

VI.

WOMEN'S GROUPS: THEIR ROLE, DEVELOPMENT AND FUNCTIONING IN CREDIT AND SAVINGS

The potential of group-based lending and saving activities for rural women is receiving increasing recognition. Many of the more successful credit programmes now use this approach. Essentially the group forms the lowest level in the organizational framework for credit delivery and savings mobilization. The way the group is formed, its subsequent development and its specific functions vary from one programme to another.

6.1 The Multiple Roles of the Group

6.1.1 Role Performed for the Administrative Agency

For the administrative agency the group extends outreach at the village level, assuming several functions which are very difficult and costly for the agency itself. These can include:

- facilitation of the delivery of information and promotion of available financial services;
- assistance in decision-making on the design of the credit operation, through members' own knowledge of what is suitable to their needs and can be expected to operate well in the local context;
- screening and pre-selection of potential borrowers on the ba-

sis of personal knowledge of their creditworthiness and through their very acceptance by group members;

- designation of lead borrowers, based on members' knowledge of who is most innovative among them and most likely to succeed;
- review and pre-assessment of the financial and technical feasibility of members' proposals through discussion of the proposals in group meetings;
- provision of group collateral or guarantee for member-borrowers;
- mobilization of peer support and pressure for saving, borrowing and repayment by members;
- supervision of appropriate loan utilization;
- supervision of and collection of loan repayments and group savings, sometimes transmitting them to the next level; and
- promotion of the programme to help to set up new groups themselves, to encourage additional groups to establish themselves.

6.1.2 Role Performed for the Group Members

For women group members, the group usually performs the following functions:

- providing a constant source of encouragement and confidence to assist them in going against social norms or family pressures or community power structures;

- providing an alternative to fixed assets as collateral;
- strengthening their skills in decision-making and leadership;
- motivating them and providing the necessary discipline to save or take and repay loans;
- developing a structure for group action, such as bulk or wholesale purchase of raw materials of agricultural inputs or collective marketing of produce;
- creating a basis for group borrowing for more major investments when desired;
- providing a basis and location for social interaction with their peers; and
- facilitating access to training programmes, social services, and general information flow from the government or private sector (such as commercial agents).

6.2 Joint-and-several Liability for Loans

Many innovative lending operations for women are based on both group and individual liability for loans. This allows group members to jointly agree upon solutions to default problems which does not involve the upper levels of the credit operation, thereby sharing in the tasks of management and lowering transaction costs for the institution.

How rigidly group or joint liability is enforced will vary from one lending operation to another. In some instances all group members are cut off from further loans if one member defaults, in others this does not occur. It was found in Sierra Leone that if group liabi-

lity is strictly enforced, the repayment record is better (Box 22).

The Grameen Bank strictly enforces joint liability. The loan eligibility of any member in a group is made subject to the loan utilization and repayment records of the others. After the first member of a group receives a loan, the granting of subsequent loan requests depends on the existing borrowers meeting their loan repayment obligations. If any member defaults, all members of a group become ineligible for new loans. It is therefore the group which deals with the defaulting member. If a woman is completely unable to meet a loan payment, the group usually contributes the funds to pay the member's installment and later privately resolves the matter at the group level. In doing so, it may attach an interest penalty for the repayment, or waive the amount, according to the situation involved.

BOX 22

SIERRA LEONE: Joint-and-Several Liability in Practice

In Sierra Leone, women have considerable independence: although customs vary in different areas, generally women have access to land and undertake independent economic activities. However, fewer than seven percent of women are believed to have received access to credit. The Integrated Area Development Projects (IADPs) in Sierra Leone cover about 85% of the country and several provide credit and input supplies to farmers through their commercial Services Departments. Only the IADPs in Magbosi, assisted by IFAD, have a specific women's programme component.

In the IFAD-assisted North West IADP, groups were financed on a joint-and-several liability basis and received credit when judged to be cohesive and after loan procedures and obligations had been carefully explained. In Magbosi defaulting members were weeded out from groups while the rest continued to receive credit. In the North West the whole group was automatically disqualified from borrowing when one member defaulted. Thus, local peer pressure was brought to bear on defaulters to repay loans. Recovery rates were between 99 and 100 percent, while recovery performance under some of the other IADPs has been as low as 50 percent. While strict enforcement of joint liability is probably not the only responsible factor it is no doubt a major one.⁹

⁹. FAO, *Analysis of Credit Schemes Benefiting Rural Women in Selected African Countries*, Rome, FAO, 1988

Joint and several liability can also be applied at upper levels: Grameen Bank Centres, which consist of five to ten groups, operate on similar principles. Where repayments are in arrears, centres do not qualify for joint venture loans. The group, or the centre finds a jointly agreed upon solution which does not involve the upper levels of the Bank structure, and thereby shares in the tasks of management, while lowering transaction costs for the Bank.

6.3 Group Formation

The setting up of credit groups and identification of group members exhibit varying degrees of emphasis on two basic approaches: voluntary association of potential members, or, external designation. In the latter case the designation is usually done by field staff of the technical ministry involved, by an NGO or sometimes by village leaders, possibly in combination with government officials. Sometimes the group leader is externally designated and selects her own group.

Spontaneous group formation is most common when the group has been set up for the purpose of saving, or for saving and lending, but with no external inputs of funds. Membership is then determined on the basis of existing social and family ties.

For credit groups, the Grameen Bank of Bangladesh is one of the comparatively few credit oriented programmes, which emphasises member initiative in group formation. The process is initiated by village level meetings, followed by household visits to inform people about the Grameen Bank and thereby stimulate interest in it (see Box 23).

When the external designation procedure is used for identification of group members, the field worker, cooperating NGO or sometimes, local leaders, are expected to designate members on the

BOX 23

BANGLADESH: The Group Formation Process in the Grameen Bank

After completion of the socio-economic survey on a locality, the Bank Manager addresses a general meeting of the village. He introduces the Grameen Bank and explains its purpose and rules.

Following the general meeting, the Bank Manager and Bank Assistant tour the area villages and talk about the Grameen Bank, explain how it works in more detail, inform about the criteria of membership and ask interested villagers to form groups of five people, men or women. Group members are to have similar backgrounds and to trust one another. Only one person is allowed from each household.

Once groups have formed through voluntary organisation, the Bank Assistant checks the eligibility of group members, through visiting all households in the village to obtain data on incomes, assets and so on.

All prospective borrowers must attend an intensive one week orientation course of two hours each day. At this time the Bank Assistant instructs them on the rules and regulations of the Grameen Bank and explains the rights and duties of the members. All members have to pass a final test on this which concludes the orientation course. At this point they are officially group members.

Prior to being eligible for loans, all members must demonstrate their sincerity and solidarity by attending the meetings called by the Grameen Bank over the next three weeks. During this period the Bank Assistant continues discussion of Grameen Bank rules and answers questions to make sure that every member understands the benefits and responsibilities.

Each group elects a chairperson and a secretary. A number of groups in a locality, usually around five or six, and no more than ten, join to form a centre. The chairpersons of the groups elect a centre chief and a deputy chief. The chief conducts the weekly meetings of the centre at which the Bank Assistant collects repayment instalments and discusses loan proposals with the members.

6.4 Linkage to Existing Groups

Whereas village-level groups with rural women members are traditional to certain societies and countries like Kenya, in others they have been nurtured by religious leaders, trade unions, international NGOs, or dedicated men and women from the educated

middle classes. Under the *Farmers' Groups and Community Support Project* in Kenya, financed by the Belgian Survival Fund, traditional village groups are identified for a variety of services including production loans. Practically all of these groups are women's groups, although men sometimes belong.

Clearly the financing institution needs to carefully consider the type of group with which it is interested in establishing a link and extending lines of credit, including how the group has come into existence, its objectives, its membership, its cohesiveness, political associations, and the success it has achieved in mobilizing the women's own savings. The period over which the group has existed and the gradual build-up of self-reliance among the members obviously plays a crucial role in ensuring sustainability and effective utilisation of the credit provided.

As a vehicle for loan receipt the traditional savings and credit clubs (see section 2.2.4, 2.1.1) have several advantages. In the first place they already have a capital base and members have already established their creditworthiness and trustworthiness in one another's eyes. However, formalising existing arrangements must be done with caution to safe-guard mutual trust and the spirit of self-help which constitute the most essential element in the operation of many of the informal groupings.

Additional inputs of money by commercial banking institutions, governments and others, would first need to ensure that the groups are sufficiently cohesive and interested. Abrupt action by outsiders may engender a breakdown of the close confidence among the members, implicit in their currently depositing money without any written contract.

There are positive examples, particularly, in Asia, of commercial banks having links with Rotating Savings and Credit Associations and channelling funds to rural areas through indigenous sa-

vings and credit networks. Some 49 percent of the funds of such informal groups in Thailand, for example reportedly come from commercial banks and finance companies.

6.5 Group Development

The actual development of a viable and cohesive new group takes time. Many programmes allow somewhere in the neighbourhood of one to three months and sometimes as long as six months, prior to expecting the group to function in a credit capacity. Even existing groups may require a lead period for development and strengthening. To quote from the IFAD report on the involvement of women in – the Intibuca – *La Paz Rural Development Project* (February 1986),

...because of the limitations and weaknesses of women's organizations in the project area and because credit, in order to succeed in its social impact, requires that women's groups have sufficient cohesion and solidarity among their members, we suggest that before the latter have access to credit they should undergo a process of consolidation and strengthening. This should be achieved not only through training and acquiring an understanding of the value of integration, but also by gaining experience of running small-scale enterprises (particularly agricultural ones) without the risks involved of taking out a formal bank loan.

In the Grameen Bank, the process of group formation itself is seen as a significant contribution to the strength of the Grameen Bank. In Bangladesh, it usually takes quite a bit of time for members to identify each other before they are ready to announce that they would like to form a group. Some initially interested also drop out, because of fear instilled in them by relatives and neighbours. Before they begin any formal negotiation with the Bank as a group, the

members have already undergone a process of selection and have developed mutual understanding.

This preparatory period may include group meetings, group-based small savings activities and selection of leaders, as is occurring in IFAD financed projects in Honduras, Nepal and elsewhere. It may also involve an intensive orientation period. In the case of the Grameen Bank the required time for group formation is only one month but involves obligatory training for one week and an additional series of obligatory meetings for three weeks, during which Bank staff make sure that potential borrowers fully understand the operations of the Grameen Bank and their rights and duties.

If groups are to perform an effective role in credit delivery, some prior experience in group management of funds will be useful. For this reason some programmes require that the preparation period be utilized for mobilization of small savings, sometimes using this as a criterion for credit eligibility. Under other programmes, such as the IFAD-financed *Tamil Nadu Women's Development Project* in India, the groups are expected to set up a group-based loan fund, through which members can learn lending and repayment on a small scale, as discussed under savings-credit linkages in Chapter 5.

Initially most groups are set up on an informal basis. At times, attention is given to networking between groups and the gradual development of hierarchical structures at the upper levels. Such networking of women aids in the exchange of information, as well as facilitating access to services. It also broadens and strengthens the power base of the women and develops their confidence and status.

Over time groups may also increase their formality, resulting in registration as a society or cooperative. Preparation for this longer term objective can be built in at the beginning in deciding on group size and other factors, as is being done in Tamil Nadu (see 6.6.1, below).

6.6 *Group Cohesiveness*

Group cohesiveness is essential to group viability and effective functioning. Among the key factors that have been found to affect group cohesiveness are: (i) member initiated group formation (as discussed above); (ii) small size; (iii) homogeneity of membership; (iv) shared non-banking interests; and (v) frequent contact.

6.6.1 *Group Size*

The field experience argues for small size groups to generate cohesion. Small group size is also more likely to preclude group leaders from using the group as a personal power base.

Most credit programmes targetting women have adopted a group size of around five to fifteen members, although there is a broader range. The Grameen Bank stipulates a membership of only five persons; the IFAD-financed *Small Farmer Development Project* in Nepal has found groups of eight-ten members work best. Under another IFAD-financed activity in Honduras, the Rural Development of Santa Barbara, the average size of women's groups is 16. Larger groups may sometimes be advocated from the longer term perspective of eventual registration as cooperatives or societies. This was the reason for advocating somewhat larger groups under the IFAD recently financed *Tamil Nadu Women's Development Project*. The Societies' Registration Act requires a minimum size of seven members, but the Cooperatives' Act requires a minimum size of twenty-five.

Several factors need to be taken into account in establishing the optimum size of a group in a given situation. Many IFAD-assisted operations, have initially experimented with different sized groups until they found which worked best for them. In the Grameen Bank case a group size of ten was initially tried but was found

to be too large for meetings. Sufficient cohesiveness did not develop and five members were eventually decided on as the optimum size. In the early stage of group formation under the *Small Farmer Development Project* of Nepal, group size was often large, with several groups having a membership ranging between 15 and 25. The larger groups have often had problems of internal dissension and a clash of interests. The group organizers found smaller sized groups, of around eight to ten families represented easier to work with.

6.6.2 Homogeneity

Homogeneity is also important for cohesiveness. Homogeneity with regard to groups means that members have a similar social and cultural background and are in similar economic circumstances. Obviously, this is simpler to assume in homogeneous rural villages than in those divided into rival factions or with greater social and cultural diversity, as in many Nepalese villages and the socially diverse villages served by Project Ikhtiar in Malaysia.

It is important to stress that group homogeneity refers to intra-group homogeneity and not inter-group homogeneity. Some rural credit programmes seem to have emphasized homogeneity also between groups with the exclusion of minorities or poorer women. In extreme cases of cultural, religious or other differences, more than one field worker may need to serve each village to ensure that all the different sub-groups can be reached. Several different groups may also need to be established in one village to ensure that poorer women or minorities have access to membership and, therefore, to associated benefits of credit and savings.

perform. However, in cases where they have numerous duties, they may receive some additional benefits, for instance, greater access to loan funds, or there may be choices of moving up to a paid staff position, as in the case of the Working Women's Forum of India.

6.8 Mixed Versus Women's Groups

Finally, there is the question of mixed versus women-only groups and how this will affect the success of operations. This is a more difficult question at the theoretical than at the field level.

In the first place, women themselves, if allowed a role in decision-making at an early enough stage, will be able to decide which will work best for them. Where the programme groups build on already existing groups, such as the rotating savings groups, there is no issue. Also, whether women only or mixed groups will be formed will depend on whether female extension agents, or animators are involved and whether the activities for which credit will be provided by the operation will be of interest to women only, or to both men and women.

Much of the field experience to date indicates that women often prefer to form their own groups for obtaining credit, separate and distinct from those of men. Separate women's groups are preferred for cultural reasons, since the women feel more comfortable among themselves.

In this regard the situation in the Caribbean Region and parts of South East Asia is somewhat different from the situation in other regions, as women in these two regions are used to working along with men and are more prepared to join and function in mixed organizations. This is also the case in some, but not all, Latin American countries. Obviously, the decision to form separate or mixed groups depends upon women's confidence in themselves and in the

men who would join and the women's ability to enforce their rights to claim equal benefits along with men, even when operating within mixed organizations.

Practice can be surprising. In Honduras, under an IFAD financed activity, men and particularly youth began to join women's groups. This has also occurred elsewhere, as men have realized the economic potential of women's income generating activities, as has occurred with rabbit breeding in several countries, or with bee-keeping. Being new, these activities were not as strictly sex-classified as crop production or traditional livestock management.

Also, mixed groups can be formed even in situations where there are considerable social constraints. The Agha Khan Rural Support programme in the north of Pakistan initially focussed on setting up separate men's and women's groups. However, project administration came to the conclusion that production and action were family-based and women did not operate well in separate groups. The emphasis is now on mixed groups. Many women, in fact, have chosen to join with men. Others have chosen to stay in women-only groups, perhaps so that they would be freer to speak. In mixed groups it is important to safeguard women's active participation and leadership along with men.

6.9 Group Functions

The different functions that groups will be expected to perform varies with overall programme strategy. The grassroots approach, described in Chapter 5, emphasizes the development of self-reliance, with the group becoming increasingly self-sufficient. For this reason the group performs an active role in the implementation of financial services, rather than acting as a passive receiving mechanism for loan funds. It is assigned maximum decision-making responsibility, sometimes including matters like group size (usually within a range), specific roles to be performed, frequency of mee-

tings, setting up and operation of group funds, access of outsiders to loans, procedures for collection of loan payments, and procedures for dealing with defaulters.

BOX 25

BANGLADESH: Duties of the Group Chairperson of the Grameen Bank

Under the Grameen Bank, the duties and responsibilities of the Group Chairperson or leader, include a number of tasks. New duties are added as the bank enlarges its sphere of activities.

- Arrival on time together with other members of the group at the weekly centre meetings.
- Maintenance of discipline and proper behaviour of the group members during the meeting.
- Collection of the group's pass books, giving them to the centre chief, returning them to members.
- Request of loans on behalf of group members.
- Supervision of members' use of their loans, with supervision visits conducted at least once a week.
- Signing off on the appropriate form, one week after the member receives the loan, on the basis of checking that loan utilization is as agreed. This form is given to the centre chief.
- Collecting contributions and maintaining the Group Fund account.
- Supervision of members' adherence to the Sixteen Decisions of membership.
- Assumption of responsibility for keeping the accounts and the pass book of the Group Fund.

Programmes usually provide some type of orientation or training for group members and leaders to assist them in carrying out these functions. Such training is discussed further in 6.10 below.

Under the IFAD-financed *Tamil Nadu Women's Development Project* in India, group members, with the assistance of field staff, will play a key role in decision-making as well as implementation of the programme's activities. For instance, they will have a major role in deciding how to set up and operate their Group Savings Fund, which will primarily be used for small consumption, production and emergency lending and kept at the village level. Assisted by an Animator and Supervisor they will decide on such matters as: the minimum amount of monthly savings per person; the maximum amount of loan per person for first and subsequent loans; the relation of loans to savings; the maximum repayment period; the rate of interest on loans; rate of interest on savings (which could be fixed after the first six months of functioning and could be reviewed every year based on the actual returns); the penalty rate of interest on default; the fee for late remittance of savings; the role of the Group Leader; the role of the assistant; the day, time and place of monthly meetings; the eligibility criteria for sanction of loans from own funds; eligibility criteria for recommending loan applications from group members to banks; the allocation of own funds between production and consumption loans; the penalty for non-maintenance of accounts records and the fee for such maintenance.

6.10 *Training and Education of Group Members and Leaders*

Most credit programmes specifically targetting women include training or education for group members and leaders. The education or training usually covers one or more of the following content areas:

- Group operation and development (for newly formed groups).

- Loan procedure and discipline, to assist women in understanding, applying for and using institutional credit for the first time.
- Simple accounting, including inventory control, and other managerial or marketing skills needed by small entrepreneurs.
- Literacy and numeracy skills development.
- Maternal and child health, family planning, nutrition, hygiene or other non-formal education, often in response to the funders' special concerns.
- Leadership training, which may include instruction on identification of income-generating activities, pre-appraisal of loan projects or other aspects of project/programme activities, as needed by group leaders.

Credit operations vary in regard to the nature and extent of training they provide, and the procedures used. Overall, there seems to be general agreement on the need for basic instruction on loan procedures and discipline, and teaching of simple accounting and managerial skills to women. However, there is virtually no information on the actual use of such new skills by trainees. The women's organization, KaBaPa, in the Philippines did find that the women who received training were better at loan repayment than those who did not, presumably because of the greater success of the enterprise. Some international NGOs are also active in developing procedures for teaching basic accounting to the illiterate.

There is less agreement on the need for skill or literacy training. Quite a few programmes in both Asia and Africa have encountered limited demand for such learning, probably because it was not appropriately designed in terms of focus, methods and location.

The Grameen Bank philosophy and approach does not stress technical training. Grameen Bank management argues that the rural poor, including the bulk of its membership – rural women, have traditional skills and technology which they can use and for which the raw material and markets are available. Most women borrowers of the Grameen Bank do indeed take loans for traditional activities such as paddy husking, cattle or goat raising and similar small scale activities, for which they need no training, although the rates of return on such activities may not be as high as those using new skills.

Contrary to this approach, there are other programmes which make skills training their core activity, with loans available only for training programme participants, or, more selectively, to those who have demonstrated adequate learning under such programmes. Several NGOs, including the earlier mentioned Kenya Women's Fund Trust (KWFT see Box 26) fall into this category.

Some women's credit schemes have found that their initial training activities for women were too theoretical and formal, and subsequently revised them to emphasize practical learning on the job, which is more suitable for training of women with little basic education and can be applied to most types of learning. Role playing has also been used effectively for instance by KaBaPa in the Philippines and others, for learning about group lending and savings operations, leadership and marketing. Where printed instructional materials are available, group reading has circumvented the illiteracy problems of some group members, and helped trainees to understand and apply their learning through group discussion. Use of audio-visual teaching aids such as charts, slides, and films, facilitate comprehension and memorization of material by both the illiterate and the literate.

Finally, there is an indication that some credit schemes which are attracting a number of external donors may be running the risk of overexploiting credit as an entry point for other development activities, overburdening the women's credit programme participants

