CREDIT and THE SMALL BORROWER:

BRIDGING THE GAP BETWEEN BORROWERS, LENDING PROGRAMS, AND FUNDING SOURCES

Johanna W. Looye

Creative Associates, Inc.
Suite 270
201 New Mexico Ave., NW
Washington, DC 20016

January 1984

PNAAQ076

CREDIT AND THE SMALL BORROWER:
BRIDGING THE GAP BETWEEN BORROWERS, LENDING PROGRAMS, AND FUNDING SOURCES

Johanna W. Looye

Creative Associates, Inc.
Suite 270
3201 New Mexico Avenue, NW
Washington, DC 20016

January 1984

ACKNOWLEDGEMENTS

I am truly indebted to Creative Associates and to the staff members who made it possible for me to research and write this paper. I especially want to thank David Kahler for his thoughtful comments and his constant encouragement, and Maria Uy for energetically and cheerfully typing, revising, and reproducing the paper in its seemingly endless renditions.

I would also like to thank the Women in International Development group at Cornell University for sponsoring my talk on this topic last fall and all those who attended for their insightful comments. James Hoxeng, Robert Young, Suzanne Kindervatter, Sue Selbin, Jane Wilber, and Carolyn Rose-Avila deserve special thanks for reviewing the paper and offering their helpful observations.

Credit also goes to those who met with me to discuss the ideas that led to writing, who helped me to find "fugitive documents," and who commented on earlier drafts.

Of course, all responsibility for the ideas presented here rests with me alone. I would be especially indebted to any readers who might have additional documentation or case material which they could share with me. Documentation and comments can be sent to the author at: Department of City and Regional Planning, Cornell University, 106 West Sibley, Ithaca, New York 14853.

January 1984
Ithaca, New York

PREFACE

This paper has its origins in a growing interest and in need for examining alternative forms of credit for entrepreneurial activities in low income countries. The paper is intended for project planners and implementors, as well as program evaluators. The paper should also be of interest to funding agencies which view credit for small borrowers as a viable development strategy.

The three alternative credit mechanisms discussed here are those actually providing credit to small borrowers and encouraging growth of private enterprise, thus creating a functioning local financial market. In addition, the types of credit discussed are group-based and provide participants with a practical education in finance and business management. Other projects which deal with credit, but do not directly supply credit such as those which provide training in applying for credit, are not included here. The paper offers no explicit recommendations for modifying formal lending programs, although pertinent information is provided which would enable the reader to consider such action.

Creative Associates, Inc., is pleased to have been able to assist the author of this paper in her research work and looks forward to her further research on means of bridging the gap between small borrowers/lending institutions and funding agencies. This examination of the issues involved in providing credit to small borrowers is considered a first step toward assisting not only small borrowers, but more importantly the assistance agencies funding entrepreneurial training and development programs in LDCs.

M. Charito Kruvant
President

TABLE OF CONTENTS

TABLE OF CONTENTS

ILLUSTRATIONS

CHAPTER I

Introduction

Credit programs for small borrowers are a peculiar form of development assistance. On the one hand, small farmers, manufacturers, or traders need support because of their uncertain incomes. On the other hand, they are expected to meet the criteria used to evaluate large and stable borrowers. In spite of this contradiction, this combination of political and commercial objectives has found a place in development programs and projects across the globe.

One justification for such credit programs is the added opportunity that additional funds provide for the small borrower. In the case of small farmers, for example, the funds can be used to purchase inputs such as seed and fertilizer, or to transport a harvest to a more profitable market. Small businesses involved in production, services, or trade can use credit funds to start a new business, improve equipment and methods of production, reach new markets, reduce the cost of stock and raw materials, reduce time-consuming trips for the purchase of raw materials and debt collection, or to pay off moneylenders (Farbman, 1981: xii, 28-29).

There is no doubt, however, that credit alone may not be sufficient to improve the performance of any given enterprise. As Harper comments,

> small business people who do not know how to manage the money they have already cannot benefit from having <u>more</u> money to mismanage. The effect will be to create <u>more</u> inefficiency and waste, and thus the loans do not <u>help</u> small businesses but increase their problems (1977: 195).

Thus, credit is most accurately viewed as a necessary but insufficient form of assistance. Keeping in mind that borrowers who require credit repeatedly will turn to lenders who expect to provide credit over the long run and that lenders will extend credit to borrowers who repay or refinance their loans responsibly, this paper looks at different ways to provide funds to small borrowers, allowing at the same time for the priorities and constraints of lenders and development funders.

Unfortunately, the performance of credit programs for small borrowers is quite uneven. Doubtless, there have been successful attempts to provide credit to small borrowers, but small scale credit projects have generally had to contend with a common set of underlying issues that compromise their effectiveness.

First, credit earmarked for small borrowers is often not actually available to them. This unavailability may be due to lenders' efforts to avoid risk by circumventing credit program guidelines, or it may be due to borrowers' ignorance of the credit actually being offered, their disinterest in it, or their inability to apply for it. Often, the application and repayment procedures are not matched with the prospective borrower's situation, whether in terms of paperwork involved, amounts available, or timing of receipt and repayment. Improving the availability of credit to small borrowers may involve modifying loan procedures in existing lending institutions, or it may call for setting up or supporting less conventional forms of credit assistance.

Second, institutions that lend to small borrowers frequently are not viable. Banks, special lending programs, and special credit institutions must be able to sustain their lending activity over time. In addition to recovering funds loaned out, they must cover transaction costs and, usually, turn a profit. Generally, banks have been reluctant to establish small loan programs because they cannot cover these costs. In contrast, special programs (e.g., government subsidies to banks providing small loans) and special loan institutions have been able to continue to operate because of direct or indirect government support, so covering transaction costs through interest rates has traditionally been of less importance to them. However, the means to continue governmental support has dwindled over recent years, while at the same time the interest in providing credit to small borrowers has, if anything, grown. New approaches to assuring institutional viability are called for in order to continue to provide credit to small borrowers.

Third, development agencies find it difficult directly to support credit for small borrowers. Traditionally, development organizations and regional banks have provided funds to small scale borrowers indirectly through government institutions because directly overseeing smaller projects is too expensive in terms of cost per dollar expended. In turn, governments have managed the loan funds directly through government agencies or indirectly through private commercial or non-profit mechanisms. This approach has frequently undermined the viability of intermediary lending institutions either by engulfing them with more funds than they can manage or by creating a total dependence on continued financial support. Large scale funding is also inclined toward formal banking procedures, even when this approach may not be appropriate for the intended borrowers. Furthermore, the current fiscal situation in most countries calls for highlighting the relationship between savings, credit, and investment rather than emphasizing credit alone. In this way, local resources (including, but not limited to financial resources) can be mobilized and then matched by funds from development agencies, banks, and other organizations.

Program planners need to identify new arrangements or new uses of existing arrangements to bridge the gap between large funders and small borrowers so that large funders' lending and granting constraints are taken into consideration at the same time that the interests and circumstances of the ultimate borrowers are incorporated.

This paper addresses these issues. Chapter II begins by describing the problems of supplying credit to small borrowers through informal and formal means. Alternative lending methods that may address credit needs under differing circumstances are presented in Chapter III. Chapter IV discusses key issues that must be considered in order to develop an appropriate credit program. Chapter V delineates functional components common to most credit schemes, and suggests unconventional ways to satisfy these requirements. In Chapter VI, ways are suggested in which the gap between large lenders and small borrowers might be bridged.

CHAPTER II

Small Borrower Access to Credit Through Existing Mechanisms

Credit and Development

In a general sense, development represents enablement or acquiring the means, skills, or opportunity to do something. Development takes place at the national level, and at the regional, local, and individual level. This assertion, reminiscent of the themes of the second development decade, reinforces the contention that in low-income countries, the development process is often disjointed so that means, knowledge, and opportunities may not be matched within or between levels. Credit certainly furnishes an example of the need to match needs and skills between different levels in order to encourage a vigorous financial market that benefits both borrowers and lenders.

Obtaining credit is an immediate concern for individual small scale entrepreneurs, whether to minimize the uncertainty of day-to-day survival, or to assume a risk that may make expanded activity possible. However, their ability to secure credit is limited by education, income, location, social status, and numerous other circumstances, each of which plays a role in permitting or inhibiting their advancement. Thus, for small operators, credit is best seen as a necessary, but insufficient component of development assistance since the borrowed funds must be combined with new or existing skills to create an opportunity or to take advantage of an existing one.

At the same time, providing credit assistance to small scale borrowers has important implications for general social and economic development. Rather than incorporating small scale entrepreneurs into the national economy in a clearly disadvantaged position, successful use of credit can provide them at least a modicum of control over their lives. This is more likely to encourage sustained development and an improved quality of life than development efforts which disregard the marginal member of modern economic society.

Informal Credit and Small Scale Borrowers

Small operators traditionally have had recourse only to informal sources of credit, including friends and relatives, moneylenders and pawnbrokers, or shopkeepers and wholesalers with whom they do business (IWTC, 1981: 6-7). Because these informal credit sources are known personally by the borrower, he or she is likely to feel relatively comfortable about requesting funds. In addition, mutual familiarity and proximity eliminate the need for paperwork and travel. For the small entrepreneur, the main advantage of informal credit is the speed with which credit funds can be received. This speediness assures the borrower of funds precisely whenever financial support is needed, which often may mean the difference between survival or failure for a small enterprise.

The principal drawbacks to informal credit include limited fund availability and high interest rates. Because informal lenders are usually locals and only slightly better off than their prospective borrowers, the reserve of cash they lend is limited and the interest rates are high. At some point, the credit needs of even the smaller enterprise may exceed these limits (Reno, 1981: 37). Another shortcoming of credit through informal channels is that the lender rarely is able to offer the informal business management advice that banks or private investors may be able to provide.

This situation leads to a key question:

> How should credit be provided to entrepreneurs whose capital requirements are beginning to exceed the amount of credit available to them informally?

Should they be encouraged to begin to borrow from banks? Should new credit institutions be set up to accommodate them? Should traditional institutions be supported in order to increase the small entrepreneur's liquidity?

As is generally the case in development planning, there is no one "right" answer. Differing circumstances will call for distinct approaches. The following sections will address the concerns surrounding each of these approaches.

Formal Credit: Banks

In low income countries, formal credit usually is used to fund large scale industry and trade, with availability and interest rates generally left to market forces, and little credit available for small scale agriculture, trade, and manufacture. The distorted flow of resources reflects a situation in which lenders lack the means or the motivation to finance small enterprises or agriculture and in which small borrowers are unable to obtain funds from formal institutions to sustain or increase their level of activity. Where credit is made available, the varying transaction costs with respect to different classes of borrowers lead to fragmented capital markets which consist of a series of different markets for different loan packages (Bhatt, 1978: 26).

In large part, the fragmentation within developing financial markets is a result of formal lenders' concern with institutional viability. As Graham and Bourne observe, bankers are

> concerned with the proper evaluation and administration of loans, concerned about charging a sufficient rate of interest to cover costs, determined to protect their cash flow through low arrears (emphasizing collateral and foreclosure) and pessimistic about the possibilities of servicing the credit needs of small farmers without extensive monitoring, supervisory and collection machinery (1980: 77).

For banks, then, transaction costs -- the administrative costs plus the default risks -- determine the terms of lending to any borrower (Bhatt, 1978: 26), and loans to small entrepreneurs involve high transaction costs. First of all, processing any loan application requires a fairly constant input on the part of the bank. From the bank's perspective there is little difference in transaction costs between processing a large loan and a small one. However, since profitability, and hence viability, hinge on the total amount of money loaned, it becomes more cost effective for one loan officer to manage a few large loans than numerous small ones. In other words, transaction costs per unit loaned decrease as the size of the loan increases; economies of scale are in force.

In addition to the natural bias toward large credit packages, formal lenders find that small entrepreneurs are unfamiliar with bank procedures, and unable to complete paperwork bankers require to evaluate and administer a loan. The extra time taken to assist the small borrower in this process leads to even higher transaction costs. In dealing with the small borrower, the formal lender assumes a greater default risk, because the small entrepreneur is often in a fairly precarious economic position and possesses limited business management skills. Furthermore, the entrepreneur may have little to offer as formal collateral. Thus, the bank may have to resort to intensive supervision of business activity to assure repayment of the loan, even from a reliable borrower. Under these circumstances, it is not difficult to see why so few banks are serious about credit for small scale borrowers.

At the same time, small borrowers face numerous problems with formal credit. As discussed above, the small entrepreneurs' circumstances limit their ability successfully to apply for or use credit from financial institutions. Even those who do manage to acquire formal loans often incur costs that exceed the interest payments that supposedly reflect their cost in borrowing the money. Adams and Graham point out that

> total borrowing costs, especially for borrowers of small amounts, may be two or three times as much as the nominal interest payments. These costs include waiting in line, transportation costs, bribes, legal and title fees, [and] paperwork expenses. (1981: 350).

Finally, delays in receiving the funds, or receiving amounts too great or too small for the borrower's ability to repay the debt in a timely fashion cause difficulty with formal credit, even barring the frequent calamity that may affect a small entrepreneur's business or family's wellbeing.

Formal Credit: Special Institututions

It appears, then, that credit from banks, with their emphasis on paperwork, procedure, and purely commercial evaluation criteria, is generally inimical to small borrowers' needs. To address the distortions in the financial market, which are as much a result of as they are a cause of underdevelopment, a variety of specialized institutions have been introduced to provide credit to specific target groups. Often oriented toward agriculture, these institutions include supervised credit programs, agricultural banks, cooperatives, and commodity banks (Adams, 1980: 23-25). Part of the appeal of these programs is political. It is easy for a political leader to announce a new lending policy or to make additional funds available, and such an announcement demonstrates immediate concern for the problems of the target group (Howell and Adams, 1980: 2). The subsequent failure of a program to live up to its intent may be secondary if the primary purpose is political. However, there are difficulties with special institutions even when their programs are legitimately intended to improve small borrowers' acess to financial markets.

In contrast with the "bankers' approach" mentioned previously, Graham and Bourne call the approach generally employed in setting up new credit programs the "planners' approach" and hold that

> the planners and the plan-oriented Ministry of Agriculture have always viewed credit from the credit use approach. In short, after the production targets have been established, all policy instruments are directed to that end, including credit. Arbitrary guidelines are established to determine how much credit input is needed to produce so much agricultural output. Credit programmes are then launched to service these production programmes. . . . There is an implicit assumption that the opportunity cost of public funds is low. The planners' approach invariably transforms credit programmes into income transfers and rationalises their results after the fact (Graham and Bourne, 1980: 76-77).

From the lending institution's perspective, interest rates represent the most serious concern. Concessionary rates (interest rates below the real market interest rate) have long been justified because of the importance of increasing agricultural and other types of production, and because small borrowers were assumed to warrant this concession due to the high uncertainty and risk inherent in their circumstances. Ultimately these policies lead to capital erosion within the lending institution, particularly when interest rates are fixed in spite of the effects of inflation (Adams, 1980: 20). This means that loan programs require continual outside support, the lack of which means that no funds are available for small borrowers. If only a small amount of the fund remains available, the probability increases of its being siphoned off by the wealthier or more powerful members of the target population.

Even when a lending project receives direct or indirect government support to subsidize its lack of internal viability, special credit programs have generally failed to provide credit to the intended recipients, or if it does reach them, the credit is not used for its intended purpose. This is due to fungibility, or the interchangeability of money for one purpose with that for another (Von Pischke and Adams, 1980). For example, lenders

> may meet the letter of the law by simply reclassifying loans to meet quota requirements. The lender may also shift small borrowers who are funded with the lender's own resources onto lines of credit provided by the government or by an aid agency. The lender may then lend its own released funds for non-priority, yet profitable, loans. This may result in little or no additional lending to the priority group or activity specified by the lender (Adams and Graham, 1981: 351-352).

Similarly, loans given in kind can be sold if the borrower prefers cash. Thus, "loans in cash or kind can be used to buy any good or service available to the borrower in the market" (Von Pischke and Adams, 1980: 720), whether for purposes of production or consumption.

Beyond these problems, new credit institutions have also suffered from management difficulties.

> There is almost always a shortage of adequately trained people to fill positions in financial institutions. As a consequence, there is often slowness in making loan decisions, high cost lending operations, data processing problems, poorly designed loan repayment procedures, and lack of coordination between credit programmes and other developmental efforts (Adams, 1980: 19-20).

These management problems can have a serious impact on rural financial markets, since financial viability, which is already threatened by high transaction costs, can be jeopardized further by loan repayment problems. The diminished vitality of loan portfolios means that funds for new loans are not available and management costs per loan increase even further. Eventually this leads to distrust between the borrowers and the rural development administrators, and at some point affects the "cost of introducing 'legitimate credit' to people accustomed to poorly managed programs" (Von Pischke, 1980: 96-98).

Summary

In general, banks and special lending programs have done little to diminish the fragmentation of capital markets in low income countries. The basic dilemma of special credit programs is that of providing credit to the intended groups or individuals while maintaining the institution's ability to continue to do so over time.

> Quick and widespread dissemination of credit invariably leads to an *ad hoc* income transfer programme. On the other hand, careful, expensive supervising of small farmer loans may reduce arrears but the high operating costs limit the scope of the programme, which may not be much more cost-effective than a low-cost unsupervised programme anyway, unless the loan recovery rate is high (Graham and Bourne, 1980: 78).

The resulting misallocation of resources bears implications for the efficiency and the equity of resource allocation and for development in general. The situation calls for financial innovations that address concerns for institutional viability as credit is provided to the difficult-to-reach small borrower. The following chapter discusses three potential alternatives.

CHAPTER III

Alternative Lending Mechanisms

The preceeding discussion underscores the appropriateness and accessibility of credit which combines both informal and formal characteristics. Ideally, of course, small borrowers would obtain the lower interest rates and attractive repayment terms associated with formal credit along with the familiarity and speed of dealing with informal lenders. Concomitantly, lenders would not risk the viability of their lending programs in providing credit to small borrowers. Since all forms of credit represent the sale of money for a price (interest), developing a "hybrid" credit program requires identifying and comparing other component parts of informal and formal credit. This comparison should shed light on areas open to innovation in credit arrangements.

This chapter begins by setting out the common elements of credit and summarizing them in a chart. Following that, three alternative lending mechanisms are described individually and summarized together in a second chart. This information will form the basis for the discussion of selecting an alternative credit mechanism (Chapter IV), and considering possible choices in designing an actual program (Chapter V).

Basic Elements of Credit

The key elements of credit that will form the basis of discussion in this chapter are found in the left hand column of Figure 1.

The key attributes of informal and formal credit, as discussed in the previous chapter, are set forth in the two remaining columns. By examining these two columns, one sees that informal credit is available to a large

FIGURE 1: ATTRIBUTES OF INFORMAL AND FORMAL CREDIT

ELEMENTS OF CREDIT	TYPES OF CREDIT: Informal	TYPES OF CREDIT: Formal
	Relatives, Moneylenders, Shopkeepers	Commerical Banks
TYPE OF ACTIVITY		
Personal Agriculture Manufacture Services	All kinds, including personal	All kinds, primarily large industry and trade, some personal
PURPOSE OF LOAN		
Consumption	Consumption	
Production	Production	Production
Community Action		
BORROWER CHARACTERISTICS		
Individual/Group	Individual	Individual or corporation
Rural/Urban	Rural and urban	Usually urban
Class Membership	All classes, primarily low	Primarily upper
Ethnic Identity	Within and across ethnic group	Ethnic groups with standing
Gender	Usually within gender, sometimes across	Usually men
Risk/Uncertainty	High risk/uncertainty	Low risk/uncertainty
APPLICATION PROCEDURES		
Paperwork	None; personal request	Formal paperwork (deeds, business accounts, etc.)
Credit History	Informal, community standing	Formal credit history
Processing Fees	None (subsumed by interest rate)	Possible legal fees for processing
Savings Account		Savings record
Speed (Consistency, Predictability)	Immediate decision	Moderate or long processing time
Extra Expenses	Entertainment	Transportation, time in line, bribes
SECURITY		
Collateral	Family assets, future income, personal reputation	Deed to land or business, business machinery or inventory, future income
TYPE OF LOAN		
Medium	Cash or in kind	Cash
Specificity	Unspecified	Specified
Size	Usually small	Usually large
TERMS OF LOAN		
Payment Schedule (Speed, Regularity)	Immediate payment	Delayed payout, possibly variable
Interest Rate	High interest rate	Market rate (moderately high) varies with different programs
Repayment Schedule	Short-term	Moderate to long-term
Sanctions	Physical suffering, perpetual indebtedness, loss in community standing	Refinancing, penalty fees, foreclosure
OTHER CREDIT COMPONENTS		
Special Qualities	Borrower likely to feel comfortable in setting	Informal management advice available
Government Policy	Indifferent, possibly hostile	Supportive, regulatory role (direct and indirect subsidies)
Presence	Present everywhere	Usually present in urban areas

section of society that formal credit does not reach: the poor, the rural, the marginal (who face high uncertainty), the illiterate (who cannot complete the application procedure), women, and those with no acceptable form of collateral.

It might be argued that there is no point in allocating additional resources to credit programs for these people, since all groups of society have access to credit either informally or formally. This argument, however, ignores perhaps the most important difference that the comparison highlights. There is considerable difference in the size of the loans available and, as explained previously, small enterprise growth depends upon eventually obtaining quantities of credit not available through informal means. The innovations needed for developing an integrated financial market fall in the area between the informal and the formal sectors.

It is in this area that innovative approaches can bring together entrepreneurs whose business growth is constrained by capital shortages, and savers and investors who find no promising investment opportunities. As long as the basic components of a credit program provide the small borrower with credit and maintain the financial institution's viability, there is no reason to expect that less developed countries need to develop financial systems identical to those in countries like the U.S.A. (Bhatt, 1978: 28).

The three types of credit arrangements presented below provide alternatives to informal and formal credit.

Rotating Savings and Credit Associations (RoSCAs)*

Known also as contribution clubs, savings clubs, or by local names such as *chitties*, *keyes*, *arisan*, *pinjam* (Asia), *tontine*, *djanggi*, *ekubs*, *esusu* (Africa), *susu* (Caribbean) (IWTC, 1981: 7), *cundina*, *tanda* (Latin America), *wok-meri* (Papua New Guinea), and others, the rotating savings and credit association ("RoSCA"; see Bouman, 1978) operates on the same basic principle everywhere. It is a "lump sum fund composed of fixed contributions from each member of the association in turn" (Geertz, 1962: 243), the rotation of which provides access to a continually reconstituted capital fund. For example, in its simplest form, the association might comprise ten members who each contribute one dollar each week for ten weeks. By taking turns, each member is entitled to receive $10 ($9, from others, $1 of own money) once in the ten week cycle. The first borrower therefore receives $9 credit which is paid off interest free during the next nine weeks, while the last person has saved $10 to which no interest has been added. Intermediate positions combine borrowing and saving according to where they fall in the cycle.

RoSCAs are present in various cultures and ethnic groups over a wide geographical area and they exhibit many local variations and adaptations. The sum of money can be large or small, or payment can even be in kind. For example, Diana Opondo, cooperative consultant in Kenya, describes a *Mabati* self help group in which women saved money together until each one had installed a *mabati* (an iron roof) on her home (Reno, 1981: 24). The entire rotation can be as short as a few weeks or as long as a number of years. The number of participants can range from few to many, and they may be either poor

---

*The bibliography includes an extensive number of articles on RoSCAs.

or wealthy, rural or urban, mutual acquaintances or not. Participants may also hold one turn or several. The order of the rotation can be fixed by prior agreement, by lot, or by bidding, and interest or special fees can be present or not. Also, "take-out" funds can be used for emergencies, household consumption, business investment, or for other individually-determined uses. Finally, since members may participate in a RoSCA more for social than for economic reasons, group members may even make additional contributions to a special fund for the association's social activities, or perhaps to provide a grant or a loan to a needy member (Okonjo, 1979: 328).

The essential element of any RoSCA is trust, and many of the local variations are a response to the uncertainty as to whether a participant will continue to pay in after "taking-out." Okonjo discusses a two-way screening process as one approach to this issue. The founder or initiator of a club carefully screens applicants, and at the same time the potential participants size up the founder. "A thief, liar, or bad debtor cannot successfully found a credit association regardless of how genuine [his or] her intentions are" (1979: 328). Another mechanism for safeguarding the fund is to place least trusted members at the end of the rotation or to have a respected friend "guarantee" their participation in the association. Additionally, in order to save face, a member having difficulty making his or her contribution may arrange a personal loan from a friend.

Falling somewhere between one-on-one informal credit and formal credit, it is clear that RoSCAs perform an important economic function within the communities in which they operate. Whether formal banking institutions are present or not (Velez-I., 1982: 119), RoSCAs facilitate the accumulation of savings. In addition to the "take-out" providing an incentive to save, the RoSCA provides a safe place to keep one's funds and brings social pressure to bear since saving activity is done publicly (M. DeLancey, 1978: 222). As a finance and credit mechanism, the RoSCA encourages small scale capital formation by gathering and redistributing surplus funds for consumption and investment (Okonjo, 1979: 327; M. DeLancey, 1978: 222). It is also conceivable that an association would deposit its surplus in a commercial bank so that the bank in turn could use the funds for investment (M. DeLancey, 1978: 222). RoSCAs also fill social security and insurance functions, since they "offer an easy and comparatively ready access to money in the event of a personal crisis or misfortune" (Okonjo, 1979: 327).

In addition to the above, the RoSCA is often seen as a transitional institution. Geertz referred to it as a "middle rung" in the change from agrarian economic patterns to commercial ones. He viewed it as essentially

> an educational mechanism in terms of which peasants learn to be traders, not merely in the narrow occupational sense, but in the broad cultural sense; an institution which acts to change their whole value framework from one emphasizing particularistic, diffuse, affective, and ascriptive ties between individuals, to one emphasizing -- within economic contexts -- universalistic, affectively neutral, and achieved ties between them. The rotating credit association is thus a socializing mechanism, in that broad sense in which "socialization" refers not simply to the process by which the child learns to be an adult, but the learning of any new patterns of behavior which are of functional importance in society, even by adults. The theoretical as well as the practical interest of the association lies in its ability to organize traditional relationships in such a way that they are slowly but steadily transformed into non-traditional ones, as an institution whose functional significance is primarily to facilitate social and cultural change in respect to economic problems and processes (1962: 260-261).

Anderson (1966), however, disputes this perception of the RoSCA. His research with groups who were "locked in a poverty matrix" indicates that the RoSCA is more of a survival mechanism for marginal circumstances than a means of incorporation into "modern" economic and social structures. Velez's recent conclusions about the numerous permutations of the RoSCA suggest that Geertz's above assertion may be true, but not in all cases. More important, probably, is the fact that the institution makes credit available for whatever uses the participants wish, and in a way which they understand. It is not likely under these circumstances that such an institution would necessarily inhibit further participation in formal credit markets, perhaps simultaneously with RoSCA participation.

From the small entrepreneur's perspective, the main drawback of RoSCAs is that the amount of the "take-out" is limited by the amount of surplus participants regularly gather. Thus, for wealthier associations, the draw may be sufficient for some capital investment, while more marginal groups may find that the size of the loan has the same limitations as informal credit.

Revolving Loan Funds (RLFs)*

Similar to the RoSCA, the community revolving loan fund (RLF) is a pool of money that revolves within a group. However, while it does go to different members of the group at different times, it is also possible that more than one person will be borrowing from it at the same time. The basic principle is that the pool of money is reconstituted and slowly built up through service fees or interest charges that cover operating expenses plus a growth contribution (UN, 1982; IWTC, 1981: 22-23). With minor adaptations, the RLF can also operate with in kind loans.

---

* Treated less widely in the literature, the extent and variety of RLF activity is presently unknown.

Generally set up to grant loans for business or for community development purposes rather than for helping meet consumption needs, the RLF employs more formal criteria for granting membership or loaning privileges than does the RoSCA. Nevertheless, much as with a RoSCA, the success of the RLF depends on the degree of familiarity, trust, and social control present within the group, so the two-way screening process Okonjo described for the RoSCA would be in effect here as well (see p. 17).

The amount of credit an RLF will be able to grant depends on the origin of its funds. An RLF money pool can come from group members themselves, or it can come from grants and contributions from local, governmental, or international development agencies, or from some combination of these sources (IWTC, 1981: 22). Interest rates, however, are kept quite low since the RLF is not profit-making (UN, 1982: 17) and it keeps operating expenses at a minimum through free office space and volunteers for making and collecting the loans (UN, 1982: 17).

Like the RoSCA, the RLF is sufficiently adaptable to be arranged in nearly any setting where there is a level of familiarity and trust to sustain it on a social as well as a financial level. As Geertz argued for the RoSCA, the RLF might be considered a "transitional institution," perhaps a rung above the "middle rung" of the RoSCA, since it is likely that the RLF's funds would be deposited in a formal financial institution. Conceivably, this deposit could be used as collateral for a loan to the RLF which the RLF could in turn loan to its members.

In terms of general development, RLFs encourage saving and investment by coordinating interaction within the two areas, in addition to the other productive and community activities its funds might support.

Credit Unions (CUs)*

The literature on the cooperative approach to savings and credit does not differentiate clearly between "savings and credit cooperatives," and "credit unions." When discussed as separate institutions, savings and credit cooperatives are described as "a group of people who save money together, which is used to provide credit for the group, usually to use as capital for a shared purchase or project" (IWTC, 1981: 8). In the current context, these characteristics best match those of an RLF which works only with its own funds, since more than one individual may be borrowing from the fund at the same time.

Usually, however, the terms "savings and credit coop" and "credit union" are used interchangeably to denote savings and credit arrangements organized around "working groups in urban areas, in factories, industries, government offices, and other private sector companies" (Opondo, in Reno, 1981: 23). For the purpose of the current discussion, these two cooperative forms will be referred to as credit unions (CUs).

In its emphasis on individuals saving money together for lending to one another at low interest rates, the CU resembles the RLF, except that CU funds are rarely used for community projects. Rather, as Theresa Kim describes for Korean CUs, the bulk of the operation is based on short term loans and monthly installment payments on an individual basis (Reno, 1981: 8). To the extent that CUs are more common in urban areas, formal arrangements rather than informal trust and familiarity are relied upon. For example, a member will agree to save a certain amount, which will be deducted from payroll on a regular basis. Similarly, loans are repaid through payroll deduction, or a

---

* Again, the literature on CUs is quite sparse.

friend can agree to guarantee another member's loan (Opondo, in Reno, 1981: 23).

Another difference from the RLF which helps explain increased formality is size, both in terms of membership and financial resources. These usually force a CU to require "a minimum deposit and certain level of literacy to participate" (IWTC, 1981: 8). Though effective in urban settings, CUs have proven less successful in rural areas, largely due to the lack of regular income. Opondo suggests that rural individuals engaged in business or in trade might organize an effective CU, however (Reno, 1981: 24).

In spite of the importance of formal mechanisms, credit from a CU should not be considered identical to commercial bank credit, because the guiding principle is not usually commercial viability alone. Thus, "values of equality, equity, and mutual self help" (WOCCU, n.d.: overleaf), are likely to influence the type of activity, the application procedure, the credit terms, and the type of interaction that the CU will support.

Summary

Rotating Savings and Credit Associations, Revolving Loan Funds, and Credit Unions are financial innovations that fall on a continuum between informal and formal credit. Figure 2 describes the three alternative lending mechanisms according to the same credit elements used in Figure 1. In comparing the three types, the RoSCA seems most dependent on trust and familiarity for application and security arrangements, RLFs are less so, while CUs often employ more formal approaches. Similarly, the terms of the credit, especially speedy disbursement and flexible repayment, seem most like informal credit for the RoSCA, and more like bank lending for the CU.

RLFs seem to be the only arrangement of the three which combines group saving and group use while all three types can mix group saving with individual credit. The three arrangements differ most in terms of size. RoSCAs are generally smallest in membership and finances while the CU can manage greater size in both areas because of the formality and limited anonymity not found in the RoSCA. The RLF can vary in size depending on location, purpose, and funding arrangements.

In comparison to the informal and formal types of credit summarized in Figure 1, these alternative types of credit offer more funds than a money-lender will generally be able to, yet under conditions more amenable to the borrower. More important, from a development perspective, is the fact that each of these mechanisms links savings directly with the loan program. This is not true of the informal and formal credit discussed previously, and is essential to the development of financial markets in low income countries if local resources are to be mobilized for development purposes. However, this is not to suggest that mobilizing local savings and distributing them would alone satisfy the credit needs of a locality. If this were the case, a poor community's development potential would be severely circumscribed, in spite of other resources available there. In the next chapter, the discussion centers on evaluating the appropriateness of each of these alternative lending mechanisms for a given setting.

FIGURE 2: ATTRIBUTES OF ALTERNATIVE LENDING MECHANISMS

ELEMENTS OF CREDIT	Rotating Savings and Credit Associations (RoSCAs)	Revolving Loan Funds (RLFs)	Credit Unions or Savings and Credit Cooperatives (CUs)
TYPE OF ACTIVITY			
Personal Agriculture Manufacture Services	All kinds, including personal	All kinds, personal probably excepted	All kinds, including personal
PURPOSE OF LOAN			
Consumption	Consumption		Consumption
Production	Production	Production	Production
Community Action	Community action	Community action	
BORROWER CHARACTERISTICS			
Individual/Group	Individual	Individual group member; groups	Individual CU member
Rural/Urban	Rural and urban	Rural and urban	Most likely urban
Class Membership	All classes, primarily low	Usually low	Usually middle - upper
Ethnic Identity	Usually within an ethnic group	Usually within an ethnic group	Within and across ethnic groups
Gender	Usually within a gender group; both sexes	Usually within a gender group; both sexes	Both sexes, usually men
Risk/Uncertainty	High and low risk/uncertainty	Low and moderate risk/uncertainty	Low and moderate risk/uncertainty
APPLICATION PROCEDURES			
Paperwork	Usually none; membership by invitation	Minimal amount	Moderate to normal (formal)
Credit History	Informal, community standing	Informal, community standing	Formal possible
Processing Fees	None	Minimal service fee	Possible
Savings Account	Part of RoSCA	May be part of RLF	Part of CU
Speed (Consistency, Predictability)	Quick	Quick to moderate	Moderate or long processing time
Extra Expenses	Entertainment	None or possibly travel	Possibly transportation, time in line, bribes

FIGURE 2: ATTRIBUTES OF ALTERNATIVE LENDING MECHANISMS (cont.)

ELEMENTS OF CREDIT	Rotating Savings and Credit Associations (ROSCAs)	Revolving Loan Funds (RLFs)	Credit Unions or Savings and Credit Cooperatives (CUs)
SECURITY			
Collateral	Personal reputation, position in cycle, individual guarantor	Personal reputation, personal item, business possession	Wages, individual guarantor
TYPE OF LOAN			
Medium	Usually cash, some in kind	Usually cash, some in kind	Cash
Specificity	Unspecified	Specified	Specified
Size	Small to large, depending	Small to moderate	Small to large
TERMS OF LOAN			
Payment Schedule (Speed, Regularity)	Rotating "take-out"	Immediate to moderate delay	Possibly delayed, unpredictable
Interest Rate	None or by bid or special arrangement	Lower than market rate	Market, possibly lower
Repayment Schedule	Regular input before and after "take-out"	Flexible, depends upon purpose	Flexible, depends upon purpose
Sanctions	Loss in community standing	Loss in community standing refinancing, foreclosure	Refinancing, penalties, foreclosure
OTHER CREDIT COMPONENTS			
Special Qualities	Member likely to feel comfortable in setting	Member managed, often donor supported	Management advice, and technical assistance possible
Government Policy	Indifferent, possibly disapproving	Indifferent, probably supportive	Regulatory role
Presence	Present anywhere	Present anywhere	More likely in urban areas

CHAPTER IV

Determining Appropriateness

The appropriateness and viability of alternative lending mechanisms depend on three contextual considerations: 1) the financial market, 2) the community, and 3) the borrower or entrepreneur. These are discussed in the section that follows.*

Characteristics of the Financial Market

Following Tinnermeier,** a local or regional financial market consists of all local institutions which affect the accumulation of savings and their use, the allocation of investment capital (public and private), the flow and holding of funds in the local sector, and the integration of local financial markets with national and international markets. An assessment of a local financial market would, therefore, include the following:

- Existing financial institutions
  - number
  - location
  - practices
  - degree of localization/integration at local, regional, national, and international levels
- Government policy
  - real
  - ideal
- General awareness of existing financial opportunities on the part of small scale entrepreneurs

---

* These characteristics also serve as a guide for an inventory of financial markets.

** Cited in Dietel, 1982: 77; taken from L. Miller. 1977. Agricultural Credit and Finance in Africa. New York: Rockefeller Foundation, p. 3.

- Mix within financial market of:
  - saving
  - borrowing
  - investment
  - community action

- Flow and holdings between
  - buyers and sellers
  - savers and borrowers
  - informal and formal sectors

- Amount of potential management capacity available for a new project
  - location
  - education level

Characteristics of the Community

In addition to observing the financial framework within which the credit project will be operating, it is necessary to review the geographic, social, and cultural settings in which it is expected to function. The following characteristics of the community should be considered:

- Geographic location
  - continent
  - country
  - region
  - rural/urban

- Divisions, conditions
  - degree of integration into national community
  - class (degree of marginality)
  - ethnic
  - gender
  - religion
  - traditional/modern
  - condition of risk/uncertainty

- Attitudes toward
  - entrepreneurship
  - saving
  - borrowing
  - group action
  - cooperation (sustained, intermittent)
  - decision-making
    - horizontal/vertical
    - consensus/vote

Characteristics of the Borrower/Enterprise

In targeting the loan program toward a group of potential borrowers, the following details should be considered, in order to determine why existing credit may not be reaching this group, even though financial and community factors indicate that it should.

- Individual/group
  - size of operation
  - length of association, operation
  - location (city or town markets, scattered city or town, separated villages, separated rural areas; UN, 1982: 30)

- Group background
  - class (degree of marginality)
  - ethnic group membership
  - kinship
  - gender
  - religion
  - literate/illiterate
  - degree of risk/uncertainty

- Type of activity; single or diversified
  - agriculture
  - manufacture
  - service

- Purpose
  - consumption
  - production
    - -- start-up
    - -- operating expenses
      - inventory
      - salary
      - production
    - -- marketing
    - -- capital improvement
  - community action

- Type of need
  - cash, in kind, or package of inputs
  - management and technical support

- Time frame of credit-supported activity

- Source of repayment
  - sales
  - conversion of inventory

- Type of available collateral
  - guarantor
  - solidarity group
  - deed to land
  - personal item or business equipment

Assessing Appropriateness

Having examined the context in which the loan program will be set up, the next stage is to look at each type of credit program to assess its appropriateness for the proposed setting. The arrangement of the accompanying discussions of the RoSCA, the RLF, and the CU follows the general format outlined below.

> If critical indicators are present in the context under consideration, and certain minimum requirements for the credit alternative are satisfied, then other considerations will need to be examined, and the project can be expected to succeed, except when certain binding contraints are present.

Under "critical indicators," the characteristics of the financial market, the community, and the borrower/entrepreneur are described which best match the qualities of the particular lending mechanism.* Then, "minimum requirements"** for establishing or maintaining such a system are outlined. If these are met, "other considerations"** which might or might not affect the success of the project are listed. Finally, "binding constraints,"** or factors that would definitely obstruct the success of the project are pointed out.

Rotating Savings and Credit Associations

Critical indicators. The characteristics described below indicate the type of setting in which a RoSCA would be appropriate. The variety of groups,

---

* Refer to discussion earlier in this chapter.
** Refer to Figure 2, pp. 24-25.

settings, and purposes of successful RoSCAs shown in the research indicate that the RoSCA is the most broadly applicable sort of alternative credit, since both RLFs and CUs call for more financial infrastructure.

Financial Market. The RoSCA is recommended when prospective participants are not at all familiar with formal credit, which is usually the case with local financial circles and regional or national ones that are not well integrated. Furthermore, RoSCAs are called for when government policies do not support credit programs for small borrowers, or when no outside money or financial personnel is available for a credit program.

Community. If entrepreneurs are able to set aside only small amounts of money, the RoSCA will be the most appropriate form of savings and credit, although this does not limit the appropriateness of the RoSCA for groups able to gather larger amounts. Similarly, while a "traditional" outlook may preclude other sorts of credit, more "modern" communities might benefit more from a RoSCA than another type of credit. Familiarity with co-participants is essential, whether in an isolated setting or in an urban work environment.

Borrower/Enterprise. The credit need that would indicate a RoSCA would be either personal consumption or individual enterprise development, although other members generally do not concern themselves with the borrower's use of the take-out. Since the money is actually what one individual could conceivably save over a certain period of time, the use cannot exceed whatever this amount would be.

Minimum requirements. Most essential is a self-selected group (cf. two-way screening process discussed on p. 17), each member of which has at least a small amount of money to save on a regular basis. At least one individual (member or not) must be able to organize the group and keep track of payments.

In addition to the trust and familiarity that are the foundation of the RoSCA, members must agree upon a mutually acceptable security arrangement.

Other considerations. Because of the self-selection process, groups tend to be fairly homogenous, especially in stratified societies. Additionally, the cycle will usually be longer with less marginal groups.

Binding constraints. The main reason for a RoSCA's failure is the lack of sufficiently strong social sanctions to prevent misues of funds, or no other form of guarantee to assure the continuation of the association. Over the long run, however, any embezzler will be excluded from participation in any subsequent RoSCAs.

Revolving Loan Funds

Critical Indicators. Unlike the RoSCA, the RLF is impracticable for very marginal groups. Especially in cases where funds are donated to the RLF group, requirements increase for some intermittment contact with individuals who have financial and record keeping skills.

Financial Market. Although formal credit may be available at some not-to-great distance, practices will often be too formal for the intended borrowers to understand. RLFs can be set up with either supportive or unsupportive government policies toward small borrowers, and by design require no special personnel to run the new program.

Community. Like the RoSCA, RLFs require familiarity and trust among participants. Some understanding of banking concepts is useful, and participants must be willing to accept prolonged cooperation, especially if there is a community development project or a group enterprise involved. Outside funding or individual savings for group use are required as well.

Borrower/Enterprise. The credit granted to RLF members is generally designated for production purposes, although the arrangement may be on an individual or a group basis. Funds might also be used for community development purposes (e.g., a market building).

Minimum requirements. To begin, an RLF requires a group of self-selected individuals who wish to pool savings and resources as a group, for either individual or group use. At least one of these individuals must be able to manage simple records, although this responsibility is often shared among several members. Although the group is founded upon principles of mutual trust and responsibility, members need to agree on a mutually acceptable security arrangement, based on honor or upon some other form of collateral, such as individual guarantors, solidarity groups, or personal or business items of value.

Other considerations. In addition to group savings, outside financial support may be available. In such cases, the group is likely to deposit the funds in a formal financial institution. Like RoSCA groups, an RLF group is likely to be fairly homogeneous because of the self-selection process. To avoid later difficulties, prior agreement should be reached about short and long term goals and acceptable loan purposes.

Binding constraints. Two situations can precipitate the failure of an RLF. The first involves the lack of social and/or financial sanctions sufficiently strong to prevent default, and the second is decapitalization of the fund due to overly high operating costs, or service fees and/or interest charges that are too low.

Credit Unions

Critical indicators. Because of its quasi-formal operating procedures, the CU requires more infrastructure than the RoSCA or the RLF. In this regard it is similar to some of the special institutions discussed in Chapter II, except that it is funded at least in part by members' savings.

Financial market. CUs are most likely to succeed in settings where formal credit is available. However, in spite of their awareness of these sources, prospective borrowers are unable to receive credit (or perhaps, to save) with them. Government policy is likely to allow and regulate credit unions, which increases the need for formal management personnel and legal advice.

Community. The CU group is likely to be affiliated with some wage-giving institution, so a regular amount of money will be available for saving. This affiliation also diminishes the probability that members will be as intimately familiar with co-participants as would be true in the case of the RoSCA or the RLF.

Borrower/Enterprise. Cooperatives usually provide loans to individuals for personal credit needs, including consumption, although agreed upon guidelines could orient loans toward production or other areas.

Minimum requirements. A CU requires a group that is willing to save together, and to loan each other money at below market interest rates. However, members need not always be the same individuals since legal status and the institution to which the CU is attached give the group its permanence. At least one person with financial understanding or training will need to manage the CU, and other legal guidelines will have to be satisfied. Enforceable security arrangements, usually deductions from wages, are required to assure institutional viability.

Other considerations. If desired, the group can decide to diversify or limit loan purposes, or to set up different loan terms for different types of credit. Groups can be heterogeneous, but in such situations guidelines to ensure fairness in lending will be necessary.

Binding constraints. Because of the increasingly formal nature of the CU, failure to arrange for regular record-keeping and checks on cash flow might allow for undetected misuse of funds. Another constraint is that operating costs must be minimized while interest rates, service fees, and repayments must be maintained at a sufficient level to recapitalize the cooperative fund.

Summary

Because of the different ways in which RoSCAs, RLFs, and CUs address the various elements of credit, each is likely to prove successful in a different setting. The RoSCA can be considered suitable for nearly any setting: rural, urban, integrated, isolated, "modern," or "traditional." However, the absence of strong mechanisms for social control assure the failure of this approach to provide credit to participants for any length of time. Similarly, the RLF is highly adaptable to a variety of settings, although it does call for a slightly higher degree of integration into the financial market. In this case, strong social and financial security arrangements can protect the longevity of the lending activity. CUs, on the other hand, are most likely to prove successful in fairly integrated financial markets, usually found in urban areas. While some common activity can draw the group together to begin with, somewhat more formal security arrangements are needed to safeguard the CU's funds. These findings are summarized in Figure 3, below.

After looking at the setting and the individuals for which a small scale credit program is being considered, the similarities which arise between what is observed and what has been described here will indicate the type of alternative credit program which is best suited to the situation. At the same time, discrepancies will reveal where special arrangements may be called for. The next chapter outlines a number of alternative arrangements for those credit elements which may pose a particular difficulty for a specific setting.

FIGURE 3: GUIDELINES FOR SELECTING AN ALTERNATIVE LENDING MECHANISM

	RoSCA	RLF	CU
CRITICAL INDICATORS	Groups may be quite marginal Need not be familiar with credit Outside money need not be available Purpose of credit need not be defined	Not for very marginal groups Some access to financial markets Outside money desirable, not essential Purpose generally production or community development	Groups usually affiliated with wage-giving institution Formal credit exists, but is unavailable Able to save money regularly Purpose may be individual or group enterprise
MINIMUM REQUIREMENTS	Self-selected group Someone to keep simple records Trust and familiarity	Self-selected group Someone to keep simple written records Trust and familiarity or collateral arrangement	Constituted group (not always same individuals) Someone with financial training to keep records Some form of formal collateral or collateral arrangement
OTHER CONSIDERATIONS	Homogeneity Length of cycle	Homogeneity Agreement about loan procedures and purposes	With heterogeneity--need for guidelines to ensure fairness
CAUSES FOR FAILURE	Lack of social sanctions	Lack of social or financial sanctions Decapitalization of fund	Lack of financial sanctions Decapitalization of fund

CHAPTER V

Considering Alternative Design Elements

"Successful" Credit

After selecting a type of credit program, the elements of the program must be designed. This requires an explicit statement of "successful" credit project characteristics against which each design component can be evaluated.

Success, in the borrower's eyes, means that non-usurious credit is available when it was not previously (Soles, 1978: 16), and that business has actually improved because of it. Simply to have borrowed and repaid money, while an accomplishment in itself, is not sufficient cause for an entrepreneur to consider a credit program successful. From the lender's perspective, sufficient and flexible interest rates, and timely and efficient loan repayment indicate success or institutional viability (Soles, 1978: 16).

A more general development strategy would aim not only to channel funds to the small borrower, but also to improve the operation of domestic financial markets in serving the needs of all potential savers and borrowers. One aspect of this general development includes business development. For entrepreneurs who operate at some degree of marginality, development inputs such as training in management, marketing, or record keeping are necessary complements to non-usurious credit. In fact, many program costs incurred in these activities may well be considered as income transfers since they are in most cases one-time inputs. However, in the case of loan funds, programs should not be perceived as income transfers. Loan programs have a history of failure, and borrowers are entitled to as realistic an experience as possible in dealing with credit. This need not entail the totally formal procedures that banks may use, but the exercise of responsibly requesting, using, and repaying funds will leave the borrower some recourse to commercial credit should that become necessary or desirable.

Issues related to the set-up and operation of credit programs will be discussed in the present chapter, while special consideration for large funders' concerns will be reserved for treatment in Chapter VI. Because of the personalized nature of the RoSCA and its lack of a need for relatively formal organizational divisions, the discussion is arranged sequentially. For the RLF and the CU, however, the discussion is broken down into three functional areas: group considerations, loan project operation, and credit terms.

Rotating Savings and Credit Associations*

In the case of setting up a RoSCA, outside support would primarily be in the area of instruction, since effective operation and control come through trust and familiarity within the group. Initially, groups will need to:

- select a small group of people to work with;
- agree on a level of contribution (cash or in kind);
- set up a take-out order based on a fixed rotation, drawing by lot, or bidding for a turn;
- arrange "security" through fixed take-out order, individual sponsor/guarantors, or agreement that fear of loss of status is sufficient security;
- appoint a record keeper and/or a fund holder on a permanent or rotating basis;
- agree upon a meeting place (fixed or rotating) and any social activity that will be included (e.g., food).

---

* Background information on RoSCA characteristics in different geographic settings should be referred to before materials are developed or instruction begun for any given setting. See "Other Related Works" in this paper for specific sources.

Other variations the group might want to consider include:

- paying a fee or giving a free turn to the organizer as "payment" (called "zero turn" in some places);
- setting up a special fund, "safe money," in addition to regular share contribution in order to provide things for the association's use or to lend out short term, low interest loans to needy members (Okonjo, 1979: 328).
- agreeing that the uses of the take-out should be monitored;
- allowing one person to make more than one contribution and take-out;
- deciding whether a member should be restricted in participating in other RoSCAs;
- deciding how to deal with requests for emergency take-outs.

At the end of a rotation, the group will need to:

- "call in" any loans so that the association's accounts are straight before the beginning of a new cycle (Okonjo, 1979: 328);
- decide whether to continue for another cycle; and
- decide whether to invite new participants and whom to invite.

Finally, the supporter should consider M. DeLancey's observation about formalizing RoSCAs.

> The initial reaction to [the negative government attitude vis a vis RoSCAs] was to recommend that the government should find means to improve and to guarantee the functions of these institutions. Perhaps the meetings should register with the government, and regulations backed by law should be established to control their activities. The government might establish training programs for the treasurers and other officers. The depositing of meetings' savings in commercial banks might be facilitated or the use of such funds to purchase short-term, small-denomination government bonds might be considered. Other means of directly channeling these savings into the national development effort should be devised.

> A second reaction to this situation was quite different. All of the above suggestions would cost money, money that would probably be subtracted from the earnings of the meetings. Government regulation and supervision might lead to bureaucratization and corruption, further subtracting from the earnings. Indeed, government interference might destroy much of the very usefulness of these institutions, their flexibility, the low cost of operation, and the ability to meet members' immediate financial needs without long delay (1978: 224).

Doubtless, evidence can be found to support each of these positions, so no one recommendation would be appropriate. Instead, consideration should be given to the dilemma, and any proposal to formalize RoSCA operations should be carefully evaluated for the destructive potential of each of its elements.

Revolving Loan Funds*

In the case where an RLF is supported by a loan or grant from another institution, observations which fall into the three general areas outlined below should be considered.

Group Considerations

- The group should have a history that predates the introduction of the credit program (Soles, 1978: 19). This ties in closely with the concepts of familiarity and mutual trust and responsibility upon which the success of the RLF depends.
- Members should operate the same kinds of businesses (UN, 1982: 26). This facilitates the granting of credit, since much of any credit application will be understood immediately by co-participants acting as loan officers.
- Local control and responsibility over resource allocation should be retained. This need not entail determining the total allocation the RLF group will receive, but does come into play "in the selection of borrowers among the member/clients of the system, and in the timing of the disbursements of the credit resources" (Soles, 1978: 18).

* For a detailed "how to" guide on setting up RLFs, see UN, 1982, A Guide to Community Revolving Loan Funds.

- Groups should operate with some "mixture of private individual production and collective action taking place" (Soles, 1978: 19). For businesses, this might involve arranging marketing activity or specialized training together, while using credit individually.

- Groups should be homogeneous. If members of two or more groups are present, who will control and receive the money?

Loan Project Operation

- Location of meetings or points of collection and repayment should be based on proximity and accessibility (Reno, 1981: 37; UN, 1982: 29-30).

- The group must reach agreement on types of loans to grant, what fees or interest charges will be, and how default will be handled.

- The group must set long and short term goals and objectives, and quantify them in order to ensure the viability of the fund.

- Local leadership should be used to evaluate loan applications, establish lending criteria, make disbursements, and collect repayments (Reno, 1981: 37; UN, 1982: 36-37).

- Decision-making may best be decentralized, especially with geographic dispersion. For example, a petty loan fund could be given to each community leader who would be responsible for the funds, but not required to process applications formally in order to grant credit (Reno, 1981: 20-21).

Credit Terms

- "Loans should be available in small amounts suited to the borrower's ability to repay" (Reno, 1981: 37). This is especially true for the initial loan, since "it tests the individual's ability to repay ... and avoids overburdening the business with more money than can be invested wisely" (Farbman, 1981: 42).

- Loans should be "staged." Any loan should be granted only when the previous one is paid back. "A series of small loans with increased amounts repaid quickly presents a manageable risk to both the business and the program" (Farbman, 1981: 42).

- The period of time for a loan should be matched to its purpose (UN, 1982: 32). The time frame should be the one in which the client is used to thinking (Farbman, 1981: 42).

- Forms of security can range from a borrower's standing in the community, to a group commitment to loan repayment (Reno, 1981: 37), to more conventional forms of collateral such as individual guarantors or business equipment or products (UN, 1982: 33).

- Efficient repayment can be accomplished through several mechanisms: group members pay group leaders; loan holders pay "money shops" daily; or loan collectors can be hired and paid a commission (Farbman, 1981: 42).

- Repayment in kind or in labor rather than in cash should also be considered (D'Mello, 1980: 42), especially in community development projects.

- Group loans, although less likely to have a dramatic impact on the borrower's household income, may diminish the entrepreneur's sense of risk and thereby increase willingness to participate. Additionally, outsiders or family members are less apt to make money requests of a group member than of an individual borrower. Loans are therefore more likely to be used for their intended purpose (Dietel, 1982: 104).

- Group loans should function as an informal forum where members can provide mutual training and support by discussing and comparing their experiences (Dietel, 1982: 103).

Credit Unions

With CUs, many of the set-up and operational procedures are set forth by law. In some cases, however, the following arrangements can be incorporated into the CU structure.

Group Considerations

- Members should have some activity or purpose in common, but the actual purposes of their loans may vary widely.

- Democratic participation should be based on one member, one vote (not: one share, one vote) so that the wealthiest members do not necessarily seize control.

- Consideration should be given to the possibility that saving or repaying loans in a private fashion may not confer status upon the saver/borrower (Okonjo, 1979: 392).

- Groups need not be homogeneous, although when they are not, arrangements should be made to assure fair treatment to all members.

Loan Project Operation

- As with the RLF, location of meetings or of loan collection and repayment should be based on proximity and accessibility (Reno, 1981: 37; UN, 1982: 29-30).

- The group or the board of directors must decide the types of loans to grant, what interest or service fees to charge, and how to handle default.

- Where possible, risks should be spread over different areas of activity and different time frames. This increases the probability that any losses in one area will be offset by gains in another (Soles, 1978: 21). Difficult to employ with the RLF, this principle is likely to work in a CU as long as experienced staff can implement it.

- Each member should have an individual account, especially in the case of families. This diminishes the likelihood of women losing control over their savings and loan funds to their husbands (Opondo, in Reno, 1981: 24-25).

- To ensure close monitoring of CU funds, separate staffs or committees should exist for loan appraisal, technical assistance, and loan collection (Graham and Bourne, 1980: 75).

- Relatively "unsophisticated" persons should function as loan officers, basing their decisions less on "desk work" than on familiarity with the local scene (Bhatt, 1978: 30-34).

- Decision-making should be decentralized, with one possibility being discretionary funds for which the lender is responsible, but not required to process formal paperwork to extend credit (Reno, 1981: 20-21).

Credit Terms

- Credit should be extended in amounts which correspond to the borrower's ability to repay (Reno, 1981: 37).

- Funds should be given in stages where possible (Reno, 1981: 18-19; Farbman, 1981: 42).

- The time frame of the loan should reflect the borrower's situation.

- There should be a flexible mix of credit within a package, say, for production and marketing. Rigid programming may limit its usefulness to the borrower (Soles, 1978: 20).

- If possible, loans should be granted to groups; any profits can first be used to repay the loan, then be distributed among members (Dietel, 1982: 111).

- Security can be arranged through some group guarantee mechanism where each person is responsible for some part of the loan, but if one person fails to repay, all others stand to lose (D'Mello, 1980: 44; Dietel, 1982: 111).

- In addition to the methods described for RLFs, repayment can be facilitated through payroll deduction (Reno, 1981: 37), or by having CU staff collect the repayments (Farbman, 1981: 42).

Summary

Informal and formal credit have the same basic elements. The alternatives presented here are intended to encourage designers to innovate in developing credit programs for small borrowers. In fact, given the personalized nature of at least RoSCAs and RLFs, the members themselves should be encouraged to innovate in setting up or modifying these component parts. CUs, agricultural lending institutions, commercial banks, and other financial institutions might also use the design suggestions to develop new ways to satisfy both lender and borrower needs. The process should be a series of sequential questions such as:

What if _____?
Would it work?
Why not?
How would it work better?
If we did that, would it work?
Even if _____?
How could we get it to work, then?

and so on until acceptable arrangements are worked out.

Even with an appropriate credit mechanism which includes elements that satisfy both lender and borrower needs and circumstances, one problem still impedes providing credit to small borrowers. This problem arises out of the difficulties which emerge when large agencies are interested in supporting credit for small borrowers. This gap in size is the subject of the final chapter of this paper.

CHAPTER VI

Bridging the Gap between Large Funders and Small Borrowers

This paper has shown how several unconventional approaches to credit for small borrowers can address many of the problems drawn out by the discussion of informal and formal credit in Chapter II. At least one important concern remains, however:

> How can large funders (development agencies, development banks, private voluntary organizations, and others) effectively support credit for small borrowers, given agency inclination to large projects and recipients' capacity to manage only small or moderate amounts of money?

From a funder's perspective, credit programs for small borrowers represent a poor investment in terms of costs per unit loaned or granted, especially in the case where agency personnel are actually dealing directly with small loan applicants and recipients. Again, and perhaps to a greater degree than with banks and special programs, economies of scale are in force. These concerns notwithstanding, agencies have continued to express interest in small scale credit, largely in the interest of human and business development. From this point of view, somehow decreasing the cost of developing and administering credit programs will permit continued, and perhaps increased, support of credit programs for small borrowers.

From the lender's perspective, a sudden influx of large amounts of money for small borrower credit would strain even the best managed program. The problems would essentially be identical to those faced by an entirely new lending institution, since new management procedures and personnel would have to be added to cope with the new situation.

The implications for a "fragile, indigenous organization" are even more serious. As Dietel (1982: 109) points out,*

> the structure and integrity of an informal group may be put in jeopardy by development assistance. Great infusions of aid in the form of money and people and ... the "routinization of personal linkages" may efface the important qualities of informality, community, trust and personal obligation which these groups foster and promote.

Several distinct arrangements for bridging the large funder - small borrower gap exist, and, as always, preference will be given to the one that provides the same service for a smaller outlay.

"Externalizing" Program Costs

One approach to bridging the gap involves the origin of administrative input, with small credit projects covering the range from projects that involve extensive administrative input on the part of the funder, to those which require almost no administrative input at all. This scope suggests that different funders are more or less willing or able to assume the costs of management input. The choice, if the funder is determined to fund small credit projects, is whether to make design and administrative inputs internal or external to the funding agency. In the case of internal management costs, the agency itself selects, oversees, and pays the individuals who develop and implement the credit project. When management costs are external, the agency evaluates other implementor's proposals to deliver a credit project that meets the agency's objectives. Through project funds, the contractor is itself

---

* Citing March, Kathryn S., and Rachelle Taqqu. 1982. "Women's Informal Associations and the Organizational Capacity for Development." Ithaca, New York: Cornell University Center for International Studies.

responsible for managing the project, and agency project directors generally expect to participate intensively only at key points in the project's duration.

Since the latter arrangement generally proves less costly, it is no surprise to find that it is the most common approach. One variation to this approach is to fund U.S.-based organizations to develop a model that can be applied in low income countries. The funding generally is in the form of a grant, and the organization (usually a private voluntary organization, PVO), develops its own potential to identify key issues in order to support the development of a model program to deliver credit. In the case of AID, the support level to U.S.-based PVOs varies, and probably does not exceed $500,000. Often the funds are granted in two stages: first, to develop program grants and next, to actually implement the credit programs. An example of this arrangement is the operational program grant AID supplied to ACCION International/AITEC and to Partnership for Productivity to develop the capability to support small scale businesses in low income countries. Not targeted for a specific group or place, this sort of support strengthened U.S.-based potential to work in this area.

A second variation of the external management cost approach involves a similar set-up, only with indigenous PVOs. With AID, funding is channeled through the local mission, which makes funds available to indigenous PVOs for developing a design for a small scale credit program. Amounts of co-financing funds vary from mission to mission, and currently fall in the range from $125,000 to $250,000.

Other large funder approaches to credit minimize even further the amount of design or implementation input which is internalized. However, the performance of these approaches in delivering credit to intended clients is as yet untested. One arrangement involves having the original funder direct aid through a local lending institution for distribution through existing programs. One danger with this approach, as mentioned in Chapter I, is that the amount of money thus funneled may surpass the institution's ability to manage it. Another danger is that local savings will not be invested in local activities, but siphoned off for use elsewhere. However, careful ex ante program evaluation based on the success criteria discussed in Chapter V may permit funders to support projects that meet original goals. At the same time the funders will be able to take advantage of minimizing the amount of design, paperwork, and monitoring that they will have to do.

Another method for minimizing program costs is an arrangement where the large funder deposits its money with a local lender, usually a commercial bank. This money functions as a guarantee mechanism for any loans the bank grants to borrowers who belong to the targeted group. In this way, more formal lending institutions can provide credit to "risky" individuals or groups without themselves taking total responsibility for the risk and uncertainty involved in providing credit to a new group of borrowers.

Women's World Banking (WWB) is an independent financial institution which employs this approach. Based on the assumption that there is no need for additional financial institutions, WWB works with a variety of lending institutions to "leverage" capital to provide loans to women. Generally WWB and the lending institution work out an agreement wherein the lending institution agrees to be responsible for only a portion of the risk, for example. Michaela Walsh, President of WWB, explains the advantage of this approach: "[When] WWB places a guarantee at a level of U.S. $250,000 with a financial institution, that capital can be leveraged to provide $25 million in loans to women" (Reno, 1981: 32).

"Scaling Up" Credit Programs

In certain cases, preference is given to funding arrangements in which the original funder assumes the design and administrative costs. Although this approach is more costly, development agencies are often willing to assume the burden because of the potential for "scaling up" the original activity.

Scale-up potential signifies the expectation that initial project investments will eventually yield program models or methodologies that are expandable. On site, this expansion would be in terms of number of beneficiaries served or scope of activities offered, but scale-up can also involve developing a demonstration model later to be used in another setting. In this way, projects that are initially costly because of the large amount of design and monitoring inputs involved can be expanded or transferred with only incremental expenditures, thereby causing the average total delivery cost to decrease. To illustrate, a $1 million credit program might benefit 100 borrowers over a two year period. The following year, once the program is established, it might be able to support 50 additional borrowers with only $100,000 or $200,000 additional input. At the same time a similar credit program in another location, based on the experience of the initial one, could possibly operate during its first two years at half the set-up cost of the original. As Smith and Tippett observe, scale-up can be approached from several angles and through stages. Programs with high scale-up potential

> may be mature programs now facing scale-up as the next growth phase, newer programs wishing to incorporate scale-up strategies into their long-range plans or agencies

> desiring to create an umbrella organization to facilitate the financing and growth of several programs (1982: 3).

While it is clear that programs for which administrative support is external are also potential candidates for scale-up, it does not necessarily affect their willingness to provide credit to small borrowers. In the case of agencies such as AID or the World Bank, however, it would be difficult to justify the expense of many small scale credit programs without at least incorporating scale-up strategies into the original design.

One approach to scale-up, mentioned above, involves building in or adapting organizational goals to encourage growth in this direction on a project-by-project basis. Yet, as Smith and Tippett (1982: 12-13) note, there are several factors which block potential for scale-up, including:

- Charging less than prime interest rate appears to impede a program's ability to scale-up and thus serve "a significant number of the poor."
- Loan approval by a fixed board or a designated person limits the number of applications processed to whatever this staff member or committee can process. Slowness in loan approvals limits potential for scale-up. If, in contrast, staff members or staff committees might give final approval, then staff could grow as loan demand or funds grow.
- The ratio of annual number of beneficiaries per staff member can affect scale-up differently under varying circumstances. In cases where staff salaries represent a large program cost, maximizing the ratio allows for lower interest rates since the costs these rates have to cover is lower. However, in cases where staff availability is a problem, lowering the ratio will allow for greater flexibility in expansion when scale-up is desired.
- Directly administering credit funds, with direct control over key factors such as loan approval time, availability of funds, and interest rates holds more potential for scale-up than does facilitating loans. (As facilitator, a program would only identify qualified candidates and help them with applications and perhaps help with follow-up on repayment for another institution, usually a commercial bank).

It should be borne in mind that these scale-up considerations may or may not coincide with the success criteria of any given project.

Credit as a Component of Other Programs

Large funder support of small scale credit need not necessarily entail the actual delivery of funds. This is clear in the case of RoSCAs and locally funded RLFs, where what may be needed is training and guidance in setting up and operating viable savings and credit groups. Similarly, in the case of donor-supported RLFs, CUs, and formal lending institutions, funding support may be called for in setting up credit programs, training personnel, publicizing activities, or in assisting potential borrowers to apply for credit. However, to provide each group or organization with this type of assistance on a project-by-project basis would probably prove too expensive, whether the group itself or some sponsoring organization would be responsible for its funding. One arrangement which has been developed to support small borrower credit in the face of this difficulty is the service agency.

A service agency is an indigenous organization or consortium of organizations that delivers a variety of services to smaller, more local organizations. Developed originally in the area of nonformal education (NFE), large funder support of service agencies operates in several ways, including:

> a) identifying and categorizing NFE activities, b) attempting to help practitioners improve the quality of their educational offerings through technical assistance, and c) offering them the wherewithall to expand into areas where people ask for their assistance (Hoxeng, 1980: 7).

For a wide range of NFE areas, including entrepreneurial development, a service agency would retain staff which specializes in helping numerous groups with material development, training, and communications (Hoxeng, 1980: 8-9).

Especially in the case of NFE for entrepreneurial development, finance becomes important. First of all, the service agency might be able to use the funds in order to scale up and serve new clients. Furthermore, where credit is not available to small borrowers, the service agency could provide access to credit for economically productive ventures. In settings where credit is already available, the service agency could function to refer suitable loan applicants to these programs (Hoxeng, 1980: 9-10).

An example of a service agency which manages credit is the Mellassine Integrated Improvement Project in Tunisia. The project includes a number of programs, including vocational training, health, a community center, and a business credit and advice program. The latter, the largest and most important component of the Mellassine Project, is an experimental attempt to increase employment and revenues in the zone, and to identify and deal with small-business problems (Nolan, 1980: 2). Loans at below market values are available to small businesses (less than ten employees) for working capital, equipment purchase, and construction (Nolan, 1980: 4). The business advice portion of the program is available to those in line for a loan, people rejected for loans, or anyone else in the community. In certain cases, the loan selection committee may make attendance mandatory in order to receive a loan. The business advice includes training through workshops and mini-courses, and free and paid referral to consultants for small businesses (Nolan, 1980: 6).

Fass (1983: Annex II, 1) argues that informal education "about the administrative and legal environment for business in Tunisia, and about formal banking" is a logical objective of a combined credit and advice program. Credit serves as an incentive to learn about these things which would not be considered worthwhile without the prospect of credit. Fass (1983: Annex II, 1-2) also lists other functions which such a service agency program might perform, including:

- providing informal education about business analysis;
- teaching formal "business speak" so that entrepreneurs might function in a banking environment; or
- bringing entrepreneurs into the "system" by having their credit experience provide them with credentials and a credit history acceptable for bank loan requirements.

Thus, Fass is arguing that credit would really be operating as part of a complex educational process (1983: Annex II, 2). While it may be expensive in terms of funding agency outlays, and slow in showing results, the service agency is a suitable approach to entrepreneurial development. First, the approach recognizes that credit is a necessary but not insufficient input for improving small enterprises. In addition, it combines the credit and training in such a way not to prejudice any future possible need of their borrowers to seek credit from a formal institution. Finally, a service agency can be designed to address "success" criteria from both borrower and lender perspectives, whatever type of alternative credit mechanism is most suitable for the setting.

Summary

This chapter has presented the difficulties of large funder support for small borrower credit programs. In spite of the problems, however, large funders, lenders, and small borrowers continue to express interest in such programs. Three possible approaches which mitigate the adverse effects of the relationship--externalizing program costs, designing projects with scale-up potential, or including credit as a component of other entrepreneurial development projects (a service agency)--were presented as possible bridges for the gap. Funding agencies may have preferences for any one of them, based on budget or areas of programming strength, for example, but the range of options indicates that funders who wish to support credit programs for small borrowers have sufficient opportunities to do so.

Bibliographic Information

WORKS CITED

Adams, Dale W. 1980. "Recent Performance of Rural Financial Markets," in Borrowers and Lenders, John Howell, ed. Overseas Development Institute, London, pp. 15-34.

Adams, Dale W. and Douglas H. Graham. 1981. "A Critique of Traditional Agricultural Credit Projects and Policies," Journal of Development Economics, Vol. 8, pp. 347-366.

Anderson, Robert T. 1966. "Rotating Credit Associations in India," Economic Development and Cultural Change, Vol. 14, No. 3, April, pp. 334-339.

Bhatt, Vinayak V. 1978. "Financial Innovations, Transaction Costs and Development," Development Digest, Vol. 16, No. 3, July, pp. 25-35.

Bouman, F.J.A. 1978. "Indigenous Savings and Credit Societies in the Third World," Development Digest, Vol. 16, No. 3, July, pp. 36-47.

DeLancey, Mark W. 1978a. "Institutions for the Accumulation and Redistribution of Savings Among Migrants," The Journal of Developing Areas, Vol. 12, No. 2, January, pp. 209-224.

Dietel, Elizabeth L. 1982. A Profile of Small-Scale Traders in Western Kenya; An Alternative Credit Approach for Women. Master's Thesis, Cornell University, August.

D'Mello, L. 1980. "Lending to Small Farmers: The Indian Case," in Borrowers and Lenders, John Howell, ed. Overseas Development Institute, London, pp. 35-58.

Farbman, Michael, ed. 1981. The Pisces Studies: Assisting the Smallest Economic Activities of the Urban Poor. USAID/Office of Urban Development, Washington, D.C.

Fass, Simon. 1983. Review of Mellassine Small Enterprise Credit Program. USAID/Tunis, Regional Housing and Urban Development Office, Tunisia.

Geertz, Clifford. 1962. "The Rotating Credit Association: A 'Middle Rung' in Development," Economic Development and Cultural Change, Vol. 10, No. 3, April, pp. 241-263.

Graham, Douglas H. and Compton Bourne. 1980. "Agricultural Credit and Rural Progress in Jamaica," in Borrowers and Lenders, John Howell, ed. Overseas Development Institute, London, pp. 59-80.

Harper, Malcolm. 1977. Consultancy for Small Businesses: The Concept, Training the Consultants. Intermediate Technology Publications, Ltd., London.

Howell, John and Dale W. Adams. 1980. "Introduction," in Borrowers and Lenders, John Howell, ed. Overseas Development Institute, London, pp. 1-12.

Hoxeng, James. 1980. "A Semi-Systematic Approach to Nonformal Education," Mimeographed. USAID, Bureau of Science and Technology, Education, Washington, D.C.

IWTC (International Women's Tribune Center). 1981. "Women, Money and Credit," Newsletter 15, Second Quarter.

Nolan, Riall W. 1980. "Mellassine Integrated Improvement Project," Quarterly Report 1 and 2, Tunis, Tunisia.

Okonjo, Kamene. 1979. "Rural Women's Credit Systems: A Nigerian Example," Studies in Family Planning, Vol. 10, No. 11/12, November-December, pp. 326-331.

Reno, Barbara M. ed. 1981. Credit and Women's Economic Development. World Council of Credit Unions, Inc., Washington, D.C.

Smith, Cameron L. and Bruce A. Tippett. 1982. Study of Problems Related to Scaling Up Micro-Enterprise Assistance Programs, Phase I. Trade and Development International Corp., Needham, Massachusetts. (Prepared for the Urban Development Department, the World Bank)

Soles, Roger E. 1978. "Successful Rural Credit Projects in Latin America," Development Digest, Vol. 16, No. 3, July, pp. 15-34.

UN (United Nations Voluntary Fund for the United Nations Decade for Women). n.d. A Guide to Community Revolving Loan Funds. United Nations Voluntary Fund for the United Nations Decade for Women, New York.

Velez-I., Carlos G. 1982. "Social Diversity, Commercialization and Organizational Complexity of Urban Mexican/Chicano Rotating Credit Associations: Theoretical and Empirical Issues of Adaptation," Human Organization, Vol. 41, No. 2, Summer, pp. 107-120.

Von Pischke, J.D. 1980. "The Political Economy of Specialised Farm Credit Institutions," in Borrowers and Lenders, John Howell, ed. Overseas Development Institute, London, pp. 81-103.

Von Pischke, J.D. and Dale W. Adams. 1980. "Fungibility and the Design and Evaluation of Agricultural Credit Projects," American Journal of Agricultural Economics, Vol. 62, No. 4, November, pp. 719-26.

WOCCU, (World Council of Credit Unions). n.d. Credit Unions: A World of Progress. Washington, D.C.

OTHER RELATED WORKS

Adams, Dale W. 1980. "Recent Performance of Rural Financial Markets," in Borrowers and Lenders, John Howell, ed. Overseas Development Institute, London, pp. 15-34.

________. 1978. "Mobilizing Household Savings through Rural Financial Markets," Economic Development and Cultural Change, Vol. 26, No. 3, pp. 547-560.

Adams, Dale W. and Douglas H. Graham. 1981. "A Critique of Traditional Agricultural Credit Projects and Policies," Journal of Development Economics, Vol. 8, pp. 347-366.

Anderson, Robert T. 1966. "Rotating Credit Associations in India," Economic Development and Cultural Change, Vol. 14, No. 3, April, pp. 334-339.

Ardener, Shirley. 1964. "A comparative study of rotating credit associations." Journal of the Royal Anthropological Institute, Vol. 94, No. 2, July - December, pp. 201-229.

________. 1953. "The social and economic significance of the contribution club among a section of the southern Ibo." In WAISER Proceedings. West African Institute of Social and Economic Research.

Bascom, William R. 1952. "The Esusu: A credit institution of the Yoruba" Journal of the Royal Anthropological Institute, Vol. 82, Part 1, pp. 63-70.

Bear, Marshall, Henry Jackelen, and Michael Tiller. 1982. "Microenterprise Development in the Urban Informal Sector," Working Paper, Appropriate Technology International, Washington, D.C.

Bear, Marshall and Michael Tiller. 1982. "Microenterpreise Development in the Outer Islands of Fiji," Working Paper, Appropriate Technology International, Washington, D.C.

Beardsley, John A. 1981. Trading with the Third World: Experiences of AMOs in Europe and the U.S.. USAID, Washington, D.C. [Alternative Marketing Organizations]

Bhatt, Vinayak V. 1978. "Financial Innovations, Transaction Costs and Development," Development Digest, Vol. 16, No. 3, July, pp. 25-35.

Bonnett, Aubrey W. 1976. Rotating Credit Associations Among Black West Immigrants in Brooklyn: An Exploratory Study. Ph.D. dissertation, City University of New York.

Bottrall, Anthony and John Howell. 1980. "Small Farmer Credit Delivery and Institutional Choice," in Borrowers and Lenders, John Howell, ed. Overseas Development Institute, London, pp. 141-166.

Bouman, F.J.A. 1979. "The RoSCA: Financial Technology of an Informal Savings and Credit Institution in Developing Economies," Savings and Development, Vol. 3, No. 4, pp. 253-276.

__________. 1978. "Indigenous Savings and Credit Societies in the Third World," Development Digest, Vol. 16, No. 3, July, pp. 36-47.

Bouman, F.J.A., and K. Harteveld. 1976. "The Djanggi: A Traditional Form of Saving and Credit in West Cameroon," Sociologia Ruralis, Vol. 16, Nos. 1-2.

Bruce, Judith. 1980. "Market Women's Cooperatives: Giving Women Credit," Seeds, New York.

Buvinic, Mayra, Jennefer Sebstad, and Sondra Zeidenstein. 1979. "Credit for Rural Women: Some Facts and Lessons," prepared for the Office of Rural Development, DSB/AID.

Campbell, Colin D. and Chang Shick Ahn, "Kyes and Mujins - Financial Intermediaries in South Korea," Economic Development and Cultural Change, Vol. 10, No. 3, pp. 55-68.

Castello, Carlos. 1979. "Women's Projects and Revolving Loan Funds," Journal of the InterAmerican Foundation, Fourth Quarter.

Cope, Thomas and Donald V. Kurtz. 1980. "Default and the Tanda: A Model Regarding Recruitment for Rotating Credit Associations," Ethnology, Vol. 19, No. 2, pp. 213-231.

David, Christina C. and Richard L. Meyer. 1980. "Measuring the Farm Level Impact of Agricultural Loans," in Borrowers and Lenders, John Howell, ed. Overseas Development Institute, London, pp. 201-234.

DeLancey, Mark W. 1978a. "Institutions for the Accumulation and Redistribution of Savings Among Migrants," The Journal of Developing Areas, Vol. 12, No. 2, January, pp. 209-224.

__________. 1978b. "Savings and Credit Institutions in Rural West Africa: Introduction," Rural Africana, No. 2, Fall.

__________. 1977. "Credit for the Common Man in Africa," Journal of Modern African Studies, Vol. 15, No. 2, pp. 316-22.

DeLancey, Virginia. 1978. "Women at the Cameroon Development Corporation: How Their Money Works: A Study of Small-Scale Accumulation of Capital by Women in Cameroon," Rural Africana, No. 2, Fall, pp. 9-33.

Dietel, Elizabeth L. 1982. A Profile of Small-Scale Traders in Western Kenya; An Alternative Credit Approach for Women. Master's Thesis, Cornell University, August.

D'Mello, L. 1980. "Lending to Small Farmers: The Indian Case," in Borrowers and Lenders, John Howell, ed. Overseas Development Institute, London, pp. 35-58.

Duggleby, Tamara J. 1983. Cameroon Small Loan Program, Small to Medium Scale Enterprises Project I, The World Bank (1975-1980): A Case Study.

Embree, John. 1946. Suye Mura. London: Kegan Paul.

__________. 1939. Suye Mura: A Japanese Village. Chicago: University of Chicago Press.

Farbman, Michael, ed. 1981. The Pisces Studies: Assisting the Smallest Economic Activities of the Urban Poor. USAID/Office of Urban Development, Washington, D.C.

Fass, Simon. 1983. Review of Mellassine Small Enterprise Credit Program. USAID/Tunis, Regional Housing and Urban Development Office, Tunisia.

__________. 1980. The Economics of Survival: A Study of Poverty and Planning in Haiti. USAID, Washington, D.C.

Firth, Raymond, and Basil S. Yamey. 1964. Capital, Savings and Credit in Peasant Societies. Aldine, Chicago.

Fonstad, Carmenza, et al. 1982. The Smallest Businesses of the Poor: An Annotated Bibliography. ACCION International/AITEC, Cambridge, Mass.

Gamble, S.D. 1944. "A Chinese Mutual Savings Society," Far Eastern Quarterly, Vol. 4, pp. 41-52.

Geertz, Clifford. 1962. "The Rotating Credit Association: A 'Middle Rung' in Development," Economic Development and Cultural Change, Vol. 10, No. 3, April, pp. 241-263.

Gerdes, Victor. 1975. "Precursors of Modern Social Security in Indigenous African Institutions," Journal of Modern African Studies, Vol. 13, June, pp. 209-28.

Goldmark, Susan et. al. 1982. An Impact Evaluation of the Industrial Bank of Peru's Rural Development Fund. Development Alernatives, Inc., Washington, D.C.

Goldmark, Susan, Timothy Mooney, and Jay Rosengard. 1982. Aid to Entrepreneurs: An Evaluation of the Partnership for Productivity Project in Upper Volta. Development Alternatives, Inc., Washington, D.C.

Goldmark, Susan G. and Jay Rosengard 1983. Credit to Indonesian Entrepreneurs: An Assessment of the Badan Kredit Kecamatan Program. Development Alternatives, Inc., Washington, D.C.

__________. 1981. Evaluating Small-Scale Enterprise Promotion: State-of-the-Art, Methodologies and Future Alternatives. Development Alternatives, Inc., Washington, D.C.

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

Graham, Douglas H. and Compton Bourne. 1980. "Agricultural Credit and Rural Progress in Jamaica," in Borrowers and Lenders, John Howell, ed. Overseas Development Institute, London, pp. 59-80.

Haggblade, Steve. 1978. "Africanization from Below: The Evolution of Cameroonian Savings Societies into Western-Style Banks," Rural Africana, No. 2, Fall, pp. 35-55.

Harper, Malcolm. 1977. Consultancy for Small Businesses: The Concept, Training the Consultants. Intermediate Technology Publications, Ltd., London.

Harriss, Barbara. 1980. "Money and Commodities, Monopoly and Competition," in Borrowers and Lenders, John Howell, ed. Overseas Development Institute, London, pp. 107-129.

Hawkins, G.D. "An Analysis of Revolving Credit Arrangements," Journal of Financial Economics, Vol. 10, No. 1, pp. 59-81.

Hervo-Akendengua, Augustin. 1970. "Survey of Mutual Benefit Systems as a Means of Social Protection in Africa," African Social Security Series, Vol. 8, pp. 17-61.

Howell, John, ed. 1980. Borrowers and Lenders: Rural Financial Markets and Institutions in Developing Countries. Overseas Development Institute, London. [13 articles; index]

Howell, John and Dale W. Adams. 1980. "Introduction," in Borrowers and Lenders, John Howell, ed. Overseas Development Institute, London, pp. 1-12.

Hoxeng, James. 1980. "A Semi-Systematic Approach to Nonformal Education," Mimeographed. USAID/Bureau of Science and Technology, Education, Washington, D.C.

Hsiao-T'ung, Fei. 1946. Peasant Life in China. No publisher given, New York [Hui of Central China: pp. 267-74].

Illy, Hans F. 1973. "Saving and Credit System of the Bamileke in Cameroun - A Study on the Internal Financing of Development," in Development Policy in Africa, Joachim Voss, ed., (Bonn--Bad Godesberg: Verlag Neue Gesellschaft), pp. 293-314.

Isong, C. 1958. "Modernization of the Esusu Credit Society," Niser Conference Proceedings, pp, 111-120. [Nigerian Institute of Social Change and Economic Research]

IWTC (International Women's Tribune Center). 1981. "Women, Money and Credit," Newsletter 15, Second Quarter.

Jellicoe, M.R. 1968. "Indigenous Savings Associations in East Africa and Mobilization of Domestic Savings," United Nations Economic Commission for Africa, E/CN.14/HOU/21. Addis Abada: United Nations.

Katzin, M.F. 1958. "'Partners,' An Informal Savings Institution in Jamaica," Social and Economic Studies, Vol. 8, pp. 436-40.

Kerri, James N. 1976. "Studying Voluntary Associations as Adaptive Mechanisms: A Review of Anthropological Perspectives," Current Anthropology, Vol. 17, pp. 23-47.

King, Kenneth. 1974. "Kenya's Machine Makers: A Study of Small Scale Industry in Kenya's Emergent Artisan Society," World Development, Vol. 2, No. 4, April-May, pp. 9-28.

Kurtz, Donald V. 1973. "The Rotating Credit Association: An Adaptation to Poverty," Human Organization, Vol. 30, No. 1, Spring, pp. 49-58.

Kurtz, Donald V. and Margaret Showman. 1978. "The Tanda: A Rotating Credit Association in Mexico," Ethnology, Vol. 17, No. 1, January, pp. 65-74.

Ladman, J.L. and R.L. Linnermeier. 1981. "The Political Economy of Agricultural Credit: The Case of Bolivia," American Journal of Agricultural Economics, February, pp. 66-72.

Lewis, Barbara C. 1976. "The Limitations of Group Action Among Entrepreneurs: The Market Women of Abidjan, Ivory Coast," in Women in Africa, Nancy Haflien and Edna Bay, eds. Stanford University Press, California.

Lipton, Michael. 1980. "Rural Credit, Farm Finance and Village Households," in Borrowers and Lenders, John Howell, ed. Overseas Development Institute, London, pp. 235-258.

Little, Kenneth. 1962. "Some Traditionally Based Forms of Mutual Aid in West African Urbanization," Ethnology, Vol. 1, April, pp. 197-211.

__________. 1957. "The Role of Voluntary Associations in West African Urbanization," American Anthropoligist, Vol. 59, August, pp. 579-96. [Ghana]

Marris, Peter, and Anthony Somerset. 1973. "The Social Barriers to African Entrepreneurship," The Journal of Development Studies, Vol. 11, No. 1, March, pp. 29-38.

Miracle, Marvin P., Diane S. Miracle and Laurie Cohen. 1980. "Informal Savings Mobilization in Africa," Economic Development and Cultural Change, Vol. 28, No. 4, pp. 701-724.

Monson, Jamie. 1982. Revolving Loan Funds as a Source of Credit for African Women: An Extension of Indigenous Credit Associations. Food and Agriculture Project, African Studies Center, UCLA, California.

Morton, Keith L. 1978. "Mobilizing Money in a Communal Economy: A Tongan Example," Human Organization, Vol. 37, pp. 50-56.

Nolan, Riall W. 1980. "Mellassine Integrated Improvement Project," Quarterly Report 1 and 2, Tun's, Tunisia.

Okonjo, Kamene. 1979. "Rural Women's Credit Systems: A Nigerian Example," Studies in Family Planning, Vol. 10, No. 11/12, November-December, pp. 326-331.

Osuntogun, Adeniyi. 1980. "Farm Level Credit Use Among Co-operative Farmers in Nigeria," in Borrowers and Lenders, John Howell, ed. Overseas Development Institute, London, pp. 259-271.

Ottenberg, Simon. 1968. "The Development of Credit Associations in the Changing Economy of the Afikpo Igbo," Africa, Vol. 38, No. 3., July, pp. 237-252. (poss. Vol. 37)

________. 1955. "Improvement Associations Among the Ifikpo Ibo," Africa, Vol. 25, No. 1, January, pp. 1-28.

Penny, D.H. 1968. "Farm Credit Policy in the Early Stages of Agricultural Development," Australian Journal of Agricultural Economics, Vol. 12, No. 1, June, pp. 32-45.

Prasad, B. "Advances to Small Industries and Small Borrowers - A Practical Guide." Book Review by G. Swaroop, Behavioral Sciences and Rural Development, Vo. No. 2, pp. 146-7.

Reno, Barbara M., ed. 1981. Credit and Women's Economic Development. World Council of Credit Unions, Inc., Washington, D.C.

Roberts, R.A.J. 1980. "Applied Research and Training in Agricultural Credit Institutions," in Borrowers and Lenders, John Howell, ed. Overseas Development Institute, London, pp. 167-177.

Saito, Katrine Anderson and Delano P. Villanueva. 1981. "Transaction Costs of Credit to the Small-Scale Sector in the Philippines," Economic Development and Cultural Change, Vol. 29, April, pp. 631-40.

Schumacher, Ilsa, Jennefer Sebstad and Mayra Buvinic. 1980. "Limits to Productivity: Improving Women's Access to Technology and Credit," International Center for Research on Women in Development, Washington, D.C.

Sebstad, Jennefer. 1982. Struggle and Development Among Self Employed Women: A Report on the Self Employed Women's Association, Ahmedabad, India. USAID, Washington, D.C.

Sexton, L.D. 1982. "Wok-Meri--A Women's Savings and Exchange System in Highland New Guinea," Oceania, Vol. 52, No. 3, pp. 167-198.

Skeldon, Ronald. 1980. "Regional Associations among Rural Migrants in Papua New Guinea," Oceania, Vol. 50, No. 4, June, pp. 248-272.

Smith, Cameron L. and Bruce A. Tippett. 1982. Study of Problems Related to Scaling Up Micro-Enterprise Assistance Programs, Phase I. Trade and Development International Corp., Needham, Massachusetts. (Prepared for the Urban Development Department, the World Bank)

Soen, Dan, and Patrice de Comarmond. 1971. "Savings Associations Among the Bamileke. Traditional and Modern Cooperation in South-West Cameroun," Journal de la Societe des Africanistes, Vol. 61, pp. 189-201. Also in American Anthropologist, 1972, Vol. 74, pp. 1170-79.

Soles, Roger E. 1978. "Successful Rural Credit Projects in Latin America," Development Digest, Vol. 16, No. 3, July, pp. 15-34.

Soltan-Mohammadi, Pari. 1981. "Banking on Women," Development Forum, April.

Stickley, Thomas. 1980a. "Strengthening Women's Roles in Development: Credit (Revolving Fund) Activity." Consultancy Report (USAID Project No. 686-0211). USAID/Upper Volta and Development Alternatives, Inc.

______________. 1980b. Credit Consultancy Contract of AVV, Upper Volta's Oncho Freed Areas Village Development Fund, (August-September). Development Alternatives, Inc., Washington, D.C.

______________. 1980c. Credit Consultancy Report on "Training of Women in the Sahel (ORD)" Credit (Revolving Fund) Activity, (September-October). Development Alternatives, Inc., Washington, D.C.

Stickley, Thomas and Edouard Tapsoba. 1980. "Loan Repayment Delinquency in Upper Volta," in Borrowers and Lenders, John Howell, ed. Overseas Development Institute, London, pp. 273-285.

UN (United Nations Voluntary Fund for the United Nations Decade for Women). n.d. A Guide to Community Revolving Loan Funds. United Nations Voluntary Fund for the United Nations Decade for Women, New York.

USAID. 1973. Spring Review of Farmer Credit. USAID, Washington, D.C.

Velez-I., Carlos G. 1982a. Bonds of Mutual Trust: The Cultural Systems of Rotating Credit Associations Among Urban Mexicans and Chicanos. Rutgers University Press, New Brunswick, New Jersey.

__________. 1982b. "Social Diversity, Commercialization and Organizational Complexity of Urban Mexican/Chicano Rotating Credit Associations: Theoretical and Empirical Issues of Adaptation," Human Organization, Vol. 41, No. 2, Summer, pp. 107-120.

__________. 1978. "Amigos Politicos o Amigos Sociales," Human Organization, Vol. 37, pp. 368-77.

Vogt, Donna. 1978. "Broadening the Access to Credit," Development Digest, Vol. 16, No. 3, July, pp. 3-5.

Von Pischke, J.D. 1980. "The Political Economy of Specialised Farm Credit Institutions," in Borrowers and Lenders, John Howell, ed. Overseas Development Institute, London, pp. 81-103.

_________. 1978a. "When Is Smallholder Credit Necessary?," Development Digest, Vol. 16, No. 3, July, pp. 6-14.

_________. 1978b. "Guidelines for Specifying Credit Terms," Development Digest, Vol. 16, No. 3, July, pp. 48-50.

Von Pischke, J.D. and Dale W. Adams. 1980. "Fungibility and the Design and Evaluation of Agricultural Credit Projects," American Journal of Agricultural Economics, Vol. 62, No. 4, November, pp. 719-26.

Warmington, W.A. 1958. "Savings and Indebtedness Among Cameroons Plantation Workers," Africa, Vol. 28, pp. 329-343. (Poss. Vol. 27, No. 4)

Wilson, Frank A. 1980. "Commercial Banks and Rural Credit," in Borrowers and Lenders, John Howell, ed. Overseas Development Institute, London, pp. 131-140.

WOCCU (World Council of Credit Unions). 1981. Annual Report, 1980-1981. Madison, Wisconsin.

_____. n.d. Credit Unions: A World of Progress. Washington, D.C.

Wu, David Y.H. 1974. "To Kill Three Birds With One Stone: The Rotating Credit Associations of the Papua New Guinea Chinese," American Ethnologist, Vol. 1, pp. 565-84.

Youngjohns, B.J. 1980. "Agricultural Co-operatives and Credit," in Borrowers and Lenders, John Howell, ed. Overseas Development Institute, London, pp. 179-198.

ATTRIBUTES OF INFORMAL AND FORMAL CREDIT

ELEMENTS OF CREDIT	TYPES OF CREDIT: Informal	TYPES OF CREDIT: Formal
	Relatives, Moneylenders, Shopkeepers	Commerical Banks
TYPE OF ACTIVITY		
Personal Agriculture Manufacture Services	All kinds, including personal	All kinds, primarily large industry and trade, some personal
PURPOSE OF LOAN		
Consumption	Consumption	
Production	Production	Production
Community Action		
BORROWER CHARACTERISTICS		
Individual/Group	Individual	Individual or corporation
Rural/Urban	Rural and urban	Usually urban
Class Membership	All classes, primarily low	Primarily upper
Ethnic Identity	Within and across ethnic group	Ethnic groups with standing
Gender	Usually within gender, sometimes across	Usually men
Pisk/Uncertainty	High risk/uncertainty	Low risk/uncertainty
APPLICATION PROCEDURES		
Paperwork	None; personal request	Formal paperwork (deeds, business accounts, etc.)
Credit History	Informal, community standing	Formal credit history
Processing Fees	None (subsumed by interest rate)	Possible legal fees for processing
Savings Account		Savings record
Speed (Consistency, Predictability)	Immediate decision	Moderate or long processing time
Extra Expenses	Entertainment	Transportation, time in line, bribes
SECURITY		
Collateral	Family assets, future income, personal reputation	Deed to land or business, business machinery or inventory, future income
TYPE OF LOAN		
Medium	Cash or in kind	Cash
Specificity	Unspecified	Specified
Size	Usually small	Usually large
TERMS OF LOAN		
Payment Schedule (Speed, Regularity)	Immediate payment	Delayed payout, possibly variable
Interest Rate	High interest rate	Market rate (moderately high) varies with different programs
Repayment Schedule	Short-term	Moderate to long-term
Sanctions	Physical suffering, perpetual indebtedness, loss in community standing	Refinancing, penalty fees, foreclosure
OTHER CREDIT COMPONENTS		
Special Qualities	Borrower likely to feel comfortable in setting	Informal management advice available
Government Policy	Indifferent, possibly hostile	Supportive, regulatory role (direct and indirect subsidies)
Presence	Present everywhere	Usually present in urban areas

Looye, Johanna, W. 1984. Credit and the Small Borrower. Washington, D.C.: Creative Associates.

ATTRIBUTES OF ALTERNATIVE LENDING MECHANISMS

ELEMENTS OF CREDIT	Rotating Savings and Credit Associations (RoSCAs)	Revolving Loan Funds (RLFs)	Credit Unions or Savings and Credit Cooperatives (CUs)
TYPE OF ACTIVITY			
Personal Agriculture Manufacture Services	All kinds, including personal	All kinds, personal probably excepted	All kinds, including personal
PURPOSE OF LOAN			
Consumption	Consumption		Consumption
Production	Production	Production	Production
Community Action	Community action	Community action	
BORROWER CHARACTERISTICS			
Individual/Group	Individual	Individual group member; groups	Individual CU member
Rural/Urban	Rural and urban	Rural and urban	Most likely urban
Class Membership	All classes, primarily low	Usually low	Usually middle - upper
Ethnic Identity	Usually within an ethnic group	Usually within an ethnic group	Within and across ethnic groups
Gender	Usually within a gender group; both sexes	Usually within a gender group; both sexes	Both sexes, usually men
Risk/Uncertainty	High and low risk/uncertainty	Low and moderate risk/uncertainty	Low and moderate risk/uncertainty
APPLICATION PROCEDURES			
Paperwork	Usually none; membership by invitation	Minimal amount	Moderate to normal (formal)
Credit History	Informal, community standing	Informal, community standing	Formal possible
Processing Fees	None	Minimal service fee	Possible
Savings Account	Part of RoSCA	May be part of RLF	Part of CU
Speed (Consistency, Predictability)	Quick	Quick to moderate	Moderate or long processing time
Extra Expenses	Entertainment	None or possibly travel	Possibly transportation, time in line, bribes

Looye, Johanna, W. 1984. Credit and the Small Borrower. Washington, D.C.: Creative Associates.

ATTRIBUTES OF ALTERNATIVE LENDING MECHANISMS (cont.)

E EMENTS OF CREDIT	Rotating Savings and Credit Associations (ROSCAs)	Revolving Loan Funds (RLFs)	Credit Unions or Savings and Credit Cooperatives (CUs)
SECU TY			
Collateral	Personal reputation, position in cycle, individual guarantor	Personal reputation, personal item, business possession	Wages, individual guarantor
TYPE OF LOAN			
Medium	Usually cash, some in kind	Usually cash, some in kind	Cash
Specificity	Unspecified	Specified	Specified
Size	Small to large, depending	Small to moderate	Small to large
TERMS OF LOAN			
Payment Schedule (Speed, Regularity)	Rotating "take-out"	Immediate to moderate delay	Possibly delayed, unpredictable
Interest Rate	None or by bid or special arrangement	Lower than market rate	Market, possibly lower
Repayment Schedule	Regular input before and after "take-out"	Flexible, depends upon purpose	Flexible, depends upon purpose
Sanctions	Loss in community standing	Loss in community standing refinancing, foreclosure	Refinancing, penalties, foreclosure
OTHER CREDIT COMPONENTS			
Special Qualities	Member likely to feel comfortable in setting	Member managed, often donor supported	Management advice, and technical assistance possible
Government Policy	Indifferent, possibly disapproving	Indifferent, probably supportive	Regulatory role
Presence	Present anywhere	Present anywhere	More likely in urban areas

Looye, Johanna, W. 1984. Credit and the Small Borrower. Washington, D.C.: Creative Associates.

69

CHECKLISTS FOR DETERMINING CREDIT PROGRAM APPROPRIATENESS

Characteristics of the Financial Market

- Existing financial institutions
  - number
  - location
  - practices
  - degree of localization/integration at local, regional, national, and international levels
- Government policy
  - real
  - ideal
- General awareness of existing financial opportunities on the part of small scale entrepreneurs
- Mix within financial market of
  - saving
  - borrowing
  - investment
  - community action
- Flow and holdings between
  - buyers and sellers
  - savers and borrowers
  - informal and formal sectors
- Amount of potential management capacity available for a new project
  - location
  - education level

Characteristics of the Community

- Geographic location
  - continent
  - country
  - region
  - rural/urban
- Divisions, conditions
  - degree of integration into national community
  - class (degree of marginality)
  - ethnic
  - gender
  - religion
  - traditional/modern
  - condition of risk/uncertainty
- Attitudes toward
  - entrepreneurship
  - saving
  - borrowing
  - group action
  - cooperation (sustained, intermittent)
  - decision-making
    - horizontal/vertical
    - consensus/vote

Characteristics of the Borrower/Enterprise

- Individual/group
  - size of operation
  - length of association, operation
  - location (city or town markets, scattered city or town, separated villages, separated rural areas; UN, 1982: 30)
- Group background
  - class (degree of marginality)
  - ethnic group membership
  - kinship
  - gender
  - religion
  - literate/illiterate
  - degree of risk/uncertainty
- Type of activity; single or diversified
  - agriculture
  - manufacture
  - service
- Purpose
  - consumption
  - production
    - start-up
    - operating expenses
      - inventory
      - salary
      - production
    - marketing
    - capital improvement
  - community action
- Type of need
  - cash, in kind, or package of inputs
  - management and technical support
- Time frame of credit-supported activity
- Source of repayment
  - sales
  - conversion of inventory
- Type of available collateral
  - guarantor
  - solidarity group
  - deed to land
  - personal item or business equipment

Looye, Johanna, W. 1984. Credit and the Small Borrower. Washington, D.C.: Creative Associates.

70

GUIDELINES FOR SELECTING AN ALTERNATIVE LENDING MECHANISM

	RoSCA	RLF	CU
CRITICAL INDICATORS	Groups may be quite marginal Need not be familiar with credit Outside money need not be available Purpose of credit need not be defined	Not for very marginal groups Some access to financial markets Outside money desirable, not essential Purpose generally production or community development	Groups usually affiliated with wage-giving institution Formal credit exists, but is unavailable Able to save money regularly Purpose may be individual or group enterprise
MINIMUM REQUIREMENTS	Self-selected group Someone to keep simple records Trust and familiarity	Self-selected group Someone to keep simple written records Trust and familiarity or collateral arrangement	Constituted group (not always same individuals) Someone with financial training to keep records Some form of formal collateral or collateral arrangement
OTHER CONSIDERATIONS	Homogeneity Length of cycle	Homogeneity Agreement about loan procedures and purposes	With heterogeneity--need for guidelines to ensure fairness
CAUSES FOR FAILURE	Lack of social sanctions	Lack of social or financial sanctions Decapitalization of fund	Lack of financial sanctions Decapitalization of fund

Looye, Johanna, W. 1984. Credit and the Small Borrower. Washington, D.C.: Creative Associates.

>/