; therefore, the microfranchise tool is the best form of cooperative work for collective endeavors. Collective endeavors tend to develop individual freedom, personal development, brotherhood, equality, sustainability, and operational transparency.

Microfranchises help to make value chains more competitive, generating systems that produce wealth through the development of productive and sustainable chains, injecting knowledge and financing to small and micro-enterprises, so that they lower their costs and improve their incomes. Likewise, networks of sustainable collective endeavors create virtuous cycles of economic growth for societies.

Microfranchise networks instill confidence in entrepreneurs by providing constant support; It inserts them into the market and reduces their risk, which gives them the peace of mind to save, invest, grow and expand their micro-businesses.

Compliance with regulations and discipline within micro-franchises is extremely important to maintain both the strength of the associations and the commitment and permanence of the franchisees. The members of each association pressure each other seeking to obey internal rules, since discipline and compliance will protect the prestige and position of the brand in the market.

Through the application of microfranchises, the microenterprise entrepreneur will be able to really know the operation of his business internally, designing manuals, processes, flow charts, organizational charts, among other business management documents, which will avoid the entrepreneur improvises or empirically operates his business.

In the second chapter of the book reference is made to collective funds; therefore, microfranchises function as savings vehicles since programmed retirement savings can be generated through the payment of royalties to the association; savings for health insurance and collective savings for the acquisition of assets, among others.

Microfranchises serve as a mechanism to enable low-income entrepreneurs to own businesses that generate stable income, and also provide emerging communities with access to products and services, which is why the concept of microfranchises is presented as the effective way to clone sustainable micro-businesses based on proven business pilots. For this reason, microfranchise networks contribute to provide low-income communities with basic services such as drinking water, renewable energy, communication and information technology, providing employment and large-scale business opportunities.

It is important to always remember that franchising is the most successful business model worldwide; Every minute a franchise opens in the world, therefore, microfranchises are directed to micro-enterprises. The word "franchise", derived from the English language, derives from the French language *franchir*, and means 'liberate' or 'set free'; then, over time, the meaning took on the connotation of 'empowerment'. Both terms, liberating and empowering microenterprise entrepreneurs through microfranchise networks, have generated the sustainable growth and expansion of societies.

The development of microfranchises, in different countries of Asia, Africa and Latin American countries, contributed to unfold enormous economic growth, prosperity and expansion of microenterprises in their various communities; positively impacting the increase in per capita income of the cities of these countries. In Latin America, Mexico is presented as the country that has had the greatest evolution and development of microfranchises, with great success in its various communities.

Within microfranchises, entrepreneurs build and collect their own assets with confidence, knowing that they will have capital permanently protected by the established legal framework. The inherent benefits of business symbiosis among micro-businesses that belong to the microfranchise network are primarily based on shared knowledge and infrastructure.

Thanks to the low investment to be part of a microfranchise, there is a great demand to enter its development by entrepreneurs and, therefore, the return on investment of working capital is faster.

Microfranchises are generally more successful and generate more jobs than independent microenterprises. Microfranchises tend to be less risky and more profitable than independent microenterprises, since they help increase productivity, as they are channels that promote export. Microfranchises are inclusive and democratically capitalist; distribute business property and wealth through each network of entrepreneurs.

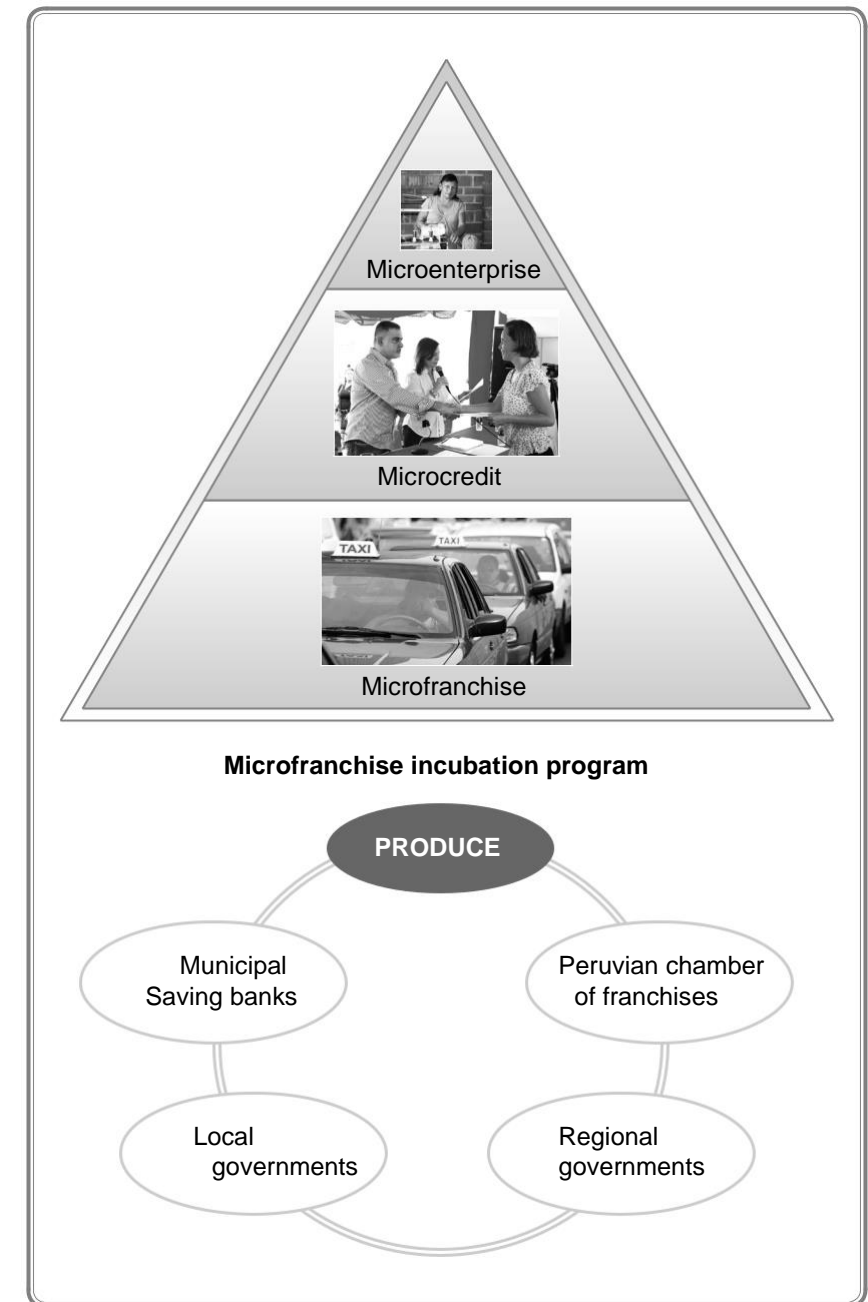
In addition, microfranchises work hand in hand with microfinance since many entrepreneurs need financing to cover their microfranchise entry rights, and working capital to build their own microenterprises. Many entrepreneurs prefer to apply for a loan to obtain a micro-enterprise already structured with their internal policies and procedures, joining the microfranchise network, than having to start an independent micro-company.

Currently, the microfranchise model is the only one that generates large numbers of associated and sustainable microenterprise networks in each community, helping to develop employment, generate economic growth and reduce poverty. In addition, the innovation of microfranchises helps to generate the supply of products and services that low-income communities need in a socially responsible way.

In the case of our country, Peru is a potential market for small franchises, since 95% of the universe of companies that operate in our country are small and micro-businesses; however, these operate in a solitary and fragmented way. The opportunities to implement microfranchises are endless for all regions of the country.

Undoubtedly, microfranchises have become the quintessential socio-economic tool to achieve efficient and real

associativeness of micro-enterprises in emerging societies, generating internal and collective order to achieve sustainability and conquest of markets. Therefore, the solution to poverty is a great possibility.



	Operational SMEs that work in atomized form produce on a very small scale and market in isolation.
Phase 1	Group them and establish them in a microfranchise network, establishing a common brand.
Phase 2	Capture the “expertise” and standardize them with manuals and processes.
Phase 3	Insertion into the credit system with microcredits.
Phase 4	Centralize needs and production, and establish a supply chain.
Phase 5	Market access with collective production and better trading conditions.

## Conclusion

This text addresses and exhibits the three micro-solutions that face poverty on a daily basis and that also generates economic development for the various emerging societies. These socio-business solutions, working in a cohesive way, establish measures to guarantee and defend property rights, expand access to credit to all sectors of the population and reform the internal apparatus of small business initiatives, democratizing it and making it more accessible to those, even today, they are excluded.

The fundamental conclusion that is highlighted in this book is that the best solutions that can be designed to eradicate poverty are really those tools that were born directly from the experience of low-income entrepreneurs trying to redeem themselves from poverty, and that it is precisely what has happened with these three socio-business tools that we highlight in this text, which have had their starting point in the actions of the same entrepreneurs. However, gradually, these same tools have evolved and adapted to the reality of each entrepreneurial initiative of the various communities, becoming real solutions.

These three socio-business tools are micro-business, which is the business entity and engine of entrepreneurship; microcredit, which provides the financial leverage necessary for the micro-entrepreneur to obtain their own assets and work tools; and, finally, the microfranchise, which is the internal management tool for business management, associativity, and expansion and insertion into markets.

Microenterprise, as small economic units that are generated by entrepreneurs to create a source of income due to the absence of work, is presented as the immediate solution for the survival and subsistence of so many low-income citizens. Most micro-enterprises lack sufficient working capital, and therefore have very low levels of productivity, which ultimately limits them to grow and expand by acting in isolation. Although it is true, the vast majority are born from informality due to improvisation and anxiety

of entrepreneurs to improve their economic situation, little by little they are migrating to commercial business legality. Consequently, these small business units have become the growth engine of various underdeveloped economies, thanks to the decision of the entrepreneurs who decided to break free from poverty in search of wealth creation; Thus, becoming the major players in the development of strong, healthy and emerging economies on different continents.

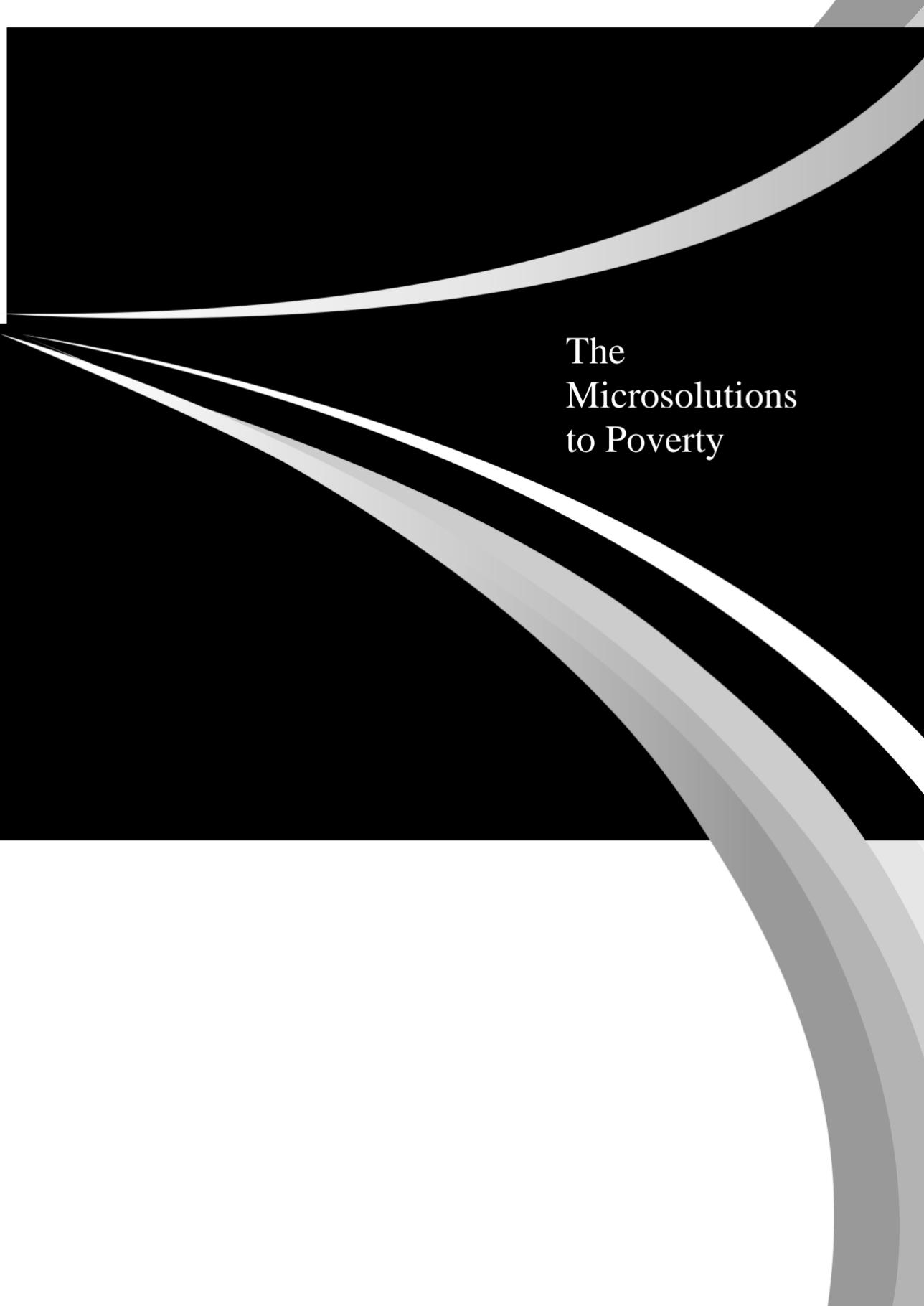
Microcredit and self-financing programs, as financial catalysts, provide economic relief to microenterprises through small loans or collective funds, which allows entrepreneurs to acquire their own assets or work tools while building their credit histories in the microfinance financial institutions. Similarly, this commitment generated between microenterprise entrepreneurs and financial institutions encourages building a culture of savings and sound economic planning. The microfinance system, in all societies, is vital to stimulate the monetary flow, in order to achieve the circulation of money; since the flow of money is the blood source of the economy of any society. In this way, without a doubt, microcredits and self-financing function as channels for micro-enterprises, to enter the business economic system.

Microfranchises, as the best tool for associating, ordering and cloning, provide the necessary solution to micro-companies so that they are truly sustainable and solid in the market. It also encourages micro-enterprises to work within a defined and pre-established legal framework, promoting a culture of compliance with legality and formality in small business units. In this way, microfranchises, thanks to their injection of associativity, develop the culture of collective entrepreneurship, creating a business symbiosis between absolutely all the members of each network. Through their application they increase the competitiveness of value chains by creating sustainable productive chains formed by associations with their own formats and trademarks. Finally, microfranchises work hand in hand with microfinance, both drivers of large numbers of associated and sustainable microenterprise networks, generating economic growth and reducing poverty in various communities.

Microsolutions to poverty, as exposed in this text, contain the key and the path to sustained socioeconomic progress for all underdeveloped societies.

Therefore, these three microsolutions, working in a unified way, include measures to guarantee and defend intellectual property rights, reduction of informality, expansion of access to credit to all sectors of the population and reform of the internal administrative apparatus. small business units, simplifying and making them more available to those still excluded from the business economic system.

These three socio-business tools guarantee free competition and encourage business creativity in the various societies. Therefore, following the path outlined by these tools, it will be the most appropriate path to achieve the economic development of all emerging societies. We are convinced that as entrepreneurs and institutions internalize and apply these solutions, we will create societies with true social and business inclusion, and we will be able to eradicate poverty in different countries.

An abstract graphic featuring a solid black rectangle on the right side of the page. From the left edge of this rectangle, several curved lines extend towards the right. One line is white, and the others are in various shades of grey. These lines curve downwards and outwards, creating a sense of movement and depth. The text 'The Microsolutions to Poverty' is positioned within the black rectangle, to the right of the lines.

The  
Microsolutions  
to Poverty

## **The Microsolutions to Poverty**

“How Entrepreneurship is Saving the Developing World”

Peru has arrived at a crossroads endowed with socioeconomic conditions that are ideal for the emergence of Microsolutions to poverty. In this book, we maintain that these business-based microsolutions include microcredit, micro-businesses and micro-franchising. We argue that together, they constitute powerful tools for eradicating poverty, both in Peru and abroad. Leveraging these tools in a complementary fashion – as inseparable pillars of a cohesive poverty-relief strategy – will set Peru on an immutable path towards sustainable development, firmly relegating poverty to the past.

The microsolutions to poverty constitute a platform that increasingly allows disadvantaged people to take ownership of their destinies. This new platform provides citizens of each and every community with the means to generate their own capital, thereby helping to lower the incredibly high levels of illegal activity that permeate Peruvian society. The platform has the additional benefit of allowing the poor to meaningfully channel the effects of globalization, transforming it into a force for inclusion and thereby promoting genuinely sustainable development.

The microsolutions to poverty also have the benefit of contributing to developing an improved system for legal documentation that prioritizes the poor, as well as a more inclusive culture of productive investment, loans and savings. The microsolutions are effectively helping transform both the labor and savings of the poor into productive capital.

The best solutions that we can offer for eradicating poverty and social injustice are those that emerge directly from the experiences of the poor; they are solutions that are born of necessity as a response and alternative to the constant limitations and barriers faced by the poor on a daily basis. This book is a reflection of the struggle to overcome these barriers. It presents the solutions that Entrepreneurs have created on their own. The book argues that the microsolutions to poverty constitute the key to sustained socioeconomic development in all societies in less developed countries. Given the focus of the book, the role of microsolutions in generating sustainable development in Peru clearly demonstrates that poverty is not the problem; rather, it is a challenging opportunity to apply creative solutions that will ultimately lead to a more prosperous, inclusive society.

### Cases of developed microfranchise projects: Andean Tiendecita Microfranchise

Structural and commercial development plan to be able to develop the growth of the “Andean Store” commercial system through the generation of the Microfranchise Chain in the Peruvian and foreign territory, for which the manuals and processes were developed, brand valorization; franchise agreement, expansion plan and training. Likewise, the constitution of the Association of Andean Suppliers Entrepreneurs was structured to manage the brand and logistics of the chain.



The structural expansion system of the brand was developed and a chain of Microfranchises was generated, calling on strategic franchisee investor partners for the capital; provinces and internationally in various countries; reinforcing the presence of the "Andean Store" at national and international level, strategically granting franchises in potential geographical areas where there is a potential market.



## Kiosks Entrepreneurs Microfranchises AJEGROUP

The "Entrepreneurial Kiosks" Microfranchise Project was directed at the network of newspaper and magazine Vending Entrepreneurs. Its purpose was to develop the reengineering of their respective infrastructures, modernize their establishment and strengthen the entrepreneurial skills of their merchants. For this, it was planned to transmit knowledge and business management tools to increase their economic and financial level, as well as accompany them in the process.



The objective is to develop a network of Kiosks with a high level of quality of service, standardized management processes, modern infrastructure and successful merchant-entrepreneurs in each of their locations, all applying the Microfranchise Model. A second objective was to improve the current status of the Kiosks and modernize it in infrastructure and technology with the support of Microcredits. Similarly, transferring knowledge and business management tools to promote them towards achieving efficiency and quality of service.

As a pilot, the first phase was carried out corresponding to the market study and registration of the Microfranchise Project "Entrepreneurial Kiosks" in the Network of 51 Kiosks in La Molina-Lima Peru district, and then replicated the project in the various districts with the support of AJEGROUP.

## Microfranchises for Entrepreneurial Supply Markets



We know that in all the countries of the planet there are the famous neighborhood markets or food markets; however many of them operate informally and without quality management processes; Nor standardized processes showing, in most cases, precarious states of their infrastructures and merchants without the commercial success they hope to have in their own communities.

We work hand in hand with the financial entity or the government bank of Peru "Banco de la Nacion" to apply the Microfranchise model to Supply Markets, both municipal and private, will develop an infrastructure reengineering, modernizing jobs, establishments and strengthening Entrepreneurial skills of its merchants transmitting knowledge and business management tools to increase their economic and financial level. We carried out a pilot project in the capital, in San Borja district, specifically with a market; generating the market study with the neighbors, training the merchants and generating a prototype design to replicate.



Meanwhile, the boom in Supermarkets in recent years affected the food markets, as customers prefer convenience, service and promotions from department stores.

However, the level of income of large supermarket chains in Peru grows more and more, but compared to Chile, Brazil, Argentina and Colombia, the percentage of growth in this regard is less in our country. (Last Year nationwide 17% -20% / from 27% -40% in the Capital).

Most Peruvians are used to neighborhood markets to buy food, but these centers are precarious and do not have efficient business management. The project will help to strengthen and modernize the supply markets so that they do not become extinct in the short term.

### Kankachos Doña Julia microfranchises

In a rural town with a high level of poverty in the heights of the altiplano in Puno called Ayaiviri known as the cattle capital of Peru; With a population of approximately 28,000 inhabitants and with a height of 3,900 meters above sea level, we applied the Microfranchise model to the traditional dish of Ayavireño –Puno, “Kankacho”, which is a roast lamb that is sewn in an oven made from adobe or brick.

The gastronomic business Kankachos Doña Julia has specifically designed a gastronomic concept based on it; Therefore, we were called to encapsulate culinary expertise in manuals and processes in order to expand it in new markets. The new microfranchise model was designed under 3 modalities: Restaurant format, Shopping Center format and Food Truck format.

We were able to achieve the brand after having managed to have a good position in Puno and Arequipa, in the south of the country; can offer their Microfranchises in the country's capital.



### SMEs Food Suppliers Microfranchises –Minera Cajamarca

In a province called Hualgayoc which is located in the heights of the Cajamarca region with a population of 120,000 inhabitants (80% rural and 20% urban) at an altitude of 2,500 meters above sea level; presenting one of the highest rates of extreme poverty level with 71% facing a situation of permanent survival struggle; illiteracy and chronic child malnutrition at the departmental level. The family income per capita amounts to the sum of 216 soles per month; slightly above half the national average indicator.



This province has a territorial extension of 785.46 km<sup>2</sup>; It comprises three districts, and has the city of Bambamarca as its capital. Initially, during the Republic, it was known as Villa de San Carlos de Bambamarca, later, on May 10, 1950, it changed its name from Bambamarca to Hualgayoc, presenting the quality of a province. This province had, in its pre-Hispanic era, settlement of the Quechua and Aymara cultures with great influence from the Wari, Chavín, Mochica and Caxamarca cultural groups. The most important culture of the territory was the one known as Q'orimarcas, which, in the Inca expansion, became part of the Empire led by Pachacútec.

In this same province of Hualgayoc with all its characteristics and described reality, we arrived to develop and apply the kind model of Microfranchises aimed at micro-entrepreneurs who are food suppliers of a recognized mining company; through which we help these entrepreneurs to structure the manuals and business processes to standardize their value chain and their respective logistics to the mine workers' canteens. Through the microfranchise model, we articulate their commercial chains with nationally recognized sausage brands so that they can represent them commercially and provide high-quality, process products. We also articulated and designed a microfranchise business model with the Nescafe brand, being able to implement a cafe-restaurant near the Plaza de Armas in Hualgayoc for local residents and mine workers.

Through the project, we help these SMEs food suppliers from the mine to diversify their commercial offer to other local markets such as hotels and restaurants, helping to generate new sources of economic income for their respective businesses.

## Entrepreneurial Social Inclusion Project Food microfranchises



**Associations Entrepreneurs Vegueta Huaura Microfranchises**



In Vegueta, 3 hours north of Lima, located in the province of Huaura, with beautiful beaches, a district with a rural population of 26,000 inhabitants, with an average rural poverty rate of 32%, we developed and constituted several Microfranchise associations with the co-financing of the local Municipality and the fishing company TASA (Grupo Breca); We worked with artisanal fishermen, ranchers, vinicula, yunco artisans, yogurt producers, wine products, among others, with the aim of helping this entrepreneurial community to break free from poverty; improve their economic development and improve their quality of life.

Through this Vegueta Microfranchising Project, local entrepreneurs were empowered to formalize them; it was possible to associate them and insert them into the credit system and the market with the use of collective marks achieving sustainability in the market.

Likewise, a socio-economic impact was generated in the city with the contribution and articulated work of the private company TASA and the local Municipality in order to generate new sources of income for the residents with business initiatives. This generated a multiplier effect on the rest of the city's inhabitants, achieving greater commercial and economic dynamism, resulting in a considerable improvement in per capita income per inhabitant.

The execution of this project allowed to eradicate informality; create new sources of collective financing, promote the culture of local sustainable entrepreneurship, develop productive chains adapted with efficient productive capacity and compatible with each locality, articulate specialized training programs for each association, generate employment, and reduce poverty levels in the district.

## Artisanal Fishermen Microfranchises



Knowing that history shows Peru as a fishing nation, having been the world's fishing power on different occasions thanks to the fact that our blessed sea has a huge variety of fish resources, both for human consumption and for the production of fishmeal and fishoil. Currently in Peru, the Fishing sector plays one of the most important roles in the country's economy, however there is still great informality in this sector. There is a large population of informal artisanal fishermen throughout the Peruvian coast who have been dedicating themselves to this activity for many years and their own families live only from this activity. The vast majority of these informal fishermen are not subject to credit

Entrepreneurs in fishing tend to group and associate in fishermen's guilds according to the various coastal areas, however, few are really organized and strengthened in formal associations. These entrepreneurs are classified according to the activities they carry out in fishing; They may be; divers, mariculturists, ropes and shipowners. The fishermen who stay very close to the ports offer the stowage service to the fishing companies. During the closed season, the fishermen dedicate themselves to the construction and commerce sector in order to continue generating a source of income.

We were pleased to guide and develop associations of artisanal fishermen entrepreneurs in Vegueta applying the Microfranchise Model for the generation of collective enterprises with the participation and role of women in the management and sustainability of the business; contributing with the need for the management of fishing activities and the conservation of resources (species and ecosystems).

## Microfranchises of Producers of Artisanal Yogurt "Vegueta"



Yogurt Vegueta: The special case is of the women producers of Yogurt; When we arrived at the town of Vegueta to start the project, there were 3 to 4 groups of women producers of yogurt; each group produced a different yogurt; using different strawberries and each group had a reduced production capacity. With our Microfranchise program we change their mentality and we make them work cooperatively making the same yogurt with the same type of strawberries; contributing to the standardization of the elaboration. Additionally, consensus was reached to create a collective brand that would bear the name of its town; creating the "Yogurt Vegueta" supporting the diffusion of tourism and positioning of the name of its rural town.

This application of the Microfranchise model helped to increase productive capacity; even 74% going from producing 370 liters per week to 500 liters.



16 Entrepreneurs produce  
artisan yogurt  
Increase their production  
level from 370 liters to 500  
litter of yogurt  
Brand: Yogurt Vegueta

This particular case, of the Producers of Yogurt Vegueta, due to its association and improvement in business management, managed to win the award for the best innovative business plan and obtain seed capital from the local Municipality.



### Livestock Entrepreneurs Microfranchises

We met with the various groups of local winners helping them to standardize their winning process and the management of the milking process of their cattle to achieve the coupling of dairy production with a collective brand and to have greater commercial negotiating power with large companies such as Gloria; who buys their final production.



Transferring the application of the Associative Model of Microfranchises to the farmers of Vegueta; We visited several families that survive economically with the activity of raising livestock, agriculture and the sale of liters of milk week by week; many of them are in extreme poverty and living in precarious overcrowding.



### Wine Producers Microfranchises

Advice was given for the constitution and formalization of a collective venture between family farmers (mostly cousins) of 3 to 4 hectares each so that they can grow the same grape and finally make the same wine with the brand name of the family name and this is how the “Li Wine” began to be produced.



### Junco Artisan Entrepreneurial Microfranchises

We advise and help formalize an association of artisan entrepreneurial microfranchises of junco (reed). In the New World lagoons on the coast of the Vegueta district, one of the most important wetlands in Peru. A lagoon is located next to the sea, it feeds on its waters and those that come from the aqueous leaks of the mountains, promoting a rich brackish water ecosystem. New World is coastal habitat of playful landscapes; in constant coexistence with birds and tourist travelers, the plant that bears the name of junco grows abundantly; a thin swamp plant, a symbol of fragility, of which there are about 200 species; it also grows on the banks of rivers, and from which the chest of the child Moses was made (bible). This reed and its docile stems are the raw material for the skillful hands of entrepreneurs who transform it into nice crafts for sale.

The reed is extracted from the lagoons; it is collected; it is left to dry in the sun for a few days so that then the magical hands with the vegetable fiber weave of the enterprising artisans with evident ability transform it into baskets, jewelry boxes, baskets, hats, furniture, among many other magnificent pieces that are constantly improving and innovate their designs.



## Taxi Entrepreneurs Taxi Excel Microfranchises



We lead the development of the 1st Microfranchise business model in the taxi sector in Latin America creating the "Taxi Excel" Microfranchise in Lima; capital of Peru; In times where smartphones and cellular application technology did not yet exist, only GPS monitoring was available.

Through this Taxi Microfranchise we generate self-employment for various entrepreneurs at the wheel, giving them the opportunity to own their own work units through seed capital from microcredit and to improve their economic income and quality of life for them and their families.

Through this project of Taxi Microfranchises, 80 Entrepreneurs of the Steering Wheel were trained, helping them to migrate from informality to formality; counting on the possibility of owning their own vehicle units through microcredit applying the concept of microfranchising, professionalizing their work and improving the image of the taxi service in the city. The project was developed thanks to the articulation and support of the Municipal saving banks and "Ángeles Investors" who provided seed capital for the incubation of taxi microenterprises. In the project, a collective brand called "Taxi Excel" was developed and generated, which positioned itself in the market thanks to the quality service standard provided by the entrepreneurs at the wheel, who were trained in business management, security issues; ergonomics, first aid, defensive and evasive driving, traffic regulations, basic mechanics, basic English, customer service and taxi service techniques.

Therefore, through this project formal microentrepreneurs in the taxi service were developed; their work was professionalized and the taxi service was standardized, having a uniform and professional image of their respective vehicles.

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## Comments

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Every day it is more evident that the future belongs to those of us who are capable of undertaking risky initiatives; It is not enough to reproduce strategies that others have already successfully exploited, but we must discover what makes us different from others. You can create something really valuable if you dare to break schemes. Achieving this goal is possible if we take into account the teachings revealed in the book *The Road to Progress. Microsolutions to poverty*, which Guillermo Quintana has successfully developed.

Víctor Carpio Ramos

President of the Peruvian Institute of SMEs

Former leader and founder of the Industrial Park of Villa El Salvador

In Mexico, microfranchises were considered as one of the lowest ranking investment options in this type of business model; Today, the context of these has been changed, since microfranchising is not only the business operated in a commercial plaza, but every business where there is a person who benefits from marketing goods and services.

In addition, the boom in microfinance, following the global crisis, represented the support of more than twenty million people in the world; Therefore, it is necessary to think that microfranchises are one of the viable solutions to the problem of employment and few development opportunities for entrepreneurs - through microfinance - already recognized in countries whose population density it rises year by year, while the quality of life falls. By obtaining a microcredit, the microfranchisee can be acquired and, in exchange, the microfranchisee obtains training to market uniform goods or services.

This type of actions helps the economy together, since jobs are provided for those who do not have the possibility and become self-sustaining. This book, *The Road to Progress. Microsolutions to poverty*, fully fulfills its mission: informs and teaches clearly and correctly about the aforementioned model.

Lic. Ferenz Feher (Mexico)

International franchise consultant

Too often, approaches to poverty eradication are too broad and too aggressive in their attempts to effect change. While these grand plans are well-intentioned and admired, they are often not viable and sustainable in the long term; therefore, they end up failing. *The Road to Progress. Micro-solutions to poverty* proposes innovative, responsible and sustainable solutions within tools such as microcredit, micro-enterprise and microfranchise; which, if properly applied, will achieve truly sustainable development in the long term. Guillermo Quintana, in his book, proposes creative solutions that contribute to having a more prosperous and inclusive society.

Brian Tippens

HP Global Director of Innovation & Social Inclusion

*The Road to progress. Microsolutions to poverty* invites to rethink an old problem, such as poverty, from a new angle, proposing truly refreshing and daring solutions. This is Quintana's great contribution, the courage to seek inclusion by opting for innovation without falling into populism or demagoguery, challenging the status quo without leveraging anarchy.

Fernando López de Castilla Elías Business development manager,  
Institute for Liberty and Democracy (ILD) Director of the Connection  
Franchise Group

People improve our income level thanks to working more and better, and the innovations we develop. To enhance these, a series of services is necessary, which can be grouped into three broad categories: basic and infrastructure services, business services and business development services.

Business development services are training and technical assistance. Business services are, for example, financing, accounting and other support for productive units. It is in this sense that the present text, *The Road to progress. Microsolutions to poverty*, reach us "instruments" of successful financing and management for the development of small businesses.

Guido Sánchez Yábar

Host of RPP's "Economic Window" Program

Director of SYSA Cultura Emprendedora

This book seems to me an interesting contribution to understand the dynamics of emerging capitalism in Peru, as well as the financial arm that sustains it to a large extent: microfinance. It allows us to sort through the instruments by hand to drive this process from microfinance, from microcredit to microfranchises. And without a doubt, it will be a very useful guide for those looking to develop emerging businesses with these innovative financial instruments.

Eugenio D'Medina Lora

Economic-political consultant

Professor of CENTRUM and of the Department of Economics of the PUCP

Losing sight of the 'micro' approach to the Peruvian economy is a serious mistake. Quintana intelligently proposes to apply the microfranchise model to generate more successful entrepreneurs in our country. For anyone looking to generate development through entrepreneurship, this is a basic reading with lots of timely data and highly relevant!

Gonzalo Velasco

Director of the Peruvian Institute of  
Entrepreneurship "The most active promoter of youth entrepreneurship in the country"  
(*El Comercio*, 2012)

A plausible effort by Quintana, which proposes the thesis of the development of a concerted multisectoral project: between microenterprise, microfinance and microfranchises, as a solution to the poverty of Peru.

José Esparza Russo

Director of the Portal Club Franquicia Perú, a portal specialized in franchising

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