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## The Solidarity Group Concept:

Its characteristics and significance  
for urban informal sector activities

**PACT**

Private Agencies Collaborating Together

**THE SOLIDARITY GROUP CONCEPT**  
**Its Characteristics and Significances for**  
**Urban Informal Sector Activities**

**Prepared for PACT**

**by**

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While many people contributed to this report, the opinions and conclusions are my own.

Maria Otero

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## FOREWORD

In the period 1982-85, PACT supported five programs that pioneered the solidarity group methodology in Central and South America in conjunction with its member agency ACCION International/AITEC. These projects utilized nearly \$1 million of resources from the PACT Development Fund.

In our contacts with these programs, it became obvious that they all had prospered in their first few years and that each program had developed variations on the model. They were encountering common problems, and above all had developed a desire to know more about each other in order to learn from their common experience. As a logical consequence of its project funding, PACT sponsored an interchange among the various programs that culminated in the "First Latin American Workshop on Solidarity Group Programs".

As part of its commitment to document the event, PACT contracted Maria Otero, an economist with an extensive background in small enterprise and women in development programs. She participated in the workshop and accompanied the participants through the entire learning process. In preparing this report she has added her own ample perspective to the papers written by the participants during the workshop.

The experience of these Latin American agencies is relevant to all private development organizations struggling to meet the needs of the urban poor throughout the world. The solidarity group approach is not the only response needed, but its success cannot be ignored. PACT is pleased to share the contents of this report in order to stimulate further thinking in this vital sector.

Thomas R. Byrne  
Executive Director

## REPORT SUMMARY

In December 1985, PACT sponsored a week-long seminar in Bogota, Colombia on microenterprise development projects. Twelve Latin American and Caribbean development institutions from five countries participated. With technical assistance from ACCION International/AITEC (a U.S.-based PVO), these organizations provide credit and training to tiny, informal businesses run and owned by the urban poor. The services they provide are delivered through "Solidarity Group Programs". The twelve programs represented at the workshop have reached over 9,500 beneficiaries and disbursed over US\$1.6 million in credit to micro-entrepreneurs. The programs have been in operation from one to three years.

Solidarity group programs utilize self-selected "solidarity groups" of four or five micro-entrepreneurs as the center of all project activity. Credit and training are the two major components of the programs.

### Credit

The solidarity group is eligible to receive credit for each member's needs. The program disburses one loan to each group, which is then divided among its members. The group is responsible for collecting the payments on time, with members acting as guarantors for each other. When the loan is repaid, the group becomes eligible for a second, larger loan.

Credit is primarily provided for working capital. In the case of micro-producers, it is also provided for the purchase of equipment and machinery. Five factors characterize the delivery of credit in solidarity group programs:

1. Loan application and review procedures are quick. The turn-around time from application to disbursement averages less than seven working days for first loans and one day for subsequent loans. This is achieved through decentralized decision-making and well-designed questionnaires.
2. The loan amount, duration, and payment schedule are adapted to the needs of the beneficiaries. In some programs the payment schedule is coordinated with the production cycle of the micro-enterprise.
3. Interest charges are at commercial or near commercial rates in order to generate income for operating costs, and to prevent the fund from decapitalizing.
4. A system of negative and positive incentives is built into the repayment mechanism. Default by one member of the group excludes the whole group from future credit (the stick). Creditworthy groups immediately receive larger loans (the carrot).

5. Credit delivery is linked to the provision of training and technical assistance, which increases the trust relationship among group members and staff, at the same time increasing the borrower's capacity to manage and use the loan. In addition, a program staff member visits each group a few days before the payment due date to encourage the group to make the payment on time.

Most solidarity group programs report repayment rates of over 90%. However, controlling arrearage (overdue payments) is a problem for all the programs. Many programs have resorted to third parties and debt refinancing to address this problem.

### **Training**

Training is an essential component of solidarity group programs. It is understood as a catalyst for personal and group development. Most training content can be divided into two modules: the economic unit, which addresses entrepreneurial activity, credit management, marketing, and record-keeping; and the social unit, which seeks to build leadership and organizational skills, analytical capacity, and understanding of cooperation and collective action. The training is carried out by program promoters using non-formal education principles. Several hours of training per month are provided to the group members.

In the training, program promoters stress collective action around issues of common concern other than credit. For example, solidarity groups can cut costs by buying in bulk, can increase income through improved marketing, can provide access to resources or services in health, education and housing, and can advocate institutional or legislative changes on behalf of the micro-entrepreneur.

Although the lack of experience in collective action, the individual nature of the micro-entrepreneur's work, and the wide distances between individual micro-entrepreneurs in a large city create difficulties, experience shows that micro-entrepreneur associations with wide and far-reaching areas of concern can and do develop from solidarity groups.

As solidarity group programs have matured, a variety of issues affecting their ability to continue operating, as well as their overall socioeconomic impact on beneficiaries, have been identified. Chief among these concerns is the ability of program beneficiaries to graduate into other sources of credit and training. In order to continue assisting the smallest and poorest micro-entrepreneurs, earlier borrowers, whose needs have exceeded the program's capacity to lend and train, must be able to move on to other credit and training resources. However, Latin American and Caribbean countries lack the financial and institutional infrastructures to receive program graduates. Thus, as program beneficiaries become more successful, they may jeopardize their future access to program credit, and their interests may become pitted against the interests of the solidarity group program itself.

Another key concern of solidarity group programs is developing self-sufficiency. Operational self-sufficiency, i.e., covering all program costs from income generated through the programs, is an established objective. Some of the oldest programs have established complete self-sufficiency. However, the average program covers approximately 54% of its costs. The relatively small size of credit funds, the effect of economic trends on repayment, and the costs of providing training make self-sufficiency, though attainable, very difficult.

A number of evaluations on the impact of solidarity group programs have been conducted by the institutions themselves or their funders. These evaluations indicate that overall the programs have had a positive impact on the lives of beneficiaries and, in some cases, on the community as a whole. Increased income has resulted from the programs; however, this has varied according to the type of enterprise and contextual factors. Most of the employment impact has been on retaining jobs that would otherwise be lost rather than on creating new jobs.

Solidarity group programs have been especially successful in reaching women micro-entrepreneurs. Nearly 60% of the program beneficiaries are women. This is due in large part to the fact that the program recognizes that women make up a larger percentage of the poorest sector of the economy than do men. In addition, the program recognizes the importance of women's economic activities in terms of the economy as a whole. In this respect alone, the solidarity group program demonstrates a valuable lesson to other development programs.

Solidarity group programs are an innovative, effective way of reaching the urban poor and enhancing their economic activities. A variety of issues require further study, however, in order to strengthen and expand the programs. Examples of such topics include: the life cycle of the programs; the internal dynamics of the solidarity group itself; the impact of these programs on the implementing institutions; and the role and background of the promoters who are the backbone of the program.

The thirty-one participants concluded the workshop by forming a committee to plan future seminars on issues of common concern and to raise funds for common activities, such as the production of an audiovisual on the solidarity group program methodology and a seminar on impact evaluation to take place in early 1987.

## GLOSSARY OF ACRONYMS

ACCION	ACCION International/AITEC
ACP*	Acción Comunitaria del Perú
ACTUAR*	Cooperación Acción por Antioquia
ADEMI*	Asociación Para el Desarrollo de la Microempresa
ADIM*	Asociación Para el Desarrollo e Integracion de la Mujer
AID	Agency for International Development
ASEPADE*	Asesores Para el Desarrollo
CDV*	Centro de Desarrollo Vecinal "La Esperanza"
CIDES*	Cooperativa Multiactiva de Desarrollo Social
CORFAS*	Corporación Fondo de Apoyo de Empresas Asociativas
CRS	Catholic Relief Services
CS*	Cruzada Social Manizales
FED*	Fundación Ecuatoriana de Desarrollo
FEE*	Fundación Eugenio Espejo
FF*	Fundación Familiar
IAF	Inter-American Foundation
IDB	Inter-American Development Bank
ICRW	International Center for Research on Women
PACT	Private Agencies Collaborating Together
SENA	Servicios Nacionales de Aprendizaje
SG	Solidarity Group
SGP	Solidarity Group Program
WWB	Women's World Banking

\* Latin American institutions that implement solidarity group programs and participated in the workshop.

## CHAPTER I

### SOLIDARITY GROUPS: THEIR CONTEXT AND CHARACTERISTICS

#### INTRODUCTION

The unprecedented rate of rural to urban migration that has accompanied post-World War II modernization patterns in developing countries has brought enormous numbers of semi- or unskilled men and women to the cities. The inability of the industrial sectors of the cities to absorb this influx of labor has resulted in a dramatic rise in the number of urban poor. Increasing numbers of these urban poor have turned to self-employment. Today, millions of low-income, urban households in Latin America and the Caribbean live from the earnings of tiny, informal enterprises engaged in a wide variety of commercial activities whose products are sold on the street or from makeshift quarters.

Recognizing the importance of this growing sector, Latin American governments and private institutions have sought to design programs that enhance the economic activities of these tiny businesses. One strategy devised to reach the poorest in this sector evolved from the experiences of the Grameen Bank Project in Bangladesh and the Working Women's Forum which sought to integrate the provision of resources with the promotion of collective action among the urban poor in India. It is called the "Solidarity Group Strategy" and is based on the formation of solidarity groups (SG) that have access to resources, such as<sup>2</sup> credit and training, provided by a "Solidarity Group Program" (SGP).

#### THE SOLIDARITY GROUP STRATEGY

##### A Description of Solidarity Groups and Their Members:

Solidarity groups consist of five to eight micro-entrepreneurs, usually engaged in similar activities, who organize themselves into a group in order to receive the credit, training and technical assistance offered by a solidarity group program.

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<sup>1</sup> Appendix A provides an overview of the characteristics of these microenterprises and the environment in which they operate.

<sup>2</sup> ACCION International/AITEC, a Boston-based PVO, was responsible for adapting the Asian experiences and assisting local Latin American and Caribbean institutions to further refine the solidarity group concept to each country's context and needs. Currently it has five advisors (four Latin Americans and one North American) who assist ongoing programs, or help to initiate new ones.

A large majority of solidarity group members are very poor urban dwellers who engage in marginal economic activities in the informal sector. A survey of solidarity group members participating in the Colombian programs shows that they fall within the lowest 20 percent income category among the economically active population in urban areas. Almost 100 percent of them have a monthly income below what is needed to purchase a government defined "minimum consumer basket" (canasta familiar) of basic goods and services, which means that few solidarity group members have an income equivalent to the monthly legal minimum wage. (ACCION, 1985)

The majority of the group members are women, most of whom work as micro-vendors in the sale of prepared street foods and produce or other agricultural products. About half of the solidarity group members have completed some schooling, but are considered functionally illiterate. In one program, 12.1 percent of the group members have never learned to read or write, yet they have developed basic mathematical skills. The average age of participants in most programs is between 30 and 40, with women concentrated on the higher end of the age spectrum. Group members in one program have been involved in economic activities on average 11 years, working an average of 7.6 hours a day (Fernandez, 1984). Among group members of three programs, family size averages between seven and eight people.

The solidarity group methodology has been described in detail in other studies (Ashe, 1985). Its most important features are:

- (1) Member participation in group activities is emphasized.
- (2) Those members already in the project are responsible for recruiting new members, who organize themselves into provisional groups.
- (3) Newly formed groups attend a 3-4 hour course in which program staff explain the solidarity group concept, assist in group consolidation, and emphasize group responsibility for the repayment of loans. At the end of this capacity-building session, each group selects a coordinator and defines its modus operandi.

Once a solidarity group is formed, it is eligible to receive credit from the solidarity group program. One loan is disbursed to each group, then is divided equally among the group members. The group is responsible for collecting payments on time. There is no collateral requirement for loans. Each group member serves as a cosigner for the debt of the other. When and if the loan is repaid on time, the group is eligible for a second, larger loan.

As part of the solidarity group strategy, group members attend weekly or monthly training sessions conducted by the program staff on a variety of issues related to group formation, economic production and enterprise management. In addition, the group members

receive one-to-one technical assistance on issues of particular relevance to their situation.

Solidarity groups can participate in the solidarity group program as long as they meet the program criteria and observe its requirements.

### **Summary Characteristics of Solidarity Group Programs:**

Currently, at least thirteen institutions in six Latin American and Caribbean countries (Colombia, Ecuador, Dominican Republic, Honduras, Costa Rica and Peru) use the solidarity group approach for working with micro-entrepreneurs in large and medium-sized cities.

Each SGP is individual. Tables 1 and 2 summarize the main characteristics of eleven SGPs, providing an overview of the different types of programs and a backdrop for the indepth examination of SPG's that follows in this report. These Tables reveal:

- In three of the institutions (CORFAS, FF and ADIM) the SGP is the main or only activity of the institution. In the rest, the SGP represents one of several lines of credit provided to micro-entrepreneurs. However, it is the one that reaches the poorest sectors. These institutions may also have other activities, such as community development, housing programs, or social services delivery programs.
- Full-time personnel in SGPs ranges from 2.5 to 15 with an average of 7.6 persons per program. Of this staff, over 50 percent are promoters, and the remaining are program coordinators and accounting or administrative personnel.
- Every program has received outside donations. Seven of the eleven programs have funding from PACT, four from USAID Missions, and two from UNICEF. The IDB, CRS and ICRW have also funded these programs. In most cases, local donations of cash or in-kind services are made to the programs. In all programs for which there is information, program operating costs are covered in part from interest income earned on loans.
- The eleven programs assist approximately 9,500 beneficiaries with a combined total of US\$340,000 in original credit funds, which rotate about three times a year.
- The number of groups assisted by each program promoter varies greatly, ranging from about five in FEE to 100 in ACP. Part of this diversity is due to the variety of responsibilities assumed by each promoter, the intensity and duration of the training and technical assistance each promoter provides, and the efficiency of the promoter.

- The majority of the programs are still growing, registering their current number of organized solidarity groups as the highest assisted to date. In the case of ADEMI, the SGP program was discontinued in 1984 and reactivated in November 1985.
- Programs have been operating anywhere from six months to three years. Five have operated more than two years.

**TABLE 1**  
**SUMMARY CHARACTERISTICS OF SOLIDARITY GROUP PROGRAMS: PART 1**

COUNTRY AND CITY	C O L O M B I A					DOMINICAN REP.	ECUADOR		HONDURAS	PERU		
	BUCARA	MAZI	BOGOTA	MANGA	NALES		CARTAGENA	CALI	STO DOMINGO	QUITO	GUAYAQUIL	GALPA
INSTITUTION/ CHARACTERISTIC	CIDES	CORFAS	CS	CDV	FF	ADEMI	FED	FEE	ASEPADE	ACP	ADIM	
I. SOURCES OF FUNDS:												
A. GRANTS/Subsidies from donor organizations	PACT	UNICEF	PACT	UNICEF	CRS PACT	USAID/DR	USAID/ECU. PACT JCRW	USAID/ECUADOR	PACT IAF	IAF USAID/ PERU PACT	PACT	
B. Local Funds (1)	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	
C. Program Generated Funds (interest earned, fees, other) (2)	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	
II. PERSONNEL:												
A. Full-time salaried personnel in institution	19	5	26	10	5	27	56	21	22	30	15	
B. Full-time salaried personnel in SGPs (implementation, mgmt, admin.)	7	4	2.5	5	3.5	n.i.	9	10	9	11	15	
C. Average # of solidarity grps assisted by each promoter	50	38	13	34	32 <sup>(3)</sup>	n.i.	80	5	50	100	50	

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**TABLE 2**  
**SUMMARY CHARACTERISTICS OF SOLIDARITY GROUP PROGRAMS: PART 2**

COUNTRY AND CITY	C O L O M B I A					DOMINICAN	ECUADOR		HONDURAS	PERU	
	BOGOTA	MANGA	NALES	CARTAGENA	CALI	STO DOMINGO	QUITO	GUAYAQUIL	TEGUCI-	LIMA	LIMA
INSTITUTION/ CHARACTERISTIC	CIDES	COREFAS	CS	CDV	FF	ADEMI	FED	FEE	ASEPADE	ACP	ADIM
I. Credit Fund:											
A. Amt in credit fund when program started (Est. in \$JS)	12,000	n.i.	650	3,000	8,000	32,000	50,000	54,000	20,000	(1) 150,000	20,000
B. Current Outstanding Portfolio (Est. in SUS)	35,000	n.i.	2,000	16,000	15,000	n.i. (2)	100,000	21,000	40,000	n.i.	40,000
C. Interest Rate (3) (commercial)	commer	commer	comm	commer	commer	commer	commer	commer	commer	commer	commer
D. Projected Inflows into Credit Fund for 1986 (Est. in SUS)	47,000	88,000	4,000	16,000	20,000	140,000	150,000	84,000	150,000	500,000	90,000
II. TRAINING:											
A. Hrs of Training/month prior to loan applic't'n (4)	0	0	0	0	4	2	0	0	6	(5) n/a	(4) n/a
B. Average hrs of training per month after loan disbursement	2	2	2	1	1	(6) 2	6	16	4	n/a	5.5

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## NOTES TO TABLES 1 and 2

**GENERAL NOTE:** Data for Tables 1 and 2 was provided during the workshop by representatives of the institutions listed. Two institutions from Colombia are not included: ACTUAR, which could not disaggregate the information from its overall program, and Women's World Banking/Colombia, which was not present at the workshop. The figures provided are approximations and meant to provide a general picture of solidarity group programs.

### TABLE 1:

- (1) & (2) Exact figures were not available at the workshop but can be obtained through field visits .
- (3) Promoters work part-time.

### TABLE 2:

- (1) Portion of total credit fund allocated to SGs (estimate)
- (2) Unable to disaggregate portfolio between individual and solidarity group credit.
- (3) All programs charge commercial interest rates which vary from country to country.
- (4) This training does not include an average of three hours of "information and orientation" given to each prior to loan application. In the case of ADIM, it does include the 10 hours of training most borrowers receive before entering the SGP.
- (5) In ACP training is voluntary and provided for a fee at participant's request.
- (6) Program reactivated in December 1985.

## CHAPTER II

### KEY COMPONENTS OF THE SOLIDARITY GROUP STRATEGY

#### INTRODUCTION

Workshop participants agreed that all SGPs have three main components: credit provision, training/technical assistance, and promotion of organization among solidarity groups. Because the emphasis in these programs is on promoting the overall development of the urban poor micro-entrepreneur, the SGP strategy attempts to address a variety of needs, and to create the conditions that will enable program beneficiaries to participate, in a self-directed way, in their process of socioeconomic change.

This chapter considers each of the three SGP components separately, describing the methodological framework that guides the implementation of each component, and identifying issues of importance under each component.

A variety of topics that cut across the three components also received special attention at the workshop. They include four issues essential to understanding the SGP strategy: (1) program self-sufficiency; (2) graduation of borrowers; (3) savings mobilization among beneficiaries; (4) provision of additional services to micro-entrepreneurs. In addition, there are broader concerns, such as problems of program expansion and evaluation of SGPs and their impact. Each of these topics will be addressed in subsequent chapters.

#### CREDIT PROVISION

Credit issues highlighted during the workshop related to delivering credit effectively and to maintaining the health of the portfolio. Procedures and requirements for extending credit, problems of timely repayments, issues of arrearage and default, and monitoring the credit portfolio received special attention.

##### **Background:**

Credit extension is central to the strategy of SGPs, and is based on the assumption that micro-entrepreneurs do not have access to credit. This assumption derives from the experience of earlier programs and from interviews with potential program beneficiaries who almost always identify lack of credit at reasonable rates as a major problem (PISCES, 1981; Sebstad, 1982).

Drawing from their experience with Solidarity Group Programs, workshop participants emphasize that an effective methodology for credit extension must attempt to combine the priorities of the borrower and the lender--micro-entrepreneur and institution--and must be adapted as these priorities evolve for both.

The micro-entrepreneur requires a line of credit at affordable rates that responds to his needs for capital. There are two types of capital:

Working Capital is used to maintain an adequate supply of inputs, to assure efficient production, and to pay workers on time. Because most microenterprises operate at very low profit margins, lack working capital to purchase inputs in bulk or to pay cash, both of which often lower costs, micro-entrepreneurs cannot operate efficiently or develop plans for expansion.

Fixed Capital is used to repair or purchase equipment and machinery, or to improve the workplace. A lack of fixed capital impacts on productivity. If, for example, one piece of machinery breaks down and cannot be replaced or repaired, the whole production process is interrupted, leaving other equipment and workers idle.

The amount of credit a micro-entrepreneur requires varies according to the demand for his or her goods and services. Product demand may, in turn, be determined by seasonality, national holidays, inflation level, or a variety of other exogenous factors.

From the point of view of the financial institution, credit must be provided in a way that: (1) ensures that loans are used for income-producing activities; (2) avoids endless subsidization by reflecting as closely as possible the real costs of lending; and (3) maintains careful control of arrearage and default levels. These three, interrelated factors directly affect the institution's ability to generate interest income to cover some or all operating costs - a stated objective of all SGPs - and to prevent the credit portfolio from decapitalizing.

It should be noted that SGP staff perceive microenterprise development and credit extension as a means to a larger end - that of empowering the entrepreneur by strengthening his or her position in the society. In this context, workshop participants summarized the specific objectives for credit provision in the following way:

- to make commercial-type credit available to micro-entrepreneurs;
- to strengthen existing jobs and to generate new employment;
- to increase the level of profits of micro-entrepreneurs by increasing enterprise productivity and product quality; and
- to promote savings among micro-entrepreneurs.

## **Requirements for Extending Credit:**

In solidarity group programs, credit is only extended to solidarity groups. The programs assist in the initial stages of group formation, i.e., electing a coordinator, defining objectives, responsibilities, and strategies.

Group formation is a credit requirement for three reasons. First, it simplifies credit delivery. The SGP disburses one loan instead of four or five, which is more efficient by decreasing administrative and operating costs. Second, it creates group incentives and group pressures to assure timely repayment. Third, it is a way to introduce collective, problem-solving mechanisms among the micro-entrepreneurs, and is an intermediate step to the broader goal of organizing micro-entrepreneurs around issues of mutual concern. In sum, solidarity groups are used for credit delivery for immediate and pragmatic reasons, as well as for long-term, social reasons.

SGPs also outline the specific requirements borrowers must meet in order to qualify for credit. These requirements are summarized in Table 3, which provides an explanation for each requisite and an indication of how widely each criterion is used among the various SGPs.

## **Characteristics of Effective Credit Delivery in SGPs:**

Table 4 draws from existing studies to identify five characteristics of effective credit delivery in SGPs and the advantages of each to the borrower and the institution (Ashe, 1985; Stearns, 1985; Blayney and Otero, 1985).

1. **Agility in Loan Application and Review:** Application procedures must be kept simple, yet collect the needed data. First-time loan applications are an occasion to collect baseline data from the applicant. Subsequent loans enable the institution to collect impact information. It is often difficult to determine what data is not essential, though interesting, and what data is essential for making prudent lending decisions. Well-designed questionnaires, visits to the workplace, and qualified staff contribute to effective loan application and review procedures.

Quick loan review procedures must complement the application process. Involving the staff in loan decisions helps avoid the bottleneck that results from centralizing all loan review procedures in the hands of the program director or board. Although the mechanisms for loan review vary widely from institution to institution, all SGPs reviewed in this study have a turn-around time from loan application to loan disbursement of under seven working days.

TABLE 3\*

CRITERIA FOR EXTENDING CREDIT IN SOLIDARITY GROUP PROGRAMS

Requirement	Explanation
1. Age (18 and over)	Self-explanatory
2. Minimum period of existence of firm	Indicator of viability; decreases risk; time required ranges from 6-12 months.
3. Attend meetings	To inform and orient the group; begin group formation process. Required by all.
4. Participate in solidarity groups	Promote organization; lower costs; guarantee credit. Required by all.
5. Defined geographical area	Some SGPs restrict activities to a zone. Applies to 5 out of 10 SGPs.
6. Attend training	Emphasis on dealing with the whole person; builds capacity and changes attitudes. Mandatory in 8 out of 10 SGPs.
7. Open Savings Account	Mobilizes savings; encourages savings practices; increases liquidity of credit fund if savings in the same institution; guarantees loan. Required in 8 out of 10 programs.
8. Minimum amount of working capital	Help establish size of firm; volume of sales also used, though not as reliable. Required by all.

\* Based on information provided during the workshop by ten of the attending institutions: ACP, FEE, ADIM, FF, CIDES, CDV, CORFAS, CS, FED and ASEPADE.

**TABLE 4**  
**FIVE CHARACTERISTICS OF EFFECTIVE CREDIT DELIVERY**  
**IN SOLIDARITY GROUP PROGRAMS**

FROM PERSPECTIVE OF: CHARACTERISTICS	THE IMPLEMENTING INSTITUTION		THE BENEFICIARY	
	ADVANTAGES	DISADVANTAGES	ADVANTAGES	DISADVANTAGES
1. Agility in loan application and review	<ul style="list-style-type: none"> <li>.Decreases staff time spent in these activities</li> <li>.Lowers operating costs</li> <li>.More responsive program</li> <li>.Usually relies on a decentralized, decision-making approach</li> </ul>	<ul style="list-style-type: none"> <li>.Requires high level of loan fund liquidity</li> </ul>	<ul style="list-style-type: none"> <li>.Doesn't require elaborate application procedures</li> <li>.Makes credit quickly available</li> <li>.Strengthens basic organizational skills in group formation</li> <li>.Relies on self-help</li> </ul>	<ul style="list-style-type: none"> <li>.None</li> </ul>
2. Flexible Loan Terms (amount, frequency of payments, duration of loan)	<ul style="list-style-type: none"> <li>.More responsive program</li> <li>.Greater demand for credit</li> <li>.Speeds up portfolio turnover, generating more interest income</li> </ul>	<ul style="list-style-type: none"> <li>.More labor-intensive</li> <li>.Harder to monitor</li> <li>.Higher overall transaction costs on initial very small loans</li> </ul>	<ul style="list-style-type: none"> <li>.Adapted to each borrower's needs</li> <li>.More suited to borrowers financial ability to repay</li> <li>.Takes into account the activity cycle of a given business</li> <li>.Reaches the smallest</li> </ul>	<ul style="list-style-type: none"> <li>.None</li> </ul>
3. Commercial Interest Rates	<ul style="list-style-type: none"> <li>.Can reflect the real cost of lending</li> <li>.Generate income to cover operating costs</li> <li>.Contributes to meeting self-sufficiency targets</li> <li>.Receptivity/greater accept. by local bus. community &amp; local sources of funds</li> </ul>	<ul style="list-style-type: none"> <li>.May not be high enough to cover all operating costs</li> </ul>	<ul style="list-style-type: none"> <li>.Much lower costs of borrowing than from alternative sources (money lenders)</li> <li>.Paves the way for dealing with other commercial lending institutions</li> <li>.Increases credit availability (by avoiding decapitalization for 2nd and subseq. loans)</li> </ul>	<ul style="list-style-type: none"> <li>.None</li> </ul>
4. Built-In Repayment Incentives	<ul style="list-style-type: none"> <li>.Improve repayment rate</li> <li>.Help control fund decapitalization resulting from high levels of arrearage and defaults</li> <li>.Requires less staff follow-up for repayment, therefore is less costly</li> </ul>	<ul style="list-style-type: none"> <li>.Do not guarantee 100% repayment</li> </ul>	<ul style="list-style-type: none"> <li>.Ensure that credit fund doesn't dry up, thereby increasing credit availability</li> <li>.Make larger loans available to the creditworthy</li> <li>.Make group responsible for collecting payments on time</li> <li>.Fosters group cohesion</li> </ul>	<ul style="list-style-type: none"> <li>.The whole group suffer if one group member fails to pay</li> </ul>
5. Linked to Training & Technical Assistance	<ul style="list-style-type: none"> <li>.Increases beneficiaries commitment to the program</li> <li>.Strengthens trust between staff and beneficiaries</li> <li>.Expands staff's capacity and ability to work with micro-entrepreneurs</li> <li>.Provides mechanism for airing beneficiary needs and problems</li> <li>.Provides information to measure program performance and impact</li> </ul>	<ul style="list-style-type: none"> <li>.Increases costs</li> <li>.Training generates little income through "fee for services" and other schemes</li> <li>.Can lead to beneficiary dependency if not designed and conducted properly</li> </ul>	<ul style="list-style-type: none"> <li>.Increases skills and ability to manage an enterprise</li> <li>.Develops leadership and analytical skills, tools for empowerment</li> <li>.Increases awareness of context in which micro-enterprise operates</li> <li>.Helps entrepreneur gain capacity needed to organize and promote his/her interests</li> </ul>	<ul style="list-style-type: none"> <li>.Takes time away from direct production activities</li> <li>.Cost (fee for service, transportation, etc.)</li> <li>.May not be suited to his or her needs</li> </ul>

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2. **Flexible Loan Terms:** The loan amount, and the length and frequency of payments are adapted to the needs of the beneficiary. Small amounts of working capital are lent for short periods of time that are in line with his or her cycle of production. Usually other terms, such as requirements and interest rates, are fixed for all borrowers. Collateral is not required in SGPs. There are, however, a variety of other requirements that must be met, such as the age, size, and duration of enterprises.  
  
Loan amounts generally range from US\$30 to US\$166 for micro-vendors; for micro-producers, maximum amounts range from US\$35 per group to US\$333. The length of loans vary from two to fourteen weeks, averaging about six weeks for all programs. Depending on the length of the loan, payments are made weekly, bi-weekly, or monthly.
3. **Interest Rates:** All SGPs charge commercial, or near commercial interest rates. The interest rate charged on loans is given particular attention because it may be the single most important factor in maintaining a healthy credit portfolio. All SGPs emphasize the importance of generating income from lending activities to cover the operating costs associated with credit delivery and to prevent the decapitalization of their credit funds. Charging commercial or near commercial interest rates enables programs to address both concerns. However, interest rates cannot cover all costs and also prevent fund decapitalization, because most SGPs operate with relatively small sums of money, are affected by the high inflation rates, and face high operating costs. This issue will be further discussed under "Program Self-sufficiency," in Chapter III.
4. **Built-in Incentives for Repayment:** SGPs have developed a variety of mechanisms to facilitate timely repayment. Among these, the most important is the group itself. The group members are responsible for collecting the total loan. No member of a SG is eligible for additional credit until the whole group has repaid its loan. In addition, second and subsequent loans are made immediately and in larger amounts to groups that repay on time. This continued availability of quick credit promotes repayment. Finally, a SGP staff member visits the group a few days prior to the payment due date to encourage timely payment.
5. **Credit is Linked to Training and Technical Assistance:** Training and technical assistance are crucial ingredients in the SGP strategy. From the point of view of credit provision, training offers an opportunity to strengthen the trust relationship that must exist between the program staff and the beneficiaries, and to enhance the borrower's capacity to manage his or her loan.

## **The Problems of Delivering Credit in SGPs:**

This section discusses the six most important problems in credit delivery as identified by workshop participants. While many of these problems do not have clearcut solutions, most SGP staff have developed policies and approaches to minimize their potentially adverse effects.

### **Controlling Arrearage:**

Arrearage is the most important problem faced by SGPs. It is defined as late or delinquent payments and should not be confused with default, which refers to lost debts. A high level of arrearage affects credit programs in several ways:

1. Lowers the income earned from interest;
2. Decreases the program's overall income by slowing down portfolio turnover;
3. Limits portfolio growth;
4. Decreases the program's credibility in the eyes of creditworthy borrowers, who may then feel that they also need not meet their payments;
5. Limits the amount of funds available for lending; and
6. Diverts staff time from productive activities.

All SGPs have established procedures for minimizing arrearage. The following are the three most commonly used:

Debt Refinancing: Renegotiation of a delinquent loan is used by every SGP to enable a borrower to pay the original debt. Each program establishes its own policy for determining when renegotiating a loan is appropriate. The SGP usually looks at the circumstances that led to delinquency (e.g., illness, family emergency), the borrower's credit history, and the level of refinancing proposed.

Debt refinancing helps control arrearage. However, it hides the real level of arrearage in a program, and can deplete a credit fund if not used sparingly. Workshop participants pointed out that their programs resort to refinancing only in exceptional cases, and refinanced loans are held to a small percentage of the outstanding portfolio.

Loan Collection through Third Parties: Once an institution has exhausted the standard channels for loan collection, a lawyer or loan collector assumes the portfolio and attempts to collect the debt. This approach is difficult and costly partly because neither lawyers nor collection agencies are interested in pursuing such loans.

Use of Judicial System: As a last resort, delinquent borrowers are taken to court. Loan recovery can take years. Most institutions allow six months to a year after a case enters the judicial process before declaring a loan in default.

#### Controlling Defaults:

If none of the mechanisms designed to control arrearage result in loan recovery, a program must declare the loan in default. A loan in default shifts assets (loans) to liabilities (debt) on the balance sheet and effectively decapitalizes the loan fund (the amount available for lending). Each program defines when a loan becomes a loan in default. The measure is usually an established time period from the last payment. For most SGPs, this time period ranges between 90 days and 12 months. SGPs monitor default rates carefully, attempting to keep the loan default percentage between 0 and 6% of the outstanding portfolio. As with arrearage, default rates are often affected by the economic situation in the country, or by changes in government policies, both of which are outside the control of the SG or the SGP.

#### Attracting and Keeping Trained Staff:

It is difficult for most SGPs to attract skilled and committed staff. Salary levels for field staff (promoters or advisors) are low even relative to similar public sector positions, and working hours are long. SGPs depend a great deal upon staff commitment to the program as an incentive for hard work. At a time when keeping costs down is a major objective, few programs contemplate higher salaries or other benefits for their staff. Hiring and retaining high quality staff is a long-term issue for SGPs, and will be discussed with more detail in Chapter V.

#### Data Collection:

Most SGPs base credit decisions on information gathered by field staff through interviews and visits to the place of work. Reliability of the data is a constant concern since economic and financial estimates must often be made from observations and conversations. Other more practical considerations, such as distance, or locating a borrower who sells on the street from shifting locations, contribute to the difficulty of making reasoned credit decisions and monitoring the credit fund. Well-trained staff and well-designed collection instruments minimize this problem.

#### Group Formation as a Requirement:

The impetus for forming a group comes from the desire for credit, rather than from experience, conviction, or even mutual trust among potential borrowers. Before participating in an SGP, few micro-entrepreneurs have taken collective action to address their problems, and the idea of forming a group, even if self-

selected, often meets with some resistance. Likewise, SGPs may encounter resistance on the part of newly formed groups to the initial orientation and information sessions which are requisites in all programs. Previous negative experiences in cooperatives or other associations, and the individual, competitive nature of a micro-entrepreneurs' work contribute to a borrower's hesitancy to explore collective alternatives.

The training and technical assistance provided by the SGPs is aimed at helping borrowers see the solidarity group as a source of mutual support as well as credit.

### **Credit Monitoring:**

A final key issue related to credit provision is monitoring the credit fund. Because the monitoring function of a program is so closely aligned to evaluation, and because SGPs have made important contributions in the area of monitoring credit, this topic is addressed in Chapter IV.

## **TRAINING AND TECHNICAL ASSISTANCE**

In training and technical assistance, the workshop discussion focused on reviewing the training content of SGPs, the frequency and method of training, the difficulties of follow-up activities, and the costs of training.

### **The Rationale for Training:**

All workshop participants consider training an essential component of the solidarity group strategy. Training is provided in short sessions to small groups of 15 to 25. Very little, if any, training is conducted prior to the first loan disbursement. On average, three hours per month are spent on training. Experience indicates that more time spent on training detracts from the enterprise, and costs become prohibitive.

SGPs do not consider the three to four hours of "orientation and information" given to each group prior to loan approval as training. Training also differs from technical assistance, which is provided on a one-to-one, unscheduled basis and concentrates on production issues specific to each micro-entrepreneur.

Training is seen as a catalyst for personal and group development, contributing to changing attitudes, overcoming existing limitations, and breaking down barriers. Training is not an end in itself, but a means for achieving overall program objectives. It is conducted throughout the life of the solidarity group and is based on needs assessment and established guidelines.

Several principles guide this approach to training including:

1. Each person is an agent of his or her own development;
2. Training not only addresses enterprise development, but reinforces leadership, solidarity and a cooperative approach;
3. The process of training improves the quality of the institution's staff; and
4. Training is based on non-formal, adult learning principles, taking into consideration that micro-entrepreneurs have little formal education.

On this basis, the training objective of SGPs is to improve the quality of life of micro-entrepreneurs by enabling them to take an active part in their personal development. More specifically, training seeks to: increase awareness of the potential of organized action to create change; promote values of cooperation, solidarity and leadership; increase the level of commitment to the program; increase the skills needed for entrepreneurial activity; and orient the micro-entrepreneur towards actions on behalf of himself, the family and the community.

This approach to training differs from that of more traditional programs, such as Fundacion Carvajal/Colombia and Fundacion Dominicana de Desarrollo/Dominican Republic, in which many hours of training occur prior to loan provision, and training is primarily concentrated on issues related to microenterprise development.

### **Training Content:**

While curricula, materials, training skills and techniques vary from institution to institution, workshop participants agreed that the training content of SGPs is very similar, and can be divided into two general training modules: Economic Unit and Social Unit.

#### **Economic Unit:**

All sessions in this unit relate to enterprise production, and concentrate on managing credit, buying and selling, and record-keeping. This unit directly addresses the process of credit extension and helps meet the credit objectives of the SPG. The material covered in this unit can be divided into five sessions:

1. Entrepreneurial Activity: highlights the importance of the micro-producer or micro-vendor; identifies the characteristics of a good entrepreneur; clarifies terms related to sales, credit, control, staff, production and planning.
2. Credit Management: defines the role of credit and its use; highlights the importance of prompt repayment; identifies alternative sources of credit; reviews credit application procedures.

3. Marketing: explores alternative marketing channels; explains the factors that contribute to effective buying and selling; creates mechanisms for monitoring purchases and sales.
4. Costing: emphasizes the importance of separating enterprise and family expenses; suggests ways of maintaining separate records.
5. Record-keeping: helps the micro-entrepreneur discover the importance of record-keeping; identifies the key factors in effective record-keeping; enables the micro-entrepreneur to design and practice the use of a record-keeping system.

#### **Social Unit:**

Sessions in this unit are designed to help the micro-entrepreneur better understand the context within which he or she operates, to develop traits that will enhance his or her capacity to bring about change, and to assist micro-entrepreneurs form their own group or association. Not only is the content important, but participating in the training itself enhances the capacity for collective response. This unit is one mechanism for achieving the program's objective of organizing entrepreneurs, and consists of five sub-units.

1. Cooperation and Solidarity: clarifies concepts of cooperation and solidarity; highlights the importance of solidarity for group growth; clarifies the concept of competition.
2. Leadership: identifies the key characteristics of a good leader; differentiates among types of leadership; promotes group feedback to each individual; promotes participatory leadership.
3. Needs Assessment and Group Ownership: assists participants identify common needs; reinforces each person's commitment and contribution to the group.
4. Human Relations: emphasizes the importance of communication and public relations in entrepreneurial activity; increases the individual's capacity to communicate clearly.
5. Individual and Group Worth: increases awareness of the value of each person and of the combined value of group members; promotes mutual support.

These units represent the core of the training content of SGPs. Each institution decides the emphasis to be given to each sub-unit, the time to be spent on each subject, and the material to be

covered. In some cases training also includes complementary topics requested by the participants, such as literacy, legal rights, family planning, and skills training. Some institutions, such as ADIM in Peru, have found that providing training in areas specifically requested by the beneficiaries, though not directly related to microenterprise activity, increases their commitment to, and sense of ownership of the program. Institutions lacking the capacity to meet this beneficiary need directly, have coordinated with other private or public entities, such as Servicios Nacionales de Aprendizaje (SENA) in Colombia, a public vocational training institution, to provide these training services.

### **Training Methodology:**

The training methodology used by all SGPs follows tenets derived from non-formal education and adult learning principles:

The trainer is a facilitator in the learning process, and must create an environment that encourages a risk-free exchange of ideas and open exploration of new concepts, attitudes and skills. SGP trainers introduce the subject matter, outline the objectives for the session, guide the discussion, and introduce techniques to encourage maximum participation.

Workshop participants identified the following four characteristics of a good trainer:

1. Direct contact with the community;
2. Knowledge of both subject and presentation techniques;
3. Ability to incorporate individual experiences into the training content; and
4. Capacity to win the trust of participants and to maintain a horizontal relationship with them.

The learning process builds upon each individual's existing knowledge and encourages participants to learn from each other's experience and knowledge. Trainers do not insist, for example, that micro-entrepreneurs all adopt the same record-keeping system, but help them each develop one best suited to their individual needs and capacities.

Participatory techniques are used to involve the trainees in the session. Small group work, role playing, brainstorming, self-assessment tools and consensus exercises are among the methods used in SGP training. Since the experience of participants in formal education is limited, long lectures and approaches based on a teacher-student relationship are not effective learning devices, and are used as little as possible.

Training is linked to action and understood as one component in a broader development effort to create jobs, enhance income, and equip the micro-entrepreneur to address problems individually and

collectively. Many of the techniques used emphasize "learning-by-doing" to highlight the practicality of the training material and to facilitate learning. In some cases, the material presented in the training session is reviewed in greater depth in the one-to-one technical assistance sessions.

Training is used to build self-confidence among participants. The training weaves into its content ways to encourage participants to reflect on their attitudes and assumptions about individual capacities, to experiment with new roles and behaviors, and to assess personal and group talent and limitations. SGP trainers assert that a well-designed participatory technique can enable a participant to learn a new skill and at the same time increase his or her sense of confidence. The goal is that, as a result of training, program beneficiaries will decide to organize and seek additional assistance in this process from SGP staff.

The location of training varies among SGPs. Decentralized training within the community is more convenient to the participants and can increase attendance and involvement. However, it is more costly to the institution in terms of transportation and staff time. It also often means less than adequate conditions (poor light, few materials, etc.). Centralized training, although expensive to the participant, gives him or her direct knowledge and familiarity with the institution, which can lead to a feeling of greater "ownership" of the program. Regular attendance may be difficult however, especially for women with small children. There is no conclusive evidence to suggest one approach over the other.

The frequency and duration of training also varies among SGPs. Nevertheless, they agree that training sessions should be scheduled in advance and conducted on a regular basis during the time that the groups use credit. The number of hours of training per month varies considerably. Fundacion Eugenio Espejo, for example, provides an average of 16 hours of training, while the majority of the Colombian programs provide one to two hours. The remaining programs conduct between four and six hours of training per month per group.

### **Costs of Training:**

Training activities, like any educational process, are a costly undertaking. Staff salaries, honoraria for outside consultants, material preparation, supplies, copying, audiovisual equipment and training space are standard line items essential for any training program. In the United States, for example, most international

development training institutions estimate that it costs over \$600 to train one person for one week.<sup>3</sup>

SGPs have reduced costs without reducing training effectiveness by designing short, well-targeted training sessions with carefully selected topics. They do not require weeks of training prior to loan disbursement because they have found it does not contribute to better repayment rates, improved production or increased empowerment of the beneficiary.

In addition, many training programs, including SGPs, attempt to cover some training costs by charging participants a service fee, selling training materials, sharing the costs with another institution, or devising a variety of other income-generating activities. Most programs cover the bulk of training costs through grants from international funding organizations.

What SGPs have not done, however, is to separate the training costs they incur from the costs of operating their credit components. This division of costs is important because the credit component can and should be operated in a self-sufficient manner, with interest income covering administrative costs. However, it is unlikely that the training component of these programs can become self-sufficient. It should, therefore, be budgeted as an activity requiring some subsidy. By combining the two components and attempting to cover training costs as well as credit operations with interest income, SGPs and other credit programs set unrealistic self-sufficiency goals which funders and others then expect them to achieve. In fact, donor organizations can support SGPs precisely by providing grants to cover training costs, and encouraging or requiring the programs to operate self-sufficient credit funds.

## **ORGANIZATION OF BENEFICIARIES**

The workshop discussion on the organization component considered the reasons for collective action, and the methods and difficulties of achieving it.

**Why Organize:** Organization is the third main component of SGPs. It is the most difficult to achieve, and the one over which the institution and program staff have the least control. The decision to organize ultimately comes from the program beneficiaries

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<sup>3</sup> Figure obtained from a review of tuition charged by U.S.-based training organizations for stateside training of persons from developing countries (USDA, The Centre for Development and Population Activities, International Management Institute).

themselves; the only thing the program seeks to do is to develop beneficiary capacity in this direction and create an environment that promotes collective action.

SPGs believe organization is one way to address the myriad problems the beneficiaries face, not only in their businesses, but in their families and communities. For example, micro-entrepreneurs operating in the informal sector with low levels of capitalization share problems such as:

1. Limited channels of distribution for their goods;
2. High costs of inputs and limited capacity to buy in bulk;
3. Poor product quality;
4. Precarious legal situation for their businesses;
5. Lack of access to adequate health and other social services;
6. Poor housing conditions and limited access to basic services (water, electricity, transportation);
7. Little experience of participation in associations or other organizations; and
8. Constant economic instability.

By offering credit, training and technical assistance, SPGs respond to some of the more pressing problems, but do not pretend to address them all. However, the programs themselves can become the vehicles for helping the micro-entrepreneurs seek solutions to common problems through their own initiative. Collective action represents one alternative, and can take various forms:

Economic-Based Organizations in which micro-entrepreneurs organize themselves along types of productive activities.

Social-Based Organizations in which the purpose is to improve access to some type of social service (health, housing, education) or to advocate for institutional and legislative changes on behalf of the micro-entrepreneur.

Mixed Organizations which have economic and social objectives.

Organizations with broader agendas do evolve from solidarity groups and contribute to the micro-entrepreneurs' capacity to pressure government and other institutions to initiate change. For example, in 1984 the Asociacion de Tricicleros in Dominican Republic, with elected officers and over 200 members, was active, among other things, in reviewing the licensing and other municipal requirements that raise the operating costs of its members. (Reichmann, 1984)

The stall vendors or "tenderos" in Cartagena, Colombia who participated in CDV's program, have formed an association, drafted bylaws, elected a coordinating committee, established and collected fees from members, and started outlining priority actions. Others

in Ecuador and Colombia utilize the cooperative formation approach in which micro-entrepreneurs either join existing savings and loans cooperatives or organize their own.

Experience shows, however, that it is extremely difficult to form organizations, and SGPs are only beginning to understand how to tackle the difficulties of achieving this objective.

#### **A Suggested Approach to Promoting Organization:**

SGPs have developed a two-stage approach to promote the formation of grass-roots organizations, and to help strengthen them in the early period of growth. The specific objectives of this approach, which is modelled on the Cartagena experience with stall vendors, are to:

1. motivate micro-entrepreneurs to analyze their own situation;
2. promote utilization of economies of scale in production;
3. demonstrate the importance of developing leadership and decision-making abilities;
4. promote the use of basic social services; and
5. enable micro-entrepreneurs to represent their interests through organized means.

The training approach is based on non-formal education principles. The training is aimed at helping micro-entrepreneurs discover the advantages of organizing for collective action and of making decisions for themselves.

The first stage consists of training sessions covering a variety of topics related to group formation: leadership, analysis of needs and resources, understanding of the informal sector in the broader economic and social context of the country, and reaching consensus. The content is organized around simulations of situations that participants will encounter in their own organizations: selection of leaders, group decision making, and participation in small group meetings, plenary sessions, meetings of elected leaders, and commissions.

In the second stage, training is based on the premise that the micro-entrepreneurs have decided to organize and are ready to take the first steps towards consolidation. The micro-entrepreneurs must commit themselves to attending two-hour meetings for fifteen days, consisting of thirty minute talks, and one and a half hours of group work. In addition, they must record the process of developing their statutes and organizational structure to assure that an institutional memory exists from the outset.

Some of the topics covered during this consolidation phase include:

1. The basics of production (e.g., division of labor, the value of work);
2. Organization in the workplace;
3. Types of workers' organizations;
4. Barriers to organizations;
5. Factors that strengthen organizations;
6. The basics of management and leadership;
7. Types of awareness (e.g., naive, informed, critical, individual versus group); and
8. Types of participation, and the importance of dialogue.

At the end of this phase, the participants have prepared their bylaws, discussed their priorities and objectives and have overcome some of the traditional obstacles that stand in the way of creating lasting organizations.

Workshop participants emphasized that the SGP role in organizing micro-entrepreneurs is only the first step in a long process. It is the group's desire for autonomy that ultimately determines the birth of an organization and its success. As one of its objectives, the program can define the promotion of micro-entrepreneur organizations, but it cannot set out to form these organizations. In the past, programs that decided a priori to organize beneficiaries into a grass-roots association met with failure because they imposed a model on the beneficiaries, creating a self-defeating dependence on the program, and ignored the search for autonomy that is the lifeline of grass-roots organizations. Wisely, SGPs no longer involve themselves directly in organizational decisions and respect the ability of micro-entrepreneurs to determine their own path and make their own decisions.

While there are examples of collective action emerging from the solidarity group programs, the experience with promoting organization among beneficiaries has been mixed. Most micro-entrepreneurs lack experience in group formation, most of their activities and survival tactics are individual, and it has been extremely difficult to move from the solidarity group phase to a broader, self-initiated association phase.

Some argue that SGPs should only concentrate on credit extension and provision of training and that their challenge is to be responsive to the poorest among micro-entrepreneurs while maintaining financial viability. It may be that under the current economic and social conditions in Latin America, meeting this challenge is accomplishment enough. Nevertheless, even with the demands to perform in a self-sufficient and efficient manner, SGPs are not abandoning their commitment to help beneficiaries find mechanisms for mutual self-help.

## CHAPTER III

### CURRENT CONCERNS OF SOLIDARITY GROUP PROGRAMS

Workshop participants identified four areas currently under study that are growing steadily in importance to SGPs. They are: Savings Mobilization, Additional Services to Beneficiaries, Graduation of Beneficiaries, and Program Self-Sufficiency. The last two factors have long-term implications for the SGP approach and are held up as two indicators of whether SGPs should be adapted to the urban poor in other Latin American, African, or Asian cities.

#### SAVINGS MOBILIZATION

Increasingly, the issue of savings has been included as a subcomponent of microenterprise programs. Arguments that the poor, living at subsistence levels, have no savings and cannot save, have been countered in a variety of recent studies. In Bangladesh, for example, the Grameen Bank Project, which provides credit to landless rural poor, has in five years generated over Taka 16 million (US\$1.3 million) in savings through group funds and Taka 3.4 million (US\$280,000) in an emergency fund, the total representing 10 percent of loans disbursed to date (World Bank, 1985). Most members of India's Self-Employed Women's Association (SEWA) had no previous experience in saving. Yet, in seven years, SEWA opened nearly 14,000 savings accounts worth over Rs.3 million (US\$300,000). (Sebstad, 1982).

Savings mobilization among micro-entrepreneurs has the following benefits:

1. it helps capitalize the micro-entrepreneur, increasing his or her financial independence;
2. it increases the family's economic stability;
3. it promotes the practice of saving regularly;
4. it decreases consumerism in family spending patterns;
5. it enables micro-entrepreneurs to gain access to banking and other commercial institutions, and
6. it enables micro-entrepreneurs to deal with emergency expenses, especially illnesses.

SGPs feature a variety of savings schemes. In most cases, the program participant is required to save a certain amount each month, depending on the size of the loan requested. Some institutions,

such as CIDES in Colombia, place this money into a cooperative savings account managed by the implementing organization and paying commercial interest rates. In others, such as ADEMI in Dominican Republic, the micro-entrepreneur opens a savings account at a bank that has established a working relationship with the implementing organization. The total combined savings of five SGPs that have been operating more than one year is approximately US\$80,000.

The degree of access that the micro-entrepreneur has to his or her savings varies. In some programs where the institution manages the savings accounts, the savings cannot be used, except in emergency situations, until the micro-entrepreneur leaves the program. At that time, he or she receives the accumulated savings plus interest. In others, the entrepreneur only has access to a percentage of the accumulated savings and interest. In both cases, savings are used as a means of guaranteeing loans, and of increasing the credit fund's liquidity situation.

SGPs continue to experiment with savings plans and to grapple with the implications of savings mobilization. They counter the argument that savings mobilization is based on forced rather than voluntary schemes by maintaining that savings is an established program requisite, similar to interest rates, loan terms and other credit policies. To join the program, potential borrowers must accept the whole package of program requisites.

From the perspective of SGPs, savings mobilization among the poor has significant demonstration effects regarding their propensity to save. In addition, savings mobilization can help increase the access of the poor to financial institutions, and is a first step toward the formation of their own savings and loan cooperatives (as in the case of FED in Ecuador).

#### **ADDITIONAL SERVICES TO BENEFICIARIES**

Additional services are not directly related to credit provision, or training and technical assistance as described in the Chapter II. The types of additional services a program provides respond to a variety of needs, such as health and family planning education, referral or service provision; home improvement; education and literacy; social security and other insurance plans; legal advice and services; child care; and other family services, such as counseling and mental health programs.

SGP staff recognize that it is impractical, financially prohibitive, and ultimately inefficient to expand SGPs into a wide area of activities that require different training, expertise, and resources. The urban poor, however, have myriad needs and problems that are interrelated. While no one program can address all

problems, neither should it "compartmentalize" its activity to one area and ignore others. Workshop participants suggested three approaches to providing additional services:

1. **The institution provides services directly, integrating already existing services into the SGP.** For example, ADIM in Peru has ongoing programs in legal services and family planning education and referral for women, and is able to extend these services to SGP participants with minimum cost. Others, such as CIDES in Colombia and ACP in Peru, operate home improvement credit funds that are made available to creditworthy SGP participants.
2. **The institution coordinates with other private or public service institutions.** In this case, the SGPs become a channel for information and an access to additional services for the beneficiaries. ADEMI, in the Dominican Republic, links program participants with educational institutions, and provides them with credit to pay for vocational training. Other programs coordinate with public institutions in immunization and health campaigns.
3. **The institution promotes problem solving among program beneficiaries.** FEE in Ecuador helped participants organize community-based child care. Women rotate the responsibility of caring for several children or share the cost of hiring one person to provide home-based child care.

There are advantages and disadvantages to each approach. For example, direct service provision strengthens the institution's links with the community and reinforces the participants' commitment to the program. However, direct service is costly and relies on the availability of trained personnel. Coordination with other institutions can be accomplished with minimal cost to the SGPs and can increase the beneficiary's access to services. This arrangement, however, depends on the willingness of other institutions to collaborate and provide quality services. Finally, promoting self-help increases the beneficiary's capacity to solve existing problems, but requires considerable SGP staff time, and can be used to address some but not all services.

## **GRADUATION OF BENEFICIARIES**

The graduation of beneficiaries from the program depends, in part, on the policies and goals of each institution. Therefore, the definition and criteria for graduation vary. As a general concept, graduation implies that an SGP participant leaves the SGP to seek credit and training from other sources. It assumes that the borrower has undergone social and economic growth through participation in the program, but has not moved out of an informal sector activity to become part of the formal sector.

SGPs give three reasons for graduating participants:

1. The borrower's credit need surpasses the institution's established maximum and continuation in the program constrains the productive activity of the enterprise.
2. Graduation increases the institution's ability to bring new borrowers into the program who are at a much lower level of capitalization and need small loans.
3. Graduation encourages program participants to become more self-reliant by turning to other sources of training and credit rather than developing a dependency relationship with the program.

Graduation may be as important for the institution as it is for the beneficiary. To continue meeting its objective of reaching the smallest and poorest among micro-entrepreneurs, the institution must gradually release those participants whose acquired level of investment and skills warrant additional resources. From the perspective of the program participant, it may be that the SGP no longer addresses adequately his or her need for credit, technical assistance, and training. In this sense, graduation of program participants may be the responsibility of the institution, or it may be accomplished through the participant's own initiative.

While this explanation appears simple enough, a major constraint in all SGP countries is that neither governments nor commercial banking institutions have established policies, regulations, and legislation to address the needs of informal sector economic activities. **Broadly speaking, Latin American and Caribbean countries lack the infrastructure to receive SGP graduates and to enhance their self-employment initiatives.** Few, if any, program graduates can meet the collateral and other bank requirements, nor can they easily approach vocational and other training institutions. A participant who graduates into this financial and training void runs the risk of reverting to dependence on the exploitative sources of credit that were his or her only alternative before the program.

The seriousness of this problem cannot be overemphasized. It is only recently that some governments have begun to study carefully the implications of their countries' ever-growing informal sectors. In the last two years, according to the Inter-American Development Bank (IDB), countries, such as Mexico and Colombia, have established public financial and training institutions whose priority is micro-enterprise development. Others, such as Ecuador, are in the preliminary stages of drafting legislation and developing guidelines for involving private sector financial institutions in this area.

In spite of these advances, serious problems persist that limit the degree of access micro-entrepreneurs have to the capital and training necessary for their economic activities. The resources

allocated to informal sector activities nowhere near approaches the demand. In addition, no country in Latin America or the Caribbean has passed or drafted legislation to require or encourage private sector involvement in this area. There has been little attempt to understand the major bottlenecks that prevent private financial institutions from considering the informal sector as other than a high-risk, low-profit venture. Factors that contribute to this attitude, such as existing banking regulations, class and race prejudices, demeaning attitudes towards the poor, and misinformation about their economic activities, are not being addressed.

SGP staff are grappling with defining the extent of their responsibility, and the degree to which they should be involved in pressuring governments and institutions for structural changes on behalf of micro-entrepreneurs. While they concentrate their energy and resources on implementing responsive and effective programs, they recognize that unless there are political, policy and legislative changes, the income and employment problems of the urban poor will become increasingly acute, and the long-term impact of SGPs will be limited.

Workshop participants suggest that graduation can take place effectively even under current conditions when the following guidelines are considered:

1. The participant is a member of another organization, such as a grass-roots organization;
2. There is discernible growth in the size of the firm;
3. The firm can generate some or all of its working capital;
4. Income has increased in real terms; and
5. There is evidence that training content is reflected in the management of the firm.

In addition, SGPs recommend that programs also explore the following:

- Coordination with other institutions that have greater outreach and cover small or medium enterprises, such as development banks;
- In the case of institutions that have other credit programs, such as cooperatives or individual credit programs, differentiation between internal graduation of solidarity groups into these programs, and external graduation to other sources;
- Organization of borrowers to tap credit and training from otherwise inaccessible sources by lowering risk, meeting

collateral or guarantee requirements, and decreasing administrative costs.

### **PROGRAM SELF-SUFFICIENCY**

A final key concern among SGP staff is the degree of self-sufficiency they can achieve in program implementation. Workshop participants defined self-sufficiency as:

A level or condition achieved by a program whereby through the program's generation of income and investment of capital, it is able to cover operating costs, to achieve independence from subsidies and grants, to continue providing adequate services, and to plan its future activities.

SGPs see self-sufficiency as a constant target for their programs. Self-sufficiency is essential to their programs because it:

1. guarantees program continuity;
2. promotes program expansion;
3. decreases dependence on outside funding;
4. responds to the scarcity of available resources on concessionary terms; and
5. reinforces the belief that microenterprise credit programs can be run like a business.

It is assumed that self-sufficiency can be accomplished if the following conditions are met: (1) The program has established mechanisms to maintain the value of the credit fund through interest income or other means. (2) Part of the program costs are assumed by the borrower, which can include their participation in loan collections, contribution to an emergency fund or other methods. (3) The program's disposable income is invested to generate additional capital. (4) Programs conduct local fund-raising drives to secure private and public sector support.

Clearly, there are factors the programs cannot control. For example, a high level of inflation can decapitalize a credit fund in a short time in spite of any mechanisms in place to protect it. However, SGPs contribute to the attainment of self-sufficiency by carefully monitoring self-sufficiency indicators, by adjusting program procedures to improve the existing level of self-sufficiency, and by using self-sufficiency as one measure of a project's success.

Most SGPs are attaining much higher levels of self-sufficiency than earlier credit and training programs. A review of the data available on five programs for the month of October 1985 shows levels of self-sufficiency between 33 and 101 percent, with an average level of 54 percent (ACCION 1985). This means that income

generated by the programs covered over half of their operating expenses during the month in question. Additional information on four of these programs indicates that interest income and other fees covered an average of 69 percent of the operating costs over the life of the programs, and that they expect to be self-financing by mid-1986.

These figures are especially impressive when one takes into consideration that, as in all microenterprise programs, SGPs' credit and training costs are budgeted together. It is difficult to separate the costs of providing nonfinancial services from the costs of operating the credit fund since these activities are closely entwined. They are usually implemented by the same staff persons, making it difficult to determine accurately, for cost purposes, the percentage of salary that should be considered a cost to credit or to training. The same is true for other expenses, such as supplies and transportation.

While separating costs by program component is difficult, it is important because this type of monitoring of costs will help to understand SGP potential for self-sufficiency. For example, it may indicate that the interest spread charged on credit will cover operating costs of extending loans, but that it is unrealistic to expect such a spread to cover all the costs of training as well, especially as programs increase their attention to organizing micro-entrepreneurs.

In any case, there is little doubt that these programs, by emphasizing cost-efficient operations, establishing self-sufficiency guidelines, and monitoring their own performance, provide important lessons for donors and other microenterprise programs. SGPs demonstrate that self-sufficiency cannot be measured in absolute terms, but must be viewed as a process the institution upholds as a priority, which donor organizations can help advance through timely disbursement of funds, their own careful monitoring, and continued support for expansion to programs achieving high levels of self-sufficiency.

**CHAPTER IV**  
**EVALUATION OF SOLIDARITY GROUP PROGRAMS**

**INTRODUCTION**

Determining the socioeconomic impact of programs is, of course, essential to any assessment of their usefulness. In the case of SGPs, which aim to affect the beneficiaries' lives in social ways, the impact of the programs must be examined at four levels: the enterprise; the beneficiary and the family; the community; and the institution that implements the program. Indicators of change for each category will vary and may include, for example, the following:

1. The enterprise: volume of sales, net profit, investment levels.
2. The beneficiary and the family: changes in income, employment, savings; allocation of additional income within the household; new technical and management skills; participation in associations or groups, involvement in community activities, increased access to resources; increased access to services (health, education, housing).
3. The community or local economy: increased organization; creation of alternative marketing channels; changes in regulations or legislation; employment generation; backward and forward linkages to productive sectors.
4. The implementing institution: quality/preparation of staff; management systems, revisions to organizational structure, level of impact on local environment.

While recording and analyzing the impact of SGPs should constitute the backbone of any evaluation, the term evaluation should not be limited to measuring impact. For example, in the case of a SGP's credit fund, the monitoring function is a critical component of evaluation because it enables program staff to measure day-to-day performance and to identify problem areas as they emerge. This monitoring process, which occurs parallel to implementation, is one way of making evaluation an integral part of the implementation process, and not a separate activity scheduled for after a project's completion. In the same way, follow-up activities to a training component, as in the SGPs, constitute another important facet of the evaluation process.

The purpose of this chapter is to provide a quick glance at some of the results emerging from three levels of evaluation information available on SGPs: monitoring the credit fund, follow-up to training, and program impact on the beneficiaries. In addition, this section seeks to highlight some of the reasons why the impact evaluation material on SGPs is so sketchy, and to identify possible ways to increase the emphasis placed on impact evaluation.

## **MONITORING THE CREDIT FUND**

The formation of solidarity groups and the processing of an initial loan are only the first steps in credit provision. At the same time, these programs handle hundreds, at times even thousands of simultaneous loans that must be supervised carefully for proper payment, and reviewed periodically to glean from them the information that is most important for continued credit provision. Devising a system for timely and efficient monitoring of the credit portfolio is a major challenge faced by SGPs.

Among items that must be monitored are: number of loans, total amount lent, new versus second and subsequent loans, average size of loan, portfolio in arrearage, and real costs of lending. When studied over time, this information can help a SGP surface patterns or problems in credit lending that can be addressed quickly, such as, too few new borrowers or a jump in the arrearage rate. All these factors will affect the overall impact of the program.

It is in the area of monitoring the credit fund that outside technical assistance from a U.S.-based PVO (ACCION/International/AITEC) has had enormous demonstrable impact. Accion/AITEC helps institutions develop simple and quick monitoring techniques that enable them to control the movement of their credit funds and to take immediate action in response to program crises. Each institution collects information monthly on about twenty program variables, as well as aggregates the data for the duration of the program. This information has been systematized over time so that all SGPs collect data on the same items and circulate these monitoring summaries among themselves (Gross, 1984).

Table 5 is an example of this monitoring tool. It uses seven Colombian programs to illustrate the quality of the information available and its utility for planning and programming. The summary form presented by the table allows one to compare the level of women's participation in the various programs and to flag problem areas in each. For example, one can compare the level of participation of women in the various programs, and investigate the reasons why a given program may have low female participation. The relationship between outstanding loans and loans in arrearage is easily computed and studied also, as is the number of groups that have overdue payments. The level of savings and costs per dollar

**TABLE 5**  
**MONITORING INFORMATION GATHERED MONTHLY IN SGPs and**  
**SUMMARY DATA FOR SEVEN PROGRAMS IN COLOMBIA (1)**

INSTITUTION/ MONITORING ITEM	CIDES	WWB	FF	CDV	ACTUAR(2)	CORFAS	CS	TOTALS
	BOGOTA	CALI	CALI	CARTAGENA	MEDELLIN	BUCARA- MANGA	MANIZALES	
1. Months of operation reflected in data.	28	28	28	28	10	6	13	
2. Number of Solidarity Groups	185	372	141	189	47	68	21	1,023
.micro vendors	(114)	(265)	(67)	(133)	(27)	(45)	(17)	
.microproducers	(26)	(103)	(18)	(12)	(6)	(23)	(2)	
.mixed	(45)	(4)	(56)	(44)	(14)	--	(2)	
3. Total number of persons in SG prgm	667	1,344	476	616	144	218	75	3,540
.women(%)	48%	66%	50%	60%	39%	43.6%	23%	
4. Total number of credits to SGs	2,469	1,807	616	807	67	115	112	5,993
5. Total # of credits to individuals	8,979	6,142	1,745	3,188	227	371	395	21,047
6. Total amount lent in SGs and to Individuals (\$US 000)	661	607	135	140	37.5	32.6	9.4	1,622.5
7. Average amount lent/SG	270	340	220	170	560	280	80	
8. Savings mobilization (Amount in Savings Fund (\$US 000))	22.6	10.5	1.7	3.5	n.i.	.6	.1	
9. Total amount Repaid (\$US 000)	622	532	125	129	15.3	20.1	7.6	1,451
10. Outstanding Portfolio (\$US 000)	51	94	15	16	20.7	13.2	1.9	198.6
11. Portfolio in Arrearage (\$US 000)	15	23	2.9	2.1	1.2	n.i.	.48	44.7
.% of outst'ing portfolio in arrearage	29.4%	24.4%	19.3%	13.1%	6%	n.i.	25.3%	
.number of groups in arrearage	42	98	27	14	6	n.i.	7	
12. Total amount of Renegotiated Credits (\$US)	0	760	150	1200	0	0	26	
13. Cost per dollar (3) lent (\$US)	\$0.03	\$0.09	\$0.04	\$0.15	\$0.12	\$0.08	\$0.30	
14. Financial Self-Sufficiency (%)	56%	44%	65%	33%	n.i.	33%	3.5%	

Notes:

- (1) Exchange rates used are as follows: Programs of 28 months' duration \$US 1.00 = Pesos 115  
 Programs of less than 28 months' duration \$US 1.00 = Pesos 150
- (2) ACTUAR's methodology is different from other six programs because it also works at the pre-entrepreneurial stage in formation of "famiempresas."
- (3) Figures for October, 1985. Overall program figures probably show higher costs and lower levels of financial self-sufficiency because they include the start-up period of each program, which are more costly.

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lent are also tabulated each month as indicators of the program's cost efficiency and savings mobilization.

This monitoring system also serves as an instrument for communication and exchange among the SGPs around monitoring issues of common interest. Finally, the table shows at a glance the relative as well as the aggregate magnitude of these programs, both in terms of the number of beneficiaries reached (over 3,500 in solidarity groups and nearly 6,000 through individual loans) and the total amount of credit extended (over US\$ 1.6 million to solidarity groups and individuals). Several other data areas are also important to point out:

1. The programs disaggregate beneficiaries by sex so that the level of participation by women is readily available. While there is considerable variation among the programs, six of seven have 39 percent or more women micro-entrepreneurs; three of the programs have 50 percent or more women participating.
2. Average size of loan to groups is small, with five out of six recording average loan amounts of US\$ 340 or less.
3. For the majority of groups, portfolio in arrearage is currently at an unacceptably high level, fluctuating around 25 percent of outstanding portfolio. This high level of arrearage is relatively new, and is partly caused by a recent government policy favoring larger wholesalers that encourages them to form "movable markets" to sell produce and other agricultural products. This government policy is bringing more and more wholesalers into the cities of Cali and Bogota and is undercutting the activity of the markets' vendors.
4. For each dollar lent, approximately US\$ 0.10 are utilized for administrative and operating costs. Of this total administrative cost, about 50 percent or five cents on the dollar are internally generated, leaving nearly the same in subsidized administrative costs. Not included in this calculation is the cost of money since almost 100 percent of the funds utilized in the credit programs are obtained through grants or soft loans.

The table does not provide information for time series analysis to study in greater depth the evolution and growth of the credit components of SGPs. However, most SGPs collect these data on a monthly basis, in some cases with the use of computers, which permits graphic and other representation of credit activity for analysis and control purposes. Monitoring procedures are an important strength of SGPs, and have contributed to the level of success with which these programs continue to reach urban poor while maintaining financial viability.

## **FOLLOW-UP TO TRAINING**

Follow-up to training is a bridge between program implementation and evaluation and serves two key functions: to monitor program performance, and to collect information for impact evaluation. Follow-up activities are a way of learning more about the micro-entrepreneur, the family and the community, and of determining whether the program is responding to the needs of the urban poor. In addition, follow-up sessions serve as a vehicle for such other activities as providing technical assistance to reinforce subjects covered in training.

Those SGPs that systematically follow-up training, such as ACP and ADIM in Peru, CDV in Colombia, and FEE in Ecuador, rely on internally developed instruments for gathering information. ACP, for example, conducts semi-annual interviews with each borrower on four topics: the micro-entrepreneur, the enterprise, the family, and the community. These data enable ACP to observe changes in a variety of areas, such as sales, production and profit, housing or nutritional improvements, and the micro-entrepreneur's involvement in community action.

FEE uses accounting sheets to collect monthly data on the business and to determine if the micro-entrepreneurs have acquired record-keeping skills.

ADIM, which works mostly with women, also collects data on fertility changes and contraceptive use.

Finally, CDV visits the place of work to verify the use of credit and to provide additional technical assistance.

Other programs have not emphasized follow-up and the need to collect baseline data. Still others conduct follow-up in a general, unsystematic way to obtain an overall idea of program performance. Program staff often lack the capacity and the resources to process all the data gathered for impact evaluation. As a result, information that would be instructive to the implementing institutions, funders, and national governments, often lies unused in file drawers.

It is understandable that programs that must pour their energies into establishing credibility, conducting an enormous number of simultaneous transactions to lend and collect money, and designing and conducting training have little time and resources left for follow-up activities. However, follow-up is tied intrinsically to overall program evaluation and holds the key to many of the lessons that can be learned from SGPs. As will be discussed below, program evaluation is one of the areas where SGPs must strengthen their capacities and performance.

## **A SUMMARY OF THE IMPACT OF SOLIDARITY GROUP PROGRAMS**

There is no systematic impact evaluation on SGPs that incorporates all four levels outlined at the beginning of this chapter, and no comparative impact study of existing SGPs. However, there are useful evaluative initiatives conducted either by program staff or outside consultants that give insight into the socioeconomic impact of SGPs.

Existing data indicate that SPGs overall have had a positive impact on the lives of the beneficiaries, their families and businesses. A recent study of 35 Colombian micro-entrepreneurs was conducted by Women's World Banking. Its findings were that in an eight-month period, business sales increased by 53 percent and profits grew by 45 percent. Similar evaluations based on sample surveys of 107 participants in the ACP program in Peru record economic indicators of change on a yearly basis, including monthly sales, and level of reinvestment into firm activities (Fernandez, 1984). These studies conclude that overall incomes for the sample group rose in real terms 33.6 percent in one year, and 55 percent in two years. In CIDES and FF in Colombia, samples indicate an average income increase among beneficiaries of 75 percent and 35 percent respectively in the first year of operation. The most thorough evaluation analyzes ACTUAR, also in Colombia, and documents a monthly jump in sales of 7.1 percent in real terms among beneficiaries, which translates into a monthly change in income of 5.3 percent (Lopez Castano, 1985).

Because most micro-entrepreneurs operate at near subsistence levels, evaluations generally find that SGPs have more impact on helping retain existing jobs (enhancing job sustainability) and on engaging family members in more productive activities, than on actually creating additional full-time jobs. Credit and training are used to keep the enterprise operating, rather than to expand it. These studies also assert that manufacturing activities hold the greatest potential for generating new employment.

The ACTUAR study cited above includes a detailed analysis of the employment generation of each type of microenterprise activity assisted by the program, thereby providing a scale of employment generation possibilities based on the type of microenterprise in question. For example, micro-producers in the areas of metal processing are likely to generate more jobs than those in woodworking, and considerably more jobs than those in textile processing.

Findings about distribution of benefits at the family level and the impact of the program on the local community also appear to be positive, but generally rely on more sketchy and anecdotal information. The ACP studies, for example, record that 95 percent of those interviewed assert that the availability of credit has enabled them to improve their living conditions, and to better

address basic family needs, such as health, education, and housing. The ACTUAR report identifies bottlenecks in the marketing systems and suggests that in the case of micro-entrepreneurs in Medellin, assisting them to organize collective marketing systems may be as important as the provision of credit. Additional indicators of social gains, e.g., capacity to organize, increased leverage, ability to make decisions, and others, are examined in general terms, but without the rigor necessary to include them among program benefits.

There are also examples of the complexity and difficulty of evaluating SGPs, and of the importance of considering the whole spectrum of factors that determine program impact. The evaluation of the CDV program in Cartagena, Colombia, divides micro-entrepreneurs into three categories and records different program impacts on each category (Coto, 1984). A study of participants demonstrated that while income increased among stall vendors by about 11.6 percent, it remained unchanged among micro-producers and decreased by 10.7 percent among micro-vendors. The study highlights the increased pauperization of micro-vendors in spite of their participation in the program, and suggests contextual factors to help explain these results, such as a drop in consumer demand due to increased competition from wholesalers or, in the case of micro-producers, an excessive increase in the costs of raw materials. Further, the formation of an organization of tenderos resulting from their participation the program represents an important part of the program's impact, yet it cannot be measured as easily as the economic categories above. From this particular program experience, one can conclude that participation in the program, while not contributing to income improvement among the stall vendors, did make a difference in their ability to organize and increased their potential for bringing about a longer-term change on their own behalf.

## **BARRIERS TO EVALUATION IN SGPs**

The above findings are a mere sketch of the socioeconomic impact of SGPs and are presented to give a glimpse into the benefits derived from these programs. However, the search for impact data on SGPs raises a more important concern regarding the quality and frequency of SGP evaluation. Unlike SGP monitoring systems, there are no established guidelines for SGP evaluation. Partly for this reason, there is little systematic, standard evaluation at the program level (with the exception of ACP, and perhaps CDV) and there is no comparative baseline or impact data to analyze the relative socioeconomic impact of these programs.

There are many reasons for this lack of systematic, high-quality evaluation including:

1. The cost of evaluating impact is high. In the case of

SGPs, which emphasize the need for participatory evaluation, the cost of evaluating impact is even greater. This cost can seldom be assumed by an implementing institution intent on maintaining low operational costs.

2. The lack of clarity regarding identification of the audience for the evaluation can diffuse the impact and reduce the quality of the evaluation. The audience may be the beneficiaries, the implementing institution, the donor organization, or others interested in the program. The needs and perspectives of these various audiences are quite diverse and it is difficult to conduct one evaluation that will respond to all of them. In addition, donor organizations tend to take more seriously the evaluations they commission directly than those prepared at the request of the local institutions. Yet such evaluations may not be as useful for the implementing institutions because they are seldom translated into Spanish and systematically discussed with the program staff.

3. Finally, due to lack of time, resources, and technical expertise, information available for evaluation is not well used. For example, there is an unexploited wealth of information in program files that program staff have been unable to codify, systematize or tabulate.

#### **SUGGESTED APPROACHES TO THE EVALUATION OF SGPs**

Considerable work has been done in developing frameworks for evaluation and microenterprise programs and for capturing the full dimension and complexity of their impact (Santo Pietro, 1983; Lassen, 1984; Goldmark and Rosengard, 1985). SGPs can draw a great deal from this available material in developing their own uniform approach to evaluation. In the process of improving evaluation efforts, SGPs, with assistance from their donors and other supportive organizations, can formulate an evaluation plan that:

1. utilizes information currently in the files;
2. permits valid comparative analysis among programs;
3. utilizes staff's knowledge about the programs and the beneficiaries through mechanisms that avoid overloading their already demanding schedules;
4. includes mechanisms for breaking down some of the institutional resistance to outside evaluators, such as participatory planning and evaluation teams; and
5. includes follow-up instruments for training, which can yield baseline and time series data for impact evaluation and include economic and social indicators.

The workshop represented a first step in this direction. Participants identified the main areas that should be evaluated under each program component. The next step, the consolidation of an evaluation framework developed by the implementing institutions in consultation with beneficiaries and technical assistance organizations, and the training of SGP staff in tabulation and analysis of evaluation material, requires a second workshop that focuses on evaluation as the major objective.

## CHAPTER V

### ISSUES FOR FURTHER LEARNING

As SGPs evolve they face similar questions and problems. Five issues that have emerged in most of the SGPs and that cut across specific program components are discussed below. Several of these topics were discussed in a preliminary fashion during the workshop. At the request of the author, about twelve workshop participants who had completed their other small group work participated in a round-table discussion that covered most of the subjects that follow. This chapter reflects their input as well as the author's overall observations.

#### THE DYNAMICS OF A SOLIDARITY GROUP

While much has been written and documented about the SGPs and their social and economic impact on micro-entrepreneurs, we still know very little about the internal workings of the solidarity groups themselves. What emerges from the available data and project experiences is a general understanding of how solidarity groups are formed and the characteristics they have in common.

The impetus for group formation comes from outside the group, with credit as the incentive. The lending organization sets some of the rules for group formation, such as group size, use of credit, and training requirements. At the same time, selection of group members, group consolidation and growth, and group decisions are left largely in the hands of the group members. For solidarity groups to function, the group members themselves must assume responsibility for maintaining the group and enhancing its cohesion. It is the combination of parameters and incentives set by the solidarity group program, and the decisions and responsibilities assumed by the group members that form the basis for solidarity group formation. There are general patterns that guide this type of group formation: friends seek friends to comprise the group, groups tend to form along lines of activity rather than geographical proximity, and groups continue functioning and using credit even when one or more of the members change.

A review of the numbers (thousands of SGs are operating currently) and results from a variety of interviews with micro-entrepreneurs (Fernandez, 1984; Coto, 1985) generally indicate that micro-entrepreneurs willingly assume the organizational and leadership tasks that enable the solidarity groups to function. While there is initial resistance to group credit, some of which survives even after participating in solidarity groups, microentrepreneurs in the majority of cases express a preference for group credit over individual loans, and remark that the group experience has expanded their ability to solve problems and to make decisions.

While this information is extremely important, not enough is known about two issues that are key to understanding the contribution of SGPs to the social and economic development of urban poor micro-entrepreneurs.

First, the evolution of a solidarity group, its decision-making process and internal life, if any, beyond obtaining and repaying loans, has not been documented. While recording the growth process and consolidation of any group is costly, time-consuming, and rife with methodological problems, greater insight into this facet of the SGPs is essential to a full understanding of the strengths and limitations of the SGP approach.<sup>4</sup>

A second important factor that is not fully understood is the relationship between solidarity group formation and broader organization of micro-entrepreneurs around issues of common concern. SGPs seek to provide both credit and training to micro-entrepreneurs and to empower them through the experience of collective action. The degree to which solidarity groups evolve into larger grass-roots organizations varies from country to country, and even within countries. The emphasis placed on the solidarity group as an intermediate step to broader organizing also varies a great deal from institution to institution and depends on the interpretation and level of priority each institution places on the program's various objectives: to extend credit and training, and to assist in the overall development of the micro-entrepreneur. However, even in those situations where SGPs have played an important role in organizing micro-entrepreneurs, such as the stall vendors "tenderos" of Cartagena, Colombia, there is little documentation to help understand the issue and draw lessons for other SGPs. As SGPs increase their emphasis on organizing borrowers around larger issues, such as pressuring for improved legislation and regulation or seeking financing from commercial institutions, strengthening current knowledge in this area will become paramount.

#### **THE LIFE CYCLE OF SOLIDARITY GROUP PROGRAMS AND THEIR POTENTIAL FOR EXPANSION**

One can identify several stages in the evolution and growth of most SGPs. A program starts out slowly as it gains credibility and receives approval from its potential beneficiaries. After this promotional phase, it takes off rapidly, reaching a large number of beneficiaries in a short period of time, and disbursing loans whose aggregate amount is as high as the credit fund will allow. There is then a period of less activity when the program's liquidity situation requires fewer loan disbursements. Eventually, the loan

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<sup>4</sup> Jeffrey Ashe, Senior Associate at Accion International, currently is researching this topic.

capital begins rotating and the program reaches the maximum level of beneficiaries it can assist without additional inflow into the credit fund.

Closely related to this "life cycle" is the constant need and pressure to expand program activities. Almost from the start, demand for credit and training outstrips the supply, yet expansion may be inhibited by lack of funds, a wise reluctance to grow too quickly and organizational structures and systems not suited for larger undertakings.

Programs have started experimenting with "planned expansion", increasingly turning to decentralized models of operation as a strategy for growth. Work teams set up small, low-cost offices or sucursales in various parts of the city or in secondary cities. Most business is conducted from these branches rather than from the institution's headquarters, giving the work teams greater decision-making authority regarding loan approval and other program issues.

As many programs enter their third or fourth year of operation, a series of questions related to program evolution and expansion merit further consideration. Do SGPs reach a point of maximum capacity beyond which they cannot or should not grow? Should each evolutionary stage of a SGP be evaluated in the same way, using the same sets of indicators to measure program performance and impact? Are there identifiable bottlenecks resulting from the model itself, the institution, or the socioeconomic environment that programs should address? And finally, what is the role of an outside technical assistance agent in assisting an institution to initiate a SGP or expand an existing one?

## **THE ROLE OF THE PROMOTER**

The promoter is a linchpin in the SGP approach. The role of the promoter encompasses a variety of responsibilities related to credit provision and training. From the outreach and promotion stage, through the review of loan applications, to their disbursement and collection, and in nearly all training and technical assistance, the promoter is the main contact between the beneficiary and the program. In most programs, each promoter is responsible for all activities related to a given number of solidarity groups, which varies widely among the institutions, but averages around 45 groups, or 180 persons per promoter. SGPs emphasize that program success depends in great part on the promoter's mística, a term which loosely translates into a combined sense of mission, commitment to the program, motivation, and enthusiasm.

It is the promoters who also know the minute details and intricacies of the program, and who carry in their collective memory a wealth of information about the programs and the beneficiaries. Yet very little is known about the background of these

promoters, what attracted them to the program, what knowledge and talents they bring and, indeed, what information they have, especially about beneficiaries. Further, there are no ways of measuring whether there are recurring gaps in the staff's knowledge base, or if they feel their performance could be enhanced with training.

A study of the role of the promoter to identify the characteristics of an effective promoter, to determine how their collective program and beneficiary knowledge can be tapped, and to explore alternatives for attracting and retaining good promoters, can lead to more efficient use of promoters and strategies for reducing staff turnover. Such a study is especially important at a time when cost-efficiency dictates low salary levels for the staff of SGPs and possibilities for advancement are limited.

### **THE IMPACT OF SOLIDARITY GROUP PROGRAMS ON IMPLEMENTING INSTITUTIONS**

The types of institutions currently implementing solidarity group programs include: national development foundations (FED in Ecuador), cooperatives (CIDES in Colombia), community development organizations (FF in Colombia), private non-governmental development institutions (ACP in Peru, and ADEMI in Dominican Republic), social service institutions (Cruzada Social in Colombia), and women's institutions (WWB in Colombia and ADIM in Peru). In some cases, such as FF and ADEMI, the SGP constitutes the institutions's main activity. In others, such as CIDES and FED, the SGP is only one of many development programs the institution implements.

Informal discussions with representatives from these institutions and SGP staff indicate that the process of implementing a solidarity group program has had profound impact on almost all of the institutions, most of which is considered positive. Among the larger, more diversified institutions, management systems, decision-making procedures and internal monitoring activities for other programs appear to have been affected by the presence of a SGP. In others, the challenge of operating a financially viable program has forced the institution to reassess its goals and objectives. In short, most institutions indicate there is a link between implementing SGPs and institutional changes.

All the above is very tentative and anecdotal information. In the case of SGPs, the relationship between institutional growth and program implementation is not understood. While several studies identify the overall characteristics of institutions that implement effective small and microenterprise programs (Ashe, 1985, Blayney and Otero, 1985, Stearns, 1985), the next step - to determine if the process of implementing a SGP leads to positive or negative organizational changes - has not been analyzed closely.

## THE PARTICIPATION OF WOMEN MICRO-ENTREPRENEURS

If one judges from the perspective of the number of women they reach, SGPs fall among the most exemplary of all development efforts. While the earlier SGPs did not set out specifically to reach women, they quickly found that the large majority of market vendors, and the poorest among micro-producers, are women. To assure that women were reached, programs began adapting existing procedures and requisites and establishing gender-related targets. Some programs conducted promotion through institutions or networks of women, hired female promoters to break cultural male/female barriers, and examined their lending criteria to ensure that they took women's disadvantaged position into account. Other programs cater directly to women as the primary beneficiaries, arguing greater need, especially among women who head households.

Today, most SGPs count at least 50 percent of beneficiaries as women. For the Colombian programs, the figure is 60 percent. These programs have achieved the integration of women's economic activities from the point of view of the economy as a whole and from the point of view of the poor urban household. This achievement alone holds important lessons for other development programs.

However, there is additional work the SGPs can do in this area. There is almost no information available from SGPs analyzing the program's impact from a gender perspective. Anecdotes abound and are used to substantiate claims that women are better credit risks, tend to spend additional income on the children (education, clothes, food) rather than on themselves, and are more responsible in group activities.

Currently, few organizations disaggregate data by sex in a way that permits them to draw gender-related conclusions about program performance and impact.<sup>5</sup> Further, few program staff perceive that the wealth of information that can be collected, tabulated and analyzed regarding women and SGPs not only can increase our knowledge in this area, but can contribute to policy and programmatic changes in other institutions, national governments, and donor organizations.

While there are many other issues one can explore vis à vis SGPs, those suggested in this chapter, as well as the four discussed in Chapter III, appear to be the most important to highlight at this stage of growth for most SGPs. It may be that as new programs emerge, as is happening in Colombia, Costa Rica, Paraguay, Brazil and other countries, the learning obtained from the "first generation" of SGPs will enhance their effectiveness and success.

<sup>5</sup>-----  
An important exception is FED in Ecuador, which, in conjunction with The International Center for Research on Women, is conducting an in-depth, two-year study on the SGP and its impact on women micro-entrepreneurs.

## CHAPTER VI

### CONCLUSIONS AND RECOMMENDATIONS

#### SUMMARY CONCLUSIONS

This chapter highlights the major conclusions emerging from this study of SGPs. It is important to reemphasize that this document is based solely on the proceedings of a one-week workshop of 31 SGP staff and from supporting documents from PACT and the SGP implementing institutions. The author did not visit any programs, speak to program beneficiaries, or collect data outside the workshop experience. While questions about SGPs remain and should be addressed through field work, there are important conclusions one can draw about these programs based on the available information.

1. There is a wide variety of institutions involved in SGPs. How each interprets, adapts, and implements the "approach", depends on the institutional philosophy, its leadership, and its definition of development. What emerges from their collective experience is a model for reaching the urban poor that is adaptable to many types of institutions and can serve as an initial framework for other programs.
2. SGPs tend to reach the poorest among the economically active urban poor. However, urban dwellers with no self-employment initiatives and no skills, who depend on occasional jobs for income and who constitute the neediest among the urban poor, are not reached by SGPs.
3. The participation of women in SGPs is among the highest in development programs largely due in to two factors. First, these programs recognize the importance of women's economic activities for the economy as a whole and for the poor urban household. Second, the programs have adapted existing procedures and requisites to ensure that women are not excluded from the program's resources.
4. There is a consensus among SGP staff that the formation of solidarity groups is not enough. It represents an intermediary step to a broader process of organizing among beneficiaries, a process the implementing institutions should foster.
5. Donor organizations and others may burden solidarity group programs with a variety of unrealistic expectations. These expectations may reflect the outside institution's development philosophy more than a realistic appraisal of what solidarity group programs can and cannot accomplish. For example, the objectives set by SGPs are both to achieve self-sufficiency in operation and to continue promoting the organization of beneficiaries beyond solidarity group formation. These two objectives are neither

mutually exclusive nor necessarily complementary, but a donor's influence may encourage or pressure an institution to emphasize one more than the other.

6. SGPs have proven to be an effective and responsive approach to reaching the urban poor with credit, training and technical assistance. They consistently demonstrate high repayment rates, higher levels of self-sufficiency than earlier credit programs, and the ability to impact on the economic and social well-being of the beneficiaries.

7. A key ingredient of effective SGPs is committed and motivated staff who believe in the program's objectives, understand community development principles, and have some technical training in financial and related areas. In general, program staffs are overworked and perform admirably for little remuneration.

8. The quality of program monitoring is exemplary primarily due to the technical assistance provided by ACCION International/AITEC. Existing monitoring systems have enabled SGPs to assess program performance on a monthly basis and draw comparative analysis among programs.

9. Training is crucial to the success of SGPs. For training to be effective it must be provided in conjunction with credit, must not require an excessive amount of time from the beneficiary, and must cover economic issues important for the operation of the enterprise and social topics necessary for group formation and organization.

10. Savings mobilization among the poor, through SGPs, enhances their economic situation and has significant demonstration effect regarding their propensity to save.

11. There are no easy solutions to the problem of graduating SGP participants to other sources of training and credit, primarily because Latin American countries lack the infrastructure to receive SGP graduates and to enhance their self-employment initiatives. SGPs could play an important role in accelerating policy and programmatic changes on the part of governments and financial institutions in order to address this problem.

12. Most SGPs are attaining higher levels of self-sufficiency than earlier credit and training programs, while reaching smaller and poorer entrepreneurs. The average program has attained over 50 percent self-sufficiency in operation.

13. The quality of impact evaluation in SGPs needs improvement. There is no uniform framework for impact evaluation. Therefore, the relationship between program performance and impact on beneficiaries is not documented thoroughly. While the fact that beneficiaries continue to demand credit and to repay it on time are

important overall indicators of the programs' impact, a more systematic analysis of program impact would yield important lessons at the programmatic and policy levels.

14. **There are topics related to SGPs that have not been explored carefully.** This document suggests several: the internal workings of solidarity groups, the identifiable stages of growth of each program, the SGPs' potential for expansion, their impact on the implementing institutions, the role of the promoters, and the participation of women micro-entrepreneurs.

## **RECOMMENDATIONS**

The recommendations of this study are not comprehensive, but are limited to the subjects covered in the workshop. They are focussed on five areas.

### **1. Maintaining the Basic Premises of SGPs:**

SGPs have demonstrated that their approach to credit extension and provision of training and technical assistance is effective and basically sound in spite of problems. The key program ingredients (including group formation, loan application and review procedures), the terms of the loans (commercial interest rates, working capital loans, small amounts for short duration), the training content and methodology, the emphasis on high repayment and quick portfolio turnover, all contribute to the program's effectiveness and should be retained by existing institutions or by those interested in initiating a SGP.

### **2. Emphasis on Self-Sufficiency:**

SGPs should continue to use the level of program self-sufficiency as one measure of program success. All programs, however, should seek to separate the operating costs of the program's main components: credit, training, and organization of beneficiaries. In all cases, the credit funds should aim to be self-sufficient, covering operating costs within a specific period of time. This period of time will be determined, in part, by the size of the credit fund and the economic and political climate of each country. SGPs should need outside assistance only to increase the size of the credit fund, not to operate it.

Training and organization costs (salaries, transportation, administration, supplies and others) should be kept separate from the credit's operating costs, and programs should seek to raise outside grants for these activities. In turn, donor organizations should differentiate between a program component that can achieve self-sufficiency and one that probably cannot, and should avoid confusing the two.

### **3. Program Evaluation:**

SGPs are at various stages of development, with the earlier programs approaching three years of operation. Implementing institutions must find effective ways to evaluate the impact of these programs and to disseminate this information to other development institutions. Perhaps the first step, as has been suggested by the workshop participants, is to plan a second workshop of SGPs to focus on developing an evaluation framework and identifying the priority "learning" areas such an evaluation would cover. Donor organizations can assist in this process by providing the funds needed for such a workshop and by sending representatives to observe or participate.

### **4. The Importance of Organization of Beneficiaries:**

Several SGPs have demonstrated that it is possible to assist micro-entrepreneurs in forming their own organizations. SGPs should continue to emphasize this facet of their work, especially once a program has been in operation for at least one or two years. The degree to which SGPs can assist the development of grass-roots organizations is still not well-known because most SGPs have been in existence less than three years and have focused on credit extension and training. Programs that have proven their viability and have effective systems for credit and training in place should consider approaching donor organizations for the specific purpose of promoting organization among program beneficiaries.

### **5. The Role of Donor Organizations:**

Finally, SGPs provide an opportunity for considerable learning in a relatively new area--assisting the economic activities of the urban poor. The subject is complex, yet of vital interest to any agency whose mandate is to foster development among the poorest in developing countries. Donor organizations can take an active role in multiplying the potential impact of SGPs by:

1. Identifying areas of learning suggested by SGPs and funding their investigation;
2. Continuing to support SGPs financially while demanding high levels of program self-sufficiency;
3. Conducting careful evaluations of program outcomes;
4. Assisting to strengthen the capacity of local institutions interested in implementing SGPs; and
5. Assessing the validity of the approach for other Latin American, African, and Asian countries.

## APPENDIX A - MICRO-ENTERPRISES:

### AN OVERVIEW OF THE ECONOMIC ACTIVITIES OF THE URBAN POOR

In general terms, microenterprises are productive or economic units that target their goods and services to local markets, a factor that differentiates them from subsistence activity on the one hand, and from export-oriented industry on the other. Although many of these enterprises are one-person firms, the activity of microenterprises implies coordination of a variety of functions - money, marketing, and management - for a specified economically productive end.

Microenterprise activity exists in nearly all sectors of the economy, and can be categorized under manufacturing, commerce and services. The following chart suggests examples of microenterprise production in each of these three subsectors for Latin American and Caribbean countries.

#### TYPES OF MICRO-ENTERPRISE

<u>MANUFACTURING</u>	<u>COMMERCE</u>	<u>SERVICE</u>
- food processing	- neighborhood corner stores	- repair and maintenance (electrical appliances, plumbing, automobiles, consumer durables, home repair)
- textile processing (tailoring)	- small restaurants	- transportation
- furniture making	- street vendors (food, convenience store)	
- processing leather, metal, wood		
- ceramic/artisan goods		

All microenterprises regardless of subsector share characteristics which differentiate them from other modes of production prevalent in developing countries, and allow us to separate them from large, medium, and even small enterprise production. Ernesto Parra Escobar, in his recent analysis of microenterprises in Colombia, suggests the following three (Parra Escobar, 1985):

1. The owner/entrepreneur in a microenterprise is also the wage employee, and participates directly in the production process. In medium and large enterprise, such as an oil-extracting plant or a textile processing firm, the entrepreneur is the owner of the capital - the enterprise - but does not contribute with his labor to the production of goods and services, and may not even know very

much about the production process. In microenterprises, family labor, usually with no remuneration, is an extension of the owner's participation in the production process. In a real sense, the entrepreneur is still the worker.

2. **The division of labor among workers in microenterprises is minimal.** Because of its informal, flexible organization, workers are usually engaged in a series of activities related to the production process, from purchasing inputs, to use of various pieces of equipment, to distributing the final product. For example, an apprentice to a tailor learns the trade not by concentrating on one aspect of production, but by gradually mastering all of its different steps.

3. **High labor intensity and the use of low levels of technology also differentiate microenterprises from other firms.** Hand-held tools and simple equipment that is easy to maintain and does not require large start-up capital predominate in micro-enterprise activity.

On this basis, one can differentiate microenterprises from small and large firms, and define microenterprises as units of production of goods and services in which there is little or no separation between capital and labor, limited division of labor among its workers, and use of low levels of technology.

#### **CLASSIFYING ENTERPRISES BY SIZE:**

Although the size of the enterprise is used most often as the logical starting point for firm classification, one can only use it effectively with the above three characteristics as background. Fixed asset amounts (machinery and equipment) and number of wage employees are two quantifiable indicators of size of enterprises. Although there is great variation on the use of these indicators, and each country, government, and institution defines the upper limit of fixed assets and number of employees according to their needs and priorities, one can generalize and say that for Latin America and the Caribbean, a firm is considered a microenterprise when it employs no more than five persons (wage employees), and has fixed assets of less than \$ U.S. 10,000 (Kilby, 1985; Ashe, 1985).

There are qualitative measures of size that further clarify the nature of microenterprises.<sup>1</sup> Five are suggested here:

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<sup>1</sup> For a more detailed analysis of qualitative indicators of size, see Blayney and Otero, Small and Micro-enterprises: Contributions to Development and Future Directions for AID's Support, AID, November 1985, pp. 10-13.

1. **Location:** Microenterprises often operate out of the owner's home or from makeshift quarters. In most cases, the enterprise is one of several productive activities for the family, and labor and capital are shifted among the various activities based on need and circumstance. Microenterprises engaged in retail and trading often sell their goods from mobile carts or from a shifting location on the street.

2. **Production and Organization:** The management of a micro-enterprise - planning, accounting, and record-keeping - is resolved on a day-to-day basis in no planned or systematic way. Family labor and apprentices who are paid in-kind are used as the need arises. Production varies in quality within the same firm and can be quite disparate from week to week. Finances, usually for working capital, come primarily from local moneylenders and the extended family.

3. **Skill Level:** Most micro-entrepreneurs have little formal education, and register high rates of illiteracy. Most of them also lack formal vocational training, and use the skills passed down in the family or acquired while serving as apprentices (Anderson, 1982). Women, who make up a large percentage of micro-entrepreneurs, apply the skills they perfect through traditional domestic chores to income-generating activities, especially textile processing (e.g. sewing and embroidery) and food processing (e.g. street food vendors, candy making, pastries) (Dulansey and Austin, 1985).

4. **Externally-Supplied Inputs:** Most micro-entrepreneurs have limited access to the inputs of the productive process, such as finance, imported capital, intermediate inputs, knowledge of effective production techniques and assistance in improving the administration of the firm. Limited access in these areas increases the firm's vulnerability and margin of risk.

Having outlined the characteristics that differentiate micro-enterprises from other modes of production in the economy, one can further disaggregate the concept of microenterprises to establish important differences among them. One can suggest a three-tiered categorization as follows:

-- those microenterprises that accumulate capital, reinvest it in the firm, and gradually expand production. Many manufacturing and service enterprises fall into this subset. Eventually, these firms may grow enough to be classified as small enterprises.

-- those microenterprises that accumulate very small amounts of capital, enough to maintain a given level of production and repair existing equipment. Manufacturing and service are also represented in this category, which also includes commerce, such as corner stores and small restaurants.

-- **those microenterprises without capital accumulation**, in which all profits are used to cover the family's basic needs. Most street vendors, especially street food vendors, fall into this category in which the enterprise provides a variable daily income, but seldom yields enough for expansion of production. Women predominate here because of their lower skills level, and because they must combine their domestic responsibilities, especially childcare, with economically productive activities (Lycette, 1984).

These variations among microenterprises mean that one can differentiate between **micro-producers**, those in the first two subsets, and **micro-vendors**, those that operate closer to subsistence level. These differences are important because they help to identify more precisely the characteristics of potential program beneficiaries, whose education, economic situation, social and structural constraints, level of productivity, and ability to generate income and employment varies depending on where in this continuum the microenterprise is found.

In order to maintain or expand their self-employment efforts, micro-producers and micro-vendors share a need for at least four types of inputs:

- **access to capital**, especially in the form of credit, is one of the major bottlenecks that micro-entrepreneurs face. Moneylenders, at usurious rates, are the major source of credit for persons who cannot meet the credit requirements of the formal commercial sector. Since most entrepreneurs need quick working capital, the ability of moneylenders to respond quickly and provide short-term finance makes them the only accessible alternative. Monopolizing the finance available to micro-entrepreneurs, the moneylender can determine interest rates on lending, which can be as high as 20+ percent per day.

- **access to training**, whether in the day-to-day management and administration of the enterprise or in the mechanics of production, is not available to micro-entrepreneurs. In many cases, lack of formal education and/or resources limit their eligibility for government or private sector programs.

- **access to technical assistance** is also essential in enterprise development, yet a micro-entrepreneur can neither contract an advisor nor pay for his or her services. Such technical assistance can cover legal, administrative, market, and technological considerations particular to a given enterprise.

- **organization among entrepreneurs**, which can enable them to overcome existing structural constraints that limit their access to resources and increase their costs, is a final area of need for micro-entrepreneurs. Collective response to factors that affect the production process (purchase of inputs, distribution and marketing), or to factors that determine the resources available to them

(government regulations, commercial sector legislation) is an essential mechanism to strengthen this subsector's position in the country's economy, and contribute to a more broad-based distribution of resources within the society.

Poor micro-entrepreneurs operate largely in the informal sector and their economic activities generally escape recognition, regulation, government protection or enumeration (Moser, 1985). It is in the context of what constitutes a microenterprise, and what prevails as the micro-entrepreneurs' most urgent constraints that one must review the solidarity group approach. The SGPs are one alternative for addressing the needs of this significant but neglected subsector of economic activity in Latin America and the Caribbean.

## APPENDIX B

### WORKSHOP OBJECTIVES, METHODOLOGY AND FOLLOW-UP

The objectives of this week-long workshop were to:

1. Exchange information among programs that utilize the same methodology;
2. Compile a manual on the strategy for use by institutions that may consider initiating such a project;
3. Develop a document that will serve as feedback to the participating institutions, summarize the learning to date, and disseminate information about solidarity group programs to donor agencies and others in the development community.
4. Create a workshop environment for reciprocal technical assistance based on individual experiences.

The content of the workshop centered around seven themes identified by the participating institutions as both key to program success and of interest to all implementing agencies. These are:

- Credit: policies and methodologies for provision;
- Training: policies and methodologies for provision;
- Organization of beneficiaries into associations or other types of organizations;
- Graduation of beneficiaries to other credit and training sources;
- Program self-sufficiency: suggestions for its achievement;
- Savings mobilization: its importance and mechanisms;
- Additional services provided by the programs.

The methodology used during the workshop was based on participatory learning techniques. The participants worked in three separate subgroups for three days, each concentrating on one topic. Scheduled sessions for periodic feedback among the three groups, plenary sessions, and information exchange among the facilitators of each group served to inform all participants of the content and nature of each subgroup's discussion. During the second half of the workshop participants worked in four separate groups, each discussing one topic. A final plenary served to summarize the proceedings and highlight recommendations.

Each subgroup summarized its findings, conclusions, and recommendations in writing. These documents were compiled and published as the final report of the workshop.

Participants assumed additional tasks. They signed up to take part in various commissions that were responsible for workshop evaluation, recreation, cleaning the training room, and assuring that sessions started on time. These various commissions planned activities and made reports to the whole group.

The three coordinators facilitated discussion, reminded participants of the workshop's objectives in order to keep discussion focused, assumed all administrative tasks, and maintained a low profile throughout the workshop.

#### Workshop Follow-up:

At the end of the workshop, a group of participants met to discuss possibilities of follow-up to this workshop. They drew up a plan of action consisting of the following steps:

1. Mechanisms for continuing to exchange information among the programs which do not require outside funding. These include dissemination of information by each institution to the others; production of tapes using the "cassette-forum" approach in which two or more institutions communicate--ask questions, request advice on specific issues, consult--through the use of cassette tapes; periodic production of a newsletter to print highlights of activities and events of interest to all participating programs.

B. Mechanisms for continuing to exchange information that require outside funding. These include subsequent workshops on specific topics; production of an audiovisual (video or slide) on the collective experiences of the programs; provision of technical assistance as requested by the institutions; exchange of personnel for feedback and learning from each other.

C. The most effective way to conduct follow-up to the workshop, it was suggested, was through the formation of a coordinating committee of SGPs which would rotate every six months to a year from country to country, and would assume the major responsibility for continuing the discussion and information exchange initiated during the workshop. The initial responsibilities of the committee would be to:

- draft a document to formalize the formation of the Coordinating Committee of Solidarity Group Programs;
- produce the first issue of a newsletter;
- develop a complete list of training and other materials available from each institution and their cost.
- begin planning a second Latin American workshop, tentatively to take place in late 1986. The objective of this workshop would be to develop a uniform system of evaluation for solidarity group programs.

Ecuador volunteered to assume the responsibility of the coordinating committee during the first six months after the workshop, at which time the Dominican Republic will house the committee. Subsequent headquarters for the committee's activities will be Peru, Honduras, Brasil, Costa Rica, Paraguay and Colombia. Some of these countries have incipient SGPs that will be developed enough by 1987 to participate in this activity.

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## APPENDIX D

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