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The Solidarity Group Experience Worldwide

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The Solidarity Group Experience Worldwide

by

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INTRODUCTION

Background

During the 1980s, economic growth slowed or halted in much of the developing world. Labor market entrants during this period of economic stagnation turned to informal sector self-employment to create jobs for themselves, family members, and neighbors. Although originally skeptical of the economic development benefits derived from the informal sector, host country governments and international agencies have come to recognize the sector's importance and have sought strategies that support its growth (Levitsky, 1989; Holt and Ribe, 1990).

Creating access to reasonably priced financial services has been identified as an effective strategy to promote informal sector firms or microenterprise growth. Informal sector firms are typically initiated with small sums of savings or intrafamily loans. These firms are excluded from the formal financial markets for reasons that have been well documented (Farbman, 1981; Berger, 1989.) Informal enterprises lack legal recognition, collateral, and financial records, and are poorly suited to prepare commercial financing requests. Microenterprise growth has therefore been limited to the firm's capacity to generate internal resources and intrahousehold allocations. Financing from moneylenders, although available, in most instances is not an attractive financing source given its high cost.

Recognizing this credit constraint, donors and governmental agencies have sought to make credit available to small borrowers. Unfortunately, many targeted credit schemes have been made available through highly subsidized public or quasi-public development finance institutions (DFIs). As recently noted by Yaron (1991) and others, DFIs have frequently failed in the past; they are characterized by poor financial performance, low loan collection, high transaction costs, and inadequate financial reporting. Nevertheless, despite the poor performance of many credit institutions, several models for delivering credit to small rural and urban producers have evolved that demonstrate considerable potential.

Peer group lending, conducted by private nongovernmental organizations (NGOs) or poverty-oriented development banks, is one successful model for financial service delivery widely introduced over the last decade. Commonly referred to as solidarity group programs (SGPs), this approach is distinguished by the following characteristics:

- Three to 10 microentrepreneurs join together to receive access to credit and other related services such as training and organization building;
- Group members collectively guarantee loan repayment, access to subsequent loans is dependent on successful repayment by all group members; and
- Loans are appropriate to borrower needs in size, purpose, and terms.

The mutual guarantee lending approach emerged during the 1970s in diverse settings such as PRIDECO/Fedeccredito in El Salvador, Working Women's Forum in India, and the Grameen Bank in Bangladesh. It was initially described in the PISCES Studies (Farbman, 1981; Ashe, 1985) and was more fully documented in the PACT monograph, "Solidarity Group Concept" (Otero, 1986). The solidarity group methodology adapts elements of the traditional model for rotating savings and credit associations (ROSCAs) that are widespread in the developing world. In ROSCAs, members contribute a regular amount each week or month, with group members rotating turns to collect the full contribution of all members. In peer group lending schemes, members receive loans, and then make regular weekly or monthly repayments with group members providing a mutual guarantee for loan repayment.

Since the 1970s, peer group lending programs have grown in number, size, and variety of settings. In Latin America, ACCION International, a U.S. NGO, has promoted peer group lending schemes called solidarity groups. A similar mutual guarantee arrangement, conducted by the Grameen Bank of Bangladesh, is being replicated in more than six other countries in Africa and Asia. Others, like the Nepalese Production Credit for Rural Women Scheme, have devised their own approach to mutual guarantee lending. Some organizations have introduced peer group methods in addition to individual microenterprise lending strategies. Today, solidarity-group-type lending schemes are being used worldwide in 24 countries, serving more than a million microenterprise borrowers. This diverse experience and sustained operations provide an important performance track record and rich methodological base from which to learn. Most significantly, the number of programs and borrowers reached has accelerated dramatically in the last five years. Among the SGPs committed to self-sustainability, a growing number are attaining economies of scale that contribute to their potential long-term financial viability and development impact.

In this paper we argue that the peer group lending guarantee method has proved successful and replicable in diverse settings across the globe. Focusing on the experience of three Latin American group-lending programs associated with ACCION International and on the Grameen Bank of Bangladesh, we contend that these organizations have been transformed from donor-oriented pilot projects to client-centered lending institutions. We discuss the substantial track record established and consider how these programs continue to innovate; we explore the methodological frontiers of peer group lending including the delivery of savings, training, and other client services. Finally, we examine how the experience of solidarity group lending programs offers insights into several issues influencing the development field in general and microenterprise lending in particular.

The Internal Dynamics of Solidarity Group Programs

Box one presents a framework for understanding the internal dynamics that drive successful peer group lending efforts. The peer group lending programs examined here aim to accomplish three principal goals: to provide services to the poor, attain financial self-sufficiency, and reach large numbers. In normal banking practice, the goals of providing financial services to the poor and attaining financial viability are at odds. Poor people are usually considered problematic borrowers. Because the loan amounts they seek are small, the administrative cost per loan is high. The poor lack collateral or access to cosignatories to guarantee their loans, increasing their risk to lenders. Peer group lending programs would be hard pressed to reconcile these objectives if they did not have yet a third goal, which is to reach large numbers. By serving a great number of borrowers, these programs may attain a significant development impact. Further, by reaching a critical mass of clients, these programs can lower their per unit costs, diversify their risk, and provide financial services to the poor in a financially sustainable manner.

An analysis of three ACCION-affiliated programs and the Grameen Bank points to the principal means used by these programs to accomplish their goals: mutual guarantees, management efficiency, and market responsiveness. Mutual guarantees are used because they have proved effective in deterring loan defaults, as evidenced by the loan repayment rates attained by these programs (see Box 4). Importantly, by working through groups, this mechanism also enables programs to reach more households; the credit administration costs of a loan is the same whether the loan is extended to an individual or a group. The group mutual guarantee method reduces risks and increases the potential number of borrowers reached.

Programs that have used the mutual group guarantee method successfully, however, have also adapted other organizational features to enable them to fully attain their goals. In addition to using the mutual guarantee, successful programs have adopted a relentless commitment to management efficiency. The successful programs examined have tested, refined, and streamlined their credit delivery methods to obtain maximum results Sophisticated management information systems have been devised to track client and staff performance. The management feat of successful peer group lending schemes, such as the Grameen Bank with 900,000 loans outstanding, is exceptional even when compared with management excellence attained by leading private sector firms.

A commitment to management efficiency alone, however, has not been enough. Once programs charge fully for their services and no longer rely on subsidies, they have had to become market responsive. To attract and maintain a large client base, programs have had to become attuned to the preferences and needs of their clients. Successful peer group lending programs have shifted their attention from satisfying donor requirements to meeting client needs. Programs have adopted a package of service and means for service delivery that satisfy client preferences.

BOX 1

INTERNAL DYNAMICS OF PEER GROUP LENDING

GOALS

Services to Poor | Reach Large Numbers | Financial Self-Sufficiency

MEANS

Group Mutual Guarantee | Market Responsive | Management Efficiency

OUTCOMES

Social Benefits | Client/Program Mutual Accountability | Financial Services Delivery

The goals and means outlined above have generated several significant outcomes. First, they have enabled the delivery of financial services to a large number of the poor. The delivery of financial services to a population that has historically been outside formal credit markets is a major accomplishment. However, as significant as this is, it is only one of several outcomes. These programs have also generated a climate of client-program mutual accountability. Over time, there has been a subtle shift in the tone and demeanor of client-program relationships. Client capacities as microentrepreneurs and as participants in the credit screening process are now respected while the organizations recognize their responsibility to provide a reliable service at a reasonable price, which creates real value for their customers. This mutual accountability and trust has been essential to enable these programs to attract and maintain a large client base. Tremendous loyalty has emerged among the borrowers and their lending institutions.

Although not the explicit intention of all peer group lending programs, those that have been analyzed more closely demonstrate that these programs have contributed toward broader social benefits. The mutual trust arrangement itself, at the heart of the group guarantee, has had profound social implications. The solidarity group, because of its basis in mutual support, frees borrowers from historically dependent relationships. Further, the peer group itself, becomes the building block to broader social network. The trust relationship which emerges through the collective guarantee, establishes the foundation for the group to attain broader organizational and social objectives. The social objectives of mutual self-help and poverty alleviation, remain fundamental to the broader goals of these peer group lending schemes.

Finally, it is important to recognize that not all solidarity group lending programs have attained the results described here. To the extent that an organization has not made an explicit commitment to attaining the goals described above (servicing the very poor, reaching large numbers, and attaining financial self sufficiency) or has not pursued all of the means discussed here (management efficiency, market responsive), the same breadth and scope of outcomes are not likely to be achieved. The mutual guarantee lending method in and of itself is not singularly responsible for the achievements of these programs; nevertheless it is a dynamic element of an organizational strategy for the successful delivery of financial services to the poor.

Features of Effective Credit Delivery in Solidarity Group Programs

The solidarity group methodology entails three main components: credit, training, and organization building. First presented in the *Solidarity Group Concept* five years ago, these components continue to be central to this methodology whether describing the ACCION International solidarity groups or peer group lending of other organizations. Based on years of field experience and numerous studies, it is possible to define the principal features that distinguish peer lending credit programs and contribute to their success. Although there is considerable variation in how these features are applied in different countries and regions of the world, the successful peer group lending schemes examined here have adopted the following practices, which are summarized in Box 2.

BOX 2

KEYS TO SUCCESSFUL PEER GROUP LENDING PROGRAMS

1. Client Population
   - Must have ongoing business or prior experience
   - Majority women in most settings
   - Mix of manufacturing, service, and trade

2. Group Self-formation
   - Groups select their own members
   - Three to 10 members — one member per family
   - Group leader selected by group

3. Decentralized Operations
   - Extension staff work in communities
   - Overcome cultural barriers to formal institutions
   - Staff become knowledgeable about client's business environment

4. Appropriate Loan Sizes and Terms
   - Loan amount and terms appropriate to client needs
   - Loan size increases as business and client experience grows
   - Terms range from quarterly to annual

5. Simple Loan Application and Rapid Review
   - Application limited to basic information
   - Standard project credit analysis not required
   - Applications turned around in 3-7 days

6. Interest Rates and Service Fees
   - Interest charges supplemented with other fees
   - Borrowing charges often exceed commercial rates
   - Total charges cover real lending costs

7. On-time Repayment Requirements
   - Incentives and sanctions for on-time repayment
   - Future loans pegged to group's repayment
   - Up-to-date information systems alert staff to delinquencies

8. Credit is Linked to Savings and Other Financial Services
   - Savings facilities are valued by group members
   - Intragroup emergency funds serve as safety net
   - Savings included within funds management strategy

9. Cost Effective Training and Organization Building
   - Training builds on existing client skills
   - Cost-effective and responsive training methods developed
   - Self-help organizations address social and economic needs

10. Borrower-Lender Accountability and Mutual Respect
    - Lender demonstrates borrower trust through Solidarity Group operations
    - Lender obliged to provide a service of value to borrowers
    - Borrower loyalty and mutual accountability generated

1. **Client Population:** To participate, group members must have an ongoing microenterprise or demonstrated ability to conduct their proposed business. The majority of group members are women; some programs limit participation to women because of their reputation as being more responsible borrowers. Group member activities include small-scale manufacturing, services, and trading, reflecting the proportional mix of existing informal enterprises. The preconception that peer group lending is best suited to commercial microvenders is not born out in practice; the majority of all group members are engaged in services, manufacturing, or agroindustry.

2. **Group Self-Formation:** Groups are responsible for selecting their own members. The self-selection feature is vital, because group members will be asked to share a collective responsibility. Group size is kept small, typically between 3-10 members. Usually only one member of a family may participate in the same group. Groups also select their own group leaders. Once group members are identified, a group building process is supported through orientation sessions conducted by the program. The field extension worker serves an important function of orienting group members and guiding their operation. However, the group's own dynamic, beginning with self-selection, is the impetus for successful group lending.

3. **Decentralized Operations:** Successful peer group lending schemes operate as field extension services. Program staff work out in the communities, marketplaces, and shops, directly reaching borrowers at their place of work. The field delivery capacity is integral to successful peer group lending because it serves to reduce the borrowers' transaction costs and overcome cultural barriers that inhibit microentrepreneurs from approaching the formal bank setting. Equally important, by being in the communities and work places of borrowers, the extension agents becomes familiar with group members knowledgeable about current business conditions, and aware of recent developments that have influenced borrower performance.

4. **Appropriate Loan Sizes and Terms:** The loan amount and terms of repayment are adapted to the requirements of the borrowers. Borrowers in the group decide how much each needs, and then a loan representing the total amount is approved by the institution and lent to the group as a whole. Typically, loan amounts begin small, allowing the entrepreneur to gradually build up his business. The payback period is also adapted to the flow of the business. In SGPs, which mostly operate in urban settings in Latin America, loans of $50-250 are awarded in large part for working capital and are extended for as little as one month. In other regions, such as rural South Asian settings, loan amounts of $20-120 may be extended for a full year. The longer loan periods in South Asia reflect the lower return to assets or productivity of investments in these rural areas and therefore the longer period needed to gradually build an asset base and cancel the outstanding obligations. What is important here is that the loan terms reflect the actual circumstances of the economic activities of the borrowers.

5. **Interest Rates and Service Fees:** Peer group lending emphasizes the importance of generating income from credit activities to cover the operating costs associated with credit delivery and to prevent the decapitalization of their loan funds. The real charge to borrowers includes a combination of interest rates and other charges such as service fees or implicit costs of compensating savings balances. Borrowing costs for solidarity groups are higher than that for commercial borrowers because, even with the cost savings associated with lending through groups, these operations are more expensive relative to loan sizes. On average, the operating cost of lending for SGPs range from 25-50 percent of the average portfolio. When coupled with the cost of capital, interest rates to borrowers in Latin America may reach 35-65 percent per annum. Although high when compared with standard commercial lending rates, these

remain affordable for short-term working capital loans given the return on assets that can be earned in many countries; these rates are favorable to those charged by moneylenders for comparable financial services.

6. **Simple Loan Application and Rapid Review**: Loan application procedures must be kept simple, yet collect the needed information. Well-designed questionnaires, visits to work places, and qualified staff contribute to the effective loan application and review process. Loan applications use simple, readily available information to assess the basic financial viability of the proposed activity, but fall short of formal project credit analysis and its reliance on extensive documentation. In communities that are largely illiterate, group lending decisions are based on oral assessments among members. With the backing of the solidarity group guarantee and the screening involved in group self-selection, loan review and approval can be performed quickly. Group members are involved with approving individual loan requests to each member, and with program staff in the decision to lend to each group. Loan turnaround time rarely exceeds seven days for first-time borrowers and one day for repeat loans.

7. **On-time Repayment Requirements**: Peer group lending operations have developed a variety of incentives and sanctions to facilitate timely repayment. Among these, the most important is the group itself. The group members are responsible for collecting the total loan. No member of a solidarity group is eligible for additional credit until the whole group has repaid its loan In addition, second and subsequent loans are made immediately and in larger amounts to groups that repay on time, offering an important incentive for on-time repayment. Successful group lending schemes develop a driving commitment to on-time repayment and maintain an up-to-date credit administration system that alerts field agents to delinquencies in a timely fashion. Staff may visit delinquent borrowers daily to impress on them the need to repay. In some instances, staff incentives reward extension agents whose portfolio performs well. In other programs (PRODEM, Grameen), late payments are simply not considered an option.

8. **Credit is Linked to Savings and Other Financial Services**: Although many SGPs began by providing credit, most now also offer savings facilities for members. A safe and accessible savings facility is highly valued by group members. Savings, in the form of intragroup emergency funds, facilitate repayment by serving as a safety net; members can draw from the emergency fund to ensure on-time repayment in the case of personal crisis or problems. For many programs, member savings form part of the program's strategy to raise loan funds, either as a direct source of funds among development banks or as a means for leveraging funds and services from other commercial financial institutions.

9. **Training and Organization Building**: Different forms of training and on-site technical assistance are integral to the solidarity group strategy. Cost-effective training allows group members to expand their existing management and administrative techniques to enhance business operations. Training often entails required and elective components. Self-help community organizations address members' social and economic needs. The social dimensions to group building and personal behavioral development are central to developing confidence and the personal characteristics that contribute to business success.

10. **Borrower/Lender Accountability and Mutual Respect**: Underlying the group lending mechanism is a basic trust and accountability between the borrower and lender. By sidestepping guarantees and trusting the group members to manage their credits, by meeting the client's real business needs, by responsibly and competently conducting the loan transaction, SGPs call on the group borrowers to complete their half of the transaction. Over time, an atmosphere of mutual trust and respect emerges. Borrowers develop loyalty and accountability to the program. Although this mutual respect is not unique to SGPs, this trust relationship enables these programs to meet their goals.

THEORETICAL FEATURES OF SOLIDARITY GROUPS

Peer group lending methods have their roots in a variety of regional and institutional settings. Social and economic literature on the subject helps to explain why peer group lending is so successful and provides a theoretical context in which to consider the solidarity group experience. Further, solidarity group lending programs contribute insights to many of the theoretical debates that influence this field.

Women and Traditional Savings Associations

Women make up the majority of participants in peer group lending efforts around the world. This is not surprising given that women engaged in the informal sector have frequently worked together in groups. Group lending methods draw heavily on traditional ROSCAs. In these associations, women with a common bond such as being from the same village or clan join together at regular intervals (commonly once a month.) At these sessions, each member contributes the same amount to the common pool of savings. Although traditions vary across regions, frequently a lottery is held to determine whose turn it is to collect the savings pool. The winner may be expected to provide refreshments at a social gathering of group members. In most cases, no interest is collected on savings. The group leader, the person who organizes the group, may have the privilege of receiving the pool of funds first (Von Pischke, 1991; Berger and Buvinic, 1989).

March and Taqqu (1982) defined an insightful framework that helped to explain both why women enter groups and the basis for their success. March and Taqqu argue that because women traditionally are excluded from formal sociopolitical institutions, they have developed informal associations to enlarge and empower their world. Arising through their formal disenfranchisement, women have turned to informal associations in the religious and economic spheres.

March and Taqqu highlight the social foundations of traditional ROSCAs that influence their success. First, they note that these institutions are based on interpersonal ties and mutual obligations. Next, they emphasize how such arrangements reach the economically marginal and affect them equally. They then discuss the important assumptions about collective action that are embedded in such rotating associations. They conclude, "Programs designed to reach women and others in the informal sectors of society and to help them improve their economic viability equitably, if they are to be successful, will undoubtedly share many structural and functional patterns with these rotating associations."

SGPs draw on many of the same social dynamics of ROSCAs but resolve several problems commonly associated with their operations. Members can control the timing of the loan so that they may obtain financing when their business can best use it. Members are not obliged to divert a significant share of the loan to meet hospitality obligations. The timing and use of the loan then is not subject to factors beyond the group members' control. Further, members need not risk the group disbanding midway or a group member misappropriating funds; without regulatory oversight such problems have arisen in the past.

Economic Rationale for Peer Group Lending

Recent articles by Huppi and Feder (1990) and Stiglitz (1990) outline an economic rationale for peer group lending. In economic terms, these authors underscore many of the practical problems that the mutual guarantee arrangement and group lending approach resolve. For example, Huppi and Feder note that group schemes allow lenders to reach economies of scale by lowering their per unit transaction costs (for example, lending to five people but administering only one loan). Although acknowledging that the lender's transaction costs may be reallocated to the borrower, this cost to the borrower is considered reasonable when evaluated against the implicit cost of the inaccessibility to credit.

These authors contend that peer lending contributes enhanced information about borrowers. Because economists believe that the principal cost to lenders is determining the probability of default and the credit worthiness of borrowers, the screening function provided by the group is vital. Next they note how the risk pooling through joint liability has served as an important deterrent for default. Peer pressure among group members may induce repayment. More importantly, rather than forgo access to future loans, remaining group members will make good on missing payments of group members. Huppi and Feder note, "A lender's ability to deny credit to groups or cooperatives if any member defaults is often the most effective and least costly way to encourage loan repayment."

Finally, the authors note the improved bargaining position of the borrower. By decreasing transaction costs and lowering the risk of default, financial services can be provided to individuals who would otherwise have no access to credit. Participating group members improve their access to credit and obtain better terms than they would be able to obtain as individual borrowers.

Stiglitz has developed a general theory of peer monitoring. Building on the "Imperfect Information Paradigm" discussed by Hoff and Stiglitz, peer group lending addresses the three principal problems of the lending relationship: screening, incentives, and enforcement. By allowing groups to screen members, lenders benefit from intragroup familiarity of their members' likelihood to default. Second, the potential for repeat loans provides a clear incentive for repayment. Finally, peer group members assume the enforcement function, thus reducing lender costs.

Huppi and Feder, and Stiglitz, based on their theoretical analysis and a review of case experience, identify group lending features that strengthen the likelihood of success and are consistent with the practice of solidarity groups. They note that group lending is most successful when groups are formed through self-selection, small (less than 10 members), homogenous, and adequately trained to manage the group lending activity. Huppi and Feder also note that group members have a further incentive to repay if a common interest other than credit is combined with other social services that enhance member group accountability. All three authors observe that the threat of loosing access to credit works only as long as the lender is in the position to continue to provide favorable and timely credit services. In numerous instances, they note that when a lender's services deteriorate, loan delinquencies rise.

Solidarity Groups and Moneylenders

The peer group lending experience offers important insights to the functioning of the informal credit market and its pricing policies. Many have compared peer group lending with other informal credit markets for its similar reliance on character guarantees, agile screening practices, immediate disbursements, and the lender's willingness to provide small loans (Lycette and White, 1989; Holt and Ribe, 1990). Some have contended that the price of funds charged by money lenders reflected the true cost of credit to these highly risky borrowers who are difficult to reach (Von Pischke, 1991). The track record of peer group lending organizations such as the Grameen Bank and the ACCION affiliates call this supposition into question. These programs, by using efficient methods and by offering short-term credits, demonstrate that when operated on a significant scale, the cost of capital need not be more than 20 percent per year above the real interest rate to compensate the lender for the additional per unit cost and risk. The solidarity group lenders are able to demonstrate that informal lenders, to the extent that their cost of funds are significantly higher, have in fact been extracting monopoly rents from their borrowers that are by no means socially justifiable, even if they are economically explainable.

Some have contended that because poor households have continued to rely on money lenders, forgoing the opportunity to borrow at subsidized rates from public institutions, the money lender offered a service that borrowers found more attractive and reasonably priced. An alternative explanation, however, is that term lending by inefficient public agencies that generate high transaction costs is not worthwhile for borrowers. This does not mean that the money lenders' rates were reasonably priced. Once a comparable, efficient, and appropriate lending source is available, representing effective competition, borrowers have shown their willingness to abandon money lenders; because the cost of funds for solidarity group lenders are more reasonable, a larger share of the informal sector has been able to enter the credit market. As is documented in recent impact studies, although not totally eradicating reliance of money lenders, SGPs have significantly reduced demand for their services among peer group members while increasing the overall volume of funds reaching the poor (Revere, 1989; Freres, 1989; Grameen Bank Donor Consortium, 1988).

Institutional Economics

Although Huppi and Feder and Stiglitz have explained solidarity groups from a more traditional perspective, Floro and Yotopoulos (1991) provide an alternate explanation. Referring to the new institutional economics, they underscore the effect of behavior and attitudes on economic relations. In this perspective, the strength of peer group lending lies in its mobilizing borrowers through social and institutional forces, rather than traditional economic forces.

They argue that in the third world, where commercial institutions are largely underdeveloped, personal relations (family or community ties) hold precedence over legally proscribed covenants such as formal loan agreements. In that sense, a borrower is more likely to respond to the mutual guarantee obligation in a peer group lending arrangement than to a legally binding credit agreement signed with a public agency. They argue, "personalized relationships serve an important economic function in societies characterized by social and economic sanctions and conventions that have nothing to do with standard [profit] maximization behavior."

Institutional economics goes a long way to demonstrate why interest rates alone do not explain the allocation of credit. Once the institutional features of credit relationships are considered, these authors contend that in distorted economies the credit market does not clear at any price. An argument can be made, therefore, for a credit delivery method, such as solidarity groups, that effectively draws on personal relationships to deliver credit. This is essential because according to Floro and Yotopoulos small credits would not be extended at any price by formal institutions that lack such personalized arrangements.

In conclusion, a wide array of theoretical literature helps to explain the dynamics of peer group lending and its success in practice. Solidarity groups build on traditional patterns that prompt the socially and economically marginalized sectors to seek collective response and mutual accountability. Economists point to the enhanced information about borrowers attained through the group mechanism and how this addresses the probability of default, a fundamental dilemma to the credit process. Like money lenders, solidarity groups offer small, short-term financing using efficient, informal methods. Solidarity group lenders have attained operational efficiencies but demonstrate that, unlike the money lender, these services can be offered at a reasonable price. Finally, institutional economics clarifies the central role of interpersonal ties. These relationships are the driving force in economic relations in lesser developed economies and help to explain the success of solidarity group lending, which is based on mutual accountability and trust.

SOLIDARITY GROUP LENDING PROGRAMS

Solidarity Group Lending in Latin America

As of December 31, 1991, in Latin America alone, an estimated 120 programs have lent $80 million through solidarity group methods. ACCION International and initiatives such as the U.S. Agency for International Development's PISCES study helped to popularize the solidarity group lending approach; this model is now being adopted by local NGOs, many of which are not directly affiliated with ACCION. Organizations engaged in SGPs vary from foundations that conduct group lending operations in addition to other socially related programs to NGOs dedicated exclusively to implementing solidarity groups. These programs have attained varying degrees of financial sustainability and development impact.

ACCION International affiliates lend to solidarity groups in 10 countries, including the United States. In 1991, ACCION affiliate group lending reached almost 65,000 borrowers, with $39 million; the average loan size per group member was $284. Although ACCION International was founded in 1961, its concentration on solidarity group lending emerged during the 1980s. Beginning with group lending to tricycle venders in the Dominican Republic administered by the Fundacion Dominicana de Desarrollo, the solidarity group methodology has grown increasing popular. As programs have matured, implementing organizations can point to increasingly predictable results in the latter part of the 1980s. Several of the ACCION International affiliates also lend to individual borrowers, whereas some affiliates, not discussed here, lend to individual borrowers exclusively.

ACCION International Solidarity Group Affiliates

Among the countries where ACCION affiliates operate solidarity groups, three country programs will be highlighted to demonstrate the performance and impact of the solidarity group methodology (Bolivia, Colombia, and Guatemala). These programs have been selected for discussion because all three:

- Extend a significant share of their portfolio through group lending;
- Have a stable performance track record of three years or more;
- Operate on a significant scale (active portfolio greater than $1 million);
- Have attained self-sufficiency; and

- Demonstrate diverse institutional arrangements.

Box 3 presents a brief description of the organizational features of each of the three programs. Box 4 presents comparative statistics for these projects, which are discussed below:

BOX 3

ACCION INTERNATIONAL AFFILIATE PROGRAMS

BOLIVIA: PRODEM (1987) Fundacion para la Promocion y Desarrollo de la Microempresa
PRODEM was founded by a group of national business leaders in 1987 and began by providing services to microentrepreneurs in the capital of La Paz, subsequently expanding to Santa Cruz, Cochabamba, and El Alto. A local foundation serving microenterprises, PRODEM has demonstrated impressive growth. To meet present demand and to gain access to more attractive sources of loan funds, in 1991 PRODEM, along with ACCION International and the Calmeadow Foundation, established a bank for the informal sector: BancoSol. BancoSol will resolve some of the principal constraints on growth by mobilizing client savings and gaining access to local capital markets. PRODEM will continue to operate as a nonprofit foundation that provides related nonfinancial services to BancoSol's microenterprise clients.

COLOMBIA: AGS (1983) Asociacion de Grupos Solidarios
AGS, the ACCION International affiliate in Colombia, is a consortium of local NGOs. The association, which originally grouped 5 NGOs, now includes 21 affiliates. This intermediate-level organization serves as an umbrella that provides economies of scale to its member groups in such areas as technical assistance, training, research, and evaluation. The association also gives its member organizations a greater collective voice in their dealings with banks and donor institutions. To join the association, each member NGO must be a legally recognized institution for more than two years and must use the solidarity group mechanism for at least six months under the supervision of AGS.

GUATEMALA: GENESIS and PROSEM (1988)
In Guatemala, ACCION International has two affiliated organizations that operate microcredit programs. FUNTEC (Fundacion Tecnica) is a local private voluntary organization made up of key business leaders dedicated to technology transfer. FUNTEC's operation of the GENESIS program opened the institution to credit services. GENESIS works in Guatemala City and 12 other cities. FUNDAP (Fundacion para el Desarrollo Integral de Programas Socio-economicos) specializes in rural enterprise development and runs PROSEM to provide microcredit for off-farm activities in addition to its nontraditional export promotion programs. Operations are in the highlands and are based in Quetzaltenango.

BOX 4

SELECTED PERFORMANCE INDICATORS FOR THREE ACCION INTERNATIONAL AFFILIATES AS OF DECEMBER 31, 1991[a]

	Bolivia (1991)	Colombia (1991)	Guatemala (1991)
Client Characteristics			
Women	71%	49%	36%
Commerce/Service	66%	65%	63%
Manufacturing	34%	35%	37%
Loan Features			
Avg Beginning Loan Size/Client ($)	87	176	205
Interest Rates	48%	42%	45%
Borrowers Reached			
Number new members (1991)	10,477	20,851	3,635
Total Active members	19,901	33,871	9,436
Annual membership growth rate	52%	62%	40%
Loan Funds			
Amount Disbursed (1991 ($)	14,805,747	12,098,123	5,902,351
Active Portfolio ($)	4,561,775	3,979,515	1,426,714
Turnover[b]	4.2	2.9	5.0
Growth Rate of Portfolio Size, 1990-1991	87%	37%	55%
Repayment Performance			
% Arrears 30 days[c]	0.2%	4.0%	8.0%
% Default	0.02%	0.18%	0.68%

[a] Data is derived from ACCION, *Informe Anual de Estadisticas*, 1991.

[b] Turnover is defined as total loan funds disbursed over the average loan portfolio. Average loan portfolio is calculated as (year beginning + year end portfolio/2).

[c] Arrears are defined as amount of payments past due by more than 30 days, divided by the outstanding portfolio.

Client Characteristics

Borrowers are involved in a wide array of economic activities ranging from furniture to clothing manufacturing, equipment repair, restaurants, and street vending. Of the three country programs analyzed, manufacturing activities engaged about one-third of the borrowers with the remaining two-thirds participating in commerce (for example, market venders) or service enterprises (for example, restaurants or barbers). This sectoral distribution parallels the population of enterprises in the informal sector. Contrary to widely held misconceptions, solidarity group lending is not specifically designed for market venders and strong demand is also expressed by small manufacturers and service firms. On average, 58 percent of all clients were women borrowers, although the rate of women's participation varied from 71 percent in Bolivia to 35 percent in Guatemala. The high rate of participation by women in Bolivia is attributed to the explicit goal of that program to reach the poorest of the economically active.

Loan Features

The average loan size for a new solidarity group member was $180, ranging from $87 to $250. Almost all loans were extended for working capital purposes; in Colombia less than 1 percent of the value of loans extended among affiliates was for fixed asset acquisition. Loans were made available for very short terms, with the average loan term available for three to six months; loan terms begin very short (as little as one month) and are extended with each subsequent loan.

Interest rates varied significantly across programs, reflecting in part the different economic and monetary environments. When examining the nominal interest rate, it is important to consider this rate relative to inflation. Among the three programs examined, interest rates were positive even in environments where the government-established commercial rate was negative. Typically, the effective interest rates incorporate charges for additional training and technical assistance services. In Colombia, interest rates were 42 percent (1990 annual inflation of 27 percent), whereas in Guatemala effective interest rates were 45 percent per annum (annual inflation 30 percent). At first glance, these rates may appear high compared with standard commercial interest rates in stable economies. However, as the strong demand for these credits demonstrate, these interest rates are affordable given the productivity of the microenterprise borrowers.

Borrowers Reached

The number of new borrowers for 1991 ranged from 3,635 in Guatemala to 20,851 in Colombia. These new borrowers joined the active number of clients of nearly 20,000 in Bolivia, 33,000 borrowers in Columbia, and nearly 9,500 borrowers in Guatemala. The ACCION affiliates have been growing at an impressive rate. For the last three years, the number of active borrowers grew at an average annual rate of 62 percent. (The number of borrowers nearly doubled in three years). This dramatic growth in numbers was accompanied by the increase in field offices or local affiliates through which the programs extended its services. The affiliates examined anticipate that they will maintain significant growth for the next few years, given the unmet demand for their services and the standardized field delivery system which can be easily replicated in field offices.

Portfolio Growth

The annual volume of funds lent ranged from $14.8 million in Bolivia to $5.9 million in Guatemala. The volume of funds lent has been increasing at a rapid clip, with the 1991 loans more than double that of 1990 in Bolivia. The active portfolio at end 1991 was $4.5 million in Bolivia, and $4.0 million in Colombia, with the Guatemala affiliate portfolios around $1.5 million. Portfolio turnover, although traditionally a measure of operational efficiency, ranged from 3 to 6 reflecting the short maturities and diverse trends. With the projections for portfolio growth, these programs will face an increasing need to raise sufficient capital to meet their lending targets.

Repayment Rates

Repayment performance for the ACCION affiliates can be analyzed using two criteria. Loan defaults, the value of uncollectible loans written off expressed as a percentage of the active portfolio, were negligible or less than a quarter of a percent in all programs. For example, in Bolivia, the default rate was less than 0.1 percent with only $500 written-off out of a total active portfolio of $2.5 million. In Colombia, the default rate was also very low at 0.2 percent. Arrears, the rate of payments outstanding more than 30 days expressed as a percentage of the portfolio, ranged across country settings from a 1990 average of 8 percent in Guatemala and 4 percent in Colombia. Bolivia, which has established a "total quality" commitment for on-time repayment, has less than 1 percent of its total portfolio in arrears. The low default rate is considered exceptional when compared with commercial banks in general and DFIs in particular.

ACCION International Affiliate Program Performance

Financial Performance

Despite the similarity in methodologies used by the ACCION International affiliates, an analysis of recent audited financial statements of the programs indicates considerable variation. Box 5 presents a financial analysis of the affiliates examined, highlighting one program per country. Despite their similar methodologies, the programs have adopted quite distinct financial strategies. Bolivia's PRODEM and GENESIS Empresarial of Guatemala have adopted a very conservative capital structure with capital to asset ratios of 50 percent and 90 percent. ACTUAR/Bogota, on the other hand, has borrowed a substantial share of the funds available for lending, with a capital adequacy ratio of 8 percent. Unlike the other ACCION affiliates examined here, ACTUAR Bogota's capital structure more closely resembles a commercial bank, which would typically have capital levels between 4 percent and 10 percent.

BOX 5

FINANCIAL ANALYSIS OF ACCION AFFILIATES USING AUDITED FINANCIAL STATEMENTS[a]

	Bolivia[b]	Guatemala	Colombia
Avg. Total Portfolio*	7,001,124	2,737,608	794,939,418
Total Funds Lent*	26,240,628	16,196,282	4,198,293,590
Nominal Portfolio Growth 1989-1990	157%	105%	269%
Capital to Asset Ratio	50%	90%	08%
Return on Assets	03%	09%	06%
Return on Capital	6%	10%	78%
<u>Expressed as % of Average Portfolio</u>			
Total Revenue	33%	36%	68%
Interest Income	23%	30%	22%
Other Income	10%	06%	41%
Training Income			05%
Total Costs	28%	35%	58%
Financial Costs	05%	01%	21%
Personnel Costs	12%	20%	21%
Other Costs	11%	14%	16%
Interest Income-Financial Costs	18%	29%	01%
Total Revenue-Total Costs	05%	01%	10%
<u>Expressed as % of Total Fund Lent</u>			
Total Revenue	8.8%	6.5%	12.9%
Interest Income	0.3%	5.4%	4.2%
Other Income	8.5%	1.1%	8.7%
Total Costs	6.8%	6.0%	10.9%
Financial Costs	1.3%	0.1%	3.9%
Personnel Costs	3.1%	3.6%	3.9%
Other Costs	2.4%	2.3%	3.1%
Interest Income-Financial Costs	5.0%	5.3%	0.4%
Total Revenue-Total Costs	2.2%	0.5%	2.0%

* Local currency units

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[a] In an effort to arrive at reliable, comparable data, audited statements from one program per country was used: Prodem of Bolivia (1990), Genesis Empresarial of Guatemala (1990), and Actuar Bogota of Colombia (1991).

[b] The 1990 audited statement for Bolivia includes a non-cash transaction for a monetary loss as is stipulated in Bolivian accounting guidelines. This loss of Bs 646,036 or 9 percent of the average portfolio would result in a modest loss for the program for 1990. To arrive at reasonably comparable numbers, this accounting treatment has not been included here.

All organizations examined are nonprofit institutions, and it should be no surprise that these organizations have not sought to attain high profit levels. The return on year-end assets of 3-9 percent are not inconsistent with the organizations' goals. Higher levels of returns, however, would allow these programs to finance their own growth.

When examining revenues and costs, there is considerable difference between the analysis on an average portfolio basis compared with the basis of total loans disbursed. This difference is driven by the rapid turnover of the short working capital loans and by the relatively lower-than-average portfolio value at year's end.[1] Even when adjusting for the low year-end portfolio, total revenues expressed as a percentage of average portfolio ranged from 33-68 percent compared with average costs of 28-58 percent of the average portfolio.

When comparing these programs, consider that ACTUAR Bogota has broken out its training revenues. Although training revenues were far less than interest income, greater training expenses are likely to explain why Actuar Bogota's other costs were greater than that of the other programs. Further, unlike the other programs examined, ACTUAR Bogota is paying substantial finance charges for its borrowed funds. Financial costs rose to 21 percent of the value of the portfolio. The other programs, which have relied on donations to capitalize their loan fund, have not had significant financial costs (1-5 percent). Typically, the difference between the interest earned and interest paid constitutes a spread available to lending institutions to cover their operating expenses, loan losses, and profits. The spreads earned by these programs, 10-29 percent, reflected the operating costs associated with this lending methodology. For Prodem and Genesis Empresarial, this spread is likely to narrow as the programs raise funds for on-lending requiring financial obligations.

Although there is significant variation in the revenue and cost structures when considered as a percentage of the average portfolio, the programs appear more alike when revenues and costs are considered as a percentage of dollars lent. Interest income remained at 5.3-5.4 percent, and personnel costs hovered around 3.5 percent per unit lent. Nevertheless, several of the points noted in the average portfolio analysis remain. Colombia's cost of funds was substantially higher, and its net finance margin (or interest revenues less interest costs) was negligible, indicating the importance of other revenues to the organization.

Given the variety of the cost structures of these programs, it is difficult to arrive at any particular conclusions or recommendations. Rather. it is impressive to consider the different financial picture presented by these audited statements. Further analysis might indicate how the financial strategies of these organizations influence their revenue and cost profiles.

Program Impact

To describe program impact, data has been provided from the Solidarity Group Association in Colombia, and from PROSEM and GENESIS Empresarial of Guatemala. Meaningful impact

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[1] The average portfolios was determined by summing the 1989 and 1990 year-end portfolios and dividing by two. This arithmetic average was misleading because the year-end portfolio is lower than the portfolio values of the other months as programs often curb the volume of their lending during the Christmas season and many loans come due at year end. To adjust for this pattern, the value of the loan portfolio was calculated to include loans outstanding and bank deposit balances (but not cash accounts).

measurements, particularly when comparing data from more than one country based on different methods of analysis, can be problematic. Nevertheless, these studies point to the considerable benefits accruing to program participants.[2] The impact study in Colombia was drawn from a sample of 192 groups, or 658 active borrowers who participate in 15 of the affiliated organizations. The sample of the Guatemalan programs was 290 or approximately one-third of all borrowers.

A summary of the impact findings is shown below.

- **Sales Income:**

  Colombia: Two-thirds of clients interviewed increased their sales by more than 30 percent since joining the program, and more than half of total clients had doubled their sales volume. Of those remaining, one quarter registered a marginal sales increase only.

  Guatemala: The majority of all participants registered significant increases in their monthly sales. Prior to participation in the program, 63 percent of all borrowers had monthly sales of less than $300. Following a second or third loan, fewer than 46 percent of all borrowers had sales below $300. On the other hand, the share of participants with monthly sales income of $300 to $1,100 increased from 25 percent of all participants to 38 percent. These sales increases are a significant improvement for the client target population.

- **Investment:**

  Colombia: Before joining the program, 77 percent of all clients had fixed assets that averaged $600. Through the program, 22 percent fully doubled their fixed assets, and 5 percent increased their assets by more than one half.

  Guatemala: Only minor changes were registered in investment levels. This may be explained by the early evaluation which was conducted following only nine months of operations. In that period, the percentage of participants with less than $300 in assets decreased from 74-69 percent, with those with greater than $1,000 increasing from 6-10 percent.

- **Household Benefits:**

  Colombia: Prior to entering the program, 77 percent of all households had income approximating twice the minimum wage (including income from all household wage earners.) Through their participation, 30 percent increased household income by at least half again to three times the minimum wage. Household income was raised by 10-50 percent for more than 60 percent of all clients. For all participants this increased income translated to concrete benefits for participants. Of those questioned, 23 percent directed the rise in household income to increase their food intake, and 10 percent made home improvements.

  Guatemala: Similar patterns are present in Guatemala. Over the nine months examined, the percentage of households with income of less than $100 was reduced from 40 percent of all

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[2] "Evaluacion de Impacto de Los Programas de Grupos Solidarios en Colombia," 1990; "An Impact Evaluation of the Microbusiness Promotion Project," Guatemala, May 1989.

participants to 28 percent, with the households with less than $200 decreasing from 74 percent of all participants to 66 percent. The share of households earning between $200 and $300 rose from 17 percent of the total to 23 percent. Once again, the use of household income varied significantly by gender. Women were more likely to support household food consumption (20 percent women to 10 percent of men), whereas men were nearly twice as likely to increase these business investments than women, by 60-37 percent.

- **Additional Benefits: Reduced Reliance on Moneylenders:**

  Colombia: In addition to the program impact described above, clients also reduced their dependence on money lenders. On joining the program one half of all market venders had financing from money lenders. This incidence of nonprogram credit fell to 29 percent of all clients, reducing financial costs for a significant share of all borrowers.

  Guatemala: Clients in Guatemala also reduced their reliance on money lenders. At the time of their first loan, 60 percent of the market vender clients registered that they were presently borrowing at charges of greater than 20 percent a month. Within one year, all venders were paying less than 5 percent a month.

Solidarity Group Lending in Asia and Africa

Asia

Grameen Bank: The Grameen Bank of Bangladesh stands out as the most significant peer group lending program in the world. It is significant because of its size (see box 6), well-honed field delivery methods, and charismatic leadership, and its efforts to disseminate its lending methodology to other countries. The Grameen Bank began as an experimental project of the Chittagong University in 1976. Based on this initial experience, the bank was established in 1983 with government support. Today, the Grameen Bank is majority privately owned, with its member borrowers the largest shareholder group.

BOX 6

GRAMEEN BANK, JULY 1991[a]

947,195	Members
92%	Women's participation
886	Branches
$60	Average loan size per borrower
25%	Effective interest rate
$46 million	Outstanding portfolio
$277 million	Total disbursements
$29 million	Savings (group and emergency funds)
4.11%	Delinquency[b]
1.53%	Default

[a] Consolidated cumulative statement No. 1: 138, July 22, 1991. Active portfolio defined as cumulative disbursements less cumulative repayments, excluding housing and SIDE portfolio.

[b] Delinquency is defined as the percentage amount overdue after 1 year. Default is defined as percentage amount overdue after 2 years, for which there is little hope of collection. The default rate is skewed upward by one zone (Rangpur) with 16 percent of the total membership and a default rate of 6.1 percent. By excluding this one zone, the average default rate for the remaining zones would be 0.6 percent.

The Grameen Bank's operations are extensive. In 1988 the bank employed 7,026 staff members, 78 percent of which were located in regional branch offices, with only 10 percent based in the capital city headquarters. The bank has demonstrated its capacity to manage rapid growth, having grown from 152 to 886 branch offices by July 1991. With the growth, the Bank has continued to decentralize its operations, with all loan decisions being made at the branch or regional office levels.

The Grameen Bank's financial results for 1985-1987 are on the following page. For several reasons, it is difficult to directly compare the financial profile of the Grameen Bank with those of the ACCION programs discussed earlier. First, the Grameen Bank's capital to asset ratio is more in line with commercial banking conventions, but is low even by those standards. The profitability of the Grameen Bank is also very low. For a nonprofit organization, such returns are not particularly problematic; however, this financial strategy leaves little room for flexibility.

BOX 7

GRAMEEN BANK: RECENT YEARS FINANCIAL PERFORMANCE

	1985	1986	1987
Average Portfolio	211,767	327,000	487,518
% Portfolio Growth	39%	35%	95%
Capital to Asset	5.9%	4.2%	3.6%
Return on Assets	0.1%	0.0%	0.0%
Return on Capital	1.4%	0.9%	1.0%
Expressed as % of Average Assets			
Total Revenue	31.0%	27.6%	25.8%
Loan Portfolio Interest Income	16.8%	13.4%	13.4%
Investment Interest Income	14.2%	14.1%	12.3%
Other Income	0.0%	0.1%	0.1%
Total Costs	30.8%	27.5%	25.7%
Financial Costs	14.0%	9.5%	7.1%
Personnel Costs	12.2%	13.4%	13.4%
Other Costs	4.0%	4.6%	5.2%
Loan Portfolio Interest Income Less Interest Expense	2.6%	3.5%	5.7%
Total Interest Income Less Interest Expense	17.0%	18.0%	18.6%
Loan Portfolio Interest Income Less Total Costs	-14.0%	-14.5%	-12.9%
Total Income Less Total Costs	0.2%	0.1%	0.1%

The revenues earned by the Grameen Bank, when expressed as a percentage of the average assets, are not significantly different than that of the ACCION programs. What is important to recognize, however, is that interest earnings from the loan portfolio ranged from 13-17 percent, or approximately half of the interest earnings from the loan portfolio generated by the ACCION-affiliated programs. Excluding ACTUAR Bogota, which had significant training revenues and costs, the total costs of the Grameen Bank program were not far from that of the ACCION affiliates. The greater personnel costs of the ACCION programs were offset by the higher financial costs born by the Grameen Bank.

The Grameen Bank, like most financial institutions, draws earnings from portfolio investments in addition to interest earnings. In the years examined, the investment income was nearly the same as the income from interest on loans. Portfolio investment is an important element to the Grameen Bank's financial strategy. It should be noted that the investment portfolio of most banks is funded by the bank's borrowings or earnings, whereas for the Grameen Bank an important share of this investment has directly or indirectly drawn on donor resources. The spread available to cover nonfinancial expenses then ranged in the 17-18 percent range; although permitting Grameen Bank to cover its operating expenses, such a spread would not be sufficient to meet the operating costs of the ACCION programs. These differences help to explain how the Grameen Bank and the ACCION affiliates have adopted such different strategies for the price of their services. The Grameen Bank offers its services at close to commercial rates, whereas rates charged by the ACCION affiliates are typically higher.

The impact attained by the Grameen Bank has been impressive. A recent unpublished study conducted by Grameen's donor coalition indicated that, as a result of participation in the program, Grameen Bank members' average household income was 43 percent higher than the target control group's and 28 percent higher than that of the average nonbank household in the same region. After more than a year's participation in the Grameen Bank, only 48 percent of the Grameen Bank households were below the government-established poverty line, compared with a national average of 75 percent. This reduction of households below the poverty line is closely associated with the accumulation of productive assets that Grameen Bank households accrue as a result of their participation in the bank.[3]

Other Peer Group Lending Organizations in Asia: Numerous other organizations also conduct peer group lending programs in Asia. As mentioned earlier, the Working Women's Forum was one of the first organizations to use the peer group methodology. First established in 1978, the Working Women's Forum began by serving as an intermediary between commercial banks that were legally mandated to target a small portion of their portfolio for lending to disadvantaged sectors. The program works by organizing women in the community into groups of 10-20 members. Loans are mutually guaranteed by all members of the group; if one member does not repay the entire group does not qualify for future loans. By 1988, 32,303 members had been assisted to secure financing with total disbursements reaching $1 million. The recovery rate varied across regions from 87-100 percent.

The Nepalese Production Credit for Rural Women (PCRW) Scheme is yet another setting where a peer group lending model has evolved. Working in tandem with commercial banks that provide targeted loans, as of 1988 the PCRW scheme reached 6,650 borrowers with a repayment rate of 90 percent. PCRW uses credit as an entry point to organize groups as a vehicle for social and economic development.

Grameen Dialogue, a publication of the Grameen Bank, tracks recent developments of organizations using the Grameen Bank lending methodologies. The publication notes that the Ikhtiar Trust of Malaysia, which began operating in Malaysia in September 1987 with Grameen Bank technical assistance, is presently undertaking an expansion program which will allow it to expand its membership to 84,000 households. Other efforts to replicate the Grameen Bank experience are in the Philippines, Sri Lanka, Bhutan, and other countries.

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[3] See Hossain, 1988, for a study documenting the Grameen Bank experiences.

Africa

Peer group lending programs in Africa are able to draw on the widespread practice of ROSCAs, known as *tontines* or *susus* among other names. Several development organizations have introduced group lending schemes modeled on these indigenous practices. The South African Get Ahead Foundation, an NGO that supports local economic development, has established a local group lending program, the Stokvel Program. This program is an adaptation of the traditional *stokvel* rotating savings groups. More than 12,000 households have participated in the program since its inception five years ago. Women are 92 percent of all participants and more than half are market venders. Average loan size is $175.

The Women's World Banking affiliate in Ghana (WWBG) is another example. WWBG uses *susu* groups to mobilize savings of market women by providing a safe savings facility. Savings are collected from the women and then deposited in a local commercial bank. WWBG splits the interest earnings on the savings account with the women. The saving balances serve as compensatory balance for the WWBG lending programs. The WWBG operations remain small, with approximately 100 savers organized and 60 loans made by mid-1991.

In recent years, several African initiatives have replicated the Grameen Bank. The most dynamic of these efforts has been the People's Bank of Nigeria (PBN). Starting with government support, in its three years of operation the PBN has established 175 branches that reach 824 villages. The PBN offers savings as well as credit services, and provides its depositors with competitive savings rates. Although drawing on the Grameen Bank model, several adaptations have been used. Groups are larger than those in the Grameen system (7-10 members per group at PBN compared with 5 members per group at the Grameen Bank). The PBN benefits from government support, with branch office facilities provided by government agencies. Repayment rates, however, are below those obtained by the Grameen Bank and other similar agencies, with on-time repayment of 85-90 percent. The PBN is presently in the process of establishing a commercial bank to open up access to local capital markets and diversify the financial services it can provide to its clientele.

In Kenya, PRIDE (Promotion of Rural Initiatives and Development Enterprises, Ltd) began introducing the Grameen Bank lending methodology in 1989. As of April 1991, PRIDE services extended to 1,600 participants who had borrowed $420,000 and saved $64,000. On the basis of the PRIDE experience, the Kenya Rural Enterprise Program (KREP), an umbrella organization that provides technical and financial support to local NGOs, has sought to disseminate the peer group lending approach among the different local NGOS they finance. In addition to PRIDE, three other local Kenyan NGOs now operate Grameen-like credit operations (NCCK, Tototo; PCEA, Chogoria; and KREP, Jehudi). These local NGOs had previously operated credit and technical assistance programs using diverse methodologies. KREP intends to promote the peer group lending approach among numerous other NGOs that have pursued other credit methods with less success.

BOX 8

RECENT PEER GROUP LENDING PROGRAMS IN AFRICA

	Year Started	Program	Cumulative Clients	Loan Funds*
Nigeria	1989	People's Bank	240,000	$ 20.70 million
Kenya	1989	PRIDE KREP	6,787	$ 0.75 million
Malawi	1990	Mudzi Fund	478	$ 0.13 million
South Africa	1987	Get Ahead Foundation Stokvel Loan	7,525	$ 1.33 million

* Program statistics were from programs published in 1991; South Africa statistics are from year end 1991. Loan funds for Nigeria, Malawi, and Kenya are cumulative disbursements. Loan funds for South Africa represent the value of the active portfolio.

Finally, the Malawi Mudzi Fund is another recent initiative to replicate the Grameen Bank operation. The first years, however, have proved problematic as the local organizers attempt to adapt this methodology to the specific economic and cultural settings. During their first year, 1990, the Mudzi Fund screened an initial 2,285 groups. However, only 485 persons received loans, with total first-year disbursements of $130,000. Additional Grameen Bank initiatives are under way in Sierra Leone, Togo, Burkina Faso, and Ethiopia.

INNOVATIONS TO THE SOLIDARITY GROUP METHODOLOGY

The solidarity group methodology has three main components: credit and other financial services, training and technical assistance, and the promotion of organization and social development. Although core features of the solidarity group lending approach have withstood the test of time, programs continue to refine and improve on existing delivery methods. Such innovations are vital for peer group lending operations to improve management efficiency and to genuinely satisfy the needs for service among their clients. Field methodologies have been forged through a continual process of adaptation-testing-dissemination. These refinements are vital for these programs to reach their broader development goals. Presented below is a discussion of innovations that have emerged at diverse field settings.

Credit Innovations and the Introduction of Other Financial Services

Innovations in the credit component have included new financial services and the adaptation of the credit policies for working capital loans.

Credit Policies

Loan Size and Payback Policy. Peer group lending schemes almost uniformly follow the credit strategy of gradually increasing credit size. Even as the programs grow larger, the basic policy of requiring a client to fully and satisfactorily cancel his or her prior obligation before qualifying for a subsequent loan remains the cornerstone to the lending approach. Experience has demonstrated that when programs have deviated from this basic policy, the quality of their portfolio has declined.

Among the ACCION affiliates, a lively debate emerged over the benefits of maintaining a strict, uniform policy for loan amounts and terms on the one hand, as opposed to a more flexible, responsive policy that tailors loan amounts and terms to the cash-flow requirements of the borrower groups. A general view on this debate is emerging at ACCION, and is reflected by the experience of the Corporacion Accion por la Tolima, an ACCION affiliate in Colombia. This program has adopted a uniform lending policy for the client's first 12 to 18 months of borrowing. This uniform policy establishes loan amounts, loan periods, and a payback schedule that is applied to all businesses regardless of their type and working capital needs.

All solidarity groups in this program begin with a first loan of $80, a second loan of $100, and an increase of $20 for each subsequent loan. All loans are extended for three months and a weekly repayment schedule is maintained. The uniformity in terms is consistent with the practice of the Grameen Bank, which extends nearly all loans for the same term and repayment schedule.[4] For both the ACCION affiliates and the Grameen Bank, the uniform lending formula has proven beneficial. Repayment rates have been strong. The programs operate in a simple and straightforward manner that is widely understood by staff and clients and easy to adhere to.

Several ACCION affiliates have concluded that this initial period of strict and uniform lending policies is an important training phase, preparing group members to be responsible borrowers. Over time, the responsible borrowing behavior establishes a foundation for a more sophisticated lending relationship. Following a period of 18-24 months, the credit policy of the ACCION affiliates can become more flexible and responsive, leading to larger loans lent on terms more conducive to the growth requirements of the business. These larger, longer-term loans require greater analysis and deliberation on the part of loan promoters. Through this method, the program is able to concentrate staff time on more complete loan analysis until the client proves that he can maintain a simple regimen of on-time loan repayments. Overall, this had led to an initial credit policy that is highly inflexible at the outset and

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[4] The Grameen Bank extends nearly all loans for one year, with weekly repayments. This longer loan maturity reflects the return on assets and debt service capacity of Grameen Bank-financed activities. In Latin America, ACCION-affiliate borrowers typically revolve their inventory more quickly and can handle shorter terms for working capital loans. Fixed asset loans carry different terms.

eventually develops into a flexible credit approach with solidarity groups that have proven themselves to be creditworthy.

Upper Loan Size Limits. Another significant credit policy shift pertains to upper loan size limits. Initially, most SGPs specified an upper limit to their loan sizes for repeat loans. For ACCION affiliates, the intention behind the upper limit was to encourage successful borrowers, after having borrowed several loans of gradually increasing size, to graduate to the commercial banking system. In an environment with subsidized programs, it was felt that the more successful borrowers no longer required the subsidy and would be prepared to enter the commercial financing market. And as entrepreneurs graduated out of the subsidized microcredit programs, new clients could enter the program, thus extending the developmental benefit of credit training that was being provided through the programs for first-time borrowers.

Today, ACCION-affiliated SGPs no longer have upper loan limits for repeat loans. The rationale behind loan limits slipped away once programs became self-supporting and no longer relied on limited quantities of subsidized funds. Once a program becomes subsidy-free, there need be no limit to the numbers of people it can reach or the period it can provide services. Clients can elect to seek financing from commercial banks or remain with the microcredit program. Clients who have borrowed repeatedly and have demonstrated a reliable track record are now considered very attractive loan candidates. SGPs have responded by creating additional financial services (individual working capital or fixed asset loans) to keep these valued customers.

Screening. The Grameen Bank continues to use a screening mechanism to limit initial access to their loans. Participants in the Grameen Bank groups must fall within a specified income level, defined in terms of land holding (less than one half acre.) At the Grameen Bank, the eligibility criteria are intended to serve several purposes. Although the credit operations are self-financing, there is a shortage of credit available in the rural areas. The Grameen Bank wants to ensure that the credit facilities are used by the very poor, for whom they are intended. Further, the Grameen Bank has found that poorer households are more reliable borrowers. Through this upper eligibility level, Grameen is able to steer its services to clientele it is most familiar with and of proved reliability.

Fixed Asset Lending

Solidarity group lending was established to meet the working capital requirements of the microenterprises. As explained above, the client typically advances in the credit program by obtaining larger credit amounts while gradually expanding its market and production capacity. The process of accumulating capital assets such as more equipment or building improvements can be attained through working capital loans; however, this is a slow process and risks becoming sidetracked in the case of an emergency or by one of a thousand competing pressures. Access to longer-term credit for fixed assets builds capital more quickly and demonstrates greater likelihood for success.

Many ACCION affiliates have begun to introduce fixed asset loans. Initially, fixed asset lending was undertaken to support associative enterprises — that is to purchase common facilities or equipment for solidarity group members. For example, a solidarity group comprised of seamstresses borrowed to acquire a single piece of advanced equipment such as a cutting tool or button-hole maker. In theory, this approach was attractive as all members could use the machine, yet each individual seamstress could not fully utilize the machine's total capacity. In practice, however, this approach proved problematic. In most cases, solidarity groups were not composed of members engaged in the same industry. Groups had difficulty selecting a single piece of equipment that was needed by all members. Adequate maintenance and time-sharing proved problematic. Ownership and control issues were raised when groups disbanded. The requirement to use the fixed asset credit line for common facilities was subsequently abandoned.

In Colombia, as of December 31, 1991, the AGS had 324 fixed asset loans outstanding for a total of $200,000. Loan terms averaged one year, with a maximum term of 18 months; funds were used to purchase equipment. Of the borrowers, 61 percent were manufacturing firms. The fixed asset loan is extended to an individual borrower and does not carry the guarantee of the solidarity group members. However, the solidarity groups play an indirect role. Typically, a member must demonstrate a borrowing history and this is often done through prior group loans. Group members are called on to endorse the request for the fixed asset loan, even if this is not a full legal guarantee obligation. Several group members may qualify for a fixed asset loan at any one time. The equipment itself serves as the loan collateral. Repayment performance on the fixed asset credit lines has mirrored that of the working capital loans. For AGS, there has been minimal delinquency in loan payments (under 5 percent) and not a single loan default.

Savings

Savings, in the form of group savings or emergency funds, have become increasingly vital for peer group lending schemes. In most cases, requirements stipulate that the borrower demonstrate the existence of savings to qualify for financing. The savings are usually held in a savings account in the name of the group, similar to the compensating balances required by commercial lenders. Although interest earnings accrue to the group, group members may have to seek permission from the program to use the savings. Among the ACCION programs examined, savings comprise 12-24 percent of the value of the active portfolio. Emergency funds are typically self-managed by the group. That is, group members determine the amount their members regularly contribute and control intragroup loan disbursements. The Grameen Bank and several ACCION affiliates maintain both savings and emergency funds.

The purpose of the savings schemes have evolved over time. Initially, savings were considered part of a strategy to encourage enterprise capitalization. It was anticipated that following a string of short-term working capital loans, borrowers would be able to use their own accumulated savings and rely less on borrowed funds. Further, the savings fund was intended as a financial cushion that indirectly served as a loan guarantee. If loan payments were not forthcoming, the program or solidarity group members could liquidate savings to cover such outstanding obligations.

The savings requirements have become increasingly important to the programs. As the volume of savings has grown, programs have used these funds as a negotiating tool for leverage with local financial institutions. With these savings behind them, the programs can negotiate more favorable terms for credit lines with financial institutions eager to bolster their level of demand deposits. In some instances, these savings have been held on deposit, serving as a source of guarantee, thereby opening up access to commercial lines of financing.

One example of a successful arrangement is that conducted by La Corporacion Accion por la Tolima in Colombia. In this case, member savings have reached $25,000. These funds have been deposited with a second-tier savings and loan cooperative, UCONAL. On the basis of the funds deposited, this program has leveraged credit lines for on-lending. Initially UCONAL extended a credit line for twice the value of the savings account. Based on the successful repayment history, this amount has ben increased to three times the level.

Client savings are increasingly central to the organization's ability to expand its source of funds and reach more clients. Programs now recognize that through financial intermediation — that is through taking deposits and lending them out — programs that already have a large number of clients can attract funds at lower rates. Most SGPs do not have the legal authorization to act as deposit-taking institutions. Interest among programs is growing, however, to take the necessary steps to satisfy regulatory requirements and to transform group lending development programs into banks. The Grameen Bank, Bangladesh, and BancoSol (created by PRODEM) of Bolivia are examples of group lending programs that have endeavored to establish commercial banks. Also, a Savings and Loan Cooperative for solidarity groups was recently established in Colombia.

The savings component of the program has educated the institutions that implement the solidarity group program and has served to broaden their horizons of potential sources of capital to meet their funds requirements. Originally, the savings were viewed as a simple form of guarantee for the outstanding credit. Now, most ACCION program managers have adopted a much broader view of the role of savings. They recognize that not only do the savings serve the functions mentioned above, but in the long term the future viability and growth of these programs will depend on their being able to mobilize savings as a source of funds for their own lending activities.

Emergency Funds

Emergency funds, because they are administered by the groups themselves, have not figured as prominently in the broader schemes to facilitate program capitalization. They are an important support to the lending institution by ensuring that clients will be able to make their payments, even if they undergo unforseen problems such as robbery, fire, domestic calamities, or other liquidity difficulties in their business. The emergency fund becomes particularly vital for institutions such as the Grameen Bank, which is lending to exceedingly vulnerable households, and when community or personal crisis can undermine the productive activities financed by the group loan.

A good example of the emergency funds among the ACCION affiliates comes from the groups formed in the Guatemalan markets. These groups open the emergency fund with an initial member contribution of $5 per group member, or $25 per group. The savings contribution is collected by the same group leader who coordinates the loans. This person collects the funds on a weekly basis and turns the funds over to the group treasurer who is responsible for depositing the funds in the bank on behalf of the group. As a measure of control, withdrawals from the solidarity group accounts must be countersigned by both the treasurer and group leader.

The market associations, which bring together several solidarity groups, have developed their own internal system for evaluating requests for loans from the emergency fund. For example, the association board members evaluate requests according to the magnitude of the problem and the capacity of the borrower to repay. To have access to the emergency funds, it is necessary to live and work in the same geographic zone and to be a solidarity group member.

Emergency funds also perform a vital function for the resilience of the Grameen Bank. The Grameen Bank operates two levels of emergency funds. The first, referred to as the Group Fund, is controlled at the group level. This fund operates similarly to the emergency funds described above; group members themselves administer these funds for intragroup lending. They are mostly used to address personal crises ranging from illness to robbery to a death in the family. The Grameen Bank Emergency Fund, on the other hand is controlled by the bank and serves as an insurance fund. The Emergency fund is tapped at times of natural disasters, such as the floods in 1989 or cyclone in 1991. At such times of crisis, when the productive assets of whole communities are destroyed, the emergency fund is drawn on to support the solvency of the bank until the economic environment can be stabilized and loan repayments can be resumed.

Life Insurance

Life insurance was originally used by ACCION affiliates for purposes similar to those of standard financial institutions. The life insurance policy is taken out over the life of the loan and is intended to guarantee payment in the case of death of the borrower. The SGPs initially served as the intermediary between the life insurance companies and the borrowers, including collecting the insurance payments along with loan repayments. The programs realized that rather than hand over the payments to a life insurance company, they could collect these funds and establish their own insurance fund. SGPs are now able to offer clients a greater variety of services.

The Fundacion Mario Santo Domingo in Barranquilla is a case in point. After two years of channeling payments to insurance companies, they conducted an actuarial analysis, taking into consideration the total value of the payments made and claims collected. On the basis of this analysis, they decided to manage the insurance funds themselves. Through this they gained the following:

- Increased services for their clients. Although the insurance coverage applied solely to the loan balance, the coverage offered by the program covered the total loan amount. When the policy is cashed in, the foundation gets its portion of the outstanding balance and the family members receive the canceled portion of the loan.

- Insurance premiums were reduced because the program was able to offer the insurance more efficiently than the insurance companies.

- Through the returns on the insurance funds invested, the foundation organized a funeral service to provide an adequate burial ceremony for the deceased.

- The insurance funds have been invested in the solidarity group program for its own on-lending to clients, increasing the total funds available for credit purposes.

- This has led to a fund that is really the property of the group members — not of the programs or the insurance companies.

Innovations in Training and Technical Assistance

In the last five years the ACCION affiliates have substantially developed the training and technical assistance provided to program participants. The evolution of the training and technical services is largely, if indirectly, attributable to the need of the programs to deliver services of real value to clients. In the past, training and technical assistance were more fully subsumed into the process of group formation, loan application development, and credit supervision. ACCION affiliates were dedicated to refining credit delivery methods and efficient administrative systems to attain economies of scale. With pressure on staff to meet credit volume targets, training and technical assistance were often overlooked or performed in a superficial manner; efficient and effective training methodologies were not developed.

At the same time, most ACCION affiliates charged borrowers a distinct training fee, which formed part of the total cost structure for the borrower. Several within ACCION affiliates questioned if participants received full value for their training fees. This concern about the value of the services provided became an issue of increasing importance as effective interest rates crept upward. Affiliates became highly cognizant of their need to provide training services of real value to their clients. As efficient credit delivery methods and administrative systems took hold, the affiliates focused increasing attention on other facets of the group lending methodology not previously fully developed such as training and technical assistance.

Training

A standardized training methodology is being developed among ACCION affiliates and is based in a series of training notebooks, which are being pilot tested in Colombia. In this training approach:

- Training modules are consistent with the needs and requests of clients;
- Training is integrated with the credit and organizational components of the peer group lending program; and
- Materials are developed by specialists familiar with client needs and the business problems they face.

Training and technical assistance are related to the needs and objectives of the clients and the solidarity group program.

A two-tier training program has been developed that incorporates required and optional modules. Required training includes 10 hours of training per group, and addresses issues involved in the formation and functioning of group lending. First, groups are trained in basic group formation and in the methods of group lending. By strengthening and consolidating the group effort, the required training modules fully support the credit component. For this initial training, it is not as important that group members learn standard business techniques; rather, group members are learning to be successful managers of their own credit operations and to function effectively within the group framework.

The second, elective tier of training has arisen in response to the requests of group members. Available to group members who have expressed interest, this training includes management techniques appropriate to microenterprises. The following training courses have been developed:

• MANAGEMENT:	Let's Get Organized (Organicemos!)
• MARKETING:	Prosper as Producers (Prosperemos como Productores)
• MARKETING:	Prosper as Businessmen (Prosperemos como Negociantes)
• ACCOUNTING:	Let's Control Our Business (Controlemos Nuestro Negocio)
• FINANCE:	Let's Begin Profiting (Empecemos a Ganar)
• ADMINISTRATION:	Let's Plan Our Businesses' Growth (Planemos el Crecimiento de Nuestra Empresa)
• PRODUCTION:	Let's Manage Food Products Correctly (Manejamos Correctamente Los Alimentos)
• PRODUCTION:	Let's Make the Best Food Products (Elaboremos Los Mejores Productos Alimenticios)

BOX 9

TRAINING FEATURES

Participatory: The microentrepreneur participates in the diagnosis of training needs, analysis of enterprise problems, and the development of responses. The microentrepreneur facilitates and orients his own training process.

Personalized: The participatory learning process is complemented by site visits to each enterprise; at these visits the advisor and microentrepreneur are able to jointly design alternative solutions to problems identified.

Open: Any solidarity group member who wishes to participate may; each entrepreneur selects among the training program offered those courses most relevant to his individual needs.

Dynamic: Innovative pedagogical methods are used to enhance participation and learning, drawing on audiovisual and other training materials specifically designed for this program.

Flexible: Training programs are modified or adapted to respond to the client's perceived needs through an ongoing research process.

Participants can attend any single course, without being expected to attend sessions that they themselves do not perceive to be useful to their goals. Each workbook has been designed to be self-teaching and self-evaluating. The workbook leads participants through a series of exercises that conclude with the elaboration of a specific plan for the client to implement in his or her own business. The workbooks are being disseminated through the network of ACCION-affiliated programs, with each local solidarity group program adapting the training approach to its environment.

Training activities have been attended by a significant share of all clients. In Guatemala, 74 percent of program clients attended at least one elective training session. In the first year of operation alone, 277 training sessions were held. At the Fundacion Paraguaya, where a nine-module program is offered, the number of training participants was 8,131, meaning that on average each client attended two sessions.

Technical Assistance

Technical Assistance in the form of one-on-one counseling is used to follow up on the training sessions. Advisors visit the client's business to reinforce the course material and to assist the client to apply what was learned in the course at his own business. For example, the simple bookkeeping system is taught in 10 class sessions, held once a week for one hour each session, with three sessions conducted by the technical advisor at the client's business location.

In the past, many of the ACCION affiliates did not distinguish clearly between credit supervision and technical assistance. Technical assistance was purportedly provided by the promoter when visiting the client as part of the credit supervision. During these site visits, the promoter often looked into areas that are not really technical assistance, but rather group dynamics related to resolving intergroup conflicts. These actions were confused with the provision of technical assistance when in fact the loan supervision was integral to the group credit delivery process and not distinct technical assistance.

To address these matters and to strengthen the technical assistance features, the following steps have been taken:

- Technical assistance and training have been fully segregated from the credit component; although initially the programs had hoped that a single individual could conduct both the credit follow-up and technical assistance, this is no longer the case in the majority of ACCION affiliates. Experience shows that although the programs were small, it was possible to have the same individual conduct credit supervision and technical assistance. However, given the pressures for the program to grow and to move a greater volume of funds and loans, the technical assistance and training functions were allowed to "slip by the wayside." For this reason, some programs have developed an organizational structure that delineates different staff positions for those responsible for credit delivery and follow-up from the staff positions responsible for training and technical assistance.

- At the same time that this distinction is being introduced, the programs are now upgrading the qualifications of their field personnel. Programs are now more likely to hire university graduates with experience and persons with considerable business training who are in a position to provide valuable guidance to the microentrepreneurs. By maintaining this separate and highly trained cadre of technical assistants and trainers, the program extension personnel can fully dedicate themselves to the credit-related issues.

- The standardized training materials discussed above facilitate the delivery of the technical assistance. Exercises developed through the training program are the focal point of follow-up technical assistance.

The combined training and technical assistance program varies considerably across the ACCION-affiliated programs. Of the programs studied, PROSEM in Guatemala and ACTUAR/Bogota have adopted this new approach to client technical assistance, and training. Not only have they changed their personnel structure, as discussed above, but they have also broken out more clearly the diverse components of the program (credit, technical assistance, and training), segregating the costs associated with each subcomponent. The ACCION affiliate in Paraguay has developed yet another approach to training and technical assistance, which is targeted to the more sophisticated subgroups of their clients. Box 10 describes the PROMEL program (Programa de Microempresas Lideres).

BOX 10

TRAINING THEMES
PROGRAM FOR LEADER MICROENTREPRENEURS (PROMEL)
PARAGUAY FOUNDATION

Business Administration		**Human Development**		**Social Participation**	
Accounting	10 Hrs.	The Informal Sector and Its Importance	3 Hrs.	Organizational Forms and Principles	5 Hrs.
Cost Accounting	10 Hrs.	The Microentre-preneurs	3 Hrs.	Community Participation	5 Hrs.
Marketing	5 Hrs.	Ecology and Environment	3 Hrs.	Trade Associations and Representation	5 Hrs.
Acquiring Fixed Assets	5 Hrs.	Hygiene and Nutrition	5 Hrs.		
Administration	5 Hrs.	Women, Family, and Law	4 Hrs.		
Banking System	2 Hrs.				
Total Hours	37	Total Hours	18	Total Hours	15

Training and Technical Assistance Fees

ACCION affiliates increasingly are applying the same principles of efficiency and financial self-sufficiency to the training and technical assistance component that have been applied to the credit operations. This self-sufficiency has only become possible as programs have distinguished the training and technical assistance functions from the credit delivery. This has also permitted a separate tracking of costs associated with this component. Unfortunately, as can be noted in Section Three, the segregation of training fees is relatively new and is not easily distinguished from program financial records.

Given the importance of attaining self-sufficiency per component, fee structures are being adjusted in two ways. First, programs are encouraged to break out the training fees as a separate component and to not simply lump this within the "interest rate" charged for the loan. Second, programs are changing the way the training fee is calculated. In the past, when programs charged a training fee, it was expressed as a percentage of the loan. As a result of this fee structure, clients with larger loans were paying a disproportionate share of the training costs. Instead, several programs are adopting a flat training fee that is charged to all borrowers. All clients receive the required training and have the option to receive elective training. Clients who attend the optional elective training courses do not pay additional amounts.

Training fees, although not expressed as a percentage of the loan, are collected at the same time as the loan repayments. That is, a specified amount of each loan repayment is directed to cover training costs. This fee structure now serves as an incentive for clients to attend the optional training, because they are paying for the elective training whether they attend or not. Most importantly, by segregating training costs and fees, it is possible to avoid hidden subsidies; credit is not expected to cover the cost of inefficient and bloated training programs, and training operations are not being called on to subsidize cumbersome credit delivery methods.

Client Organization and Other Self-Help Initiatives

Self-help initiatives to address social and economic constraints faced by program participants vary considerably across countries and settings. Among ACCION-affiliated SGP, client organizations arise as self-help efforts without the direct involvement of the program per se. In other settings, such as the Grameen Bank or India's Working Women's Forum, services other than credit and training delivery are directly promoted by the organization.

As the ACCION network has honed its credit delivery system and developed its training capacity, the organizational component is becoming an area of increased interest and innovation. Innovations in organization and self-help activities may entail additional financial services, additional business services, local efforts to address social needs, or personal development initiatives.

Financial Services

Although innovations in financial services are discussed above, it is worth noting how financial services complement the social as well as economic goals. In 1987, the Grameen Bank introduced housing loans for its members. Housing loans average $275 (over four times the average loan size); funds are used to buy secure metal roofs, with the remainder of the house being constructed in traditional, local materials. Loan terms are for a maximum of 18 years, requiring a small additional sum to the weekly loan payments. Similar to the method used by ACCION for the fixed asset credit line, to qualify for a housing loan, a group member has to demonstrate a strong repayment history and enjoy the support of the group members. Group members, however, do not carry guarantee responsibilities for the housing loans. As of April 1991, the Grameen Bank had released over $26 million to finance the construction of 97,000 homes; approximately 10 percent of the Grameen Bank members have received housing finance.

Other kinds of financial services may address constraints clients experience as consumers or as business persons. For example, the People's Bank of Nigeria has initiated the "People's Bus Loan Scheme" to address a critical transport constraint. Established in December 1990, the objective of the program is to reduce the hardship encountered by commuters in the urban and rural areas. Under the scheme, commercial vehicles are leased to registered transport drivers who join a group of not more than 10 members. Repayment is made on a daily basis. At the completion of the loan repayment, the bus becomes the property of the borrowing group.

Economic Services

Different organizations have also undertaken a variety of sectorally related services. These services are conducted on a financially self-sustaining basis. For example, the Working Women's Forum (WWF) organized 10,000 women lace artisans in the Andra Pradesh state. The organization provided women with supplier credit for raw materials and a marketing outlet for the export of their products. Presently, WWF has spun off the lace producers into a cooperative with over 5,000 members. Other efforts of the WWF have been directed at organizing fish sellers or cigarette (bidi) makers, allowing them to increase its bargaining power with local middlemen and improving the return to its women clients.

Grameen Bank's Studies, Innovation, Development, and Experimentation (SIDE) Program offers an important example of economic services coordinated through a lending organization. Initially, SIDE enterprises were collective ventures; now SIDE enterprises are owned and managed by a Grameen Bank holding company. Ventures are selected because of their innovative technology or because they facilitate other business operations. Such enterprises include fish farms, seed-oil mills, hand-loom factories, building material products, cold storage facilities, and deep tube wells, among other ventures. The Grameen Bank has raised over $7.7 million for investment in the SIDE projects. It should be noted that the Grameen Bank's methodology for launching these ventures is not as refined or as consistently successful as its credit operations. Nevertheless, such sectoral efforts have only been under way since 1984. Progress toward successfully conducting these sectoral interventions on a profitable basis should be followed for the lessons they may generate for others.

Self-help Initiatives

Numerous organizations can point to self-help initiatives that have sprung up from the solidarity group members themselves. For example, market venders who participate in the South African Get Ahead Foundation have established venders' associations in several of the market places to lobby for more direct services. This initiative occurred on its own, without the involvement of program staff. In other communities the Stokvel groups organized a burial society, contributing a small sum each week to address this important issue. As an example of group-initiated, self-help efforts among Grameen Bank borrowers, thousands of communities have set aside an additional savings fund that is used to build and operate primary schools. As of June 1988, Grameen Bank-coordinated primary schools were attended by 1,137,270 students.[5] In all these instances, the organizational impetus and the cost of implementation is borne by the members themselves. The solidarity group network provided the organizational wherewithal, enabling the households to address common problems.

From among the ACCION-affiliated network, numerous examples exist of such community-driven initiatives. In Guatemala, communities have been organized into Community Support Committees. These committees have proven to be a dynamic force. They are called on to facilitate the credit delivery system, and they begin their efforts with a census of the community characteristics and needs. On the basis of this analysis, these committees have turned their attention to other pressing social problems in their areas. For example, one community has established medical insurance, legal insurance, and a housing savings program. These services exist in tandem with the credit operations. Also in Guatemala, to improve efficiency of the credit delivery process, clients have been organized along productive sectors

[5] Of all attenders, 72 percent are female. This is a remarkable achievement in a Moslem culture where female literacy is below 20 percent.

(tailors, shoemakers, market venders, carpenters). These sectoral groups form a natural meeting ground that can facilitate the common resolution of individual enterprise problems such as collective approaches to supply and marketing. Most importantly, these organizational efforts are conducted by and for the members themselves.

Through creating the solidarity group network, SGPs provide the institutional means through which communities can organize themselves toward mutual self-help. Although financial self-sufficiency remains an important goal for all peer group lending schemes, once an organizational framework has been established and an economy of scale has been reached, diverse services can be coordinated solely on the initiative and at the expense of the borrowers, or through the involvement of the program itself.

Personal Development

Many features of the organizational component described above, like the technical assistance and credit components, are fundamentally directed at enhancing basic attitudinal and behavioral characteristics that underlie the economic circumstances of clients. In some countries, most notably among the Grameen Bank-styled programs, the programs explicitly address the behavioral and lifestyle features that underpin the economic viability of households. The Grameen Banks require that clients adhere to "16 Decisions" that direct members to adopt lifestyles consistent with their economic goals. For example, to promote good health, group members vow to improve their diet, use clean drinking water, and improve hygiene. Religious customs with deleterious economic effects (elaborate wedding ceremonies, dowries) are shunned. Further, family planing is promoted. A healthy family, with fewer dependents and free of usurious debt incurred to finance religious obligations, is a better borrower and able to improve its economic opportunities. By addressing cultural elements, these programs lay a foundation for viable economic opportunities for their clients.

Testing the Limits to Innovations

For all peer group lending programs, like other successful models, innovation is an iterative process. Adaptations to the methodologies are introduced and then tested to determine their effects. Careful supervision and management controls over staff and client performance are needed at all times. Some programs have learned that certain features of the core methodology are essential for continued success. Features such as grouping members from more than one family and repeat loans that gradually grow in size over time remain fundamental to successful peer group lending. When these basic guidelines have been relaxed, this has not resulted in innovation; instead there has been a rapid deterioration of portfolio performance. Despite the desire to increase the volume and value of loans, the need to maintain a quality portfolio requires that the programs not short-circuit the basic principles of successful group lending. Decentralized decision making has also challenged the management effectiveness of the SGPs. Too much authority devolved to inexperienced regional officers or field supervisors, in some cases, has contributed to lax performance standards or examples of poor leadership or judgement. Programs undergoing dramatic growth are most susceptible to these types of problems.

Given the vulnerabilities of peer group lending programs, well-developed management information systems are critical. With an adequate credit information system, slippage in portfolio performance can be quickly identified; poor performance can be traced to specific regions or staff. Recent innovations can be more closely examined to determine the underlying cause of performance problems. Time and again when performance problems have developed, they could be traced to sloppy adherence to the basic core model for solidarity group lending and basic staff management guidelines. The solidarity group experience to date points to the potential of innovation and the need for careful examination of the effects of innovation before widespread adoption and dissemination of new techniques. When problems have developed, the information systems have quickly spotted the difficulties and allowed program management to develop timely corrective measures.

THE SOLIDARITY GROUP METHODOLOGY IN COMPARATIVE PERSPECTIVE

The solidarity group experience has generated an impressive track record. Presented below is a discussion of solidarity group lending considered in light of alternative lending approaches and issues facing microenterprise support programs.

Solidarity Group Lending as a form of Development Finance

Over the past 30 years, international development agencies have made significant investments in DFIs. Solidarity group lending is a radically different approach to development finance traditionally conducted by specialized, nonbank financial intermediaries. The approach differs in the following ways:

1. **Working Capital rather than Term Lending**: Solidarity group lending provide services that are more akin to commercial lines of credit, whereas DFIs traditionally concentrate on term financing. In most instances, working capital is financed and the borrower enters into a repeat lending arrangement, much like what would occur with a commercial bank and a small business in other environments. This contrasts with most DFIs that conduct project financing for business start-up through fixed medium-term loans.

2. **Finance for Existing Businesses in All Sectors not Limited to Start-up Industrial Establishments**: DFIs concentrate on new project development; preference is given to industrial firms that may demonstrate higher economic rates of return. SGPs lend almost exclusively to existing businesses or businesses for which borrowers have demonstrated experience. Further, solidarity group lending is made available to all sectors of the economy: commerce, service, and manufacturing. Loan distribution across sectors parallels the prevalence of those sectors in the economy. In that sense, SGPs respond to demand that exists in the financial services market, rather than attempting to generate demand. The promotion activities used by DFIs to generate demand have often led to their financing marginal projects.

3. **Limited Project Analysis**: DFIs typically invest considerable time and financial resources to assess the viability of each proposed project. Independent and costly marketing analysis and feasibility studies are often conducted for each project financed. For expansion of existing operations, historical financial records are needed. Yet, such studies have not proved to be reliable predictors of project success. SGPs limit their analysis to a cursory review of repayment prospects. In some instances, project-specific review is not undertaken at all. By focusing on working capital to existing businesses and by securing the loan through the group arrangement, the lender side-steps the need to conduct in-depth project appraisal.

BOX 11

SOLIDARITY GROUP LENDING AND STANDARD DEVELOPMENT FINANCE

Features	SGP	DFI
Loan Purpose and Terms	Short-term Credit Lines	Term Finance
Start-up, Existing	Existing	Start-up
Sectors	All	Industrial
Promotion	Responsive to Market Demand	Project Promotion
Project Preparation	Simple Application	Feasibility and Marketing Studies
Project Analysis	Cursory Review Financial History	Extensive Analysis, Documentation
Key Factors for Approval	Solidarity Group Participation; Repayment History	Strong Project Proposal, Collateral
Borrower Characteristics	Poorer Sectors	Wealthier Sector
Repayment	Repayment Regardless	Repayment Linked to Project Success

4. **Borrower Characteristics:** Solidarity group lending programs explicitly aim to reach poor households. Poor households, particularly women, are interested in the small loan amounts made available through SGPs. DFIs, instead, typically provide financial services to more affluent segments of the population. Wealthier family groups are more likely to mount new projects, invest the up-front time required to develop a project proposal, and accumulate capital or attract investment from family or associates. Unfortunately for the DFIs, this same set of more affluent borrowers have proved to be less reliable borrowers, particularly if the project encounters difficulties. Poorer borrowers, who have received very little prior development assistance and are likely to be denied access to future services in the case of loan failure, place greater value on the services received and are more likely to respond with responsible borrower behavior.

5. **Loan Repayment:** DFIs presume that loan repayment will be derived from the successful execution of the business project. If the project does not succeed, loan default or noncompliance with loan terms is typically anticipated. This is not always assumed in peer group lending schemes. First, some peer group lending schemes specifically decouple the repayment stream from the activity financed

with loan proceeds. For example, Grameen Bank borrowers commonly use their loan to acquire livestock. In between buying and selling the livestock, weekly payments are made use revenues earned through diverse household economic activities (for example, salary from occasional labor and revenues from sales of cow's milk and vegetables). The repayment of the loan is not solely linked to the successful outcome of the project financed. Second, because cutting off access to future loans to group members is so powerful a deterrent, even if a financed project does not succeed, borrowers and group members will almost always repay the loans regardless. This strategy is possible because the scale of the frequent loan repayments is within the means of the household economy. The above phenomena help to explain why peer group lending schemes will often collect on problem loans even after the project has failed. As discussed above, default rates for group lending programs is very low. For example, ACCION affiliates examined had on average written-off less than 0.4 percent of their portfolio. Loan defaults for the Grameen Bank as of July 1991 were 1.5 percent. This is particularly impressive when considering the difficult economic environment in which they operate.

There are important lessons from the solidarity group lending approach for DFIs. Several operating methods, not dissimilar from standard commercial banking practices, can be introduced by DFIs as they administer medium-term project finance for industrial firms. For example, testing the reliability of borrowers through their responsible use of credit lines, evaluating debt service coverage in relation to the family group's personal and business revenue streams, and adopting a firm on-time repayment policy are examples of methods that DFIs can borrow from this approach.

Are Solidarity Groups Really a Form of Minimalist Credit?

Over the last five years, a debate emerged over the relative advantages of different microenterprise promotion models. Judith Tendler, in a 1987 study conducted for the Ford Foundation, noted the success of programs that focused on the delivery of credit, referring to this approach as "minimalist" credit delivery (Tendler, 1987). Others have described the nonminimalist lending as "integrated approaches," stressing the link between financial services and other business and social support services. Although proponents for both models have stepped forward, a careful examination of field methodologies demonstrates that, in practice, the distinction between the minimalist and integrated credit approaches is not as simply drawn as some would like to believe. For example, many have referred to solidarity group lending as examples of minimalist credit operations. Nevertheless, nonfinancial services such as training and organization building are integral features of the solidarity group operations examined in this paper. At the same time, financing is the predominant service provided by other lenders that do not consider themselves to be minimalist lenders.

The debate between minimalist and integrated approaches has in many instances served as a proxy for a broader debate about basic approaches to development and the assumptions that underlie these different strategies. For example, traditional development models typically emphasize training. These models imply that the principal impediment to development is a deficiency in the entrepreneur's ability and argue that only by correcting this deficiency can credit be directed properly. Solidarity groups broke new ground by recognizing the microentrepreneur's capacity to master production skills and management methods appropriate for the scale of his or her enterprise. Solidarity group lenders have demonstrated that credit provided to the existing entrepreneur can be used effectively without requiring numerous hours of training up-front before credit disbursement. This recognition, however, in some instances was misunderstood to imply that microentrepreneurs had no use for any training. Although demonstrating a certain level of skill and management sophistication, most microentrepreneurs could further refine their production methods or enhance their management abilities. Microentrepreneurs participating in most

ACCION SGPs have demonstrated a keen interest in training programs made available on an elective basis. This demand for training, and the willingness of the microentrepreneur to pay for such services, indicates that there remains continued need for skills development and increased management capacity among microentrepreneurs.

The discussion about the minimalist credit strategy has also served as a proxy for a debate on the role of subsidy in development programs. SGPs adopted financial sustainability as an integral feature of their methodology. However, debate continues about the extent to which the training components associated with solidarity group lending can be fully self-financing or if some form of donor support for these additional services is appropriate. Several ACCION affiliates are now able to cover fully the cost of training services through fees charged to borrowers. Two factors have contributed to the capacity of ACCION-affiliated SGPs to cover these costs. First, given the high return on assets and productivity of microentrepreneurs in Latin America, borrowers have been able to generate a return that can absorb the full cost of credit and training. Second, in urban Latin America there is a wide array of publicly subsidized vocational and management training facilities. Solidarity group borrowers often begin the program having benefited from a prior human resource investment made by a publicly subsidized institution.

In other regions, most notably Bangladesh where the Grameen Bank operates, these two factors do not apply. Interest rates are held to commercial levels and publicly sponsored training institutions are scarce. In Bangladesh, some nonfinancial services provided by the Grameen Bank and other group lenders are financed with donor support. Although SGPs in urban Latin American settings may have the means to cover training expenses fully, this is not the case in all settings. In Bangladesh, donors have been willing to subsidize these additional services. Whenever and wherever possible, the same drive toward efficient delivery of services and full cost recovery should apply to training as well as credit delivery.

What is important, however, is that some programs have used the minimalist debate, not necessarily to evaluate the optimal mix of financial and nonfinancial services and the appropriate settings for subsidy, but as a veil to divert attention away from their own highly cumbersome and inefficient operations. In so doing, such organizations have attempted to side-step the issue of achieving financial self-sufficiency. Some organizations that label their operations as "integrated" or "transformational" may derive a large share of their costs from unrelated overheads and unnecessarily bureaucratic service delivery methods. In such a setting, the argument in favor of subsidy is uncalled for. Whether training services or credit is being provided, the drive toward operational efficiency and the need to respond to market pressures remain. When a subsidy is introduced, it should be transparent. In an era of scarce donor resources and tremendous need for development assistance, the pressure to operate efficiently and attain development goals is critical.

A final related debate is raised by those who contend that as programs become more effective deliverers of financial services (credit and savings), they should limit the scope of their activities to financial services alone. The programs examined here, however, do not demonstrate this pattern. Instead, many programs began by focusing on the delivery of credit. Once this capacity is fully developed, in response to client requests, these programs have diversified and now provide additional financial services and nonfinancial services. Paradoxically, rather than there being a linear progression toward the concentration on a single service, the programs examined here have perceived the nonfinancial services to be vital; the distinguishing feature of these financial institutions is not just that they lend to the poor, but that they also respond to the diverse needs of their clients. This issue is handled differently among the programs examined. For example, in Bolivia, PRODEM will exist as the sister organization of BancoSol, with the former dedicated to nonfinancial services and the latter exclusively focused on financial services.

Underlying the service mix debate (financial services only or a combination of financial and nonfinancial services) are classic organizational tensions related to specialization versus diversification. These issues are not specific to microenterprise programs and figure prominently in corporate strategic planning and organizational development literature. Common sense tells us that it easier to do one thing well. The programs examined have demonstrated that although at times in the organization's development it has been essential to concentrate on a single objective (such as credit delivery), once certain performance standards have been attained, the programs have been able to respond to diverse client needs. The correct balance of specialization versus diversification is specific to each organization, reflecting the existing organizational capacity, management talent, and the judgments of the board of directors that establishes policy.

Solidarity Group Critique

Despite the growth of SGPs, their operational self-sufficiency, and program impacts, solidarity group lending has been criticized in five different areas. The principal criticisms and an assessment of the criticism are outlined below.

Solidarity Group Dropout Rate

Solidarity group lending, although beneficial for the majority of participants, is not universally successful. Ideally, borrowers will successfully repay their loans and continue to participate in their groups, receiving successively larger loans. In some instances, borrowers will reach a given loan size and then elect to request subsequent loans of the same size, or vary loan size in accordance with the season — requesting larger loan sizes to satisfy peak demand periods, and then returning to lower loan amounts.

A significant share of participants, however, drop out from the programs altogether. For example, in the case of the affiliated organizations in Colombia's Association for Solidarity Groups, 62 percent of all participants have remained with the program, whereas a full 38 percent have withdrawn. Of those who leave the solidarity groups, about one quarter depart because of repayment problems. In these instances, the fellow solidarity group members have been held accountable to cover the missing loan repayments so that the group may receive additional loans in the future. Others who have left the programs did so after satisfactorily completing their existing debt obligations.

Further research is needed to determine to what extent dropouts who leave with a satisfactory credit history are in effect graduates who have built up sufficient internal working capital to satisfy their businesses' operating and growth requirements; have successfully secured financing at more attractive terms from savings and loan cooperatives, suppliers, or other commercial sources; or have simply gotten another job or moved away. To the extent that there are graduates from these microcredit SGPs, this would be an indication of the programs' strength. On the other hand, dropouts, when associated with business failures, demonstrate the vulnerable personal and business situation of a significant share of the program clients; this attrition represents a significant loss for borrowers and for programs. In the long run, however, by sorting through less reliable clients, the SGPs create a disciplined environment that supports their long-term viability.

Credit Dependency

Critics have contended that the high interest rates charged by SGPs have spawned a segment of the microentrepreneur population that have become addicted to working capital loans. Because of the high interest rates paid for these loans, once paid back, critics contend that the working capital of the borrowing enterprise is the same or perhaps even lower than before borrowing, thus requiring future loans for the enterprise to keep going. These critics claim that the borrowers have developed a pernicious dependency on working capital loans. As soon as the first loan is repaid, borrowers require the second, larger loan to maintain their business and possibly grow. Further, these persons comment that the borrowers, with as many as two dozen loans, have difficulty weaning themselves from this credit dependency.

Although it is fair to recognize that the interest rates charged by solidarity group lenders do cut into the level of retained earnings, the cumulative amount and duration of borrowed funds is not significantly different than that of standard small business lending approaches. The frequency of the revolving credit, although generating additional administrative costs, has been integral to the lenders strategy to screen reliable borrowers.

What many who criticize solidarity group lending fail to consider is that most businesses in formal economies maintain revolving lines of credits with their local commercial banks. These are usually secured with personal assets of the borrower (home or other business assets). Microentrepreneurs cannot qualify for such commercial credit lines. Within that context, once viewing solidarity group loans as being comparable to commercial credit lines, the microentrepreneur is really no more hooked on credit than businesses of all sizes throughout the world. As microcredit programs are able to fully cover their costs, they become a source of credit for the microentrepreneur that parallels in many ways that of commercial banks.

Group Features

Some have criticized the solidarity group model because of features inherent in the group approach. On the one hand, some organizations have claimed that the costs associated with bringing groups together and facilitating their effective operation more than offset the cost savings associated with group lending. ACCION International affiliates have adopted a standardized and efficient methodology for group organization that places the majority of costs associated with group building on the borrowers. Although this addresses the criticism that group building is costly for the program, others contend that this approach merely transfers the organizational costs from the program to the borrower, and that the borrower is even less able to absorb these costs, diverting precious time from business and family obligations.

Another feature critics have found problematic has been what is perceived to be coercive tactics used among solidarity group members to enforce on-time repayment. These tactics reach dramatic proportions in very poor communities such as those found in Bangladesh. Members may be obliged to borrow from money lenders to meet payment shortfalls, placing in jeopardy what little household assets these poor families may own. In other instances, fellow group members may coerce a group member through other social pressures. Although the emergency funds have been created specifically to establish a fall-back position, it is clear that adhering strictly to the repayment schedule may indeed represent a hardship for some group members at some times. On the other hand, it must be understood that the integrity of the financial institution can only exist, particularly in very difficult environments, when there is such a dogged adherence to loan repayment schedules.

Ultimately, one has to evaluate if the cost of group formation and adherence to loan repayment schedules more than offsets the benefit of reaching very poor households while maintaining financially viable lending institutions.

Cultural Norms

Some have argued that peer group lending schemes are not always consistent with cultural norms and biases. For example, an advisor to a regional credit program in Indonesia claimed that an attempt to introduce group lending among its clients proved unsuccessful, largely due to cultural preferences. In the particular region of Indonesia where this approach was introduced, households were independent and were unwilling to assume credit risk in a mutual guarantee arrangement for others in their community. Others, commenting about some urban settings in Africa, also noted the bias toward reaching individual solutions and the difficulty in enforcing the strict repayment regimen required by most SGPs. It is difficult to determine if these criticisms are based on ineffectual efforts at program testing and operations, or are valid findings that solidarity group lending is not effective for all communities. Nevertheless, peer group lending has been effective in numerous settings, rural and urban, in Asia, Latin America, Africa, and even the United States.

Insufficient Business Growth

By concentrating on reaching the very poorest strata of the informal sector, solidarity group lending emphasizes self-employment over employment generation. Some argue that maximum economic benefit can be achieved through employment generation in slightly larger enterprises. They contend that the marginal value of the output of these undercapitalized, microenterprises is low compared with the economic benefit that could be attained by more formal small businesses.

On the other hand, SGPs fill a very important niche in the financial sector. Contrary to what economic planners want to believe, the very smallest firms that typically participate in solidarity group lending are highly efficient users of capital demonstrating very high return on assets. Microenterprises generate jobs at even lower costs then small formal businesses. Also, the measures of program impact that demonstrate that many borrowers have increased their assets show that the repeat borrowing arrangement of these programs can have a positive cumulative effect.

For a mixture of the reasons outlined above, several programs have either ceased operating solidarity groups after using them for many years, or, alternatively, committed themselves to individual lending from the start. For example, ADEMI, an ACCION affiliate in the Dominican Republic, has concentrated on individual credits because they consider this a more effective credit delivery strategy. CIDES, a member of the Asociacion de Grupos Solidarios in Colombia, failed to integrate the peer group lending methods within its standard credit cooperative operations. Finally, a regional credit program in Indonesia attempted to introduce peer group lending but later rejected the mutual guarantee group lending because of perceived cultural incompatibility. Clearly, the peer group lending method, although preferred by many programs reaching this same target population, has not been accepted by all settings.

CONCLUSION: THE SOLIDARITY GROUP EXPERIENCE

In 1986, when PACT published the *Solidarity Group Concept*, this methodology for credit delivery was beginning to attain regular results; a potentially promising core approach was emerging. Our report demonstrates that this promise is being realized. The methodology has proven to be dynamic and responsive to the development challenge it has faced. The solidarity group approach has demonstrated that it can reconcile the competing pressures of servicing the very poor, reaching large numbers, and operating in a self-sustaining manner. Furthermore, through the mutual guarantee mechanism, heightened attention to management efficiency, and responsiveness to the market they service, SGPs have attained their goals and several important outcomes. Not only are these programs delivering social services, but they are building a sustainable basis for mutual accountability. In a field replete with development dinosaurs, this is no small accomplishment.

The principal lessons arising through the solidarity group experience are as follows:

1. **The core features of the solidarity group methodology have withstood the test of time.** Solidarity groups continue to provide credit, training, and organization building. Effective credit delivery in solidarity groups includes screened client selection, group self-formation, decentralized operations, appropriate loan sizes and terms, real interest rates and service fees, simple loan application and rapid review, on-time repayment requirements, linking credit to savings, cost-effective training and organization building, and borrower-lender mutual accountability. Experience shows that if groups lay aside the basic features of the solidarity group approach, difficulties may arise.

2. **Solidarity group programs have proliferated in Latin America, Asia, and Africa.** In Latin America, there are more than 120 local organizations using solidarity group lending methods, making available more than $80 million in small loans. These figures are dwarfed when compared with the peer group lending conducted by the Grameen Bank, which as of July 1991 had 950,000 borrowers having lent $277 million. In Africa, the largest peer group lending activities are modeled on the Grameen Bank experience including the People's Bank of Nigeria with 240,000 borrowers. The growth in the number of programs and borrowers reached has accelerated dramatically in the last five years. SGPs are attaining economies of scale that contribute to their potential long-term financial viability and development impact.

3. **Solidarity group repayment performance is excellent.** Among the ACCION-affiliated programs, defaults are less than 1 percent and in some countries the default rate is so negligible it approaches zero. The Grameen Bank's default rate is less than 2 percent. This repayment performance compares favorably to most commercial operations and is exceptional when compared with other DFIs.

4. **Solidarity groups have attained operational efficiencies.** Although direct comparisons across countries is difficult to attain, lending costs for the ACCION programs examined, expressed as a percentage of the average portfolio, ranged from 28 percent to 58 percent. The Grameen Bank's average total costs of 28.5 percent is similar to some of the ACCION programs. Although compared with standard commercial lending these rates appear high, but the costs reflect expenses incurred in delivering the very small loans and the provision of other related services. For all programs examined, their blended cost of funds is below market, reflecting prior years of donor assistance. Total revenues, combining interest revenues and other revenues, have allowed these organizations to fully cover their expenses. All programs examined registered only marginal profits, demonstrating their preference to provide services as economically as possible to their clients.

5. **Solidarity group programs are in a continual process of innovation.** Methodological innovations are integral to solidarity groups because of their need to seek management efficiency to reduce their operating costs while remaining sensitive to client preferences. Innovations have entailed standardized credit disbursements, provision of fixed asset lending, and other financial services such as savings and life insurance.

6. **Savings, emergency funds, and efforts toward financial intermediation have become increasingly important for solidarity group programs.** One service of considerable value to members is savings or emergency funds. These saving arrangements have bolstered on-time repayment. Solidarity group lenders, structured as poverty banks, use savings as an attractive source of funds. Others, without authorization to serve as financial intermediaries, have used savings to leverage funding from commercial sources.

7. **Training services are in considerable demand from solidarity group members.** As SGPs have become more effective in credit delivery, programs are turning greater attention to training activities. Training may entail personal or group development, skills transfer, or management training. Training responds to client-perceived needs and, to the extent possible, operates along the same principles of client responsiveness, management efficiency, and full cost recovery.

8. **Organizational activities and other social initiatives continue to be an important part of solidarity group programs.** SGPs may be involved in other social initiatives that benefit members. Such organizational activities range from related services provided by the peer group lender (housing or educational loans) to initiatives driven by the client themselves (burial societies.) For example, Grameen Bank groups operate thousands of primary schools attended by more than a million youth.

9. **The solidarity group experience offers important insights for DFIs.** Solidarity group lending provides an alternative methodology for DFIs. By focusing on working capital for existing business across all sectors, solidarity groups have avoided the problems that typically plague DFIs. Most significantly, peer group lending schemes such as the Grameen Bank have decoupled the loan repayment from the activity financed. Because the scale of the frequent loan repayments is within the means of the household economy, loan repayments can be collected even during periods when the activity financed is not generating income or in the case of problem projects.

10. **The solidarity group experience calls into question many commonly held assumptions about the microenterprise development field.** A closer look into the solidarity group methodology indicates that the categories of minimalist credit compared with integrated approaches is not particularly helpful. Training and organization building are integral features of these solidarity group operations, whereas financial services are predominant for many lenders that do not consider themselves to be minimalist. The debate between minimalist and integrated approaches has in many instances served as a proxy for a debate about organizational strategies, basic approaches to development, and the assumptions about the efficient use of resources and subsidies that underlie these different strategies. Criticisms of the solidarity group approach, such as the dropout rate, credit dependency, group features, cultural norms, and insufficient business growth are not convincing when considered more carefully.

The solidarity group experience as presented here reveals the progress and development of several peer group lending programs. As highlighted above, these organizations are undergoing dramatic growth, and, although they are attaining financial viability, much remains for these programs to learn as they become mature, stable institutions. These organizations are breaking new ground in the efficient delivery of credit, in the integration of savings as a valued service and as a source of capital for the program, in the provision of cost-effective training and technical assistance, and in the promotion of social organizational activities among program clients. The commitment to remain innovative and to generate a climate of mutual accountability will assist these organizations as they continue to grow.

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