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POVERTY LENDING:
Something Distinct within Micro Enterprise Credit

by,

Cheryl Lassen

with inspiration
from John Hatch

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I. Executive Summary

Depending on one's political point of view, the title to this paper on poverty lending will either be read as a question ("Something distinct?") or a statement ("Something distinct."). Debate is natural as to whether this innovation represents something different and significant, or is only a wrinkle of one or two practitioners on a larger paradigm. The paper explores the sources of controversy surrounding poverty lending, forms an operational definition for it, compares program models, and offers an agenda to improve and extend it.

The 1990 World Development Report of the World Bank estimated that there were over 400 million producers in the Third World below the poverty line, half of whom are severely poor. Given these dimensions, it is not trivial semantics to make distinctions about the "poor", "moderately poor" and "severely poor" and to be especially concerned that assistance reaches those at the very bottom. With 200 million destitute producers, what is needed are breakthrough methodologies for the economic development of the poorest on a par of significance with the advances in microenterprise credit and development that occurred in the 1980s. We need to continue with microenterprise development advances and more widespread services for those with tiny, informal sector businesses. But we must also facilitate a differentiated set of highly productive assistance methodologies for the severely poor.

In some ways poverty lending is not distinct from the area of financial services to micro and small enterprise, and in other ways it is. The principles and methods of financial intermediation and the forming of self-sustainable systems to deliver financial services are the same. These principles and methods represent a newly emerging paradigm of economic development programming: one that is more cost-effective, sustainable, and able to reach larger numbers more quickly over time.

What is distinct about poverty lending from other microenterprise support is the target group. Poverty lending assists directly the poorest of the poor. Its policies and procedures are designed to support the economic development of self-employed producers with no assets. With poverty lending, it is legitimate to support sizes and types of activities (eg. petty trading) and uses of surplus (to feed one's family) that are not promoted with producers and firms at higher levels on the economic ladder.

The social organizational aspects of poverty lending are also distinctive. In the best programs they are designed to empower those who face multiple cultural obstacles to their socio-economic progress in addition to poverty. Destitute producers are able to use credit and savings groups to organize their ideas and actions about a variety of problems that affect them in addition to their economic activities. The best poverty lending programs are not just financial intermediaries. They provide credit and savings services with a big socio-economic development "plus."

Fortunately for the development community, some highly promising operational models of poverty lending have emerged. Referring to one institution, Henry Jackelen writes:

> **"The Grameen Bank demonstrates the powerful impact that guaranteed, equitable, dependable access to capital can mean to the poorest of the poor...The question is: is Grameen the exception to the rule (that financial services cannot be provided to the poor on a commercial basis), or is it a new rule that should be adhered to? Does Grameen represent a solid strategy in a development industry heavily prone to integrated, unweildy, costly efforts which bring myriad services to a few?"[1]**

Grameen embodies the principles of a new kind of anti-poverty programming where the productivity, social impact, sustainability, and scaling up of a service delivery mechanism are on a par of significance with the gravity of problem. But will it and a few other highly productive models be the exceptions for the development industry---or the rule? For such impact to become the rule, many institutions must be strengthened. Some PVOs and grassroots groups are oriented to working with the poorest, but they require more productivity, technical know-how, and a sustainability paradigm. Other specialized intermediaries know banking, but they also need greater productivity and a more developed social philosophy and methods. This paper compares several very productive models; discusses the boundaries of poverty lending; and proposes an agenda for building a more widespread capacity.

In the US development community we need to choose. Will we go round and round with controversies about poverty lending? Or will we use our energies to define and pursue an agenda that moves us all closer to the emerging new and more powerful paradigm of socio-economic development?

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[1] Henry Jackelen, "Banking on the Informal Sector," in J. Levitsky, Microenterprise in Developing Countries, London: Intermediate Technology Development Group, 1989, p.135.

II. Defining Poverty Lending

II. A. Sources of Controversy about Poverty Lending

In 1989, the US Congress passed a Microenterprise Bill urging the Agency for International Development to "make every effort to adopt a 'poverty lending' approach such as that of the Grameen Bank in Bangladesh."[2] Since then, controversy has swirled around "poverty lending" including what it is, whether it is different from microenterprise credit, AID's support for it, and what is needed to extend it. This paper cannot end the controversies surrounding "poverty lending", but it can help to explain aspects of debate.

The concept of working with the poorest is easy to grasp, but more difficult to operationalize. The severely poor do not work in factories or have land to farm. They are not concentrated in one area or one economic activity. They are hard to describe concisely and hard to prescribe for. Locally, those other than the most marginal producers will want to coopt resources and distribute them to producers with higher status and productivity. Yet a highly restrictive definition of the "poorest of the poor" may stifle access to capital once they begin climbing from the bottom. There is controversy over devising a selective yet operationally practical definition of poverty lending.

Some financial intermediaries--public banks, PVOs, credit cooperatives--provide services to small producers but not to the severely poor. How should these intermediaries access poverty lending resources in a way that insures they reach the destitute? There are also development agencies that are non-specialized in financial intermediation but who work with the poorest. Retooling these institutions is necessary in order to extend poverty lending to clienteles and regions where no programs yet operate.

Debate also exists about the Agency for International Development's support for proverty lending. AID has adopted a broad definition of microenterprise support which includes assistance to the poorest of the poor. AID has had difficulty showing the amount of assistance received by the poorest. But more than just reporting problems, however, it has had difficulties reaching this strata. The controversy is whether foreign aid can benefit those with severe socio-economic disadvantages without specifically dedicated

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[2] The 1989 foreign aid legislation concerned all microenterprise assistance. AID supports numerous approaches serving many types and sizes of small enterprise, including destitute producers. Although Congress referred specifically to "poverty lending," and expressed concern that US aid reach the poorest, it did not mandate AID to focus exclusively one approach to microenterprise assistance.

assistance, and whether AID should not have a specific category for "poverty lending" as distinct from "microenterprise support".

There is also debate over what poverty lending consists of. Does it mean the decentralized distribution of banking services down to poor villages and neighborhoods, or does it mean the organization of the poor and their control of capital and development institutions? Program models vary greatly on these organizational and empowerment dimensions. Some models demonstrate the potential to serve a lot more than just credit and savings needs in cost-efficient ways, but they also illustrate trade-offs among productivity, impact, scale and financial self-sustainability.

II.B. Reaching the Severely Poor

In many Third World countries, large segments of the population live below the poverty level. Landless or near-landless families now constitute more than 50% of households in a number of Latin American and Asian countries; and the non-farm share of the rural labor steadily increased over the last 20 years from 20% to 50%. Moreover, urban labor forces in Third World countries are growing at rates double that of the rural labor force, and the share of workers in the non-modern or "informal" sector is estimated to range between 30% to 70% in selected cities. The 1990 World Development Report estimated the poor in developing countries to number 400 million.

The incomes of these producers do not derive from wage labor in the modern sector, but from self-employment or working for unlicensed, tiny units called "micro-enterprises." The severely poor are one or two rungs on the economic ladder below microenterprise. They do not have on-going economic activities and small amounts of assets synonomous with a microenterprise. Typically, they are casual day laborers in agriculture, construction or domestic work, or they sporadically process or trade small quantities of goods. They have no land or assets to employ themselves; they work for wages so low they cannot subsist; and they are unemployed throughout much of the year. Consequently, a more adequate and secure subsistence is the immediate goal of economic activity. For this reason, the severely poor have been characterized as operating in a "survival economy."

Advances in socio-economic development methods have distinguished assistance that is effective in reaching significant numbers of the severely poor. This assistance is not the same as programs for moderately poor micro entrepreneurs or small business people and this paper will point out the differences.

It is not trivial semantics to make operational distinctions between "poor," "moderately poor" and "severely poor" producers. Each of these groups involves many millions. The former lack investment credits for businesses growth. Moderately poor micro entrepreneurs lack working capital. But the severely poor struggle to eat. When target group definitions are cast too broadly, they fail to extend benefits down to those who are most marginal.

II.C. A "Financial Services" Approach to Poverty Alleviation

This features credit and savings services and is designed to increase the access of poor producers to capital on a widespread basis. Its characteristics include a scope that reaches thousands; organizations and benefit processes with "system impact" beyond the community level; and sufficient productivity to become financially self-sustainable after a reasonable period (4-6 years). The difference between it and older approaches to economic development is that a financial services approach is based on covering recurring costs through local earnings not grants.

Other approaches include lending exist to alleviate severe poverty. For example, relief and welfare projects grant productive assets to the poor or make available subsidized credit for rehabilitation. But these are emergency assistance that do not aim to rotate resources or cover costs from earnings. There is also a training approach to poverty alleviation which accompanies vocational/management skill building with loans to go into production. Most microenterprise programs with a predominantly training approach are more expensive than financial intermediation and depend heavily on subsidy. Because of this, they usually reach a small scope.[3] Poverty lending programs receive subsidies as well for start up and the cost of capital. The advantage of a financial services approach vis-a-vis these other approaches is that if it is done with sufficient productivity, price for credit, and savings mobilization, it can benefit many thousands and cover operating costs and much if not all of the costs for capital.

No input or approach *per se* which makes a particular model preferable, but rather the difficult combination of:

1) reaching the severely poor;

2) effective impact;

3) large scope;

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[3]. Colombia's Carvajal Foundation and the Bangladesh Rural Advancement Committee are training programs that have achieved wide scope and earn a significant part of their operating expenses. Carvajal uses a "minimalist" management training package tied to credit and charges for training. BRAC trains apprentices in BRAC industries and uses its business profits to pay program costs. We need to learn more from these and other programs about how self-sufficiency is possible with training-based approaches.

4) cost-effective, financially sustainable services.

There are agencies who work with the poorest but do not supply economic development assistance. Some microenterprise agencies provide economic development services but lack scope and affordability. Other lenders cover costs but do not reach the severely poor. All of these have potential for poverty lending. But if funds are available to promote poverty lending, they should be channeled selectivaly to agencies demonstrating the best progress in a the combination above. For poverty lending, the key is combining financial service delivery with greater equity.

II.D. What Are "Poverty Loans?"

Poverty loans consist of a series of very small, very short term, working capital loans which supply producers with a constant cashflow to carry out small scale economic activity. Loan periods range from 1-6 months, and loan size from $10 to $300. The working capital provided by these loans are invested in activites with a quick cash turn around. Activities revolve around frequent marketing such as petty trade, food preparation, handicrafts using locally abundant materials, or services with a large local demand like transport of water, rickshaws, etc. After a few loans and the accumulation of small surplus, borrowers can increase the scale of their activity or acquire assets such as a labor-saving device or small animals. In 12-24 months, many participants acquire larger assets such as a pack animal or milking cow. The best programs have strategies to assist participants in going from rapid turn around investments to income generating assets.

This mechanism works because it practices several principles of microbusiness development. It makes capital available at appropriate levels of money management experience. If the most someone has managed is $20, a $20 loan can be made. It also forms the skills, confidence and experience of the severely poor in investment. A microenterprise does not form from night to day, but emerges from a series of tiny investments that focus interest, create know-how, develop markets and accumulate capital. Further this motivates financial discipline in the form of savings and building up working capital, which is the lifeblood of business no matter how small scale. But what makes this so suitable is that it has removed entry barriers for those with severe disadvantages: no collateral, no literacy, no technical knowledge, no money management experience, and no social pull are necessary to start.

Poverty lending participants are often poor women who need extra cash to feed their families. In many developing countries, women face severe discrimination in terms of acquiring and controlling assets, access to formal credit, technology and extension services, or being paid for their labor. Women are the ones most likely to use income increments to increase the well being of children. Experience has shown that they are responsible for repaying loans and supporting group progress. Given both their family and economic roles, women often need to be employed in the house and on a part-time, flexible basis. The self-employment generated by these very small loans is well suited to them.

Those with the least options for livlihood often face social barriers to productivity based on gender, race, caste, ethnic or region discriminations that can be as severe as their poverty. Poverty in most cases cannot be overcome without a more just society, which is why it is important to keep this powerful anti-poverty mechanism well-focused on those with severe disadvantages.

II.E. Social Organizational Dimensions of Poverty Lending Programs

The spine of this approach may be financial services, but what holds it together and accounts equally for impact is the social organizational dynamic. The development philosophy, organizational movement, and empowerment methods of the better poverty lending programs are not narrow or "minimalist" in any sense.

Other than its huge size, a striking aspect of the Grameen Bank is its "social development constitution" and the way in which GB members are organized as a movement to realize it. In 1984, 100 grassroots leaders of the Grameen Bank met in a workshop and adopted 16 Decisions to orient individual and household choices, group action, and as a goal statement against which the Bank could judge its development impact. These 16 Decisions address the education of children, housing, family planning, nutrition, hygiene, potable water, sanitation, dowry, group investment, forestation, discipline and physical exercise among other things, and are expressed in the form of action commitments: eg., "We shall grow vegetables and we shall feed them to our families and sell the surplus." The 16 Decisions are a comprehensive, integrated framework which the movement and the Bank promote.

The Foundation for International Community Assistance (FINCA) is another poverty lending model combining minimalist credit with a rich philosophy and methods for for organizing and financing individual and community economic development. Villagers themselves control the accumulation, management, lending and spending of their community resources rather than bank, government or NGO officials. The community bank becomes a vehicle for local people to focus their thought, action and money on a range of needs determined by the local people themselves.

Judith Tendler recently analyzed performance characteristics of anti-poverty projects sponsored by the Ford Foundation. She identified four traits common to the best-performing projects: (1) a narrow focus on a particular sector or trade; (2) a narrow focus on one service, usually credit in a "minimalist" form; (3) leadership linked to powerful institutions; and (4) economies of agglomeration which allowed many to benefit.[4] The more successful programs she points out--the Zabaleen garbage collectors in Cairo; the Annapurna caterers in Bombay; the Self Employed Women's Association in Ahmedabad, the Andrah Pradesh Dairy Development Foundation; the Women's Working Forum of Madras and the Grameen Bank--have all provided the participants with organizational structures and development credos to satisfy wider socio-economic needs and address underlying social as well as economic causes of marginality. They are more than just loan mechanisms.

II.F. Is Poverty Lending the Same as Microenterprise Credit?

The financial principles for programs with the severely poor are the same as programs aimed at micro entrepreneurs. These are "minimalist" principles which exchange membership in a group --a form of social collateral-- for economic collateral. More credit is given if a loan is repayed. This incentive, plus pressure from peers, creates high repayment. Transaction costs are held low by a minimum of pre-loan screening, paperwork and technical assistance on the part of the lender. Larger numbers can be served because group loans are made. The advance of these "minimalist principles" is that they hold costs commeasurate to the size of the loans being made, and make services affordable enough to be paid for by users.

A main difference between poverty lending and microenterprise programs is the target group. Poverty lending programs aim to serve the destitute. Their promotion, loan policies, group organizing and complementary services are more adapted to those with no assets. Studies have shown that most PL programs, including the Grameen Bank and the Badan Kredit Kecamatan (BKK) also include some moderately poor. This reflects the economic mobility of participants, and there are also moderately poor whose economic activity is of a size and nature which can be assisted by this kind of mechanism.

Another distinction among programs is the role of savings. The poverty lending programs emphasize this in a primary way, whereas many older style micro enterprise programs do not.
The matrix on the following page draws distinctions between characteristics of proverty lending and other microenterprise programs. Beyond the policy choice of a target group, there is a diversity of organizational structures and sizes, philosophies, and benefits as the comparative section will show.

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[4] Judith Tendler, "What Ever Happened to Poverty Alleviation?" in Microenterprise in Developing Countries, J. Levitsky, ed., London: Intermediate Technology Development Group. 1989.

POVERTY LENDING	MICROENTERPRISE LENDING
BENEFICIARIES: 'ery poorest; no assets and working capital; almost o employment or income; no reliable source of ivlihood. Reaches those with multiple disadvantages ecause of gender, caste, race or regional inequality. lany participants are women, partly because they re the most concerned with improving children's ood and well-being; and partly because it fits the evel of assets and types of women's small scale conomic activities better than men's.	**BENEFICIARIES:** Poor and underemployed, but with livlihood. Beneficiaries possess small amounts of assets and working capital, and discernable markets for their microenterprise. They have some asset management experience. The difference between a microentrepreneur and a self-employed, informal sector producer is that the former is focused on making the business expand and develop.
IATURE OF ENTERPRISE: Survival Economy". Income used to subsist rather han to build a larger, more complex enterprise n one particular sector. Self-employment. Even sset accumulation is small scale and used to reate a more secure, diversified subsistence.	**NATURE OF ENTERPRISE:** Primarily self and family employment, although a microenterprise may have as many as 10 workers. Firm is characterized by regular activity. Assets may be very small, but discernable.
REDIT POLICIES AND PROCEDURES • Tiny, short term, working capital loans • Loan sizes from \$20--\$300, but distinguishable by a low loan ceiling • No collateral required, although there may be other requirements for access to credit such as group members and savings	**CREDIT POLICIES AND PROCEDURES** • Mostly short term, working capital loans. Some investment credit. Loans range typically from \$100 to \$3000. • Collateral, savings or chattel morgage may be required for loans above \$300. • Manufacturing is more capital intensive than commerce. The more varied the types and sizes of microenterprise, the more varied the credit must be to serve them.
'HER CHARACTERISTICS re must be taken to introduce mechanism to the verely poor from the start, so they know the ogram is targetted to them. . groups and organizations are often vehicles or ringboards to address other socio-economic eds or to show solidarity in overcoming social oblems or social barriers to productivity. They ganize the poor and have a strong social nension.	**OTHER CHARACTERISTICS** In urban areas where there is a larger, more varied market for credit and microenterprise services, mechanisms have to be more flexible in size and terms of credit and other services in order to retain clients and serve their changing microbusiness needs.

II.G. Are the Poorest Benefitting from AID Sponsored Microenterprise Programs?

Precise data does not exist on the magnitude and distribution of benefits of AID-sponsored microenterprise programs. Interpreting what is available, however, little microenterprise aid appears targetted on the poorest. Recently AID requested its field missions and Office of Private and Voluntary Cooperation estimate the extent to which these programs reached the lowest 20%.[5] AID reported 170 projects to Congress providing microenterprise development benefits, 13% of which estimated they focused mainly on the bottom 20%. Using a liberal definition in which only 20% of beneficiaries are the poorest, 28% of the projects worked with the severely poor. (See table I.1) If women are used as a proxy for the poorest of the poor, percentages improve. Only 6% of the AID sponsored microenterprise programs in FY 1989 focused predominantly on women. Using a liberal definition of women's participation being as small as 20%, 41% of the projects included women to this extent. (See Table I.2)

Concerns with AID assistance to the poorest of the poor are reinforced by looking at another recent comparative study of the AID portfolio. A 1989 "microenterprise project stock-taking" exercise analyzed who AID reaches with microenterprise benefits. That study[6] identified projects focused on the moderately and severely poor and compared their cost and service delivery statistics to other projects targetted to higher levels of micro and small entrepreneurs. The sample of the projects working with the poorest were found to have a small scale and a high cost-per-beneficiary relative to other microenterprise assistance. Poverty lending was not even among the approaches.

AID is not the only donor facing a gap in the implemention of cost-effective, anti-poverty programs. When Judith Tendler analyzed a portfolio of 44 projects the Ford Foundations' Livlihood, Employment and Income Generation program, she was disturbed that most projects did not provide examples worth replicating. Tendler dispaired of the tendency to design programs of a scale and

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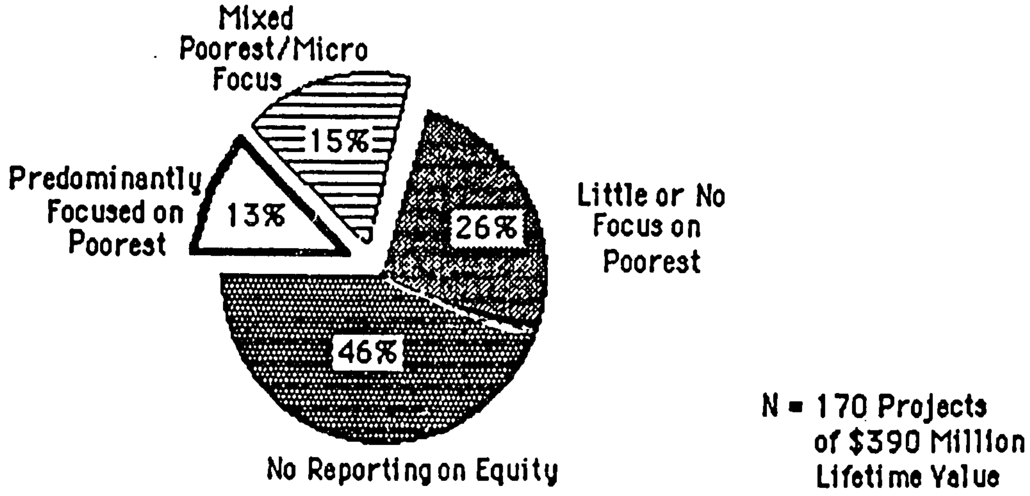
[5] Figures for 1989 were estimates because reporting does not standardly distinguish between the"poor", "moderately poor" and "severely poor" and there are relative variations in what the definition of poverty is. Also, many AID programs have multiple components and are not focused exclusively on microenterprise support, or do not provide direct benefits. These things make precise accounting difficult.

[6] See James J. Boomgard, A.I.D. Microenterprise Stock-Taking: Synthesis Report, Agency for International Development, March, 1989. Statistics of 32 programs were compared, 6 of which were "Entrepreneur Formation" type projects working with the poorest.

Table II.1

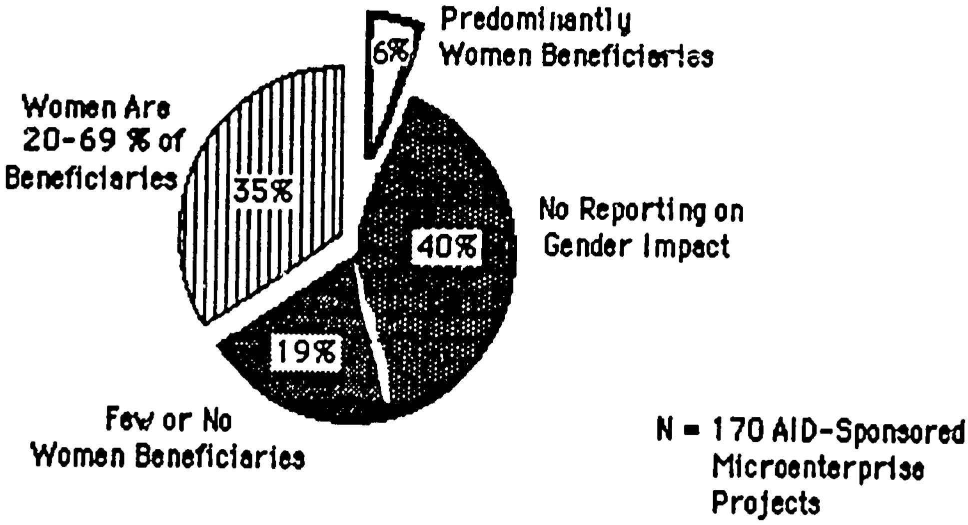
FOCUS OF A.I.D.-SPONSORED MICROENTERPRISE PROJECTS ON THE POOREST IN FY 1989



Notes: In a 1990 report to the US Congress, AID reported 170 projects in its FY1989 portfolio which provided assistance to microenterprises. AID Missions estimated that in 21 projects, the poorest of the poor were 70%- 100% of the beneficiaries. In 29 projects, the poorest constituted 20%-69% of the beneficiaries. In 44 projects, the poorest were less than 20% of the beneficiaries. Indirect microenterprise assistance was furnished in 76 projects, which did not report on the distribution of benefits.

Table II.2

FOCUS OF A.I.D. SPONSORED MICROENTERPRISE PROJECTS ON WOMEN IN FY 1989



Notes: also in the 1990 Microenterprise Report to the US Congress, there were 10 microenterprise projects with 70%+ women producers as beneficiaries; 68 projects in which women were 20-69% of beneficiaries; 19 projects in which women were less than 20% of the beneficiaries; and 59 microenterprise projects which did not report on gender impact.

productivity not relevant to the hugeness of poverty where they operated. She observed that many PVOs devised multi-task interventions too ambitious and costly to be carried out for many thousands, and far from economic reality.

Whether and how to transform older, grant-based approaches to poverty alleviation that are costly, unweildy and small into modern, larger scale, self-sufficient programs is the real challenge facing us all. Once a small set of productive institutions with refined methods for poverty alleviation are funded to their capacity, we are faced with developing two other kinds of capacity: 1) agencies oriented to working with the poorest of the poor, but who lack productivity and technical know-how and have an older-style approach; and 2) specialized intermediaries who lack the productivity and/or social philosophies and methods for working with the poorest of the poor. Once the cream is skimmed, how much US aid institutions extend poverty lending depends on the speed and success with which AID, GEMINI, and the rest of the development community can form and execute an agenda for deepening the capacity of these other institutions.

"Old" (Traditional) Style Economic Projects

1. Goal to create income for beneficiaries without regard to business principles such as <u>profitability</u> or <u>breaking even.</u>

2. Projects lack scope. Multiple services provided to a small number without regard to affordability.

3. Dependence on grants. Little or no effort to pass a share of costs to users, to rotate rather than grant resources.

4. No savings component.

5. Excessive customization to individual and community level variations.

6. No underlying model for financial sustainability. No projection of the scale, cost, revenues of services.

"New" (Modern) Style Economic Projects

1. Provides a large volume of services cost efficiently. Aims to serve thousands.

2. Savings a main part of program.

3. "Business" approach to micro-enterprise development.

4. Underlying financial sustainability model of credit and savings intermediary at the program level.

5. Producers given a series of short, working capital loans to make rapid turnover investments whose surplus can be saved in order to acquire a larger base of productive assests.

6. Streamlined paperwork, training, extension.

II.H. An Operational Definition of Poverty Lending

When the US Congress passed legislation urging support for "poverty lending" in 1988, it did not define what this was, except to suggest that individual loans be $300 or less. AID also has refrained from making a definition of poverty lending which is distinct from microenterprise credit. While this makes many agencies eligible for foreign aid, it has not weeded out older, less productive approaches nor created enough incentives to modernize. A poverty lending definition should not provide agencies with loopholes to gain access to new funds without changing their beneficiaries and methods to increase financial services to the poorest and to become productive enough to be self-sufficient at a scale of thousands. A definition should not categorically rule out agencies who want to adopt poverty lending, but they should be able to present a critical analysis of what they need to change, criteria for others to monitor their refocus, and evidence of change. The definition that follows is suggested as a multi-characteristic guideline.

Definitions/Criteria for Poverty Lending

1. It works with the poorest and the most "marginalized" in other senses--gender, caste, other forms of geographic or social isolation. "Harijan" classes.

2. It provides a <u>series</u> of very short term, very small, working capital loans. This series of loans provides a cashflow over a period of 2-3 years which the very poorest producers can invest to generate a surplus. Loans to individuals range in size from $5--$300. Loans that are larger and/or longer term as well as loans that assist the poor indirectly by creating jobs are for micro and small entrepreneurs that are higher on the economic ladder.

3. It vigorously promotes savings, charges positive interest rates, is sensative to cost control and cost effectiveness, and has a plan for sustainability based on local earnings.

4. In the best of systems, <u>it is participant controlled</u>. The capital of the poor is available to poor for their purposes.

5. Frequently, it is not banking services alone. Participants have a large socio-economic development agenda of which savings and loan services may be a critical aspect, but not the only element. These other elements may be as key to enabling the financial services as the latter are to the former.

III. Socio-Economic Impact

III.A. How the Poor Build Up Assets

From the perspective of participants, the most important economic benefits of poverty lending are the opportunity for a poor producer to accumulate a base of productive assets and the confidence and know-how for successful small scale investments in the "survival economy." Some have practice at producing and selling on a miniscule scale; but many destitute do not: investing $50 productively is a challenge to them, as is making a series of small investments. Even at this scale, there is investment, management and marketing technique involved. What follows is a case to appreciate the management aspects of this.

Shaheeda: From Destitution to Diversified Livlihood[7]

Shaheeda married at 16, but a year later was abandoned by her husband when she was eight months pregnant. It was a great hardship to add two more persons to the household of her poor father, and also a personal shame. But with the help of the Grameen Bank, Shaheeda built up a base of savings and productive assets, a diversified means of livlihood, and was able to establish an independent household for herself and her daughter. She did this over a five year period with five loans. Four of the loans were for small amounts of working capital and one was for Thaka 18,000 ($600) to build a house.

Shaheeda's first loan was for Tk 1500 to buy unhusked rice, a rooster and a hen. Milling and selling parboiled rice is Shaheeda's primary economic activity from which she makes Tk 200 a week. Through careful raising of poultry and occasional small investments, Shaheeda has expanded her flock of chickens and ducks to 32 birds and is able to earn Tk 50 a week selling eggs and birds. With profits from her second rice loan, Shaheeda invested Tk 150 and bought a goat. This turned out well for her and she has been able to sell six goats for Tk 3600 as well as earn an average of Tk 50 from selling goat's milk. Shaheeda's recent investment is a milk cow from which she is able to earn another Tk 200 a week, for a total average weekly earnings of Tk 500. Shaheeda also grows vegetables and squash on her roof and laticed walls. She feeds her family and sells the surplus to pay for her daughter's education.

With a Tk 18,000 loan, Shaheeda was able to construct a small house assisted by her father and other members of the Grameen Bank. She repays the housing loan in installments of Tk 1,000 per year plus 5% interest. With earnings of Tk 2,000 a month, this is affordable along with expenses for basic needs, education, and operating her

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[7] This live case is taken from a video interview entitled: The Grameen Bank: Seven Short Vignettes, 1987.

small scale economic activites.

Through observing the Grameen Bank principles of discipline, unity, courage and hard work and practicing the 16 Decisions, Shaheeda has been able to accumulate the following base of assets:

Savings	Tk 3,000
Poultry birds	Tk 2,000
Goats	Tk 2,000
Milk cow, calf	Tk 3,500
House equity	Tk 3,000
TOTAL	Tk 13,500 (US $540)

III. B. Evidence of Economic Impact from the Grameen Bank

The Grameen Bank has been analyzed in detail and provides reliable data about economic impact. Research by the Bangladesh Institute for Development Studies analyzed 945 GB members in five villages plus 150 landless producers in two control villages that were not covered by Grameen operations. Less than half of GB borrowers reported investments in working capital before they joined the bank. After two years of participation, the BIDS study showed that 80% of the households reported increases and that the average amount of working capital went from Tk 743 ($30) to Tk 2,811 ($112). Even after adjusting for inflation, this comes to an average increase in working capital of 64% per year.[8]

Access to capital freed many landless producers in Bangladesh from the landlord and moneylender, who often were the same person. With working capital, borrowers could be self-employed on more remunerative terms than performing agricultural labor, and they could market products themselves versus being tied to selling their product back to the moneylender at a low margin of profit. This was also confirmed by the BIDS impact research, which was able to detect changes in what what producers were employed in after two years of GB membership.

[8] R.I. Rahman, Impact of the Grameen Bank, Dacca: Bangladesh Institute of Development Studies, Tables 27, 28, 29 pp. 58-9.

Table 1. CHANGES IN OCCUPATION OF GRAMEEN BANK BORROWERS[9]
(Comparing Pre-Membership Status with Status after Two Years)

Occupation	Males Before	Males After	Females Before	Females After
Cultivation	7.3	6.3	0.4	0.4
Agricultural labor	20.0	2.1	1.9	0.2
Animals/Poultry	0.4	6.5	0.9	7.2
Processing/Manuf.	17.2	16.6	38.4	53.4
Trading	32.2	15.9	5.4	29.6
Transport	5.9	9.5	0.2	0.4
Construct./Service	10.4	12.7	2.4	1.9
Unemployed	6.6	0.0	50.4	20.8

Number = males, 441 and females, 534

For male members, participation in Grameen did not alter significantly their landless status, but they moved away from being agricultural laborers and petty traders to more remunerative activities. For women, the biggest change was the 30% moving from unemployment to self-employment. The BIDS study also detected a secondary economic impact on local agricultural laborers who were not members of the Grameen Bank. During a three year period, the agricultural wage rate rose by 19% annually in the the villages where Grameen was operating, in contrast to 15% national increase.[10]

Comparing household incomes of both members and non-member producers of Grameen project villages with control villages where the bank did not operate, the BIDS survey found that the average household income for GB members was 43% higher than for households of the same status in the control villages, and 28% higher for GB members than non-members in the Grameen project villages. The difference is statistically significant. The landowning classes had roughly the same household incomes in both the project and control villages. Thus the positive effect was mainly due to income increases from animal raising, processing, trading and transport--activities financed by Grameen Bank loans. Grameen also diminished the aggregate amount of local poverty. In the control villages, 50% of the households were found to have per capita annual incomes of Tk 2000 ($80) or less. In the Grameen project villages, only 19% were found at this severe level of destitution.[11]

[9] Ibid., Table 33, page 62.

[10] Ibid., page 63.

[11] Ibid., Tables 38 and 39, pp. 66-69.

III. C. Social Impact

All poverty lending programs are not the same in terms of social impact, but the better ones produce social benefits that equal in value economic benefits in the eyes of those who receive them. Types of social benefits include:

Participation in decision-making

Gaining legal rights, overcoming repressive cultural practices

Dignity and enhanced self-worth

Freedom from monopolistic money lenders or labor contractors

Social safety nets to make emergency loans

Organization for other types of development (mother-child health, family planning, improving community or ecology, etc.)

Key to the social benefits is the quality and philosophy of the social organization of the beneficiaries. Some poverty lending programs group participants for administrative purposes. Others organize in a top down fashion where program policies and agenda are set by technicians. The programs with the best impact are those richest in organization. The Self Employed Women's Association, for example, bases its organization and training strategies on the differing needs of each self-employed sub-sectors (vendors, food processors, artisans, service workers) who set the agenda themseles. Another very participatory model is FINCA, where village groups themselves decide how funds will be used.

IV. OPERATING MODELS OF POVERTY LENDING

The section that follows is set up to illustrate the differences in operations and types of benefits among programs providing financial services to informal sector producers. The five discussed here---Grameen, Accion programs, FINCA community Banking, the "BKK" local credit institutions in Indonesia, and savings cooperatives-have methodological differences and they also fit different segments of the informal economy. Their performance is not due to the "goodness" of methods alone: they also have differences in age, population density, access to capital, etc. Regional variations are also influential. Rural Asia has high man-land ratios and huge numbers of landless, which helps to explain why Grameen and BKK encompass hundreds of thousands. Poverty lending programs in the Latin America-Carribean region are smaller and concentrated in large cities. Most "sizeable" microenterprise programs in the Latin region encompass three to five thousand participants,[12] although similar agencies often group together, and the size of confederations can be much larger. In Africa there are not nearly the number of local institutions or experience with poverty lending as in other regions, and landlessness is much lower. Rural poverty in Africa is due to ethnic and gender inequalities, or to dispersed populations that lack infrastructure to spur economic development. The page that follows briefly outlines of each program type.

[12] Some of the largest Latin microenterprise programs are in Peru, a country with hyper-inflation and a severely contracting economy. In 1987, Accion Communitaria Peruana reached over 22,000 informal sector producers and managed a loan fund of US$1.4 million. A government sponsored program, the Instituto de Desarrollo del Sector Informal, made loans to 38,000 in 15 Peruvian cities and revolved a loan fund of US$2 million.

APPROACHES TO POVERTY LENDING

Grameen Bank Started as an NGO effort to broker loans for the landless in 1976, Grameen became a ban chartered with government funds in 1984. Huge in scope, in 1989 there were over 700,000 members and 500 branches. By 1992, Grameen aims to serve one million and operate 1,000 branches. More than a bank, Grameen is a social movement whose members pursue a multi-faceted development philosophy. Eighty five pe cent of members are women. Bank officers decide who will receive a loan, but members are GB directors and have a policy role. Groups of 5 producers for the grassroots base. Twenty groups form a centre.

Acción International & Affiliates Fifty credit programs throughout Central and Latin Americ were founded by and/or are affiliated to Acción International. Their technical model began to develop in 1980 when "solidarity groups" were formed to make small, non-collateralized loans to urban street vendors. Loans today are to men and women, many of whom have established microenterprises. The Acción model aims at estab-lishing a financially sustainable institution by keeping costs low and charging interest at or above commercial rates. Some of the Acción affiliates are small and microenterprise lenders, but others are poverty lenders. Th latter exist in Bolivia, Colombia, Ecuador, Paraguay, Guatemala and Honduras.

FINCA Community Banking Focused predominantly on severely poor women, community banking as promoted by the Foundation for International Community Assistance has proven it can operate in rural as well as urban contexts. Although started and operating predominantly in Central America, examples exist worldwide. Emphasis is on producers forming their own bank and deciding how to manage their capital. Community banks are also hubs for wider development action. This model works from the bottom up rather than the top down. Savings is promoted vigorously. FINCA community banking programs exist in 12 countries.

Baden Kredit Kekamatan These are over 500 independent, locally autonomous credit institutions that offer savings and loan services to the rural poor in densely populated Central Java, Indonesia. Very small loans are made to finance non-agricultural activities for landless producers. Nonety percent of the loans are less than $60, and terms are from 3 weeks up to one year. No collateral is required; almost no analysis is made of the proposed investments, and no other services are offered. Loans are made to individuals, and there is no use made of groups. Nonetheless, the BKK makes a profit yearly while serving 500,000 severely poor.

Savers' Cooperatives These have long been a mechanism for services for salaried employees, but in Africa they also provide credit and savings to thousands of rural small producers. Examples of large schemes are CamCCUL with over 70,000 membersin the Cameroon and MUSCCO, with 16,000 members in Malawi. In the African region, there are 29 such confederations. Loans are often made for consumer purposes for such expenditures as education, housing, transport and social obligation. Savings is the primary objective and most groups do not assist production. Groups may include some of the poorest, but they they are a minority.

IV. A. <u>The Grameen Bank</u>

The principal lesson of the Grameen Bank is that it proves one can target the poorest and provide huge numbers of them with services on a commercially viable basis, while at the same time piggy-backing many extra services onto credit and savings for almost no extra cost. Grameen has two great strengths. One is its attention to commercial viability. The other is commitment to and methods for serving those on the very bottom rungs of the economic ladder.

Grameen works hard at becoming a sustainable credit institution. It charges commercial rates. It has a high volume of lending and keeps expanding the number of branches. It is tough about recollection. It encourages savings. It was the first in Bangladesh to believe that there was a "market" for financial services among the landless and to move to develop it. Grameen is not 100% commercially viable because much of its capital has been supplied at concessionary rates, and because it receives some grant funding for other services in addition to credit and savings. But the public costs of these other services are very small in comparison to their provision by other agencies. That is because Grameen is a bank within a social movement. Organizing around the provision of financial services is a hub for members to organize and provide each other with social services.

Mohammed Yunus, the founder and director of Grameen, has argued forcefully that poverty lending requires an exclusive focus on the poorest and special methods to reach them. What are Grameen's methods? They focus largely on the pre-entrepreneurial: those who don't have land or other fixed assets for a micro-enterprise. Grameen is oriented to developing income for the family. The large majority of participants (85%) are women. Grameen reaches the severely poor--and where and how they promote and their criteria for membership is tailored to this strata. Very small loans ($60 average) can be made without material collateral, and productive loans are not expected to exceed Tk 5000 ($161). Grameen stresses empowerment, which is evident by their recognizing women as individuals in a society where women are largely invisible and subject to severe cultural oppressions. Strong solidarity exists, both in the 5 member groups which are the lowest tier of organization, and the centers which gather 5-10 groups and are the basic unit of collective action.

Grameen's philosophy is that it takes a long process for someone who is landless to graduate from poverty. Once members have outgrown the small loan mechanism, Grameen is developing another mechanism which makes larger loans to groups in order to obtain and operate larger assets like a piece of irrigated land, or a small factory. This new mechanism is managed by Grameen's department of Studies, Innovation, Development and Experimentation. SIDE is the equivalent of a "ventures" unit of the Grameen Bank, and has made large loans to itself to operate a fish farm, a shrimp farm, a building materials industry and an equipment center.

Attempts exist world-wide to replicate Grameen, with varying success and understanding of its principles. The Agricultural Bank of Nepal has a Small Farmer Development Program providing 80,000 nearly landless producers with multiple services in addition to credit and savings (agricultural extension, health, literacy, etc.). ADBN's program, however, lacks the quality of social organization and empowerment of Grameen, and is a top down program staffed by government promoters with too many things to cover over too large an area. Governments and donors have been keen to replicate the Grameen quickly and widely. Another example is the Nigerian People's Bank started in January, 1989 which makes very small, interest free loans (average size Naira 200--US$26). The GON allocated $4.53 million to the People's Bank for 1990, although the People's Bank appears to have neither a financial model for sustainability or a social organizational model enabling them to use peer pressure successfully to recuperate loans. One well considered effort to replicate Grameen is a trust called Amanah Ikhtiar Malaysia (AIM). A pilot project was completed in June, 1988 showing AIM was able to reach the severely poor without leakages to the non-poor, and with a repayment rate of 95% among women borrowers. Backed by state governments as well as the Government of Malaysia, AIM has expanded into six states and plans to operate countrywide 1991 and serve 100,000 families by 1997.

IV. B. ACCION International and Affiliates

The "Accion model" of providing credit and other services to urban micro-entrepreneurs has had significant impact among government policy makers, NGOs and large donors (including AID) in the Central and Latin American region over the last several years. This model does not focus specifically on poverty lending. It pioneered in recognizing existing, urban microenterprises as a "market" which will pay commercial rates for credit. It supplies them with agile, non-collateralized credit at rates equal to or above commercial loans. Accion's main objective has been to establish viable microenterprise credit institutions that can cover operating and capital costs from local earnings. Their institution-building model has been a lead example in holding down administrative costs, increasing volume, providing no-frills services, and charging interest rates and fees which cover costs. The clientele of Accion programs is mixed gender, and there is a wide mix of sizes and types of microenterprises with very heterogenous needs for credit. Those with very small loans of less than $100 are organized into solidarity groups of 3-6 members which co-guarantee each other's loans. Some programs provide savings services, although this has not been integrated as a main feature of the model, sometimes because it has not been legal to do so. Some Accion affiliates also provide very good management training and organizing of microenterprise associations or cooperatives which have some subsidy. These recoup large portions of their operating costs.

Several of the Accion programs do, however, have their clientele concentrated in the severe and moderately poor---particularly in Accion programs in Colombia, Bolivia, Ecuador, Paraguay and Guatemala and Honduras. The majority of clients in Colombia, Bolivia and Paraguay are women (71%, 55% and 57% respectively). These programs all started off being aimed at the needs of street hawkers and market vendors. For example, PRODEM, the Bolivian program, went to areas were the poorest lived or were concentrated in their commercial activity and promoted among this strata alone. PRODEM lends only through solidarity groups. In four years it has opened operations in three cities and formed approximately 2500 solidarity groups with 11,000 members. The average PRODEM loan to a group is $800 for 16 weeks, with first time loans to individual solidarity group members averaging $50 to finance mostly trading for women and artisan manufacturing for men.

The Accion program in Colombia does not loan directly, but rather supplies technical assistance in the formation of sustainable microenterprise credit institutions to 15 local foundations which are a mix of PVO, private business sector, and sponsorship by the government as well as international donors. These institutions have made over 71,000 loans in six years. They currently serve 14,692 active beneficiaries and revolve over two million dollars under high inflation conditions. In addition they have presented 6000 training sessions and made over 2000 business consultancy visits. Four of the fifteen have reached operational self-sufficiency already. A dilemma has been high drop-out rates from the solidarity groups. The precise reasons for this are unknown, but Accion staff suspect that the solidarity group methodology becomes a bottleneck for those who participate two years or more, and many leave because they outgrow the mechanism and want more credit than it can provide.

Among the Accion programs there are debates about who should be the target group, how to serve them, and how to reconcile user needs with the goal of financial sustainability. If a program is aimed at the "survival economy" and includes primarily women microentrepreneurs, it becomes difficult to accommodate the needs of more capital intensive manufacturing and service enterprises which are a few rungs up on the economic ladder. The staff which manage these programs face the dilemma of keeping a commitment to the poorest versus enlarging the size and terms of loans to accommodate the evolving needs of participating microentrepreneurs. ADEMI in the Dominican Republic is an example of a program that evolved away from solidarity groups for the poorest hawkers and vendors. Looking at its statistics for the recent period of Jan.-March, 1990, 30% of its borrowers had loans higher than $500, but 70% had loans less than $500 and 27% actually had very small loans of less than $170. So even ADEMI still attracts some of the very poorest, although the central tendency of the clientele of that institution is far different from PRODEM's which has nothing but solidarity groups based largely on women engaged in petty trade.

The structure of the Colombia program of 15 decentralized institutions with economies of scale in supplying technical assistance holds considerable potential for scaling up the number of users and is an alternative to structures like the Grameen Bank. Tulay Sa Pag Unlad (TSPI) in the Phillipines, affiliated with Opportunity International, is using this same strategy to create a network of 15 PVO microenterprise foundations throughout the Philippines in five years time. The growth potential of this strategy, however, appears to be as strong as the vision and capabilities of the governing structure. These programs may work well at 1000-1500, but they may not be nearly as homogenous and attractive when they start becoming larger.

An interesting lesson of the Accion models is that they give a quantitative idea of the productivity required to become financially viable. In Colombia, analysts found that the breakeven point for operational self-sufficiency requires each field promoter to work with 80 groups (280 beneficiaries) and revolve a portfolio of $30,000 with less than 10% late payment. If the cost of borrowing money is also considered, each promoter would have to work with 150 groups and revolve a portfolio of $55,000.

IV. C. FINCA COMMUNITY BANKING

Another mechanism targetting predominantly the severely poor is is the "community banking" model of the Foundation for International Community Assistance. Savers and borrowers are destitute women who wish to support their families more adequately. FINCA is a small, young PVO--6 years in operation--which has initiated community banking in 13 countries. Most of them are in Latin and Central America, but they also in places distinct from Hispanic cultures such as Haiti, Thailand and Senegal, Sierra Leone and Ghana. The biggest programs to date are in rural Costa Rica where there are 4500 members of 150 banks and El Salvador which has a similar size. The model operates as proficiently in poor neighborhoods of a megalopolis like Mexico City as it does in remote villages. So far, community banking has been picked up by 28 PVOs including major ones like CARE, Catholic Relief Services and Freedom from Hunger Foundation, who appreciate its impressive economic and social organizational benefits and the ease and quickness with which they can get up and running with it, despite not being specialized financial intermediaries.

What is community banking? This financial mechanism is very different from the Accion, Grameen, BKK and savings cooperative models in that members control their own capital at the community level. A community bank consists of 20-50 members who receive a loan as a group and who manage their bank's internal capital. The size of an individual loan is equal to $50 plus savings, up to a maximum of $300. Loan cycles are short--typically from two to four months--and a series of loans is given for three years. The model stresses savings heavily. A member "graduates" from FINCA lending when she has saved $300, which is enough working capital for self-sufficiency. Each community bank manages its own internal funds consisting of savings plus earnings (from interest, communal fundraising, etc.). Community banks lend their internal capital for productive activities, emergency loans, or necessary consumer expenses. After three years, banks replace external FINCA loans with lending from their internal capital.

The composition and organizational dynamics of community banks differ from other types of poverty lending programs as well. As the FINCA model has evolved, the composition of a community bank is quite homogenous in terms of gender, socio-economic status, and sizes and types of economic activity for which loans are given. Organization and empowerment for destitute women to earn money and use it to provide for children's well-being is the main philosophical theme. The model does not exclude men, but it is explicit in focusing on the severely poor, limiting loan size to $300, and lending for short terms which do not fit more capital intensive and traditionally male-dominated activities such as agriculture and artisan manufacturing. The size of the group--50--is also a well considered tactic to amass the solidarity necessary to overcome forms of cultural and gender domination that can prevent the lowest status producers from acquiring and controlling assets within their household or community.

Thusfar, the FINCA model has emphasized decentralized economic and social empowerment. Individuals and community banks become financially self-reliant. PVOs are able to pay the operating costs of promoters who form community banks from interest earnings on FINCA loans-thus achieving sustainability at a certain level. But this is not a model that aims first and foremost to construct credit institutions and is centralized in controlling assets and imposing fees to achieve this goal. What will be the apex institution, how it will behave vis-a-vis member banks, and how it will be financially sustainably are not well defined in this young model.

The oldest (5 years) and largest community banking program is in Costa Rica where 150 banks operate with 4500 members. FINCA-CR provides technical assistance to the community banks and manages a loan fund. This program consists predominantly of older style banks with a more heterogenous membership in terms of men and women, most of whom are doing farming and animal raising. Rather than graduate producers, FINCA-CR has obtained a low-interest, long term loan from the Inter-American Bank to continue making slightly larger loans to members, and thus will increase its lending mechanism along with their needs. Community bank members are also taking seats on the board of directors of FINCA-CR so that there is beneficiary control at the top levels of the organization.

An alternative organizational structure of community banking is the program in Thailand in which FINCA has given its operating model and technical assistance to Catholic Relief Service. There, three local NGOs have been taught the methodology and plan to form 100 community banks. The loan fund will be held in a single trust from which all the NGOs and community banks can receive loans. CRS operates a community banking support center which achieves economies of scale by supplying technical assistance to several NGOs and which can add other local organizations in the future. In the CRS Thailand program, sustainability has been achieved quickly in covering the costs of making loans and building community banks, but not the cost of acquiring capital or paying for the support center. This NGO support center model will also be used to provide financial services to 250,000 producers in El Salvador, where USAID and FINCA have just signed a $10 million agreement. El Salvador is FINCA's first attempt at bringing its model to a very large scale, and it will define key aspects of scaling up to serve many thousands, the formation of an apex institution and the financial sustainability of the apex--gaps to fill for community banking to be on the same level of development significance as institutions like Grameen.

IV. D. The Badan Credit Kecamatan Program of Indonesia

The "BKK model" represents a public sector approach to providing financial services for the poor. Begun in 1970, BKKs are "Sub-District Financial Boards" which make poverty loans and collect savings. BKKs operate in very densely populated Central Java (30 million) and have an enormous system of 502 branches and 3938 village posts which cover approximately one third of all villages in the area. This BKK program has been replicated to four other Indonesian provinces as part ofa national and provincial government effort to build rural financial institutions where there are no other formal financial services. Overall, there are 1446 branches and 4085 village posts which are supervised by the Provincial Development Bank. In 1990 there are 800,000 borrowers and 1,033,000 savers in this system.

BKKs concentrate on providing financial services only. Loans are made to individuals and no use is made of groups. Ninety percent of the loans are below $60, and the average initial loan size is $22. No material collateral is required. First time borrowers need only a character reference from their village chief or local government official. From there, access to further credit is based on satisfactory repayment. The loans are for non-agricultural productive activities. Several different loan plans are offered with terms ranging from 22 days to a year. Non-subsidized commercial rates are charged, and the average effective interest rate works out to about 30% per annum. Since 1988, BKKs and rural financial institutions in other provinces have also offered deposit savings. This has been popular and has given the system a source of capital. Fifty six percent (56%) of loan capital is coming from deposit savings in 1990.

The 1982 impact study, which project analysts say still characterizes BKK clientele today, showed that 60% of the borrowers are women and most of the loans are for activities they control, principally petty trade. Although aimed at the landless, 66% of sampled rural BKK borrowers owned and/or rented land. So although BKK reaches large numbers of poor producers, it may not be the severely poor in the local system. Research is lacking to indicate what the social impact of this large and important program is.

The bright aspect of this model is its financial success. The BKKs in Central Java today cover both their operating and capital costs. Ninety percent of their capital comes from equity and savings, and less than 10% must be borrowed. The BKKs--although not all of the newer rural sub-district financial institutions elsewhere in Indonesia--prove that small loans can be made and recollected in rural areas without subsidy, and that the savings of the rural poor can generate funds to expand lending.

Two questions about the BKK model arise: 1) how does it succeed when so many other government credit schemes fail; and 2) how does it get impressive results without having any organization (or "social glue") to motivate and apply peer pressure to borrowers? Several factors are responsible for BKK's success, including lending philosophy; political commitment; quality banking control; and decentralization. In the 1970s there was a commitment to establish an on-going credit institution for the poor, and to not let the fund decapitalize through default or inflation. Various levels of government put their own resources to make this work, and their commitment to success at the national, provincial and local levels was above most foreign aid projects that stop when grants are discontinued. The Provincial Development Bank (BPD) also supervised banking aspects well. It established overlapping internal controls and reporting systems to prevent internal abuses. It classifies the sub-district financial institutions and limits the poor performers in terms of reserve requirements, amounts that can be lent and loan sizes; and access to rediscounted funds. The BPD may not always be able to prevent poor performance or control hiring, but its supervisors have been effective watchdogs. As for "social glue," most BKK branches are village posts. Those selected appear to be well known to the headmen who give them references and to BKK officials. When BKKs were designated to serve only as collection agents for other government credit programs, they did not function effectively because their own borrower-selection system did not operate. The "glue" holding the system together appears to be accountability for results, plus a decentralized system which enables lenders to know borrowers. Although BKK has social impact, there is no documented evidence of what it is. Careful impact studies have never been carried out to enable a comparison to be made with other poverty lending models.

The BKK model has been replicated to five other provinces or areas of Indonesia. Progress has been good, but not instantaneous. In a decentralized model such as this, the Provincial Development Bank can set performance standards and monitor them. But personnel decisions are controlled at the local level, and even in a program like this where the model and its principles are clear, it takes years to build the system.

IV. E. Savings Cooperatives

The oldest and most widespread system to make loans to small producers and mobilize savings are savings and loan cooperatives. Most of these are not poverty lending programs *per se*, but they are safe places for low income people to save, and institions for participants of poverty lending programs to graduate to.

In Africa, savings is a widespread practice, and informal and non-commercial savings groups are popular types of local financial institutions. In the 1950-1970ss, credit and savings unions grew as a way to access to larger, longer term loans. Where they exist and are well managed today, credit unions regularly make loans for productive activities (farming, trade) as well as necessary forms of consumption like housing, educational fees, and health care. For example, the Cameroon Cooperative Credit Union League (CAMCCUL) had 68,000 members in 1988 with $31 million in savings and $21.5 million in loans outstanding. Members are predominantly small farmers and residents of rural towns, and a third are women. Many of the credit unions are based on work association such police officers, hospital workers, workers on a certain plantation. Most of the membership of the CAMCCUL credit unions have not been found to be the poorest of the poor, nor aree they in other large credit union confederations in Africa that are assisted by the World Council of Credit Unions such as MUSCO in Malawi and FUSEC in Togo. The major activity of these grassroots economic institutions is mobilizing savings. Thus they tend to attract salaried employees or self employed producers in agriculture or other micro enterprise with a surplus to save.

There is not much information and analysis available about the social impact dimensions of credit and savings cooperatives and whether and how they overlap with poverty lending. The questions that concern WOCOU are not so much "who benefits", but building financial management systems and healthy cooperative institutions free from nepotism and other abuses. Although it has not been analyzed in terms of these issues, one of the credit and savings leagues that appears to have similarities to poverty lending is that in Sri Lanka. Concentrated in the South among thousands of grassroots groups, the Sri Lankan unions are hubs for many other community development services and activities in addition to financial services. This league is led by a charismatic leader who believes in integrated development and it is useful in a context where the strains of civil war severely limit government programs. Even if credit and savings leagues are not exactly adapted to poverty lending, they play an important part in a chain of economic development because they are mechanisms that people graduate to from poverty lending programs. Another important advantage of leagues of credit and savings unions is that over many years this model has proven its ability to operate in rural areas. More recent models for microenterprise and poverty lending have concentrated on densely populated, often urban contexts. That is possible in densely populated countries like Indonesia or Bangladesh, or in cities. But much of the Third World population, especially in Africa, is a more dispursed rural one. Models are needed that fit the characteristics of non-urban clienteles.

IV. F. Other Types of Poverty Lending Programs

Many other interesting arrangements exist which have established noteworthy precedents for providing financial services to the poorest. Several include:

Multilateral Donor Programs for Poverty Lending--Two that merit further analysis are the International Fund for Agricultural Development, a United Nations agency with an emphasis on the poorest of the poor, including women, and the Small Enterprise Program of the Inter-American Bank. IFAD was an early supporter of the Grameen Bank and it has helped establish a number of other precedent-setting programs of loans for poor women in Pakistan, Indonesia, Mali, Malawi and elsewhere. Since 1978, the IDB Small Enterprise Program has made 50 year soft loans to PVOs providing microenterprise services. The IDB program is one of the oldest available that has worked with PVOs on a loan rather than a grant basis. It has also worked to create access by PVOs and cooperatives to large lines of producer credit from the IDB to government banks.

The Central Bank of Indonesia and Local PVOs--this is another example of grassroots institutions who work with the destitute cooperating with the government in a poverty lending program.

Commercial Banks Sponsoring Poverty Lending--Much attention is paid to the People's Bank in Nigeria, but the two banks which have been operating poverty lending programs successfully for three years are commercial banks: the United Bank for Africa and the First Bank of Africa, both in Lagos. They work with women's cooperatives of vendors and other producers. Loans are for short term working capital lent at the prime rate. There is no minimum but a $500 maximum loan size. Loans have equaled 10 million Naira in the first 24 months.

The Trickle Up Program--This is a poverty "grant" program which uses many of the minimalist principles and methods to distribute seed capital for community development projects in an agile,non-bureaucratic, low-cost way around the world. Although it does not depend exclusively on them, TUP often uses Peace Corps Volunteers to assist local people to organize their thoughts and access a small grant. Like other poverty lending programs, TUP believes it is important to support villagers in their ideas and organization for development.

"Money Back"--Begun in early 1987 by Ghana's State Insurance Corporation, this program formalizes the informal savings mechanism called a "susu." "Money Back" provides life insurance and investment services for small enterprise. As with a susu, it makes daily visits to collect savings, and provides security for small producers, as well as capital for the banking system. Increasingly popular, it promises to grow into a regionwide or national program.

SIMME--the Vice President's Program to Promote Micro Enterprise in Guatemala City In a short time, this program combined 8 microenterprise intermediaries to create a large service delivery mechanism, half of whose clients are the self-employed poor of Guatemala City. SIMME provided loan capital, operating expenses and a standard of productivity to the participating agencies. It rationalized where they operated to avoid duplication of effort. It deserves acknowledgement for establishing a public sector-PVO collaboration for urban poverty alleviation quickly and successfully, while allowing microenterprise organizations to continue operating with their distinct approaches.

One could continue mentioning poverty lending programs, but the examples above illustrate that there is no one approach which has a monopoly on the institutional model for poverty lending.

V. Boundaries to Poverty Lending

A premise of this paper is that poverty lending is distinct from financial services to other small and microenterprise because of its target group and because of the organizing and other methods appropriate for working with the severely poor. This section is to address questions frequently asked about poverty lending regarding what its boundaries and limitations are.

V.A. Conditions that Favor or Limit Poverty Lending

Favoring Conditions	Limiting conditions
* local markets	* poorly integrated markets
* infrastructure	* no roads, transport
* economic skills & roles among participants	* limited skills, roles, technology, means, etc.
* urban/dense population	* severe cultural limits on roles, assets,
* income generating technology	

* family support for economic activity
* organization of participants

This mechanism requires that participants in poverty lending schemes do a fairly constant business selling their products or services. They do well to the extent that they live near markets and have roads and transport. Participants must be very agile in sensing what can be made and/or sold at a small margin of profit for them. In conditions where markets are poorly integrated and/or there are poor road and transport systems, profits can increase significantly if several small producers band together to deliver their product to levels higher than the local market.

Factors such as access to income generating technology vary greatly across geographic regions. Given that many of the participants are women who also have family and household roles, the presence of income generating and labor saving technologies with regard to water and fuel can improve significantly labor costs and profit margins. Many low-cost, appropriate technologies exist for such activities as food processing and preservation, small animal raising, bee-keeping, and spinning, weaving and dyeing cloth. The problem is that these technologies are very maldistributed not only in certain regions of the world like Africa, but also between genders Although poverty lending programs must be cost efficient and not lavish business development services disproportionate to the size and economic return of borrower activities, these programs must also analyze whether and how enterprise activity can become more profitable for the target group.

Many participants in poverty lending programs are women, and there is wide cultural variation in the economic roles and nature and size of assets that are socially permissible for them to control. Similar constraints may exist for certain caste, racial or ethnic minorities. The organizational and empowerment methods of a poverty lending program have to be capable of pushing back these cultural restrictions to productivity. Group size is a telling factor. A group of 3-5 is probably insufficient to change the behavior of husbands, families and communities regarding poor women's control and disposition of assets. But a group of 50 women, or 20 small solidarity groups that meet in one large village group is a size that can overcome and challenge cultural repressions.

Mohammed Yunus has argued long and hard that effective poverty-focused programs must have methods that are socially powerful as well as economically powerful. He warns against "one-shot" or "single-focus" programs which do not aim to enable the beneficiary clienteles to restructure their relationships and environment in ways that promote their socio-economic development. Yunis's concerns are important to bear in mind at a time when there is great pressure on financial services programs to become financially sustainable in a short period of time. Goals for institutional sustainability are legitimate only insofar as the approach of the institution is viable in transforming poor people's ability to become adequately self-sustaining.

V.B. Gender Boundaries to Poverty Lending

Several of the high profile poverty lending programs focus predominantly on women as 80+ percent of beneficiaries. Why is poverty lending more successful among women producers? Are there instances where mixed groups or groups of males have been successful?

John Hatch observes that women have several qualities which enhance the methodologies of poverty lending approaches and enable them to work more successfully. They tend to have more energy for a support group, and are more responsible, flexible and committed to the well-being of children and to each other. Women are habitual savers. And, since they have little or no acess to credit, the opportunity means more to them and they work harder to succeed.

In many societies, the assets that the majority of women customarily own (or that the culture permits them to control) are smaller than those of men. Given their family responsibilities, women's productive activities often consist of what can be done around the home without a separate workshop. Every financing mechanism has some activities it favors and others it does not. Poverty lending mechanisms complement the characteristics of producers with little or no assets--often women--more than those whose gender, status, and economic roles allow for certain kinds of fixed assets (land, draft animals, workshops, machines) and a higher level of asset accumulation.

Poverty lending mechanisms may be less suitable for men's economic activities for several reasons. Traditionally, male self-employed activities are in agriculture, raising of larger animals such as cattle, artisan services or manufacturing, construction and transport. These require a little more capital and/or slightly longer terms loan terms. In rural areas, men trade as well as women, but the items and/or quantities of things such as grains and animals are usually larger. Men's ambitions are different: they may accept a $100 loan because it is the only thing available; but they will not be satisfied with it. Men's family roles are also different. They are responsible for big purchases within the household, and/or may be supporting more than one wife and set of children. This makes their calculus about economic activity, the size of surplus and need for cash different than women's. It is true that men more than women squander disposeable cash on items like alcohol, cigarettes, other stimulants, and gambling. But the contrasting impact of poverty lending mechanisms among women and men producers is probably due more to their different economic activities and family roles than to personal virtues or vices.

Mixed gender clienteles exist in a number of poverty lending programs, including the models discussed in this paper. Culturally, in almost every context men and women do not have an equal playing field upon which to pursue and advance their economic activities. We need to study some of these programs to learn how they have gone about creating more equal opportunity. Some like FINCA have turned to gender-specific models. Others have tipped procedures such as promoting the service heavily in favor of women, and they recruit a preponderance of women (70+%). We need further analysis and comparison of how financial mechanisms evolve in women's programs versus mixed gender or male programs. There appears to be more pressure in programs that have mixed gender or predominantly male producers to make larger, fixed asset loans and to make more individual loans.

V. C. Is Poverty Lending a Starter System Only?

After several years with small, short-term loans, borrowers pressure a lender to allow the financial mechanism to evolve to cover their needs as they grow economically. This pressure is not difficult to accommodate in large financial institutions or in differentiated markets for credit where someone can graduate from a poverty lending program to a micro or small enterprise program or credit union. But the pressure is intense with small "niche" lenders whose clientele do not have other mechanisms to graduate to. The policy dilemma that arises is whether these lenders should evolve toward microenterprise lending (larger, fixed asset loans to individuals) and diminish the focus on poverty lending and the clienteles it favors, or whether the agency should keep its focus on poverty lending for new producers, even if it means that "graduates" do not have any higher micro business development mechanisms to graduate to.

The Grameen Bank has the size, the savings mobilization, and backing of international donors to develop multiple mechanisms for poverty lending and micro and group enterprise. At the opposite extreme is FINCA's stated policy of graduating an individual producer once s/he has reached $300 in savings, and graduating a village bank from FINCA loans after three years and/or when all of their members have saved $300 of working capital. (Due to FINCA youngness, there is no widespread implementation of this graduation policy to see whether and how village banks function when they exist on their own internal capital.) Irrespective of whether a program remains focussed specifically on poverty lending or whether it evolves multiple mechanisms, all of these programs face the challenge of capitalizing themselves as they expand benefits.

V. D. Replicability--Can Models Like the Grameen Bank Be Transferred Elsewhere, Especially Across Regions?

Yes and no. John Hatch argues that the principles of high profile poverty lending models like the Grameen Bank or BKK or Accion or FINCA can be replicated, but not the specifics. Variables such as population density, local institutions to carry out the approach, economic roles of women, local economic context--these are all context-specific. But there are two sets of principles that are transferrable. One set is the banking and financial sustainability principles. The other set is the socio-organizational and empowerment principles for those with few or no means of production and multiple disadvantages.

Because examples such as the Grameen Bank and the BKKs have elevated performance standards into whole new realms, they influence us all. There remain, however, significant cross-regional variations in man-land density, institutional development, and economic infrastructure that influences enterprise development. Also, Grameen and BKK are mature institutions that have developed over 20 years. When transferring methods or comparing other programs to them, we must be practical about the timeframe it takes to develop institutions of this scale. We can and should be inspired by Asian models for the landless poor or Latin models for the urban informal sector development. But there are too many other contexts and needs for these to be imposed exclusively as <u>the</u> models for poverty alleviation.

VI. <u>Poverty Lending: Promoting, Improving and Extending It</u>

In some respects, the debate surrounding poverty lending reflects larger, long-standing policy issues about "growth versus equity" strategies of development, and questions of how impact to those least able to access benefits but who need them most. In other respects, some controversy and strain stems from the necessary move toward more modern programming that has less cost and subsidy, higher productivity, and greater sustainability over time. Of all the challenges about poverty lending, however, the most serious one is creating more capacity, more institutions with high impact and productivity like the Grameen Bank, in many other Third World contexts.

What follows is an agenda proposed to GEMINI and AID to promote, improve and extend financial services to the poorest of the poor. GEMINI is a new microenterprise research program with potential to impact the type of programming in this field for years to come. It is appropriate that GEMINI form an agenda not just for improving the delivery of AID-supported financial services in the Third World, but that part of this agenda specificially address services for the poorest of the poor. This poverty lending agenda has three parts:

a) Strengthening the technical capacity for poverty lending;

b) Building political will to increase poverty lending;

c) Needed research for improved economic development assistance to the severely poor.

IV.A. BUILDING THE TECHNICAL CAPACITY TO EXTEND POVERTY LENDING

In the community of US PVOs working internationally there are some well experienced agencies in financial intermediation and building sustainable microenterprise credit institutions. These are very few in number in comparison to the US and local institutions that wish to increase their technical know-how, management systems, and non-profit business models to deliver financial services that promote the economic activity of small producers.

Coalitions like AIRES/SEEP have sponsored US workshops to acquaint development agencies with aspects of financial intermediation. Such exposure is a step in the right direction, but what non-specialized agencies need is technical assistance to adapt poverty lending to what they are doing and get them up and running with it. Or, for agencies that have limited experience with credit and savings, assistance is needed to help them complete a financial systems approach. "Transfer TA" needs to be well familiar with implementation details of poverty lending models, yet sensative to individual institutional configurations and philosophies. It is as important to make such methods fit the host insitution as it is for the institution to adjust to the techniques and rigor of banking.

Technical assistance in poverty lending could be provided to four types of institutions:

- -- financial intermediaries who don't reach the poorest
- -- microenterprise agencies needing a self-sufficiency model
- -- non-SED specialized development agencies
- --grassroots groups with low cost methods of training and developing others

Financial intermediaries can use assistance to educate management about the feasibility of poverty lending; identify barriers to it, both administrative and social; recommend organizational and personnel changes (such as the organization of "women's wings" of central banks) and train personnel.

Microenterprise agencies can use assistance to adopt non-grant program models and improve productivity so that they can become self-sustainable. Henry Jackelen points out that many PVOs fail when they try to tackle banking and outreach functions and do not do an effective job at either.[13] Often they do not possess adequate accounting infrastructure; underestimate the tremendous legwork to supervise borrowers; and lack rigorous discipline about recollection. Many of them lack a financial model of their basic business parameters--loan volume, costs, revenues, etc.--which gives them financial performance targets.

Like the Freedom from Hunger Foundation, there are many non-SED agencies who can benefit from poverty lending. These agencies are unaccustomed to business and economic principles, both in the promotion of small scale activities of beneficiaries and in their own program model. They do not need to invent a financial services model--packages exist that can be transferred. Given all the different geographic, cultural and program contexts in which poverty alleviation is necessary, it would be too costly and impractical to build specialized financial intermediaries from scratch. We need the patience and the will to transform social agencies, many of whom have wide grassroots networks or are part of mass institutions like churches that could spread this widely. There is much potential to spread minimalist techniques, revolving funds, savings, and fee-based approaches among these agencies.

This technical assistance could be done in the following way:

* Through GEMINI, establish a technical team to assess institutional capacity for poverty lending; whether an institution is ready to expand, how to bring it there

* Pick a group of agencies and show them how to establish pilots. There might be different poverty lending pilots for the different kinds of institutions cited above.

* Develop the capacity to support poverty lending over time. As agencies scale up, they need experienced implementors to converse with about later generations of problems, higher management systems, etc.

* Support the existing poverty lending institutions with good track records to "twin" with other agencies and serve as program laboratories for others who want to come and learn implementation details and nuances.

* Establish a network among poverty lending institutions. They could become hubs in technology and training for this, just as CIMMYT, IRRI, IITA, and other agricultural research institutes have spearheaded the drive to higher productivity in agriculture.

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[13] Henry R. Jackelen, "Banking on the Informal Sector," in J. Levitsky, Microenterprise in Developing Countries, London: Intermediate Technology Development Group, 1989, p. 133.

IV.B. BUILDING POLITICAL WILL TO INCREASE POVERTY LENDING

This can be done in three ways by:

a.) Assisting AID to Structure and Document Its Compliance with Congressional Recommendations for Increased Poverty Lending;
b.) Expanding support constituencies for poverty lending into areas beyond private enterprise (eg; health and nutrition; women-in-development; youth employment; drug erradication and others)
c.) Educating and expose the development officers of major bi-lateral and multi-lateral donors to poverty lending.

Assisting AID to structure and document its compliance with Congressional recommendations for increased poverty lending could be done without difficulty in several ways. One is to acknowledge the obvious that within the broad category of "microenterprise", there are distince socio-economic strata, and adopt a more operational definition of "poverty lending". An example of such a definition is offered in this paper. Another would be to devise an agenda for promoting poverty lending which would include but not be limited to narrow indicators such as the volume of credit in loans of $300 or less. A third is to establish a designated sum for poverty lending--both for seed capital and to establish or strengthen such programs. And a forth is to improve the impact and equity appraisals and designs of "microenterprise" foreign aid about who benefits and how such aid can be brought more effectively to the poorest of the poor. There is a large category of microenterprise programs that offers indirect benefits and support to microenterprise. How can the equity of these programs be better assessed and documented? Many of these programs of institution building and policy reform are essential to supply the infrastructure and create the context in which local economic development can occur. The rationale for them and their impact need to be better explained and documented.

An effort must also be made with PVOs, financial intermediaries and other development agencies working in microenterprise development to accurately assess and report on what their track record is vis-a-vis poverty lending and sustainable financial services, and to improve such programming. This would include analysis of the distribution of benefits by gender and by socio-economic strata, including an assessment about the poorest of the poor. It would also include reporting on financial sustainability.

As for broadening the support constituency for poverty lending, this is a methodology that should be shared widely among a number of program sectors whose success depends on some measure of poverty alleviation in order to be successful. Poverty lending fits with Women-in-Development, community development, population, nutrition and maternal-child health, drug erradication, youth development and employment; low-income housing; structural adjustment, food aid and disaster rehabilitation. These and other sectors bring support within donor and development organizations; they appeal to private donor constituencies; they attract additional budget resources; and they build links to different kinds of grassroots networks. With mixed constituencies like this, there will be less zero-sum competition for microenterprise resources. Another advantage is to broaden thinking and policy views about the application of this, rather than restrict it to one office or bureau in a large donor agency. In particular, this methodology has been shown to be effective thusfar in promoting poor women's economic development and deserves to be closely linked with WID and its constituency.

Another measure to develop political will would be to increase the education and exposure of officials of bi- and multi-lateral donors, development banks, PVOs and other development agencies to the principles and operational details of poverty lending. The small circle who deal with it on an on-going basis are highly educated, but many are not. Recommendations are to get more development officers out to see operating models of poverty lending. We must also insure that the teams which structure large loans and/or support packages to financial intermediaries are familiar with the distinctions, benefits and operational models of poverty lending. Efforts can be increased to include those sensative to WID issues on design teams of economic projects, especially women; and to encourage arrangements where PVOs engaged in poverty and microenterprise lending have greater access to soft loans and rediscounted lines of credit. These are but a few suggestions, and many others will add to the list as a concrete agenda to promote, improve and expand poverty lending takes place.

IV.C. <u>Needed Research to Improve Poverty Lending Methods</u>

1. <u>Refining Poverty Lending Technologies</u> --how to use internal savings; how loan cycles affect both enterprises and capitalization; institutional and beneficiary impact of gender-specific vs. mixed gender groups; and how individuals and groups advance from a starter system without displacing the original poverty focus; and how to scale up rapidly in 3-4 years.

2. <u>Minimalist Management Training</u>. Define a limited set of subjects (planning & feasibility of small scale investment projects; separation and maintenance of working capital; marketing) plus low cost delivery methods focusing on participants themselves. Use village bank or centre as development hub for training. Compare the costs and benefits of models that have included training packages with those that have not.

3. <u>Low-cost appropriate technology</u> to complement income generation. This is often as badly maldistributed as credit. Areas such as cheap transport, food preservation and processing, and

labor saving household technologies that free time for economic activity are an essential ingredient in many instances.

4. Social Organizational Dynamics--How to descale top-down control by credit and savings technicians and transfer to local groups management of their financial affairs. Techniques for participatory management and control, accounting and MIS systems.

5. Apex credit institutions--how to form institutions capable of large scope; sustainability; participant responsiveness

6. Marketing organization--money lenders frequently control local markets. (Monopoly capitalism consists of controling the money going in and the product coming out.) How do poverty lending programs break market control?

7. Sustainability at different levels: individual;group; region or program; central banking system's ability to work with SFIs.

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