PA-ABA-958
ISN 58180

GROUP LENDING: WHY IT FAILED IN BOLIVIA

by

Jerry R. Ladman

and

Gonzalo Afcha*

Professor of Economics/Director, Center for Latin American Studies and Research Assistant, Department of Economics, Arizona State University.
This research was financed by the United States Agency for International Development. The views expressed herein are those of the authors and not necessarily those of the funding organization. Appreciation is expressed to Lupe Terrazas and Enrique Gomez for their assistance in collecting the data and to the Bolivian Agricultural Bank for their support of the project.

Introduction

Group loans--credit extended to a group of persons, who in turn distribute funds among its members--have been introduced by financial institutions in many less-developed countries as a means to improve the effectiveness of their credit delivery systems. Adams and Ladman (1979, p. 85) present four reasons why an institution would want to use group loans. First, the institutions' lending costs can be reduced because they make a single loan to a group of farmers, who, in turn; (a) on lend the funds as subloans among their members and (b) assume the responsibility for collecting and repaying the loan. Second, loan delinquency should be reduced because group members agree to joint liability for the repayment of the total loan, i.e., the group accepts the responsibility to repay the sub-loans of each member. It is hypothesized that peer pressure among members should enhance repayment of group loans compared to individual loans. Third, more technical assistance can be provided and the per-farmer cost of delivering it should fall since it can be provided to groups of borrowers rather than on an individual basis. Fourth, without raising total costs, the institution should be able to reach more farmers with credit because of the above-mentioned efficiencies. Adams and Ladman go on to point out that group loans should also be beneficial to the borrower, principally because loans to groups should lower borrower transactions costs. Many of the procedures associated with implementing and repaying a loan can be done on a collective basis, with the result that the costs per farmer are reduced. In addition, because of lender's economies, more borrowers should receive credit and benefit from technical assistance. The benefits to the borrower of joint liability are less clear. On the one hand, the borrower should feel assured, knowing that repayment on his sub-loan is backed by joint liability, but, on the other hand, he must accept responsibility for other members' sub-loans. Whether or not the borrower views joint liability as advantageous will depend on how he weights the two possible outcomes.

As noted by Adams and Ladman (1979), Adams and Pablo (1981) Donald (1976, p. 195) and others, group lending programs have met with mixed success, but it is most common that they fail to live up to expectations. The Bolivian experience of group loans in the Small Farmer Credit program (PCPA) of the Bolivian Agricultural Bank is another one of these cases. The PCPA was established in 1975 under financing from the United States Agency for International Development. From the outset, the PCPA placed heavy emphasis on lending to small groups of farmers. In 1979, the PCPA decided to discontinue group lending considering that, in general, these loans had failed to streamline the Bank's credit delivery system and had not enhanced repayment.

This paper analyzes factors that may have contributed to that decision by examining group lending in the PCPA program, as seen from the perspective of the borrower, by using primary data collected in a 1979 sample survey of fifty-two group members in two PCPA agencies--Punata, Cochabamba, and Bentanzos, Potosi. The criteria used in the study are the hypothesized benefits of group lending for the borrower as set forth by Adams and Ladman. The data permit three comparisons, which are useful in evaluating the success of group loans: (1) comparisons between agencies are made since Bentanzos was considered by the PCPA to have a much more successful group lending program than Punata; (2) comparisons between group members and group leaders are made to examine the role of each class of group member and how their roles and interactions influence the success of group loans; and (3) comparisons are made with seventeen PCPA clients in Punata (also selected at random from PCPA files) who received individual loans in order to analyze the relative effectiveness of group and individual loans.

PCPA Group Lending Mode

When initiated, the PCPA established two modes of lending: individual and group loans. Many loans were made in the group mode because it was designed to rapidly disburse funds to large numbers of farmers. Borrowers were formed into groups, typically ranging from three to six in number, but with a modal size of four. A group leader was selected to assume the responsibility of carrying out group business with the PCPA. In this way, group members would not need to suffer directly the high costs of time and money to travel to and from the PCPA office. However, the leader could be compensated by group members for his time and money costs in his representation of them. Group members accepted joint liability for loan repayment. PCPA agents were to assist all borrowers in formulating their plans for credit use, and agents of the Bolivian National Agricultural Extension Service were to provide technical assitance.

Borrower Transactions Costs

For purposes of analysis, the PCPA credit delivery system was divided into three phases: (1) application, encompasing all procedures that occur from the time the prospective borrower initiates contact with the PCPA until the loan is approved; (2) implementation, covering all procedures associated with loan disbursement and servicing; and (3) repayment, including all procedures associated with loan repayment. Total transactions costs are divided into two components, out-of-pocket and time costs. The former represent cash outlays for travel, documents, loan application forms, taxes and fees. The latter are figured at the opportunity cost of time, the equivalent of the going wage for an eight-hour day of farm work, valued at $b 50.

Data for Punata and Betanzos are presented in Table 1. For purposes of presentation, the Punata data are examined in detail and those of Betanzos are compared and contrasted with them.

Members and Leaders

Punata. In Punata, group leaders and members had totals of $b 2872 and $b 2721 in transactions costs, respectively ($b 20 = $1 U.S.). Although the total figures are similar, this does not imply the members and leaders undertook the same procedures. Indeed, leaders spent much more time, 204 hours (the equivalent of $b 1276 in time costs) compared to 132 hours ($b 826) for group members. The reason is that leaders spent considerable time in representation of the group. Their effort in

TABLE 1: SUMMARY OF BORROWER TRANSACTIONS COSTS FOR THREE PHASES OF CREDIT DELIVERY SYSTEM[a]

Phase	Members				Leaders				Individuals			
	Time (hours)	Time costs ($b)	Out of Pocket Costs ($b)	Total Costs ($b)	Time (hours)	Time Costs ($b)	Out of Pocket Costs ($b)	Total Costs ($b)	Time (hours)	Time Costs ($b)	Out of Pocket Costs ($b)	Total Costs ($b)
					Punata							
Application	62	388	1005	1393	131	819	810	1629	47	294	820	1114
Implementation	35	219	530	749	38	238	366	604	18	113	458	571
Repayment	35	219	360	579	35	219	420	639	35	219	555	774
Total	132	826	1895	2721	204	1276	1596	2872	100	626	1833	2459
					Percent of Column Totals							
Application	47.0	47.0	53.0	51.2	64.2	64.2	50.8	56.7	47.0	47.0	44.7	45.3
Implementation	26.5	26.5	28.0	27.5	18.6	18.6	22.9	21.0	18.0	18.0	25.0	23.2
Repayment	26.5	26.5	19.0	21.3	17.2	17.2	26.3	22.3	35.0	35.0	30.3	31.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
					Betanzos							
Application	19	119	231	332	37	231	17	248				
Implementation	16	100	358	458	36	225	350	575				
Repayment	35	219	352	571	35	219	352	571				
Total	70	438	923	1361	108	675	719	1394				
					Percent of Column Totals							
Application	27.1	27.1	23.1	24.4	34.3	34.3	2.4	17.8				
Implementation	22.9	22.9	38.8	33.6	33.3	33.3	48.7	41.2				
Repayment	50.0	50.0	38.1	42.0	32.4	32.4	49.0	41.0				
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0				

Source: Sample survey.

[a]In 1979, $b 20 = $1 U.S.

this regard is not reflected, however, in total out-of-pocket costs--$b 1596 and 1895 for leaders and members, respectively--because of income transfers from members to leaders to compensate for their additional time and out-of-pocket costs. Each member transferred $b 180 to the leader. Assuming four members to a group, the leader received $b 720 in transfers, which served to compensate him completely for his out-of-pocket costs and extra time spent in working on behalf of the group.

Slightly more than half of the total costs occurred in the application phase, with the remainder split somewhat evenly between the other two phases. In the application phase, the leader undertook considerably more work with the PCPA than did members; he made about twice as many visits and spent almost four times as many hours at the PCPA office. Clearly, the leader carried out much of the group's preliminary business directly with PCPA, but when it came to obtaining documents, making out the loan application and signing the papers PCPA treated each member individually, which required that all members travel to the PCPA office. Indeed, the preliminary work done by the leader was the major difference in costs between the two classes of members, because for most all other steps the members and leaders went through virtually identical procedures and spent about the same amount of time and money.

Particularly striking are the large expenditures of time and money for the three documents that each member and leader must obtain in the application phase. First, borrowers must show title to their land. Since members typically had the title to their land in their possession they did not need to obtain it; if this had not been the case, costs would have risen accordingly. Second, all farmers have to present a "certificado de libertad," showing that they had no liens on their land and that taxes were paid. Third, the group has to obtain a "poder notarial," on which they declare their joint liability. This transaction was carried out exclusively by the leader.

In the implementation and repayment phases there were only minor differences in the costs of leaders and members because most steps involved money transactions and individual paperwork. There are two possible reasons for the similarity of costs, both of which may have been important. First, members did not trust the leaders to pick up their share of a loan disbursement nor to make their share of a loan repayment. Second, and probably most important, the PCPA required members to make these visits since their credit delivery system procedures specified individual paperwork and signatures by each member.

Bentanzos. In comparison to Punata, total borrower transactions costs for both members and borrowers are about one-half those of Punata. Most of the difference lies in the application phase for which there are two basic reasons. First, Betanzos members and leaders only spent about one-third the time to complete the procedures. In part this was due to the closer proximity of the PCPA office. It is also attributable to fewer visits to that office. Second, since most members already had their land titles and "certificado de libertad" they did not need to undertake the time-consuming and costly steps to obtain these documents.

As in Punata, Betanzos leaders made trips to the PCPA office and obtained the "poder notarial" on behalf of the group. Betanzos leaders were also compensated by members for expenses when they were representing the group.

Groups and Individuals

In Punata, as shown in Table 1, total borrower transactions costs for individuals were about one-eighth less than group members or leaders. Particularly notable are the lesser amounts of time and out-of-pocket costs in the application and implementation phases. Individual borrowers had lesser expenditures with their loan application transactions and disbursements. Fundementally, they made fewer trips to the office and, once there, were processed more rapidly, presumably because they were alone and did not have to wait, as group members did, on other members to complete their transactions before they left. Furthermore, they did not need to obtain the "poder notarial".

Summary

In Punata, group members and leaders experienced higher borrower transactions costs than borrowers who had individual loans. On this basis, there was no advantage to borrowing as a member of a group.

Within groups, leaders assumed an important role, carrying out some of the group's business in the loan application phase, when they could act on the group's behalf. In order that they were not disadvantaged economically by taking on their position, leaders were compensated for their out-of-pocket and time costs by income transfers from the members when representing the group. These transfers served to virtually equalize the sum of time and cash costs by both members and leaders.

Most of the PCPA credit delivery procedures were the same for both leaders and members, especially those pertaining to obtaining documents, filling out forms, signing papers, picking up disbursements and repaying the loan. There was little advantage to group members, in comparison to leaders or individual borrowers, in this regard.

In Betanzos, the process in the application phase was much less time consuming than in Punata. Important reasons were that members lived closer to the PCPA office, already had their required documents in hand and did not need to go through the costly and laborious tasks of obtaining them. Moreover, the whole process in Betanzos appeared to operate more efficiently. Fewer visits to the PCPA office were required.

Technical Assistance

As shown in Table 2, 40.7 and 48.0 percent of all group members surveyed in Punata and Betanzos, respectively, had received technical assistance from an agent of the Bolivian National Extension Service during the course of their loan. In Punata, 71 percent of the assistance was in the form of group demonstrations; for Betanzos, the percentage was 46. Almost all farmers receiving assistance had participated in two demonstrations or had received two on-farm visits.

Techical assistance by PCPA agents was considerably less. All farmers were visited on their farm by an agent in the application phase. The purpose of the visit was to make an inventory of assets, draw up a credit plan and make a rough draft of a loan application. Undoubtedly, some technical information was given to the farmer. In Punata and Betanzos, after the loan had been disbursed, only 14.8 and 20.0 percent of group members, respectively, had assistance from this source.

Individual borrowers in Punata tended to receive less technical assistance. After the loan had been disbursed, only 5.9 percent had help

TABLE 2: PERCENT OF BORROWERS RECEIVING TECHNICAL ASSISTANCE

Source	Punata				Betanzos		
	Members	Leaders	Group Total	Individual	Members	Leaders	Group Total
PCPA Agent	16.7	11.0	14.8	5.9	13.3	30.0	20.0
National Extension Service Agent	33.3	55.0	40.7	35.3	46.7	50.0	48.0

Source: Sample survey.

from the PCPA agent and 35.3 received assistance from the National Extension Service agent.

Virtually all borrowers indicated they would like to receive more assistance and most thought what they had received was useful. Although the majority of borrowers did not receive assistance, group lending appears to have improved its availability.

Reaching More Farmers

As shown in Table 3, only 50 and 40 percent of the borrowers in Punata or Betanzos, respectively, would have tried to obtain a PCPA loan without the group loan. As shown by Miller and Ladman (1983), oftentimes the heavy paperwork and documentation required in the loan application process, or the lack of experience and knowledge about how to undertake application procedures, serve as impediments for prospective borrowers in applying for a loan. Indeed, only about two-fifths of the Punata or Betanzos borrowers thought they could have handled the paperwork prior to their loan. After having the borrowing experience, the figures for Punata and Betanzos rose to 94.4 and 53.3 percent, respectively. The fact that Punata was so much higher may be attributable to the group members heavier involvement in the loan application process, in comparison to their Betanzos counterparts.

Group loans, as compared to individual loans, appear to have encouraged more farmers to apply for credit. Furthermore, they appear to have given many of the group members sufficient knowledge and experience to enable them to have the capacity seek loans on an individual basis in the future.

TABLE 3: EFFECT OF GROUP LOANS ON REACHING FARMERS

Item	Punata	Betanzos
	(Percent of Borrowers Responding "Yes")	
Would have tried to obtain loan even without group loan	50.0	40.0
Could have done paperwork to obtain loan on own prior to group loan	38.9	40.0
Can do paperwork to obtain loan after group loan	94.4	53.3

Source: Sample survey.

Repayment

An examination of the total loan portfolios for the two agencies shows that group loans in Punata had serious repayment problems compared to individual loans. As shown in Table 4, at the end of December, 1979, 56.9 percent of the Punata group loans were in arrears, a sharp contrast to the 27.6 percent of the individual loans in this condition. Perhaps even more important is the much larger percentage of group loans in judication (more than 120 days in arrears), 35.3 percent, compared to 11.7 percent for individual loans. Clearly, the much higher delinquency rate for group loans suggests that the joint liability feature was not working for group loans in this agency, indeed it may have discouraged borrowers from repaying on time.

In contrast, Betanzos had a much more favorable record. In that agency, the delinquency rate for group loans was 16.3 percent, which is a little lower than the 20.3 percent for individual loans. Moreover, few loans were in judication. In this agency, joint liability appears to function well.

It is clear that Betanzos has had considerably more success in group loan repayment than Punata, whereas their success with individual loans has been about the same. If one considers the loan repayment rate as a good indicator of the success of a credit program, then Betanzos would get much higher marks. Indeed, this indicator may be symptomatic of other factors which lead to success or failure features of group loans, a topic to which we turn in the following section.

TABLE 4: COMPARISON OF DELINQUENCY RATES[a]

FOR GROUP AND INDIVIDUAL LOANS, DECEMBER 31, 1979

	Punata				Betanzos			
	Group Loans		Individual Loans		Group Loans		Individual Loans	
	No.	%	No.	%	No.	%	No.	%
Total Loans	51	100.0.	504	100.0	80	100.0	94	100.0
Total Normal	22	53.1	365	72.4	67	83.7	75	79.7
Total Delinquent	29	56.9	139	27.6	13	16.3	19	20.3
Past Due	11	21.6	80	15.9	11	13.8	18	19.2
In Judication	18	35.3	59	11.7	2	2.5	1	1.1

Source: PCPA records.

[a] Delinquency rate is defined as the number of loans in arrears as a percent of total number of loans in portfolio.

Analysis of the Failure

In Punata, there was mixed evidence on the success of group relative to individual loans, as seen from the perspective of the borrower. On the negative side, group borrowers experienced somewhat higher borrower transactions costs and considerably more delinquency. On the positive side, group loans enabled about half the borrowers to receive PCPA credit that they otherwise would not have applied for, and group borrowers received considerably more technical assistance. On balance, *ex post* group members showed a strong preference for individual loans; only 4 percent indicated that they would prefer another group loan in the future.

The Betanzos experience in group lending was more favorable. In comparison to Punata, borrower transactions costs were considerably lower, loan repayment was considerably higher, a larger percentage of farmers received technical assistance, and a larger percentage of borrowers obtained credit because of the group loan mode. The relative success of group lending in this agency is indicated by the 68 percent of the borrowers who expressed a preference to continue to receive credit as a group member.

According to PCPA officials, the Punata experience was representative of conditions in most agencies, and that of Betanzos was an exception. Given the Punata record, it is clear why the PCPA would prefer to go to individual loans. From the lender's perspective, the exceedingly high delinquency rate was a major cost for the program, not only in terms of immobilized funds, but also extra collections costs. Moreover, with their individualized credit delivery system, they did not experience much, if any, reduction in lender transaction costs. Another factor, as pointed out by Ladman (1983), was that by 1979, group loans had served their purpose for PCPA as a means to rapidly disburse funds under the new credit program. When the PCPA had disbursed the initial funds and the credit flow began to increase at a much slower rate, it was to PCPA's advantage to make individual loans, which were less costly for them to make and manage, and recover than those to groups.

The Bolivian experience, as represented by the problems in Punata and the success in Betanzos, is useful in helping to understand factors that inhibit or enhance a group lending program. There are four factors that are of particular importance.

Credit Delivery System

The PCPA group loan credit delivery system was not designed to encourage efficiences for the borrower in the group loan mode. Essentially, it was a replica of that used for individual loans. Consequently, with the same documentation and heavy paperwork requirements, as well as inability of the group to establish efficiences in repayment it did not serve to lower costs for either the borrower or the lender. Some economies for members did occur as the leader undertook some of the preliminary visits to the PCPA, however, to offset these gains, the members reimbursed leaders for their costs.

The credit delivery system of the PCPA is very complex, time consuming and costly. A comparison with other Bolivian insitutions shows that total transactions costs of the PCPA were seven and fourty-three times greater than those of credit unions (Hoyos, 1982, p. 46) and informal lenders (Ladman, 1983, p. 187) respectively. As argued by

Ladman (1983, pp. 179-180) the only reason that borrowers are willing to undertake such high transactions costs is that they can get large loans at concessionary interest rates, which, when figured on the basis of average borrowing costs (interest and transactions costs), have lower costs than those from other lenders that offer large loans.

High borrower transactions costs were principally due to the need to present several official documents in the loan application phase. At least two trips to town were required to obtain each of these documents, which led to high time and travel costs, in addition to the cost of the document. Another important reason was that group members found it necessary to visit the PCPA office at least several times prior to the loan application. Finally, the paperwork associated with the application itself was lengthy and time consuming to prepare.

In the implementation and repayment phases, group members accompanied the leader to the PCPA office for all transactions involving money. The possible lack of member trust in leaders as well as the requirements of PCPA agents that each member sign all forms to carry out these operations did not lead to economies of credit delivery.

Group Organization

The manner in which groups were organized was an important factor contributing to the failure of group loans. The groups were organized on an ad-hoc basis with the sole objective of members receiving credit. Usually a group was formed because it was a condition, imposed by PCPA, to the farmers receiving credit. In both Punata and Betanzos about 60 percent the groups were formed by the PCPA agent. In Punata, 22 percent of the members responded that the agent determined which persons would

18

belong to the groups. In contrast, only 8 percent in Betanzos indicated this was the case. The more active role of the PCPA in forming groups in Punata is also apparent when considering that only 36 percent of the members said they knew each other well before the group was formed. In Betanzos the figure was 100 percent.

Adams and Ladman (1981,p. 87) argue that group organization and purpose is one the key elements to success in group lending. They argue that groups that have multiple-purposes and that have an established record of working together on projects are those most likely to succeed in group loans because the members know and trust one another, are used to working together and have a reason to exist other than just to receive credit. The Bolivian groups did not meet these requirements. They had no prior experience as groups and had no other activities in common. Yet the more favorable experience of Betanzos, in comparison to Punata, may have been positively influenced by the greater degree of volunteerism in forming the group as well as the larger extent of familarity of members with each other prior to applying for credit in that agency.

Relationships Between Group Members and Leaders

The relationship between group members and leaders is another factor. In this regard, there was a notable difference between Punata and Betanzos. In Punata, 38 percent of the group leaders were appointed by PCPA agents, in Betanzos only 10 percent. The more active role of the Punata PCPA in determining group leadership may have created more suspicion and distrust in the leadership in that agency in comparison to Betanzos, where most leaders were selected by the group in a democratic process.

Members in both agencies were satisfied that leaders effectively transmitted information about the loan from the PCPA to the members. Group meetings were held, especially in the loan application phase, although they dropped off sharply once the loan was disbursed, another indicator that the real purpose of the group only was to obtain a loan.

Joint Liability and Repayment

Although the survey results showed that members in both agencies understood joint liability, almost 100 percent of them indicated they were not willing to accept the ultimate consequences of having to repay other members' loans. They only were willing to go so far as to put pressure on them to meet their obligation. This attitude clearly shows that many groups were used by the members to obtain a loan. Once the loan was in hand, the group lost its purpose. Group members did not view repayment as necessary to obtain future loans. In Punata, these attitudes show in the poor repayment record.

In Betanzos, the repayment record was better. There is no reason to suspect that the economics of the loan use would favor Betanzos, for it is less-developed in terms of markets than Punata and doesn't have any better growing conditions. Moreover, there was no evidence as to why the record should be better, based upon responses to questions on attitudes about joint liability. The answer appears to lie in a combination of the above-mentioned factors that lead to group cohesion. Important elements contributing to cohesion are organization, relations between members and leaders and the credit delivery system. For each of these, Betanzos was more solid than Punata. Moreover, as Hansen (1979, p. 418) points out, cultural characteristics can play an important role. The Betanzos

20

borrowers have traditionaly demonstrated a propensity to work in groups; in contrast, the Punata farmers are known for their desire for independence and individuality.

Another factor affecting cohesion and borrower attitudes toward the PCPA may have been the personnel staffing the agency offices. The agent in Betanzos established the program in that region, operated out of a small informal office and was well-known within the PCPA as being very effective in dealing with clients. The Punata agency was one of the largest in the program. Before the Punata office was opened, the agency was administered out of the large departmental office in Cochabamba. When the Punata office was established, there were several agents posted in the agency and the head of the office and credit agents turned over several times. Clearly, compared to Betanzos, the Punata agency was larger, more impersonal and less stable, factors that may well have had an impact on its relationships with borrowers and their attitude towards credit and repayment.

Conclusions and Policy Implications

PCPA group lending was successful in bringing credit to more farmers; without the support of a group and a leader who could advise and direct the loan application process, many of the group members would not have been in the position to obtain credit for lack of initiative or fear of undertaking the process. Group loans also improved the dissemination of technical assistance, although many members still did not receive it. Yet, even though the PCPA group lending could be considered a success in these aspects, as a whole it was virtually destined to fail before it began.

The principal reason was the credit delivery system. The PCPA simply replicated the procedures, required of individual borrowers, for group borrowers. The procedures, documentation and paperwork were the same. The result was that neither the borrower nor the lender gained economies that would have led to a reduction in borrower and lender transactions costs in the application and implementation phases.

To be successful, a group lending credit delivery system should reduce transactions costs for both lenders and borrowers. This implies that, in comparison to individual loans, the lender shifts some of their transactions costs to the borrower. This must be done, however, in a manner that also reduces borrower costs. An example is the reliance upon the group to make a collective decision such that the group files a single loan application. This considerably reduces paperwork for the individual member and the eliminates the need for the member to travel to the lender's office. Another example is the use of joint liability as a form of loan security to eliminate the need for documentation, which is costly to obtain. Had the PCPA group loans been tailored in this manner, the outcome might well have been much more favorable.

A second important reason contributing to failure was that joint liability in repayment was mostly ineffective. Farmers simply did not take it seriously; it was something that they readily agreed to in order to obtain the loan, but really did not plan to put into effect if a member was delinquent. As a consequence, neither the borrower nor the PCPA gained any economies in the repayment phase in comparison to individual loans. Indeed, some borrowers may have suffered because of PCPA sanctions against all group members when only one member was in arrears. Once this occurs, the situation may snowball as all members decide not to repay. The result is that collection costs rise for the PCPA.

The lack of repayment, especially in Punata, would appear to be tied to the cohesiveness of the group, which is a third important factor contributing to failure. Cohesiveness begins with the purpose in forming a group. Groups which are formed solely for the purpose of credit, especially when the members have no previous experience in working together, are very fragile. Once the loan is disbursed, the group begins to disintegrate; the group has obtained its objective, there is little incentive to stay together to repay the loan. As noted above, if one member is in default the effect may quickly spread to other members. Cultural factors also appear to influence cohesiveness, as shown by the repayment records in the two agencies whose membership comes from two distinct cultures.

The manner in which the group is organized and the leadership selected also influences cohesiveness. The fact that PCPA, especially in Punata, often grouped farmers and selected leaders from among credit applicants probably had a negative impact on cohesiveness.

On the positive side, group members were willing to delegate much responsibility to leaders and to reimburse them for their expenses. There was some question, however, about their willingness to delegate the handling of members funds to the leaders. This aspect ties in with credit delivery; it would seem that it would have been better for the bank agent to have visited the farm site to disburse and collect funds, or for the PCPA to develop a simple mechanism to ensure members that their monies were strictly accounted for when in the care of leaders.

Unfortunately, the Bolivian experience in group lending joins the ranks of many other unsuccessful programs. It provides another piece of evidence of what not to do with group loans. Hopefully, as group loans are considered for future implementation in Bolivia or elsewhere, the experience of the PCPA failure will provide valuable lessons, such that new programs will be developed that provide the advantages of group loans stated at the outset of this paper.

REFERENCES

Adams, Dale W, and Jerry R. Ladman, "Lending to Rural Poor Through Informal Groups: A Promising Financial Market Innovation," Savings and Development, No. 2., Vol. III, 1979, pp. 85-94.

Adams, Dale W, and Antonio Pablo Romero, "Group Lending to the Rural Poor in the Dominican Republic: A Stunted Innovation," Canadian Journal of Agricultural Economics, Vol. 29, No. 2, July 1981, pp. 217-224.

Donald, Gordon, Credit for Small Farmers in Developing Countries, (Boulder, Colorado: Westview Press, 1976).

Hansen, David O., "A Sociological Analysis of Group Lending in Bolivia," in Jerry R. Ladman, et. al. Bolivian Rural Financial Sector Assessment, Report Prepared for USAID/Bolivia by The Ohio State University, November, 1979, pp. 409-423.

Hoyos, Miguel A., "Borrowing Costs and Credit Rationing for Three Credit Unions in Eastern Bolivia" (unpublished, Masters thesis, Department of Economics, Arizona State University, 1982).

Ladman, Jerry R., "Loan Transaction Costs, Credit Rationing and Market Structure: The Case of Bolivia," Limitations of Cheap Credit in Promoting Rural Development, eds. Dale W Adams, D.H. Graham and J.D. Von Pischke, (Washington, D.C.: Economic Development Institute of the World Bank, 1983), pp. 169-193.

Miller, Calvin and Jerry R. Ladman, "Factors Impeding Credit Use in Small-Farm Households in Bolivia," Journal of Development Studies, Vol. 14, No. 4, July 1983.