Credit, Self-Employment, and Poverty Alleviation
A Study of the Good Faith Fund
in Rural Arkansas

by

Karen Leigh Brown

Bachelor of Arts
Stanford University
(1982)

SUBMITTED TO
THE DEPARTMENT OF URBAN STUDIES AND PLANNING
IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE DEGREE OF

MASTER IN CITY PLANNING

at the

MASSACHUSETTS INSTITUTE OF TECHNOLOGY

June, 1990

(c) Karen Leigh Brown 1990

The author hereby grants to M.I.T.
permission to reproduce and to distribute copies
of this thesis in whole or in part.

Signature of Author

Department of Urban Studies and Planning, May 1990

Certified by

Judith Tendler, Thesis Supervisor

Accepted by

Donald Schon, Chair, M.C.P. Committee
Credit, Self-Employment, and Poverty Alleviation

A Study of the Good Faith Fund
in Rural Arkansas

by

Karen Leigh Brown

Submitted to the Department of Urban Studies and Planning
in Partial Fulfillment of the Requirements for the
Degree of Master in City Planning

ABSTRACT

Poverty is a growing problem in the U.S., particularly for women and minorities. One approach to poverty alleviation, receiving increased attention in developing countries and more recently in the U.S., is the promotion of self-employment activities. Borrowing from an innovative model developed by the Grameen Bank in Bangladesh, seven new programs have recently been established to provide credit to the poor in this country and in Canada.

The Good Faith Fund is one of the first non-profit organizations to adapt the Grameen Bank model to a rural setting in an effort to meet the needs of low- and moderate-income individuals from southeastern Arkansas. Based on an early evaluation of the Good Faith Fund, this thesis raises questions and points to key issues regarding the potential of the borrowed Grameen Bank model as a means to assist small entrepreneurs in this country. It also examines the potential of self-employment as a strategy for poverty alleviation in a depressed rural region.

Thesis Supervisor: Dr. Judith Tendler
During the writing of this thesis, many people have shared their time, encouragement, and expertise.

I would first like to thank my advisor, Judith Tendler, who pushed me to think critically and guided me towards clarity in my writing -- during the production of this thesis and throughout my graduate education. I would also like to thank Richard Schramm, who graciously agreed to be my second reader, for his encouragement and ideas on self-employment efforts in this country. Bish Sanyal helped me during the initial stages of formulating my ideas and an appropriate approach to this study.

My appreciation goes to Annie Tune who provided me with invaluable information on Arkansas and to Richard Taub who generously shared the SARDS survey with me.

A special thanks goes to the staff of the Good Faith Fund: Mary, Sheila, and Mark. Their willingness to cart me around the back roads of Arkansas, to introduce me to customers, and to answer my exhaustive questions provided me with useful information as to the potential and challenges facing the organization. Without the help of Julia Vindasius, the director of the Good Faith Fund, this thesis would not have been possible. Many of the ideas and questions raised in the following pages reflect the knowledge and insights she shared with me. Julia gave her time and friendship and even opened her home to me during the six weeks I spent in Arkansas.

My family deserves special mention. My mother, my father and two sisters -- through phone calls, letters, E-mail, and care-packages -- gave me inspiration and support through what would otherwise have been an extremely lonely process. Finally, I give my thanks to my fiancé, Hal Harvey. He gave me courage throughout and helped me through the crises of meaning that inevitably occur during a process like this. Perhaps most importantly he gave me a healthy perspective by reminding me of the very bright light that shines at the end of the tunnel.
TABLE OF CONTENTS

INTRODUCTION .................................................................................................. 1

CHAPTER I: Poverty in Southeastern Arkansas .............................................. 5

The Face of Poverty in the U.S................................................................. 5
Rural, Female and Black: The Good Faith Fund’s Target Population.............. 6
Poverty Profile of Southeastern Arkansas ............................................ 9
Survey Methodology ........................................................................... 9
What the Statistics Tell Us.................................................................. 10
Economic Features of Southeastern Arkansas..................................... 13
Conclusion ............................................................................................... 15

CHAPTER II: Self-Employment and its Role in Poverty Alleviation............ 17

Gould, the Survey, and Self-Employment............................................ 17
Economic and Social Profile of the Community................................. 17
Self-Employment: A Viable Option in Gould?.............................. 20
The Role of Self-Employment............................................................... 24
The Development Context ................................................................... 24
The U.S. Context................................................................................... 25
Practical Considerations for Self-Employment Programs....................... 27
Self-Employment: The Theoretical Debate........................................ 30
Conclusion............................................................................................... 31

CHAPTER III: The Good Faith Fund: An Early Evaluation of a Self-Employment Program..........................................................32

The Good Faith Fund Program............................................................... 33
Basic Premises and Organizational Structure..................................... 34
How Borrowers Proceed Through the GFF Program............................ 36
A Profile of Borrowers and Borrowing............................................ 38
The Good Faith Fund, Its Goals, and the Future......................... 44
Goals of the Good Faith Fund............................................................... 44
Peer-Group Lending............................................................................ 45
Improved Networking Within the Small Business Community..45
Opening the Option of Self-Employment........................................... 46
New Business Activity in Rural Areas............................................ 46
Improvement in Business Skills and Income Levels............................ 47
Conclusion............................................................................................... 49
CHAPTER IV: Targeting the Poor: An Interpretation of Why and How........51

Why Targeting?.......................................................................................... 51
Recommendations for Improved Outreach to the Poor...................... 55
  Monitoring and Incentives.................................................................. 55
  Using Appropriate Language......................................................... 56
  Direct Outreach..................................................................................... 57
  Media: A Means to Reach a Wider Population............................. 58
  Working With Welfare Beneficiaries............................................ 58
Conclusion................................................................................................ 63

CONCLUSION..............................................................................................................64

APPENDICES............................................................................................................66

APPENDIX A: The Good Faith Fund's Service Area..........................66
APPENDIX B: Revised Survey Document.............................................67
APPENDIX C: Employment Growth by County in Arkansas.......... 81
APPENDIX D: Southern Development Bancorporation
  Organizational Chart..............................................................................82
APPENDIX E: The Grameen Bank: A Model for the
  Good Faith Fund....................................................................................83
APPENDIX F: Profile of the Impact of Self-Employment
  on AFDC Recipients in Arkansas...................................................90

BIBLIOGRAPHY......................................................................................................92
INTRODUCTION

In a poor rural region of Arkansas, an innovative program was recently introduced. Called the Good Faith Fund (GFF), the new program provides much needed credit assistance to promote self-employment among the poor. The purpose of this thesis is to study the Good Faith Fund during its pilot phase to explore the potential of self-employment as a means for poverty alleviation.

Background

The Good Faith Fund, begun in May 1988, is one of seven self-employment programs established in the U.S. and Canada in the last several years. These programs share a unique origin: they each draw their model from a successful organization, the Grameen Bank, in Bangladesh. The Grameen Bank has earned its wide reputation by providing credit at a relatively low cost to large numbers of poor people. By using a group repayment mechanism, called the peer-lending technique, the Grameen Bank has achieved loan repayment rates of over 98%.

The new programs in the U.S. and Canada expect the Grameen Bank peer-lending technique to facilitate credit provision to large numbers of low-income people and yield similarly high repayment rates, despite different environments. Practitioners employing the Grameen Bank approach believe credit provides a similar barrier to self-employment in the U.S. as it does in Bangladesh. People concerned about poverty also hope the model will help build social and business support systems among the poor, particularly women and minorities.

Purpose

There is a growing incidence of poverty in the U.S.. At the same time public resources for assistance to the poor are increasingly constrained, particularly in rural areas. Self-employment assistance is one of the few strategies for direct
poverty intervention that is currently receiving attention from both the public and private sectors. As such, a study of its potential is timely. This thesis has the following objectives: (1) to examine the role of self-employment in addressing poverty conditions in a depressed, rural region, and (2) to assess the peer-group lending technique, borrowed from the Grameen Bank, as a means for meeting the credit and other needs of poor entrepreneurs in this country.

Several elements of this thesis differentiate it from others. The intrigue of a model being transferred from North to South, and the attendant issues of replication, form the first of these elements. Most poverty studies focus on what does not work. A study of the transfer of a successful model can add to our understanding of poverty, providing a better sense of what works institutionally and what kinds of interventions bring about significant changes in people's lives. Finally, this study takes place at the outset of GFF's organizational life. Rather than conducting a retrospective analysis, I seek to point out key issues and raise questions that will help GFF to effectively progress toward its goals.

**Basis of Findings**

This study is based on research on the Grameen Bank and similar agencies in developing countries and emerging programs in the U.S. To better understand the Good Faith Fund program, I spent six weeks in Arkansas as an intern--interacting with GFF staff and its customers. I also designed and carried out a survey of residents of a town called Gould, as a case study of a poor community.

**Thesis Organization**

Chapter I provides a profile of U.S. poverty with a focus on the rural poor and two groups with a disproportionately high incidence of poverty, minorities and women. I present economic and poverty statistics in GFF's region and anchor these findings in historical economic trends. Throughout, I refer to the findings from the Gould survey as they relate to larger economic and social patterns.
Chapter II covers emerging research on self-employment, drawing on literature from developing countries, and then takes stock of the growing micro-enterprise credit movement in the U.S.. In particular, I address the appropriate role of credit, whether as a sole intervention, or in conjunction with other training, in the promotion of self-employment activities. This chapter draws on the results of the survey and what they teach us about self-employment potential in a poor Arkansan community.

In Chapter III, I describe the Good Faith Fund—its philosophy, its structure, and its goals. While it is early to conduct a full evaluation, I seek to raise key issues and identify some alternatives for addressing them.

Thus far, GFF has been able to reach a moderately poor population. To fully explore the poverty alleviation potential of its program, GFF plans to deepen its outreach over the next several years. The final chapter describes options and obstacles to pursuing this strategy.

**Key Definitions**

Before moving into the body of this thesis, it is important that reader and author are on the same footing when it comes to definitions of some key concepts.

The terms ‘self-employment’, ‘micro-enterprise,’ ‘small business,’ and ‘small enterprise’ are all used to describe the types of activities supported by the Grameen Bank and the Good Faith Fund. However, these terms also are used interchangeably with regards to vastly different forms of enterprise; for example, small business is used to describe firms from one to one hundred employees. In this study, I use the term self-employment as it most clearly reflects the nature of enterprises supported by micro-credit programs and gives emphasis to the form of ownership (single owner). At times, for variety’s sake, I may employ the other terms. Unless otherwise specified, when using these other terms I am also referring to self-owned enterprises.
Another pressing definitional issue is the concept of poverty itself. The official definition of poverty, the poverty line, is based on the cost of a nutritionally adequate diet for households of a given household composition multiplied by three (Orshansky 1965). Since this measure was developed, it has come into wide use although it has been challenged by several conceptual issues. These include: 1) definition of need, relative versus absolute; 2) what resources should be considered to meet those needs (e.g. income, wealth, transfers); 3) the appropriate unit of income-sharing (e.g. individual, family, household); and, 4) the appropriate accounting period (e.g. monthly, yearly, a lifetime).

After carefully reviewing these concerns, Sawhill (1988:1112) concludes the official definition ‘for all its flaws has proven useful both to researchers and policy makers,” particularly for comparisons across populations and time. For this thesis, comparisons are important so I accept Sawhill’s conclusion and use the official definition. For clarity, when I use the term ‘very poor’, I refer to absolute poverty (below the poverty line); when I use ‘moderately poor’, I refer to relative poverty (above the poverty line but below the median income in the U.S.); when I use ‘poor’, I refer to both very and moderately poor.
CHAPTER I
Poverty in Southeastern Arkansas

Despite the fact that the U.S. is one of the richest nations in the world, a significant number of Americans are poor and pockets of poverty persist. In fact, over the last fifteen years inequality has been increasing. In 1986, 14% of Americans lived below the poverty line. And, contrary to common wisdom, poverty is not simply a problem faced by inner city dwellers. The rural poverty rate during the eighties has remained 50% higher than the metropolitan rate.

In this chapter I review the incidence and causes of poverty to provide a framework in which to later analyze self-employment as a strategy for poverty alleviation. First, I give a profile of poverty in the U.S.. I focus on poverty as a rural phenomenon and for GFF’s two major target groups—minorities and women. In the second section, I address the economic climate found in GFF’s service area, the southeastern quadrant of Arkansas. Finally, to bring to life some of these economic issues and trends, I describe poverty conditions found in the town of Gould where I conducted my door to door survey. I chose Gould as my case study because it typifies many issues now confronting small rural communities: limited agricultural, commercial, or industrial activity; high unemployment levels; welfare dependency; and, increasing social problems.

The Face of Poverty in the U.S.

Between 1960 and 1970 the percentage of the U.S. population living in poverty declined, fueling the belief that in another decade poverty could be eliminated. Poverty rates did not decline further, however, and even increased during the recession of the early 1980’s. Whereas poverty rates had fallen to 11%
in 1969, they rose to 15% in 1983 and have remained stubbornly high. The current of 14% translates into 33.1 million persons living below the poverty line.

The U.S. has been evolving as an increasingly unequal society. From 1973 to 1983, the share of national income received by the poorest fifth of the population shrank by 20%. Since the mid-1970's, median family income has stopped growing, even though more family members work than ever before. Particularly distressing is the growing number of working poor. Currently, if one member of a family of three works full-time at minimum wage, their household will only earn 78% of the poverty level income. Some six million Americans live in family units where one person works full time and have family incomes that fall below the poverty line (Ledebur 1987:11).

**Rural, Female and Black: The Good Faith Fund’s Target Population**

The Good Faith Fund works in a rural area and targets women and minorities as its primary customers. These groups deserve particular attention; I address them in turn. While urban poverty has become the main focus of current poverty research, rural poverty remains a critical issue.\(^1\) The focus on urban poverty reflects growing problems in inner city areas and the perception that the rural recovery of the 1970's would continue. Unfortunately, this has not turned out to be the case. As reflected in Ken Deavers' (1989) review of the period,

> Just as the 1970's occasioned rapid economic and population growth in much of rural America, the 1980's have been a time of stagnation and decline. As a result, twenty years after the vaunted ‘Rural Renaissance’ began, many indicators reveal a rural America under stress. The economic viability of many of our nation’s rural areas is in doubt. (p.4)

---

\(^1\) I am using the definition established by the U.S. Department of Agriculture Economic Research Service for rural (or nonmetropolitan) and urban (or metropolitan) areas. Metropolitan counties are delineated by their size, their independence and their commuting integration with metropolitan statistical areas. Thus, any county that is not in close proximity to a MSA, according to these criteria, is considered rural. In Arkansas, 61% of the population lives in rural areas.
The rural poverty rate has not recovered from the recessions of the early 1980's and at 17% (1987) remains a full four percentage points higher than the metropolitan rate. The rural poor comprise over 30% of all the nation’s poor (1985). Another troubling trend is the reversal of migration patterns. In the seventies, more people moved from urban to rural areas than the reverse, but stagnation in the 1980’s in rural economies has led to resumed rural outmigration.

Rural unemployment rates and income levels also exhibit troubling trends. From 1979 to 1988, the rural unemployment rate grew from 107% to 135% of its urban counterpart. Likewise, the income gap between rural and metropolitan areas, which had closed somewhat during the 1970’s, sagged again during the 1980’s; rural as a percentage of urban per capita income now rests at only 73%.

Urban poverty has received increased attention due to rapid and visible growth of poverty in inner city areas. To focus exclusively on urban poverty, however, is short-sited. Rural poverty, at 30% of the total, is not insignificant. Rural unemployment and incomes have not improved with the economic recovery of the eighties. And, unless poverty in rural areas is addressed, rural migration to the cities will exacerbate the urban crisis.

A critical issue for GFF and any poverty program is the growing number of women in the labor force and their increasing representation among the poor. By 1985 more than half of women of working age were in the labor force, compared with about 35% in 1944. Despite increased participation, working women still face barriers. The average full-time working woman earns less than 70% of her male counterpart. This figure has not changed much in the last two decades. Multiple studies, primarily by conservative economists, have attempted to explain this differential according to different levels of education, lower female work intensity and divergent occupational distributions. While such factors do contribute to
disparate earnings patterns, even taken in aggregate they explain less than half of the difference—indicating the persistence of gender discrimination (Cherry 1989).

Women are also channelled into lower paying occupations, with few opportunities for advancement. Within occupations, there is evidence that women receive less appealing jobs on a lower pay scale. Women have the added burden of multiple role responsibility; women who are mothers either work at home or pay the attendant costs of child care. Annual child care costs are now estimated at $3,000 per year, an amount beyond the means of many poor families. Women and their children now comprise 78% of the nation’s poor (Gould 1986).

GFF has also targeted minorities. In GFF’s service area, the majority (92%) of minorities are African Americans. In 1983, 33% of African Americans had incomes below the poverty line. In large part, such high poverty levels can be attributed to lower earnings and high unemployment. Comparing incomes of full-time male workers, blacks only receive 76% of their white counterparts. While this ratio improved in the era of civil rights and affirmative action, it since has levelled off. In the South, due to the legacy of slavery, such differentials have historically been higher. The black/white earnings ratio stood at 38% in 1960; by 1980 it had improved to 59%, but remains worse than in the rest of the country (Cherry 1989). Persistently high levels of unemployment have also plagued African Americans, particularly youths whose unemployment rates have remained over 30% for the last two decades. In the seventies, black male participation rates declined dramatically and continued to decline thereafter.

The statistics outlined above illustrate GFF’s target groups—rural, female, and black—suffer high poverty levels. In this thesis I examine poverty in one

---

1 I compare male earnings to reduce the distortions caused when using household income. The high percentage of female-headed black households and their correspondingly lower incomes would cause black-white family income ratios to decline independent of racial discrimination in the labor market.
small region of the country, the southeastern quadrant of Arkansas. While the analysis is specific to this area, it should be useful in other rural southern states which face similar issues.

**Poverty Profile of Southeastern Arkansas**

This section is devoted to poverty in Arkansas, particularly the eight counties comprising its southeastern quadrant. In order to refer to the survey results throughout the remainder of this chapter, I present the methodology first.

*Survey Methodology*

I conducted a survey in the small rural town of Gould which lies about 45 minutes from GFF's headquarters. I selected Gould, with a population of 1,672, because GFF plans to establish its program here during 1990. In addition, Gould seemed to possess many poverty characteristics that GFF hopes to address: high unemployment, few services available, and few prospects for economic growth.

I was given permission by members of a local research team called the Southern Arkansas Rural Development Study (SARDS) to use a survey with which they are now collecting data on regional economic conditions. In order to gather information needed by GFF, I adapted the survey so as to 1) explicitly address self-employment and sidelines activities, 2) use language and ideas more accessible to the poor, and 3) ask qualitative questions in an effort to create better dialogue. Once the survey was redesigned, I worked with GFF's field staff to identify a poor area in Gould. Our selection was based on the following criteria:

- Infrastructure; open sewerage, roads in disrepair, broken street lights.
- Housing; plastic windows, weak structures, makeshift materials.
- Upkeep; garbage in yards, abandoned vehicles, dilapidated structures.

---

3 See Appendix A for a map of the Good Faith Fund's Service Area.
4 See Appendix B for the revised Survey Document.
Using these criteria we chose an area consisting of 15 streets of which we randomly selected six for the survey. We then randomly chose to interview either on the left or right side of each selected street, yielding a sample of 74 houses. To limit our interviews to those likely to engage in self-employment, we required at least one household member to be between the ages of 18 and 65. Of the 74 sample homes, 22 were ineligible because all household members were over 65, indicating a high concentration of elderly people in the survey area. Five other houses were burnt out or unoccupied. Remaining were 47 eligible households, of which we successfully interviewed 29, constituting a 62% coverage rate.

With limited time and resources, I endeavored to solicit as unbiased a sample as possible from a poor part of a small rural town. These constraints led to a small sample with a low coverage rate and cannot be considered representative. I present the results here in the same spirit in which I undertook the survey: live responses provide an important testing ground for GFF’s outreach strategy and anchor its plans for service delivery to observed poverty conditions. The sampling exercise alone revealed a useful preliminary finding—a significant portion of Gould’s population, the elderly, cannot benefit directly by GFF’s program.

What the Statistics Tell Us

Arkansas is one of the poorest states in the U.S. and in its southeastern counties conditions are even less favorable. Sixty one percent of the state’s

---

5 In this section:

- For statistics on the survey area, I refer to survey results.
population resides in rural counties, ranking it tenth among all states (including Washington DC) according to rural population ratios. In 1986, 6.1% of the state’s annual earnings were derived from farming, or double the national average of 3%.

Per capita personal income (PCPI) provides a useful ‘output indicator’ for individual economic well-being and spending potential. Arkansas ranks forty-eighth in the nation with a PCPI of $12,219 (1988), which is only 75% of the national average ($16,489). Wages and salaries, the major component of PCPI, tend to be lower in rural areas; in Arkansas rural earnings levels were only 78% of urban earnings. This is reflected in PCPI in the counties in GFF’s service area, which are largely rural. The average PCPI in the region is only 87% of the state average.

Similarly, unemployment rates in Arkansas are high. In 1988, 5.5% of the U.S. population was reported as officially unemployed; in Arkansas this rate was 8.1%. The southeastern quadrant is plagued by even higher unemployment levels; the average rate of its eight counties was 10%. Among teens, unemployment trends are more troubling with 21% unemployed (1988), ranking Arkansas forty-ninth in the nation.

Somewhat offsetting the negative factors outlined above is the low cost of living in Arkansas. In the recent Rand-McNally Almanac (1989), Pine Bluff was found to have the lowest cost of living of all cities in the U.S. with populations greater than 50,000. In Arkansas, the average cost of a house is 2.5 times average income, ranking it twenty-second among the states.

Education levels tend to be lower in rural areas, primarily due limited funding availability (as a result of weak tax bases) and the difficulty of attracting capable teachers. Only 55.5% (1980) of Arkansans achieve a highschool education. Highschool attainment in the state’s rural areas is only 79% of urban rates and ranks it fortieth among the other states. In terms of college attainment, only 10.8% of the state’s residents have completed a college education (1980), ranking it
forty-seventh in the nation. In the survey area, educational attainment was higher than expected; 67% of respondents had received a highschool diploma and 14.8% had completed a college education.

In terms of health, one easily measurable input indicator is number of doctors compared to population size. With approximately 85 doctors per 100,000 population, Arkansas ranks thirty first in the nation. Care for pregnant women is inaccessible to a large percentage of the population. For example, 34% of births in Arkansas occur with no prenatal care received during the first trimester, ranking Arkansas forty-eighth in the nation. According to the survey (we added a question about health toward the end) of the twelve respondents, only 58% claimed to have health insurance, compared to a national average of 86%-88%.

As described earlier, minorities suffer greater poverty than the non-minorities. Good Faith Fund gave this consideration in choosing its location. In general, Arkansas has a high African American population (20%) and this is particularly true in the southeastern quadrant (39%). In the survey sample, 100% of the respondents were African Americans.
Economic Features of Southeastern Arkansas

What are the causes of the poverty outlined above? Answers to this question can be found in an economic profile of the region. Unfortunately, regional economic data is available only on a piecemeal basis or in highly aggregated form. According to Wali Mondal, a professor in the Department of Economics at Henderson State University, “there is no organized source in the state where data relating to employment in disaggregated industries are available” (1989:15). Policy makers, academics, and nonprofit professionals are beginning to recognize this information gap; one result being the SARDS study mentioned in connection with the Gould study. As the findings emerge, GFF and other poverty oriented programs would do well to take heed of them in developing responsive programs of assistance to the poor.

In the meantime, based on available information, I present a sketch of regional economic conditions. Southeastern Arkansas faces high unemployment levels and slow growth. The regional economy is no longer driven by agriculture;
agriculture remains the largest industry in only one of the region's eight counties. As in most rural areas of the country, the economy is not well diversified. Towns and counties rely heavily on individual industries. While these industries vary, they consist primarily of durable and non-durable goods industries. Unlike other rural areas, though, the counties in GFF's region have not shared in new job opportunities fueled by growth in the service sector. Illustrating a stagnant regional economic climate, in three of these counties, state and local government as a sector contribute the largest percentage to annual county earnings.

For the two decades preceding the eighties, job formation needs in Arkansas had been met primarily through the establishment of branch manufacturing facilities by major U.S. corporations. Cut and sew operations, shoe manufacturing, and appliance assembly are examples of industries that located in Arkansas. They were attracted by an abundant labor force with low wage expectations, low taxes, and a central location. As international competition increased, however, corporations were forced to find 'lowest-cost' manufacturing sites, usually in developing countries.

This exodus occurred in the early 1980's and coincided with a major national adjustment in the agricultural sector. Simultaneously, the federal government made massive withdrawals of public investments in rural areas. And, local tax revenues needed to finance educational and infrastructure improvements for future economic development continued to decline. According to Farmer and Voth (1988:4), this reversal in the eighties resulted in "a rural economy...in complete disarray."

Arkansas is clearly a poor state with limited resources available to begin to turn its economy around. A course of corrective action must be carefully defined

---

6 See Appendix C for a map of employment growth patterns in Arkansas.
and negotiated. In the last few years, importantly, some preliminary steps have been taken in this direction and deserve mention. The first of these are the efforts toward improved economic data collection mentioned above. Another private sector venture deserves attention: the Southern Development Bancorporation (SDB). SDB has been referred to by David Osborne as the “most radical experiment in economic development since the Tennessee Valley Authority” primarily because it represents the largest private investment of its kind in rural America.

Incorporated in 1986, SDB’s primary objective is to accelerate the rate of rural economic activity by providing resources and supporting new business formation. Recognizing the state of Arkansas lacks the resources to finance a major rural development effort in its southern region, SDB solicited start-up capital of $13 million from 26 philanthropists, foundations, and corporations outside the state. While using outside funding, it intends to foster development from the ground up rather than relying on earlier strategies to attract big industry.

Southern Development Bancorporation is patterned on, and draws its management team from, the Shorebank Corporation, a bank holding company which for the past fifteen years has helped rebuild the South Shore neighborhood of Chicago. Its various subsidiaries work independently but cooperatively. Subsidiaries include Elk Horn Bank and Trust Co., a 104 year-old conventional commercial bank purchased by SDB in 1987; Opportunity Lands Corporation, a real estate company which establishes business incubators and develops low- and moderate-income housing; and, a non-profit subsidiary called Arkansas Enterprise Group which operates four programs. These include: Southern Ventures Inc., the first licensed venture capital company in Arkansas; the Entrepreneurial Development Program which provides financial, technical, and marketing advice.

---


15
to small businesses; the Seed Capital Fund which makes term loans to or invests in new or expanding businesses and provides specialized consulting; and, finally, the Good Faith Fund, the focus of this paper, which makes small loans to self-employed persons. The intention of SDB’s multi-layered design is to make available a variety of financial resources to help break the existing capital bottleneck for both small and large enterprises in the region.

Conclusion

In this chapter, I present basic poverty statistics in the U.S., focussing on GFF’s target population, which is largely rural, female and black. I then describe the climate of poverty in the state of Arkansas and its southeastern quadrant. Results from the Gould survey are used to illustrate the general trends in the region. I then present some economic trends issues to be addressed, highlighting the importance of further data collection and economic analysis.

While poverty is severe and the economic base is weak, some corrective action is being taken. I describe one of these actions, SDB, to illustrate an important private sector intervention and to provide a context for understanding the support the Good Faith Fund receives from its organizational structure.

---

8 See Appendix D for organizational chart.
CHAPTER II
Self-Employment and its Role in Poverty Alleviation

Self-employment is receiving attention in research, in practice, and in terms of funding from private donors as a strategy for poverty alleviation. Uncertainty prevails, however, about the potential of self-employment for improving incomes of poor people. In this chapter I present both sides of this debate to draw lessons to guide GFF’s income-generating efforts. In the conservative climate of decreasing social expenditures, particularly in a poor state like Arkansas, self-employment may be one of the few available measures. Self-employment assistance is seen as a short or medium term strategy, the effectiveness of which depends on the economic environment, types of businesses supported, and approach of the intervening agency.

This chapter first relates my findings from the Gould survey. These findings underline the need for assistance to poor rural communities. Self-employment is found to be a viable option for a few residents. Practical and theoretical observations on self-employment as a poverty strategy are then presented. What are common problems? Where do the strengths lie in this approach? How does such a strategy fit within the larger context of needs and available options in GFF’s service region?

Gould, the Survey, and Self-Employment

The survey results reflect the need for local development activities, particularly those providing stable employment at reasonable wages; they also show the limited options available to meet such needs. The Good Faith Fund now
makes available the option of self-employment--its potential is explored directly through interviews with local residents.

**Economic and Social Profile of the Community**

The first striking finding was the high unemployment rate of 67% among survey respondents. (The rate was higher than reported regional statistics, reflecting official measurement techniques which record only people actively searching for jobs in the prior six weeks.) Of these, 83% come from households where no member is employed; thus, 56% had no form of employment. Notably, while there is discouragement, 50% of the unemployed said they had searched for jobs in the previous six months but found limited job opportunities locally. Several reported going as far as Little Rock (two hours drive) in search of a job. With such low levels of employment, welfare dependency plagues the community. Fifty-nine percent of respondents receive some public assistance.

Reflecting limited employment opportunities, when asked if they wanted industrial growth in their town, 100% responded affirmatively. In an open-ended question as to why they desired such growth, with the exception of 11% who had no answer, the remainder gave job-related responses. In addition, only one respondent could name any local organization promoting economic development.
When asked about the most pressing needs in their community, multiple problems were identified. Respondents most commonly expressed the desire for organizations to provide activities to occupy their children. This concern seemed to arise from growing drug problems among young people in rural areas. As one respondent said, "with nothing to do besides watching TV, children will go bad." The next most commonly felt need was local employment; people were concerned about growing welfare dependency with the limited availability of jobs nearby. Several residents noted that it was difficult to identify the most severe problems, because problems were so pervasive and intertwined. These people felt that bringing any new catalyzing activity to the community would be of assistance in order to break the welfare, or dependency, mentality and revitalize 'hope' in the community.
The general malaise was illustrated by the minimal activity of local organizations or community leaders. Sixty-seven percent of respondents were unable to name even one community organization. With regard to local leaders, only 34% knew of one or more leaders they perceived as helpful. The most active meeting place is church, which all but two respondents regularly attend. While local churches do hold activities like dances and children's plays, residents do not perceive the church as an organizing force.

Despite this lack of community leadership, people did not seem isolated. People knew their neighbors; they could predict almost to the minute when a person down the street was likely to return home. Visiting is still common practice; women gather for quilting parties and men to jointly repair cars. Several times when conducting an interview, a neighbor would stop by to borrow a utensil, share news about an upcoming church activity, or drop off their kids.

**Self-Employment: A Viable Option in Gould?**

The above results indicate a poor, closely-knit community in need of economic as well as social reform. The survey focussed specifically on the
potential for self-employment in meeting these needs. The results were mixed: interest was high, skills and aptitude varied, and limited amounts of direct self-employment experience were available. As GFF expands its borrower base in Gould, it will be informative to study how well the survey predicts future self-employment behavior.

The interest in self-employment in the community is actually quite high. When asked to compare self-employment to other types of employment (being a farmer, working for the government, a large company or a small company), 48% ranked self-employment highest. They chose this option because they felt that it gave them more control over their earnings and would provide flexibility. Fifty-two percent of respondents had previously contemplated starting a business and 35% had considered undertaking a sidelines activity.

In terms of skills and aptitude for self-employment, the results were less clearcut. Seventy percent said they possess skills for starting a business; these varied from car repairs to curtain-making, from bookkeeping to breadmaking. Some of the more unique skills mentioned include: barbering, home physical therapy for the elderly, crocheting of lap dogs, and building homemade tombstones. The survey contained several questions intended to reflect business aptitude. According to David McClelland (UICUED 1987:48), entrepreneurs typically are: willing to take risks, confident in their ability to plan ahead, and oriented to achievement. They also must feel a high level of personal responsibility for enterprise success. Survey respondents were risk averse—only 19% said they would risk personal possessions for business. Confidence was also relatively low with only 37% believing they could effectively plan for the future. The desire for achievement was high, at 77%—however, this type of query tends to induce a positive response. Finally, in terms of responsibility; 48% said they would be willing to sacrifice family, community and other free time to running a
business. And, a high percent, 74%, preferred the responsibility of self-employment to the security of working for someone else.

Experience with self-employment in the community is limited; only 14% had previously owned their own businesses. Of these, two quit due to retirement, one got tired of disagreements with his partners, and the other sold the business to a neighbor. No one in the sample currently owned a full-time business. Several respondents or their spouses, however, are now engaged in sidelines activities including farming on the side, vehicle repair, and curtain and quilt making.

When larger family networks are considered more experience is available; 41% had self-employed relatives. The majority of these family members seem to live and operate their businesses nearby, but none had businesses in Gould. In fact, within the town of Gould there appeared to be a limited number of small businesses or visible self-employment activity. One small Mom and Pop shop and a restaurant were the only active locally-owned establishments that I could find. The only other businesses--a bank, a super market, and a gas station--formed branches of larger operations.

The above results indicate both skills and interest in self-employment but also reveal a lack of local experience and small business activity. My impression was of three or four strong candidates (10%-15% of respondents), who currently have the necessary skills, interest and motivation and would benefit by the presence of a self-employment program. But, with limited local small business and a seemingly short supply of confidence and risk-taking affinity, most residents may require more comprehensive assistance.

Also revealed by the survey are several larger issues, some of which can be addressed by GFF and some which fall outside its purview but deserve close attention. One of these is an expressed distrust of local financial institutions. As for borrowing (23 respondents were asked borrowing questions), only 20% had
ever borrowed from a bank for any purpose. Thirty-two percent had previously been rejected when applying for loans. Respondents said they were refused for the following reasons: inadequate income, no collateral, no consistent employment and discrimination against black people. Of those who had considered starting a small business, 43% said obtaining finances was their biggest obstacle. With regards to the bank in Gould, some residents gave the impression it serves people from the 'other side of the tracks'. GFF will need to differentiate itself from conventional banking institutions to gain local residents' trust.

A major concern relates to available markets. With high unemployment and such low incomes, who will the customers of new small businesses be? Respondents themselves echoed this concern. “Who would buy my product?” “There aren’t enough customers here.” “This town is too small.” This is an issue which GFF and any other poverty-oriented self-employment program must face.

Some of the interviewees themselves came up with solutions. For example, one respondent who made curtains on the side had found plenty of local buyers, but lacked the capital to purchase a larger, more efficient sewing machine. Many respondents mentioned a local bread maker whose “oven simply isn’t big enough.” The production of such ‘basic needs’ goods could be a form of ‘import-substitution’ and help the community retain the proceeds from such sales. This strategy relies on residents’ willingness to buy bread from their neighbor rather than prepackaged bread from the nearest grocery chain.

Another potential production outlet lies in Gould’s location along a major artery, highway 66, running from Little Rock all the way to Mississippi. Few roadside attractions in Gould now stop the passerby. Survey respondents thought customers could band together to rent one of the many empty buildings standing idle along the road. Many respondents mentioned crafts skills such as handmade quilts, crocheted animals, and miniature ships. Others produced foodstuffs such as
fresh vegetables, bread, and jams. In other parts of the state, roadside stores selling just such items thrive and bring new business to their small communities.

The case study of Gould brings to life the potential and the challenges facing organizations promoting self-employment. More than anticipated, residents show interest in, and skills for, self-employment activities. Their high level of daily community interaction lends itself to the group repayment mechanism employed by GFF. Existing self-employment experience, however, is limited. Residents exhibit a lack of self-confidence necessitating closer surveillance and assistance than in more affluent or experienced communities. Finally, of concern is the weak local market to enable adequate sales volume and profit for small businesses. The survey also illustrates the myriad of economic and social problems faced by rural communities, many of which can not be addressed through a self-employment program.

**The Role of Self-Employment**

Until recently, innovative small-scale development efforts were promoted and studied largely in the domain of developing countries—a context that is informative. New findings in the U.S., both practical and theoretical, also raise important questions about self-employment’s role in poverty alleviation and economic development.

**The Development Context**

Development planners became interested in small income-generating schemes over the last two decades. With the ‘discovery’ of the ‘informal sector’ in the early 1970’s in developing countries, government and private agencies of

---

9 The Group Repayment Mechanism is the key innovation in GFF’s model. While still lending on an individual basis, GFF relies on peer group pressure an support to insure timely and full repayment of loans. This mechanism is discussed in detail in the following chapter.
various stripes began to promote unregulated, small, and often home-based enterprises as a way to simultaneously alleviate poverty and stimulate economic growth (ILO 1972).

Policies addressing unemployment and underemployment through small-scale, more decentralized, efforts gained support as a result of the increased role of private voluntary organizations. In effect, this represented a shift from a top-down orientation where benefits ‘trickle down’ to the poor, to a ‘bottom-up’ approach where the poor are direct participants. One of the ironies of this conversion, an irony that now seems to be repeating itself in the U.S., is that promoters came from previously adversarial camps, from mainstream economists and free marketeers to non-governmental organizations intrigued by the informal survival tactics of the poor.

Tendler (1987b) identifies several reasons behind the convergence of governmental and non-governmental entities upon small-scale enterprises in developing countries during the eighties: 1) austerity programs rendered political leaders more vulnerable, opening the door for targeting the poor as part of structural adjustment packages; 2) economic conservatism with its emphasis on ‘getting the prices right’, leading to policies sympathetic to the ‘highly competitive’ informal sector producers; 3) balance of payments problems resulting in import restrictions and enhanced markets for ‘informal’ products; 4) and, disappointment in state-sponsored poverty programs of the 1970’s leading to greater emphasis on decentralization and partnering with NGOs (non-governmental organizations).

**The U.S. Context**

At first glance, such conditions appear to hold little relevance to the U.S. today. There are, on second perusal, striking similarities. Placement of ceilings on many social programs during the last decade, juxtaposed on a growing awareness of poverty, has rendered policy makers more sympathetic to calls for changes in
welfare programs. This is evidenced by recent changes in child care legislation, funding for training and education for welfare recipients and approval of self-employment demonstration projects for such recipients in seven states. The conservative political climate means greater receptivity to poverty programs promoting small business than to traditional transfer programs. Debt burdens and trade deficits are no longer issues faced only by developing countries--the U.S. is now the largest debtor in the world. In this climate, policies promoting local development are favored.

Additional impetus for self-employment is found in several structural factors plaguing the U.S. economy which include persistently high unemployment levels, particularly in rural areas and inner cities and growing numbers of working poor. Many employed have to settle for part-time work because they can not find full-time jobs (Friedman 1983). Reimer (1988:30) finds the lack of available jobs to be the primary cause of poverty in the U.S.. Statistics on the number of job vacancies per job seeker are not collected regularly in this country. Katherine Abraham (1983), one of the few scholars researching this issue finds that,

With the unemployment rate at 9.0% [1982], the number of unemployed persons almost certainly exceeds the number of open slots. A reasonable estimate, based on the historical relationship between the unemployment rate and the job vacancy rate, is that there are currently no more than one million jobs vacant in all sectors of our economy; that is, the number of unemployed persons most likely exceeds the number of vacant jobs by a factor of ten or more. (p.710)

Recent interest in self-employment becomes more understandable with the growing role of community-based or philanthropic agencies in the delivery of social services. Self-employment is an alternative within the scope of local organizations. Jobs created through self-employment typically cost less per job created than other job-creation programs (Henze, Nye, and Schramm 1988). Support from the government, while useful, is less critical in small than in large
development programs. When an area has inadequate numbers of jobs due to plant closings or a stagnating local economy, self-employment provides an expedient solution. In particular, it helps reduce costs of transportation to work and allows more flexibility, especially important to women heads of household with their dual roles as income-earners and care-takers.

Practical Considerations for Self-Employment Programs

Many converging factors create an environment ripe for self-employment promotion. What we need to know, though, is how such efforts change and improve the lives of the poor. Because self-employment programs are new, both abroad and in the U.S., and because constituents of such programs are typically few in number and widely dispersed, there is little statistically sound evidence to validate their long-term impact. The little evidence there is shows mixed results.

Recent research indicates that new and young businesses are responsible for the generation of the majority of new jobs in the U.S. (Birch 1981). In fact, of all jobs created by new establishments, 85% occur in firms started by single entrepreneurs (Daniels and Lirtzman 1980). Non-farm unincorporated self-employment has increased dramatically in the U.S.—by more than 63% between 1970 and 1988, compared with a 48% increase in company jobs. Over 8.5 million Americans are now registered as self-employed.10 When company workers who 'moonlight' are included, approximately 13.5% of all U.S. workers are self-employed on a full- or part-time basis.11

Proponents of self-employment see business as an essential thread in the fabric of American society. Self-employment provides an alternative to low-paying, low-skilled jobs or unemployment, particularly for minorities and

women. Self-employment activities can also be ‘sidelines’ in order to include other family members in income-generating activities and to augment household income. In addition to creating new jobs, small businesses promote individual achievement and local ownership and control of capital.

Despite this promise, self-employment programs face institutional obstacles. While tax incentives exist for new businesses and services are provided by Small Business Associations and Small Business Development Centers (SBDC’s), such institutions typically bypass very small enterprises.

The role of small business as the engine of economic growth has been called into question by recent research which shows complex connections between successful small scale firms and their larger counterparts. From this perspective small business offers a short term solution either to help people on the margin retain some income during adverse periods or to amplify economic development, but can not generate it.

Small businesses also have structural problems. Small businesses tend to be less stable; estimates show 50% fail in the first five years (Temali and Campbell 1984). The two most often-cited reasons for failure are under-capitalization and poor management. Self-employment enterprises also do not provide the level of benefits provided by larger companies—health insurance, paid vacation, disability.

On average self-employment generates lower incomes than other forms of employment. While estimates vary, self-employment earnings fall between 70% to 90% of earnings in traditional jobs, but such aggregate statistics mask underlying variations: to assess the value of these programs for poverty alleviation, gender, race, and sectoral differentiation are required.

Women are becoming more prominent among the self-employed; they now comprise more than one third of the self-employed labor force. Womens’ income from self-employment, however, lags that of males. In a study of self-employment
based on U.S. Census data (1980), Bates (1987:542) finds average earnings from self-employment, for both minority and nonminority males, to be above the poverty level, but those of women to fall substantially below the poverty line. In addition, particularly for women, self-employment is taken on in addition to other duties, inducing heavy workloads and the burden of multiple responsibilities.

In terms of racial differences, minorities have consistently earned lower returns on their self-employment enterprises, but the gap has been closing. Mean self-employment earnings of minorities--expressed as a percentage of nonminority self-employment earnings--stood at 45% in 1960, 70% in 1970, and 93% in 1980. This trend of improvement was shared by all major minority sub-groups. The relative earnings of African Americans, while rising the most rapidly, in 1980 still stood at only 73% of the earnings of Asians and Hispanics (Bates 1987:544).

Sectoral analyses also reveal important differences. Retail and personal services businesses, the most common forms of small businesses, tend to have lower receipts. Higher incomes are earned by individuals who break out of traditional self-employment activities into new, higher risk arenas, namely construction, small-scale manufacturing, wholesale and business services. Recent studies, though, reveal greater stability of enterprises in the service sector; during recent recessions, demand for services continued to grow, albeit at a slower rate, while manufacturing experienced negative growth (Quinn and Gagnon 1986).

One of the most rigorous studies carried out on this subject (Bendick and Egan 1987) casts doubt on the potential of self-employment for the poor. The authors studied Chomeur Createurs (CC) in France and the Enterprise Allowance Scheme (EAS) in Britain. The programs differ, but their basic principle is similar--unemployed persons collect unemployment insurance benefits or other allowances in lump sums to help start a business. Briefly, the authors found income generated from resulting businesses to be weak, business survivability to
be low, and number of new jobs created to be small. Others claim these results mirror normal trends for small businesses in France and Britain. Such critics note the importance of the structure and services of the intervening institution; both CC and EAS provided minimal training and no follow up assistance or support (see for example, Balkin 1989:105-108).

On a practical level, then, self-employment poses significant problems as an income generation strategy. Self-employment programs must carefully design means for overcoming such issues if they are going to be able to help their constituents earn a stable living and break out of poverty. Of particular concern are the low returns from traditional self-employment endeavors, the lack of benefits typically provided by larger companies, and instability.

**Self-Employment: The Theoretical Debate**

On a theoretical level, additional issues can be raised. Advocates of self-employment generally proceed on the neoclassical assumption that there is considerable room to improve the economic status of the poor by increasing their access to resources and ability to compete in the marketplace. Common strategies include provision of credit, technical and marketing advice, and assistance with licensing protection. Programs guided by these policies do not tend to explicitly challenge existing institutions, market relations, class and gender relations, or the nature of businesses in which self-employed choose to work. The premise of these programs is that the availability and improvement of resources will encourage self-sufficiency and economic vitality, which in turn will engender social change.

Neo-Marxists, however, claim emphasis on small-scale informal activities is based on misguided analysis which overlooks the structural factors maintaining poverty and economic marginalization of the poor. Neo-Marxists argue the self-employed operating informally are part of an unbalanced, exploitative economic and political power structure. Far from alleviating poverty through enhanced
market activity, the critique argues the promotion of small-scale enterprises will at best disguise, and at worst, bolster existing patterns of dependency and inequality.

The benefits and liabilities of self-employment are not as clear-cut as advocates or skeptics, or neoclassical or neo-Marxists, would lead us to believe. The mode of organization of the intervening agent and its participants determines the extent of economic and social change. For example, an organization that helps a woman to move into a non-traditional business will go further in improving her long-term income potential than one that lets her continue along traditional lines. An agency that promotes group solidarity and fosters self-confidence forms the basis for future change. Thus, the effectiveness of a self-employment program, on practical and strategic terms, depends on the nature of the intervention.

On a theoretical level, then, the Good Faith Fund by providing credit as its primary intervention takes a neoclassical approach to poverty alleviation. But, its mode of organization through peer-groups, and the greater leadership responsibility it affords its members, may create an avenue for further social change.

Conclusion

The economic climate and persistence of poverty creates an opportunity for self-employment programs. This chapter, through responses from residents of Gould and a discussion of practical and theoretical debates on self-employment illustrates that the impact of self-employment programs depends in large part on the organization of programs themselves and how they choose to organize their constituents. Major practical issues need to be addressed including low returns to labor, instability of enterprises, and a lack of health and other benefits, particularly critical for poor entrepreneurs. Race and gender differences also deserve careful consideration.
Established in 1988, the Good Faith Fund (GFF) provides assistance for self-employment activities. GFF, while a young program, benefits from a strong model provided by the Grameen Bank and through support from six other organizations that have incorporated this same model.

That GFF and the other programs have emulated the Grameen Bank model is testimony to its success and acclaim. The Grameen Bank has earned its wide reputation by providing credit at a relatively low cost to large numbers of poor people. Begun in 1976, by 1989 Grameen Bank had mobilized over 630,000 households and had opened branches serving 14,310 villages (Yunus 1989). Rapid growth has not jeopardized repayment, which is about 98%. High repayment rates (without commensurately high servicing costs) have been achieved through a key innovation: peer-group lending. Instead of heavy collateral or extensive financial requirements, borrowers form groups which are held responsible for adequate repayment by individual members.12

The new programs in the U.S. and Canada share the expectation that Grameen Bank’s peer lending technique will facilitate the provision of credit to a large number of low-income people and yield similarly high repayment rates. People concerned about poverty also hope the model will help build social and business support systems among the poor, particularly women and minorities. U.S. practitioners experimenting with Grameen Bank’s approach generally believe that credit provides a similar barrier to self-employment in this country as it does

12 For those readers unfamiliar with the Grameen Bank, a full description is provided in Appendix E.
in Bangladesh. Despite vast cultural and economic differences, they believe that as in Bangladesh, the poor have a largely untapped ability for self-employment.

The purpose of this chapter is to evaluate the Good Faith Fund in its new environment. Operating less than two years, GFF is still in its experimental phase. Findings, as such, are not conclusive. Instead I seek to raise key questions to help GFF effectively progress toward its goals. Given the youth of the program, I draw extensively on the experience of the Grameen Bank and, to a lesser extent, on self-employment programs in other parts of the U.S..

In this chapter I first describe GFF's organizational structure, its accomplishments, and the adaptations it has made to date. I then measure GFF's performance relative to its stated goals in order to raise pertinent issues for the future.

The Good Faith Fund Program

At its inception GFF received grants of $500,000 and $50,000 from the Winthrop Rockefeller Foundation and the Levi Strauss Foundation, respectively, to capitalize its revolving loan fund. The Ford Foundation, the Charles Mott Foundation, the Challenge Foundation, and others provide grants to cover annual operating expenses. To manage its program, GFF currently has a staff of three: a program director, an office manager, and a loan representative (loan rep).

Basic Premises and Organizational Structure

GFF provides one primary resource, credit. In the spirit of the Grameen Bank, GFF sees credit as the critical 'missing link' in developing small businesses for poor people. GFF uses Grameen Bank's peer-group lending technique to deliver its loans. Through this model, which shifts most responsibility for evaluating and monitoring loans to borrowers themselves and thereby reduces costs, GFF plans to reach large numbers of borrowers and to achieve acceptable repayment rates on its loans.
This method also makes the program accessible to individuals unable to meet standard banking guidelines, which typically include heavy collateral requirements and financial statements. While GFF sets no criteria for its customers, it is targeting poor women, minorities, and other unemployed or underemployed workers through its outreach efforts. GFF has imported another critical Grameen Bank method to assist such borrowers, who are likely to be unfamiliar with capital management--repayment at short intervals and in small instalments. This method helps borrowers to repay in manageable tranches and to easily track their progress. The two methods--peer-group lending and the small instalment repayment plan--help GFF to reach a population traditionally underserved by the financial community.

A final intervention, a savings requirement, makes the program beneficial if not appealing to the poor. Each borrowing group sets their own savings goals. It is well documented that, for obvious reasons, poor people tend to save less. For many GFF members, a savings account represents the first formal financial security they have had and helps members to begin to plan ahead.

GFF's service area, encompassing eight counties and a total population of 207,000, is predominantly rural and poor as described in the first chapter. So far, GFF has established groups in four 'project' towns in its service area and has plans to expand to six more over the next year. GFF's strategy is to work intensively in each of these towns before further expansion to more cost-efficiently deliver its services and create a supportive, customer-based organization.

Since poor people from project towns are unlikely to learn of the loan fund through conventional channels, GFF 'brings the bank to the poor'; Loan Reps undertake 'action research' in each project community. This entails visiting local residents and small businesses, working with existing community organizations, coordinating with local government and schools--in general, getting to know
people on their own terms. In this way, loan representatives can locate existing or would-be small entrepreneurs and let them know that financing is available.

Any individual from project towns can become a GFF member as long as she or he finds four other people, ideally people they know and trust, to join a borrowing group. Prerequisites include interest in expanding or starting a small business and acceptance of GFF regulations. No criteria limit membership to the poor. Rather, GFF relies on (1) the small size of its loans and (2) the 'cumber-someness' of its requirements to discourage participation by wealthier residents.

Good Faith Fund loans are small; the maximum loan provided by GFF is $5,000. For new borrowers, GFF imposes even more stringent ceilings. Under its basic loan product which is a one-year term loan, GFF limits initial borrowers to loans of $1,200. As long as borrowers remain in good standing they can borrow larger amounts on an annual basis, up to the $5,000 limit. GFF recently introduced shorter term loans (three and six month) and a farm loan product to better meet its customer’s needs. Each of these new products carries even more limiting ceilings.

GFF’s membership requirements are strict and, given initial problems to be discussed in the next section, have become more so since the program’s inception.

- Borrowers are required to attend all bi-weekly group meetings. They are allowed three excused absences and one unexcused absence.
- Borrowers must contribute the stipulated amount of savings to the group account on a bi-weekly basis.
- Borrowers must make loan payments, in full and on-time, at biweekly meetings. GFF provides some leeway on repayments; borrowers are allowed under adverse circumstances to make partial payments. However, payments are never allowed to lag beyond 30 days in dollar amount due.

Failure to meet any of these stipulations for any group member will place the entire group on hold for further loan disbursement. It is this group pressure mechanism that insures adequate repayment and, thus, the smooth functioning of the model. Without it, the loan capital fund will gradually erode away.
How Borrowers Proceed Through the Program

Self-employed persons or would-be entrepreneurs learn of GFF through a variety of mechanisms. Some are reached through the action research described above. Some learn through word of mouth. Others find out about the program through the media; GFF and SDB, as innovative approaches to rural development in a depressed region, have been reviewed heavily by the press.

Once a person decides they would like to become a member, a GFF staff person will do an *intake* by completing a simple informational form. The staff produces an *intake* list for each project town and makes this list available to interested residents. By using this list and their own networks, interested individuals are responsible for finding and coordinating a new group. This process can be a long one. Based on initial experience, careful and time intensive group formation is critical to successful group operation later. Some initial groups, which formed rapidly, struggled later on to work cohesively.

To train new members, groups collectively participate in a six session orientation lasting three to four weeks. Orientation has three main purposes. First, GFF familiarizes members with the loan fund’s rules and operations. The concept of membership receives a great deal of attention—group members come to learn they are responsible not only for their own attendance record and timely loan repayments, but also for their fellow members’ performance. It is during orientation that groups choose savings requirements, typically between $2.00 and $5.00 per member per meeting. Second, necessary business skills are provided. Basic cash flow skills, marketing, and management techniques are shared with participants. Finally, members learn to work together by visiting each other’s businesses and thinking collectively about problems or plans of other members.

Once formed, groups begin to meet on a bi-weekly basis. At these meetings savings contributions are collected, loans disbursed and required instalments paid.
When a loan is proposed, it is presented by the would-be borrower to the group. Ensuing discussion focuses on the necessity of items to be purchased; the cash flow tool taught in orientation is used to assess a customer's ability to repay the loan and generate additional earnings through borrowing. Marketing strategies have become important topics of discussion during meetings; members pool information and try to decipher new ways to access available markets. If someone needs to borrow from the savings fund, the individual presents his or her need and the group decides collectively whether or not to use group funds.

When more than one group is active in a community, groups meet together in a center. Based on the Grameen Bank model, GFF originally set a limit of five groups per center. GFF recently reduced the optimal number of groups from five to three, based on experience with its largest center in Pine Bluff. With five groups (25 people), meetings were difficult to manage; people felt their concerns could not be addressed in such a large forum and substantive questions often were overshadowed by administrative items. GFF also retained a part of center meetings for small groups, in order to more openly discuss problems of individual members.

The groups and centers serve as a forum to efficiently administer the loan fund. They also provide the core interaction for members. Group saving and financial management are components of peer-lending that set the stage for collective activity and participatory decision-making. Though members come together initially to borrow money, the borrower group acts as a support mechanism and a venture which requires mutual dependence. Availability of credit depends on each member's performance and the savings fund calls for collective planning and decisions. Though GFF's primary goal is to improve borrowers' income through self-employment, the peer-lending approach provides an opportunity for organizing residents around practical issues. The impact of this group 'empowerment' process merits careful observation as GFF develops.
A Profile of Borrowers and Borrowing

Poverty Levels

As of the end of 1989, GFF had formed nine groups. Of the fifty members (i.e. people who were members of groups, but not necessarily borrowers) in 1989, 84% are African Americans and 56% are female. The model is attracting GFF’s target group in terms of underserved and traditionally excluded populations.

Within the borrowing groups themselves, GFF seeks to encourage diversity of race and gender. Borrowing groups may serve as a forum for challenging traditional social divisions as common goals tend to reduce barriers. No racial tensions, thus far, have manifested themselves within the borrowing groups (50% are mixed). To the contrary, groups appear to be working well together; racial mixing may turn out to be an important auxiliary benefit. In terms of gender, with the exception of one group, all are mixed according to gender. There seems to be a general impression that women are better group members. This view was voiced clearly by one new male borrower who asserted that he wanted only women in his group because of their greater reliability. In fact, even in during GFF’s short life, female members have proven to be more timely and trustworthy, a finding which is consistent with self-employment programs around the world.

In general, using the standard income definition of poverty, GFF’s current borrowers would be classified as relatively, but not absolutely poor. The majority of GFF’s customers fall somewhere above the national poverty line but below the median income of households in the United States. During fiscal 1989, the median (reported) household income (of those members who had applied for a loan) was $16,200 (Tune, 1990). This compares to median household income in Arkansas of $16,943. At first glance this appears to place GFF customers in a middle income bracket but the average household size of GFF borrowers is 4.06 which is significantly above the state average of 2.74. Adjusting for this household
size differential would likely show GFF clients to be in the second income quintile. Only limited financial information is now collected on GFF borrowers rendering a more complete analysis impossible.

*Types of Business Activities*

While similar programs across the U.S. have attracted largely 'sidelines' entrepreneurs--people supplementing other earnings with self-employment--GFF has thus far attracted customers (78%) which pursue self-employment as a full-time activity. This result may reflect, at least in part, the original language used in GFF's marketing materials which focuses on 'entrepreneurialism' and 'building a small business'. Now in the process of revising these materials, GFF is using words that will not alienate the quilt-maker in her home, nor the tombstone-maker mixing cement in his backyard, instead they will encourage potential customers to think of just such activities as a form of legitimate self-employment.

One of the key issues raised by skeptics of self-employment revolves around the type of activities in which the self-employed typically engage. As mentioned in the previous chapter, self-employed activities tend to garner higher wages in certain industries. Currently, most GFF borrowers undertake service activities, which range from a day-care center, to an upholstery outfit, to a small mechanics workshop. Other borrowers are involved in commercial activities, including a small women's clothing shop and mobile lunch van. Several borrowers are producing food and another is gathering flowers and dried grasses to make wreaths and other dried flower arrangements; while not typically thought of as such, these activities would fall into a manufacturing category. In general, borrowers are producing consumer goods and services, a large percentage of which are cottage or home-based activities.
Table 1-- Self-Employment Activities of the 50 Loans GFF has Funded

<table>
<thead>
<tr>
<th>Variable</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Time Commitment</strong></td>
<td></td>
</tr>
<tr>
<td>• Full Time</td>
<td>78%</td>
</tr>
<tr>
<td>• Seasonal</td>
<td>2%</td>
</tr>
<tr>
<td>• Part time</td>
<td>18%</td>
</tr>
<tr>
<td>• Unknown</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100%</td>
</tr>
</tbody>
</table>

| **Business Experience**   |         |
| --                        |         |
| • Start New Business      | 52%     |
| • Expand Existing Business| 42%     |
| • Unknown                 | 6%      |
| **Total**                 | 100%    |

<table>
<thead>
<tr>
<th><strong>Business Activity (approximate)</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Services</td>
<td>72%</td>
</tr>
<tr>
<td>• Small Manufacturing</td>
<td>16%</td>
</tr>
<tr>
<td>• Farming</td>
<td>3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100%</td>
</tr>
</tbody>
</table>

The peer-group support mechanism as an alternative to collateral has been the most prevalent concern of researchers and funders in the transfer of the model to this country. Without its effective functioning, the cost-effective delivery of credit to large numbers of people as well as the preservation of the loan capital itself will be compromised. Lurking behind this concern is the perception that 'community' no longer serves as a functional entity in advanced-industrialized countries. Families are dispersed, people drive instead of walk to the store, employment is usually a long commute from one's residence, people telephone instead of dropping by. The peer-group lending innovation depends on strong community ties both to support borrowers in times of need and to keep a watchful
eye on their businesses and loan performance. It has worked well in Bangladesh, how will it work in the U.S.?

To give a definitive answer at this stage would be presumptuous, as GFF is still in its infancy. Repayment results to date, though, indicate a need for adjustments. In 1989, GFF was forced to write-off ten of 35 loans which amounted to $17,875 or 18% of the portfolio. In terms of delinquencies, 60% of borrowers were delinquent (thirty days past due) at year end. The organization established an additional delinquency measure to indicate whether or not a customer has made a ‘good faith’ effort to repay at least a portion due instalments on time. Using this measure, 12% were delinquent at year end, showing 88% to be negotiating with group members and staff to meet their obligations. In interpreting these results, it is important to recognize that the Grameen Bank itself struggled with repayment and delinquency during its start-up phase. In addition, other peer-lending and self-employment programs in the U.S. report similar start-up problems.

Traditional, publicly funded programs, while different in scale and scope, provide an apt comparison. The original SBA Equal Opportunity Loan Program established in 1965 had a default rate of 53% for loans to minorities and 36% to non-minorities. The SBS 7(a) guarantee program, continuing today, has a 26% default rate to minorities and 20% to non-minorities (Henze, Nye, and Schramm 1988:42). These comparisons are not presented to justify such performance or imply that GFF should lower repayment expectations, but to show that GFF’s initial results are not as startling as they first appear.

Further analysis of the defaults causing the write-offs yields important information for the future performance of the loan fund. Five of the defaults were premeditated scams and three others might be considered victims of these same scams. Ruth Anne Tune (1990) in evaluating GFF’s 1989 performance notes that GFF and its borrowers have become more savvy and are likely to prevent
membership of such individuals in the future. The staff echoes this sentiment; they feel capable of detecting people with bad intentions in the future. Whether or not this proves to be true will impact the future viability of the loan fund.

The Good Faith Fund recognizes the importance of this issue and has already taken steps to prevent further defaults and delinquency. In analyzing borrowers' poor performance, the staff found original members did not understand their responsibility as a loan committee. Even though a full orientation session is devoted to collective decision-making for loan requests, groups still looked to the staff as final decision-makers. Realizing they were not communicating this concept effectively, staff members restructured the orientation. Orientation was extended from four to six sessions and case studies were drawn up to challenge group members to see the need for sound loan committee decisions and to recognize their responsibility to each other. Thus far, groups trained with the new orientation method are performing better in terms of loan decision-making and therefore in repayment rates and attendance.

The staff has also observed that the environment in which groups are situated affects performance. The majority of the first loans were in Pine Bluff, a logical extension of GFF's chosen headquarters. But Pine Bluff is a city of over 60,000 people. Members can hardly be expected to be in daily contact with one another or each other's businesses. Again, it is too early to draw conclusions, but performance in smaller project towns has been better. Judging on attendance, the ease of calling a meeting, and borrowers' familiarity with each others businesses, 'community' means a lot more in these towns. The Gould survey also validated the hypothesis that smaller towns tend to mean closer relations among residents. To further explore this hypothesis, GFF has targeted several even smaller towns for 1990, including Gould, and plans to hire five new staff members so that it can
service a more widespread population. These plans go hand in hand with its plans to augment its outreach to the poor, so will be described in Chapter IV.

GFF has set a lofty goal for 1990--to bring defaults to zero and delinquencies to 5%. To meet this goal, besides the structural issues outlined above, GFF is working to balance two seemingly contradictory managerial options: 1) to use its authority to instate stricter rules for delinquency and poor attendance; 2) to give borrowers more control so they feel ownership for the process and accept the attendant responsibilities.

With regards to the first, GFF has just designed more stringent regulations for repayment and meeting attendance. These are the rules outlined in a previous section. What is different about the new rules is they acknowledge the inevitability of exceptions but go on to carefully define the limits of such exceptions. Discussions with current customers indicate they were initially testing the system, seeing how much they could get away with.\textsuperscript{13} For this reason, rules and their strict adherence are critical. Strict adherence is necessary not only for borrowers but for GFF as well. For defaults and delinquencies to reach the level they did in 1989, the staff must not have been following the guidelines of the peer-group model. Once one group member is allowed to take out a loan despite the poor repayment or attendance of fellow group members, other groups have no incentive to follow the rules. Now that it has clearly defined both the rules and the exceptions, GFF must stick by them.

In terms of devolving more responsibility to customers, GFF has decided to disclose more information about member status at meetings. Initially, the staff was slightly protective of its customers, empathizing with their embarrassment over poor performance. Without open sharing of information, however, the

\textsuperscript{13} Based on interview with Ruth Anne Tune, February, 1990.
peer-group mechanism cannot function. Importantly, customers were consulted in deciding to more openly discuss member status and in designing more rigorous rules. An example of increased ownership and collective power emerged from this consultation process. While discussing various options, members of Pine Bluff’s Center decided to hold a rummage sale, the proceeds of which would be used to meet delinquent members’ obligations. The balancing between management and borrower control will probably challenge GFF for the indefinite future.

The Good Faith Fund, Its Goals, and the Future

The preceding profile indicates GFF’s significant accomplishments, the extensive amount it has already learned and the issues it faces as it nears the close of its pilot phase. As I said in the first section, the youth of the program renders a full evaluation or predictions infeasible and inappropriate. Still, an evaluation at this stage can raise relevant questions and pose potential options to be pursued in the future. To provide a format for this evaluation, I discuss GFF’s progress according to its stated goals.

Before proceeding though, one organizational aspect deserves mention. Unlike most non-profits of its tenure, GFF has established sound management systems and professionalized its procedures. Its systems allow GFF to effectively track borrowers’ performance as well as its own. GFF will be capable of systematic planning, managing growth, and monitoring progress over time. Such well-designed systems should facilitate the pursuit of each of the goals outlined below.

Goals of the Good Faith Fund

- GFF challenges conventional banking methods of providing credit by testing the peer-group lending technique.
- GFF encourages self-employed individuals to network with other self-employed people to build solidarity among the small business community.
• GFF intends to broaden the profile and number of self-employed to include women, minorities, and other dislocated workers.

• GFF makes its services available to encourage new business activity in rural communities through delivering credit and credit services to individuals that do not have access to conventional sources of financing.

• GFF expects both income levels and business skills of local residents to increase and spread to others due to participation in the program.

Peer-Group Lending

One of GFF's main goals is to challenge conventional banking methods by testing the peer-group lending technique. The record thus far indicates GFF must make adaptations to its original strategy if it is to preserve its loan capital. GFF's goal is to significantly reduce loan losses and delinquencies during 1990. I think this is perhaps the most important challenge GFF faces in the near future both to test the peer-lending model and to establish a sound base on which to build future growth. Options, many of which GFF is already pursuing, include:

• GFF has set up new borrowing requirements. These requirements are stringent but provide some leeway. It is imperative that GFF enforce its own rules; only with strict adherence can the peer lending model be tested.

• Borrowing groups that take a longer time in the formation period are more likely to work together cohesively in the future. GFF should encourage sound group formation over production goals.

• Women have demonstrated more respect for regulations of the program. GFF should carefully track borrower performance according to gender, and if these initial findings hold true, emphasize outreach efforts to women.

• Preliminary evidence indicates peer-group lending functions more effectively in small towns with closer community relations and better communications networks. GFF is now expanding outreach in smaller towns. Again, comparative performance should be monitored carefully.

Improved Networking Within the Small Business Community

Small businesses, because of their nature, leave owners isolated. Through the peer-lending model, many problems faced by entrepreneurs--discouragement,
limited access to information about markets, inadequate backup systems--may be addressed through continuous interaction and group support. One intent is to reduce observed high failure rates of small businesses.

In its initial phase, GFF emphasized this constructive interaction. Conversations with borrowers indicate they consider themselves members of GFF, not just freestanding borrowers. Judging by interaction at group and center meetings, GFF seems to have provided a new social network for members. GFF is now working to make this network more supportive at a business level. Initially borrowers have proven somewhat reluctant to share business problems openly. Recognizing open communication and peer assistance is crucial, GFF has identified several means for overcoming this reluctance.

- Encouraging open dialogue and mutual assistance from the outset is the primary strategy. Outreach materials are being reoriented to underscore the commitment to group membership. Case studies and informal discussions are now used during orientation to foster cooperation and sharing of information.

- GFF is also trying to link borrowers from different project towns who are engaged in the same activity. For example, a retail clothing operator from Dumas spends an afternoon with a Pine Bluff retail clothing manager helping her to arrange her stock in a more logical and appealing fashion.

- Finally, GFF has begun inviting successful local businessmen or women to center or group meetings. This not only fosters more open dialogue between customers but broadens their network of small business people.

**Opening the Option of Self-Employment**

By making credit available in a non-traditional way, GFF intends to broaden the profile and number of self-employed to include women, minorities, and other dislocated workers. GFF has reached both women and minorities, 56% of its members are women and 84% are African Americans (1989). In terms of dislocated workers, a significant percentage of borrowers were unemployed or unemployed prior to joining GFF. Thus, the customers GFF has attracted during
its first two years of operation do meet its goal of expanding the self-employed profile. While these individuals are not the poorest of the poor, GFF provides them with credit to which they would not otherwise have had access.

**New Business Activity in Rural Areas**

Through delivering credit and credit services to individuals that do not have access to conventional sources of financing, GFF hopes to encourage new business activity in rural communities. The first aspect of this goal was discussed above--GFF is reaching individuals who otherwise would not have had access to financing. With regard to the second portion, only time and careful evaluation can yield sound results. From an immediate perspective, of GFF's members 52% have started new businesses with their GFF loans. Twenty-nine percent of the borrowers, however, defaulted on their loans during 1989, indicating a high failure rate. These figures must be viewed with extreme caution--enterprise viability and growth in business activity can only be interpreted over the long run.

In the meantime, GFF should continue to emphasize the role of borrowing groups as loan committees to insure sound lending decisions. In addition, GFF should monitor its members' survivability and growth rates. Where possible GFF should trace linkages to other local businesses and compare enterprises along sectoral lines. Non-profit organizations like GFF often lack funds for monitoring. GFF, however, benefits from an ongoing relationship with a local researcher, who is now formulating a tracking device to study social and economic effects of GFF membership. This device will allow GFF, without itself incurring the attendant costs of monitoring, to gain important insights into its long run impact.

**Improvement in Business Skills and Income Levels**

As a final goal, GFF expects both business skills and income levels of local residents to increase and spread to others through program participation. Again, at this early stage it is too early to judge. Indeed, even for the Grameen Bank--
operating for more than a decade and regarded as one of the most successful programs of its kind—considerable disagreement surrounds its success in improving its members’ incomes (for dissenting opinions see Sanyal 1989 and Hossein 1988). Over time, the monitoring device mentioned above should help to address this critical question.

With regard to improved business skills, the fundamental test is of course increased income over the long term. At this stage though, GFF must decide how to best assist its customers while containing its own costs. Already customers are requesting increased marketing and technical assistance; as GFF works to meet these demands, it is trying to stay within the group structure or to garner support from other organizations with expertise in the provision of such services.

- In terms of technical assistance, GFF has produced a simple cash flow to allow borrowers to better manage cash inputs and outputs and plan for business needs. GFF now produces computerized cash flow statements for each borrower at the time of their loan proposal which borrowers can then use over the course of the loan.

- With regard to marketing, GFF has designed a ‘marketing microshop’ to be presented at center meetings. In addition, GFF now encourages members to use collective knowledge of available markets.

- Another marketing option which deserves mention for crafts producers among GFF’s current and prospective clients would be to forge a relationship with a crafts cooperative. Several such cooperatives now link producers in various parts of the U.S..

- Finally, in terms of both technical and marketing assistance, GFF should continue to work with local organizations. To date efforts have met with little success; most agencies appear unfamiliar with, or uninterested in, working with enterprises as small as those of GFF’s members. As GFF builds its presence in the area, support may be more forthcoming. In particular, GFF should take advantage of the support services of SDB.

Over the long term, the questions of how to best deliver marketing and technical skills challenge the basic premises of GFF’s model. This is one of the toughest issues GFF now faces, particularly given its plans to deepen its outreach
to the poor. The Grameen Bank model has achieved its cost-effectiveness and large membership by relegating the majority of business assistance to borrowers themselves within their centers. In Bangladesh with its high population density, limited supply of mass-produced goods, and well-developed local markets, this technique has worked. Can it work in a place like rural Arkansas, where far distances separate small towns and where informal markets are not so prominent?

Most poverty-oriented self-employment programs in the U.S. provide a significant amount of technical, marketing and other assistance; credit, in fact, is usually a secondary service. Of the six other programs emulating the Grameen Bank model, some have instituted intensive training programs and others provide less assistance than GFF. For example, in North Carolina the Manpower Development Corporation has helped establish three loan funds each of which was built upon existing and intensive training programs for women. In the Native Self-Employment Loan Program of Ontario, Canada, according to Jeffrey Ashe (1989), some borrowing groups meet weekly, in others the members barely know each other; groups are allowed to function as best suites their needs.

Both of these programs are too young to make useful comparisons of business development or repayment patterns. Over the longer run, though, the results of the various self-employment programs now taking shape across the U.S. should help answer the question of how much training and other support services are needed and how they are best delivered. This will influence the cost/benefit structure of the self-employment programs which in turn will affect their attractiveness relative to other alternatives for assistance to the poor.

**Conclusion**

GFF has made significant progress since its inception two years ago. It has built a strong staff. It has carefully designed and installed sound management
systems. It has provided credit and group support to more than fifty individuals who otherwise could not have expanded or established their small businesses. Perhaps most importantly it has maintained a questioning and self-critical stance throughout and as a result has been able to respond quickly to problems or opportunities as they arise.

As GFF addresses some of its current challenges, this stance will be of assistance. For the near term, GFF faces two primary issues. The first is to bring repayment rates to more acceptable levels through the enforcement of the basic rules of the model. The second is to strike a balance between retaining a streamlined approach while at the same time providing sufficient assistance its borrowers to enable them to survive and grow in a difficult economic environment. The resolution of both of these issues will impact the financial and organizational structure of GFF itself and will influence the nature of its impact in the region over the long run.
CHAPTER IV
Targeting the Poor: An Interpretation of Why and How

Over the next years, the Good Faith Fund plans to deepen its outreach to the poor to more fully explore the potential of the peer-group lending model for poverty alleviation. As described in the previous chapter, GFF has thus far been able to reach a population to which credit, and as a result, self-employment activities, are usually not available. While not the poorest, providing assistance to these relatively poor and traditionally underserved people is an important advancement. GFF is still contributing to poverty alleviation if it is reaching the moderately poor. In fact, it may be that for the very poorest, self-employment is not the appropriate intervention.

Before accepting this conclusion, though, GFF intends to make its services available to a poorer population. Several reasons underlie its intentions. First, the very poor are typically most excluded from income-generating programs. GFF believes the poor have as much right to credit as the rest of the population. If effectively reached through a self-employment program, the poor stand to benefit the most. With roots in the Grameen Bank, GFF has a model which demonstrates that at least in some environments self-employment can benefit the very poor.

This chapter is organized in two sections. The first describes why special efforts must be made to reach the poor and outlines the structural strengths of the GFF model for doing so. The next provides a preliminary sketch of what GFF has learned so far about deepening its outreach and options for pursuing this strategy.

**Why Targeting?**

Many studies have shown the importance of targeting in order to reach the poor. Targeting means identifying the population a program plans to reach and
then aggressively pursuing strategies to do so. Without careful targeting, poor populations are usually excluded. In this section I present some primary obstacles to reaching the poor. I follow each observation with a description of the way in which GFF's current structure attempts to overcome these obstacles.

Programs which aim to reach the poor often fail simply because the staff waits for the poor to knock on the door, reasoning that if the poor are interested they will seek out the program of their own accord. While this strategy is useful for identifying industrious individuals, it has adverse implications for attracting poor people. According to Leonard (1982), passive suppliers of services are almost always certain to have disproportionate numbers of the better off among their clients. If an organization wants to offer its benefits to the poor it must actively promote its services to them.

In rural areas this problem is exacerbated because the poor tend to live in less-accessible, remote areas. It is costly and sometimes difficult to reach them because of the distance and inaccessibility of their homes. If they are reached and are interested in participating, it will be difficult to be active members of a support group or to market their products or services given added transportation costs. There are no simple solutions to these problems: if a program wants to reach such individuals, it must allocate additional time and financial resources and recognize its cost/benefit ratio will be skewed upwards.

GFF has at hand one primary tool for overcoming the issue of bringing its services to remote populations, action research. As described in the previous chapter, one of the Loan Reps primary responsibilities is to carry out research on the streets of any new project community: talking with people, learning about current small business activities, spreading the word about the program.

As part of its plan for 1990, GFF is promoting its program in towns much smaller than current project towns, because these towns tend to have less access to
public services. Also, in August GFF plans to open a new field office in Crosset, a small town in the southern-most county in its region. This new location will improve GFF’s access to more distant areas and reduce travel time to project or prospect towns. Finally, GFF has a bold new plan to hire five new Loan Reps by year end. Each new Loan Rep will be responsible for particular areas within southeastern Arkansas allowing better coverage of more distant towns.

These changes will not allow GFF to reach the most remote households, rather they will permit GFF to service people from traditionally underserved small rural towns. These plans pose a balance between, on the one hand, providing services to the most remote populations, and on the other, maintaining reasonable cost-benefit ratios and insuring borrowers of a minimal base of marketing outlets. The survey in Gould provided some promising indicators of the appropriateness of this strategy. Most notably, close community relations bode well for the peer group mechanism.

Another problem chronically afflicting both rural and urban poverty programs is the appropriation of services by the wealthy. Wealthier individuals can use their political connections they often have with program staff to usurp benefits meant for the poor. Two solutions present themselves: provide a service or product in which the wealthy are not interested, or provide separate services to the both groups, thereby appeasing the wealthy, but retaining some benefits for the poor (Tendler 1982).

At GFF, the better-off have been effectively discouraged from participation through two simple mechanisms. The first is the small size of its loans. While the smallest loan that the Small Business Administration will guarantee for non-agricultural business purposes is $5,000, this is the upper limit for GFF loans. The second is high participation requirements. As described in the previous chapter, the program begins with an extensive orientation process, requires members to
attend bi-weekly meetings, and enforces savings requirements. Each of these requirements discourage the participation of wealthier people.

As a final point, one consistently observed factor in reaching and servicing the poor is staff attitude and motivation. In his empirical study of self-employment programs for low-income people in the U.S., Balkin (1989) observes in each successful program (defined by meeting a growing number of people), management and field staff alike show a genuine interest in serving poor people, which in some cases even dominates other program goals.

More rigorous academic studies concur that reaching this target population is unlikely unless field staff is committed, on a personal level, to poverty alleviation. Lipsky's work on street-level (urban) or field-based (rural) bureaucrats echoes the importance of commitment; he goes on to show a need for appropriate training and incentives to translate this commitment into programmatic results. According to Lipsky, “training must respond to the actual conditions workers will confront on the job, and incentive schemes must be developed to take account of field conditions” (1982: 2). What emerges is a recommendation for poverty-oriented organizations to select staff committed to working with the poor, and then provide them with field-based training and adequate incentives.

As mentioned above, GFF plans to hire five new Loan Reps by year end. It is now in the process of selecting eight participants for an intensive training program. One criterion for selection of these eight trainees will be a commitment to working with the poor. In addition, only natives of Arkansas will be eligible. GFF plans to train these interns for five to six months and then hire five of them. This staff selection method, used also by Grameen Bank, has proven effective for distinguishing individuals committed to working with a poor population and able to think on their feet responsibly and responsively in the field. It also creates a sense of competition that motivates good performance. More than 50% of the
training time will be spent in the field. At least in conception, this selection and training method pays due regard to lessons regarding field-based bureaucrats.

Adaptations: Recommendations for Improved Outreach to the Poor

This section, based primarily on my field work, presents recommendations for GFF to better reach a poorer population than its current membership. These adaptations fall into five categories: 1) monitoring and incentives, 2) appropriate language, 3) direct outreach, 4) media, and 5) working with welfare beneficiaries.

Monitoring and Incentives

While GFF as an organization embodies a commitment to poverty alleviation, it has not yet established data collection systems or incentives to fulfill this aim. There is evidence, in fact, that the field staff considers production goals as in conflict with social goals. If GFF intends to reach the poor, it must establish incentives to foster this intention among its existing and new field staff. GFF collects basic information on its customers' living conditions, but data is limited and is not compiled into a form that allows for comparisons across customers or across time. Such information is critical to program monitoring and evaluation, not to mention as an incentive system for the field staff.

I have designed, with the assistance of GFF's Director, a Target Customer Profile to be incorporated into GFF's existing information forms. It should be noted that this profile will not serve as a means test to qualify borrowers according to their poverty level; instead, it will be used to monitor progress, to provide staff incentives, and to measure performance over time for these poorer customers. This profile uses direct or proxy measures to understand each customer's:

- Household Income
- Resources: Borrowing History
- Educational Background
- Wealth: Assets and Liabilities
- Housing Conditions
- Health Security
This information will be provided by customers during orientation. Using a scale to rank this information, staff can keep track of the number of customers falling within its target population. This scale includes the poverty line to enable comparisons to other populations. The scale, however, intentionally incorporates the other poverty issues outlined above, reflecting GFF’s more substantive view of poverty. By gathering and then ranking this information, GFF will be able to monitor its progress in shifting outreach to the poor.

While the Customer Profile is an important step, as GFF does not plan to limit its customer base to those fitting its target profile, additional adaptations are needed. GFF must adapt its outreach so that the poor are made aware of the program and the services it provides are commensurate with their needs.

**Using Appropriate Language**

Simplifying the language used by staff and in GFF’s literature would improve GFF’s ability to communicate with the poor. In many ways, the program has been designed by intellectuals and is managed by intellectuals. In order to convey GFF’s goals and offerings, a careful effort needs to be made to capture the words and concepts used by the poor.

GFF has already begun the process of demystifying its language. For example, particular attention was paid to the responses of survey respondents in Gould and then incorporated into later versions of the survey document. Before proceeding with the production of new materials, though, GFF should share them with poor individuals, perhaps welfare recipients or some of the more interested residents of Gould, to insure the materials convey the intended message. This must be viewed as an ongoing process, requiring the staff’s constant attention to the changing language and interpretations of GFF’s target population.

The challenge of language was made clear to me at the close of one of my more intensive interviews with an unemployed skilled metal worker living in a
rundown trailer in Gould. After finishing the interview, we discussed the merits of self-employment and the need for small business in Gould. I was feeling inspired by the conversation and what it portended for GFF’s role in the area. Just as I was preparing to leave, the respondent said, “my wife makes quilts and sells them to local residents and friends who live in Pine Bluff and Little Rock.” He paused, and took a deep breath, “You wouldn’t accept someone like her with a small business in her home, would you? Someone with such a homemade craft couldn’t become a member of the Good Faith Fund, could she?” (Incidentally, I later saw several quilts; they were of high quality, beautiful colors and exquisite patterns. On first impression, this craftwoman has potential as a GFF member.)

**Direct Outreach**

Equally important to simplifying its language, GFF must also make its materials available to the poor. One way to achieve this, which also contributes to other program goals, is the survey. As illustrated by the survey results described in the first two chapters, the interviewing process gave GFF invaluable information about the community which can only come from talking to the people themselves. Equally important though, was the visibility GFF staff gained in the process. Not only were GFF materials distributed to poor residents, but those residents were made aware of GFF’s commitment through the staff’s ongoing presence in their homes, visiting with their neighbors, or walking around the streets. This visibility may in time open doors for GFF that otherwise would have been kept protectively shut.

Notably, the staff expressed appreciation for the survey as a verifiable reason to be visiting a poor area. The survey helps Loan Reps to get a conversation going. Once initial contact has been made, a Loan Rep feels more comfortable in the community and in turn the community is less resistant. I experienced this first hand when on my second day of interviewing, I had to ask directions of some kids.
At first they would not answer my query; the group which before had been scattered in a game of kickball, closed in a collective circle. Then one young boy piped up, "I know you. You were the lady who was talking to my mom yesterday!" The circle opened and then, with a shy smile, directions were given.

So effective was the survey as a two-way learning mechanism, GFF plans to use the survey as part of its action research in any new project community, specifically in the poorer neighborhoods. What is attractive about the survey is that it fits well in GFF's structure and serves three mutually supportive purposes--educating GFF firsthand about its target communities, teaching poor residents about the opportunities offered by GFF, and, beginning the process of building a relationship of trust between field staff and the community.

Media: A Means to Reach a Wider Population

Using appropriate media, i.e. radio or television, opens up another means for reaching poor families who tend to use this media, on average, more than wealthier families. Given GFF's limited resources, primarily staff time, I do not recommend the implementation of this strategy at this time. It is presented here for consideration in the future or as opportunities arise. To be effective, the appropriate channels and modes of communication must be chosen carefully. Getting existing customers involved in this process would help assure the right message is being conveyed.

Working With Welfare Beneficiaries

The existence of the safety net provided by U.S. welfare system has been one of the more controversial questions regarding the importation of the Grameen Bank peer-group lending model to this country. In this study, I focus explicitly on AFDC (Aid to Families with Dependent Children) beneficiaries, although other transfer recipients might be considered, namely Food Stamps or Unemployment Insurance Beneficiaries. I chose AFDC beneficiaries because 1) women form one of
GFF's target groups, 2) this population is the poorest of the public assistance groups (Gueron 1987).

The strategy I recommend for working with AFDC recipients (referred to as recipients from now on) is an exploratory one. (Note: the following analysis is based on welfare stipulations in the state of Arkansas. While many regulations are federal, responsibility for their enforcement is at the state level; differences result between states.) GFF should proceed cautiously, carefully weighing costs and benefits to these customers and to the program as a whole. The fundamental issue is how to ease the transition from welfare to self-sustenance. Obstacles to this transition remain; as I see them, they are child care costs, health care insurance and a sharp drop in benefits after one year of any self-earned income. These issues will be addressed in turn in the next paragraphs. As a preliminary assessment, I postulate significant welfare reform needs to occur before a secure relationship can be formed between GFF, the Department of Human Services, and its clients. Until then, the inroads that GFF makes can contribute to the nature of this reform.

Of note, some recent adjustments to the AFDC benefits system do facilitate the possibility of a transition for recipients from welfare to self-employment. Since December 1989, loan proceeds received by recipients no longer count as income allowing recipients to borrow money for business purposes without altering their benefits stream. In addition, under the Project Success Program14, some recipients are able to maintain child care vouchers for one year after they begin earning income. Also, even if AFDC benefits are reduced because of self-employment income, recipients are able to retain their Medicaid card for as long as they are receiving any AFDC payments at all. In addition, during the first year a

---

14 Project Success is Arkansas response to Title II of the Family Support Act of 1988 which intends to improve the 'employability' and job placement of AFDC and Food Stamps recipients through literacy, skills training, and other assistance.
small buffer is provided on income earned, allowing recipients to earn above a
certain amount of income before benefits are reduced. Of particular importance to
GFF, required loan payments (both interest and principal) are deducted from the
income figure used by the Department of Human Services to calculate benefits.

Severe impediments remain, however. First, recipients are limited to asset
ownership of $800, reducing what they can purchase with a GFF loan. Second, the
recipient will need to constrain self-employment activities to her home or incur
additional child care costs. Third, should her business go well, and she graduates
from AFDC entirely, within three months she will lose her Medicaid card. Fourth,
there is a disincentive to dovery well because up to a certain point all benefits are
retained, after which they drop off dollar for dollar of income earned. Finally,
recipients need to file additional DHS forms if any income is earned. Notably,
DHS has (tentatively) agreed to use GFF's cash flow statements for this purpose.

A detailed example of the impact of self-employment income on AFDC
recipients is provided in Appendix F. This profile illustrates the following issues:

- The impact of self-employment earnings on benefits vary from case to case,
depending primarily on the number of children and the level of child
support from the absent father; they also vary over time and according to
levels of income earned. Therefore, is difficult to predict consistently the
effect of self-employment earnings on a recipient's income.

- During the first year of self-employment activities, a recipient receives some
income cushion and will not be worse off, with two exceptions: 1) she incurs
high child care costs once she becomes self-employed; 2) she earns enough
income to bring her off welfare and must carry added health insurance costs.

- After the first year, the cushion provided to recipients reduces. Due to
variance across cases, the exact point at which a recipient will be worse off is
difficult to determine. In general, if a recipient does well with self-
employment, such that child care and health insurance comprise less than
one third of her earnings, she will be better off by becoming self-employed.
But for someone who only makes a marginal income, these two costs can
leave the recipient with less disposable income.
Overall, the variability across cases will require GFF to work carefully with the Department of Human Services and to work on a case by case basis with recipients. During 1990, GFF plans work with the Department of Human Services in Jefferson county (where GFF is headquartered) on an experimental basis. This interim stage will entail several key elements:

- GFF must address the issue of asset ownership; if capital goods purchased with a GFF loan are over $800 this will automatically reduce a recipients' benefits stream, even before income is generated from these assets. Of note, several other self-employment programs previously attempted to bypass this obstacle by holding title to borrowers assets. This strategy was later abandoned, though, as too complicated and burdensome on both the organization and borrowers.

- Placing a volunteer at DHS, to whom interested recipients can be referred. The volunteer will provide general information on GFF and do intake forms for likely customers. Having someone on hand at DHS should make GFF more visible to the welfare community and help GFF to understand the intricate bureaucratic workings of the department.

- Sponsor a seminar for those recipients that self-select to attend. Such a seminar is planned for August. This will allow GFF to present its program to recipients and allow DHS to explain the impact on benefits in a group forum.

In addition to this direct approach, GFF may be able to overcome some obstacles by working with local organizations which are already providing assistance to AFDC recipients. GFF is now pursuing this option with an organization called Arkansas Career Resources (ACR), which provides training to AFDC mothers for child care management. DHS has agreed to provide transportation, health care insurance and child care assistance to ACR's trainees under a special exemption. The director of GFF will lead classes in self-employment and entrepreneurial skills for ACR clients. Once trainees have completed the program, they have the opportunity to borrow start-up capital from GFF and open their own centers.
While the above measures are important for opening up self-employment as an alternative to welfare, I am concerned that under the existing rules of the system, self-employment will only present a viable option for a marginal number of recipients. If GFF intends to safely expand this option to a wider network, it will need to devote additional human resources to the task.

If GFF decides to take this effort, it should first lobby with the Department of Human Services in Arkansas to become a self-employment demonstration project. Such demonstration projects are already underway in seven states which waive several key impediments: recipients are allowed to own assets for their businesses and are allowed to keep child care and health insurance assistance until such time as they earn substantially higher incomes for a long period of time.\(^\text{15}\)

As a demonstration project, GFF customers would be receiving exemptions not available to recipients in most other parts of the country. To translate benefits from these exemptions to a wider population, GFF should join the growing network of agencies working to reform the welfare system to remove disincentives to self-employment. The Corporation for Enterprise Development\(^\text{16}\), the catalyst behind this effort, has invited GFF to participate in its campaign. Given its limited resources, GFF may not be able to participate fully in this process. However, it should contribute by sharing the results of its attempts to work with AFDC recipients, whether or not it becomes a demonstration project.

\(^{15}\) For more information on these demonstration projects, see Balkin, 1989, pp. 122-124 and pp. 148-150.

\(^{16}\) Information based on interview (3/9/90) with Rona Feit, Corporation for Enterprise Development. CfED is a non-profit organization which promotes enterprise development programs, one of which is a series of self-employment welfare demonstration projects. CfED is gathering program directors from its seven demonstration projects in April to discuss an appropriate strategy for welfare reform, based on what has been learned from the projects (1 to 2 years of operation). Representatives from demonstration projects from two other states will also attend this meeting. Initial meetings have been organized with appropriate Congresspeople.
Conclusion

In conclusion, to reach the poor, GFF must better target its efforts. This will require a reorientation of resources including: monitoring systems to track poverty goals, action research plans that focus on outreach to poverty areas, and placement of new staff in remote communities instead of headquarters. Based on the survey and through conversations with welfare recipients, it appears a small percentage of individuals exist with the skills, interest and motivation necessary for embarking on self-employment endeavors and who previously lacked access to institutional assistance. To these individuals GFF provides a critical opportunity.

Once the poor are reached, though, the long run viability of their enterprises may be limited by constrained markets in the depressed Arkansas economy. Possible strategies include the increased marketing assistance through peer-groups and by GFF, more direction of borrowers into profitable industries by the staff, networking with other local agencies, and forging links between borrowers and existing crafts networks. How such marketing issues are resolved will affect the cost efficiency and impact of the program over the long run.

In terms of working with welfare recipients self-employment will present an option for a only a minimal number of recipients. The primary benefit of forging a relationship with DHS will be the negotiation for welfare reform in the long run to make self-employment a viable alternative.

Because the advent of GFF and other self-employment programs like it in this country is so recent, whether the poor will be able to successfully establish such enterprises and improve their livelihood remains to be seen. By employing the methods outlined above, GFF will be in an excellent position to test the poverty alleviation potential of this strategy.
CONCLUSION

This thesis has explored the potential of self-employment as a strategy for poverty alleviation. It reveals strengths and weaknesses of the peer-group lending model in providing the assistance needed by limited-resource entrepreneurs.

The peer-group model holds the potential to overcome some problems which typically afflict small businesses: instability, isolation, limited access to information and markets. It provides a supportive network, fosters dialogue between small owners, and provides a forum for delivery of marketing and technical assistance. For self-employment agencies, borrowing groups provide a cost-effective means of evaluating and monitoring members' performance.

For GFF, the peer-group model has not (yet) lived up to expectations, either in terms of repayment rates or building mutual assistance among borrowers. GFF, as a young and responsive organization, has taken corrective action. Two basic changes should improve performance: (1) openly providing information to groups on individual members' performance, and (2) itself adhering to the rules of the model by penalizing the group if individual members do not fulfill their obligations. One of the most interesting findings of this study was the high level of community awareness and interaction in the small town of Gould. If this holds true in other small towns, perhaps the peer-group mechanism will function more naturally. The value of the model can only be tested over the long run, but in the meantime GFF's ability to identify problems and learn from its mistakes bode well for its effective delivery of services to the self-employed over the long run.

Another key question arises around the 'minimalist' approach of the model. Should more technical and marketing assistance and training be provided? Some of the new programs in the U.S. have refashioned the Grameen Bank model to
include more of such services, without which they claim the poor cannot manage self-employment activities or earn sufficient returns. Others maintain there are many poor people for which credit is the sole barrier to stable, income-generating self-employment. GFF falls somewhere between these extremes--providing some technical and marketing services, but limiting them as much as possible to the existing group structure. As GFF and other programs develop, the effectiveness of these varying approaches, both in terms of the development of members’ businesses and in terms of program cost efficiency, deserves careful attention.

GFF is promoting self-employment with the long term goal of increasing the income levels of its borrowers and their communities. The role of self-employment in economic development continues to be debated, but little hard evidence is available. GFF needs to learn more about local business opportunities to assist its borrowers in growing their businesses and improving returns. By instituting careful evaluation systems and monitoring it customers’ progress over time GFF can provide a better understanding of the internal and external factors contributing to employment and income generation through small enterprises.

Southeastern Arkansas suffers from slow growth and high unemployment. Few solutions are available, especially given the era of decreasing federal expenditures and its location in a resource-poor state. While self-employment is not a panacea, GFF affords an important opportunity to those with the skills, motivation and interest to start a small business, and as an alternative to low-wage jobs or unemployment. GFF has thus far reached a population to which credit, and thus, self-employment activities, are not usually available. While not the poorest, providing assistance to these relatively poor and traditionally underserved people is an important advancement which may contribute to increased local development in the long run. Over the next years, as GFF deepens its outreach to poorer residents, the model’s potential for poverty alleviation will be further tested.
APPENDIX A
The Good Faith Fund’s Service Area
APPENDIX B
Revised Survey Document

1. How long have you lived in ______________________ (name town)?

2. [If 5 years or less] Where did you live before?____________________

2a. Why did you move? ______________________

3. Do you think you might move away from this area in the next five years?
   a. Yes
   b. No

3a. Why or why not? ______________________

4. Overall, are things getting better or worse in your community?
   a. Better
   b. Worse
   c. No change

4a. Why? ______________________

5. Five years from now do you expect this community to be:
   a. Richer
   b. Poorer
   c. About the Same

5a. Why? ______________________

6. What is your age? ______________________

7. What are the leaders in your community like?
   a. There are a few leaders or important people who work together for the benefit of the whole community.
   b. The leaders work together, but for their own benefit, the rest of the community doesn't gain much.
   c. Leaders fight among themselves so they don't accomplish much.
   d. There are no leaders.

7a. Who are these leaders? What are their names? ______________________

8. Do you know of any organizations or people in your community that are working to make it a better place to live?
   a. Yes
   b. No (Go to #9)
8a. What are the names of these organizations or people?  
1) ________________________  
2) ________________________

8b. What do these organizations or people do?  
1) ________________________  
2) ________________________

8c. What success have they had?  
1) ________________________  
2) ________________________

9. Do you know any local organizations or people promoting economic development? 
   a. Yes  
   b. No (Go to #10)

9a. What are the names of these organizations?  
1) ________________________  
2) ________________________

9b. What do these organizations or people do?  
1) ________________________  
2) ________________________

9c. What success have they had?  
1) ________________________  
2) ________________________

10. Is there any type of organization that you wish your community had?  
__________________________________________________________

11. Do you belong to any organizations working to improve the community?  
   a. Yes  
   b. No (Go to #12)

11a. What are the names of these organizations?  
____________________________________________________________

12. Would you like to see your town grow in population?  
   a. Yes  
   b. No

12a. Why or why not?  
____________________________________________________________

13. Would you like to see industrial growth in your town?  
   a. Yes  
   b. No (Answer #13a, then go to #14)

13a. Why or why not?  
____________________________________________________________

13b. What type of industry?  
____________________________________________________________

(Interviewer say: Now, I'd like to ask you some questions about yourself.)

14. How many years of school have you completed?  
____________________________________________________________
15. What is the highest academic degree you have received?
   a. High School Diploma/GED
   b. Associate Degree
   c. Bachelor’s Degree
   d. Master’s Degree
   e. Ph.D.
   f. Other (please specify) ________________________________

16. Have you ever had vocational training?
   a. Yes
   b. No (Go to #17)

16a. In what field? ________________________________

17. To which of the following groups do you belong?
   a. Black
   b. White
   c. Hispanic
   d. Indian
   e. Other (please specify) ________________________________

18. Have you ever borrowed money, either formally or from family or friends?
   a. Yes
   b. No (Go to #19)

18a. For what purpose? ________________________________

18b. From whom? ________________________________

19. Have you ever tried unsuccessfully to get a loan from a bank?
   a. Yes
   b. No (Go to #20)

19a. For what purpose was the loan? ________________________________

19b. Why do you think you were turned down? ________________________________

20. Are you currently employed or do you own a business?
   a. Yes, I am employed
   b. No (Go to #27)
   c. I own a business (Go to #28)

21. Are you employed full or part time? ______ How many hours? ______

22. What is the name of your company? ______________ Where is it? ______

23. What is your job called? ________________________________
24. What are your duties? ____________________________

25. What is your pay for this job? ________ (hourly, weekly, monthly, yearly?)

25a. How are you paid?
   a. salary
   b. commission
   c. something else (please specify) _________________________

25b. Do your earnings change throughout the year?
   a. Yes
   b. No (Go to #26)

25c. How do they change? ____________________________

26. Do you expect to change jobs over the next five years?
   a. Yes
   b. No

26a. Why or why not? ____________________________

27. Have you looked for a job in the last six months?
   a. Yes
   b. No (Go to #28)

27a. What kinds of jobs? 1) ______________________ 2) __________________

27b. Where have you looked? 1) ______________________ 2) __________________

(Interviewer: If respondent is employed ask question #28 then go to #39. If respondent is unemployed ask #28 then go to #41.)

28. Have you taken any classes over the last six months?
   a. Yes
   b. No (To #39--employed; #41--unemployed; #29--self-employed)

28a. Why? ____________________________

28b. What kind(s)? 1) ______________________ 2) __________________

(Interviewer: Ask the next questions only if respondent has own business)

29. What kind of business do you own?
   a. Service
   b. Retail
   c. Manufacturing
   d. Wholesale
   e. Other (please specify) ____________________________
30. What service (product) do you provide (sell)? ______________________

31. Did you start, purchase, or inherit this business?
   a. start
   b. purchase
   c. inherit

31a. What year did you start, purchase or inherit this business? ____________

32. What would you estimate your start-up costs were? ______________________

33. How much of that cost came from your own funds? ______________________

34. How much did you get from your family and friends? ____________________

35. How much did you borrow from banks or other institutions? ____________
   35a. Which institutions? 1) _______________ 2) _______________

36. What was the biggest problem you faced when starting up this business?

37. What is the biggest problem you face now? ____________________________

38. What are your immediate business plans? ______________________________

39. Are there any seasons during the year when you have to work harder or put in more hours at work?
   a. Yes
   b. No (Go to #40)

39a. Which times of the year? ____________________________________________

39b. Why does this seasonality occur? _________________________________

40. Do you have any other jobs or ways of making money?
   a. Yes
   b. No (Go to #41)

40a. What are they? ____________________________________________

40b. On average, how much do you get paid? _______ (weekly, monthly, yearly)

41. Do you receive pensions or other regular retirement payments?
   a. Yes
   b. No (Go to #42)

41a. What are they? 1) ___________________ 2) ___________________
41b. How much do you receive? ________________ (monthly, annual?)

42. Do you receive alimony or child support?
   a. Yes
   b. No (Go to #43)

42a. How much do you receive? ________________ (monthly, annual?)

43. Do you receive income from rent of either buildings or lands?
   a. Yes Buildings _____ Lands _____ (Check one)
   b. No (Go to #44)

43a. How much do you receive? ________________ (monthly, annual?)

44. Do you receive any of the following?
   a. Social Security
   b. Disability
   c. SSI
   d. Veteran's benefits
   e. AFDC
   f. Food Stamps
   g. Medicaid, Medicare
   h. Educational grants or scholarships
   i. Other (please specify) ____________________________
   j. None of the above (Go to #45)

44a. How much do you receive? ________________ (monthly, annual?)

45. Do you or anyone in your household hunt or fish to provide food?
   a. Yes
   b. No (Go to #46)

45a. About how many pounds of meat do you get hunting per year? ________

44b. About how many pounds of fish do you get fishing per year? ________

46. Do you or anyone in your household grow or produce your own food or agricultural products?
   a. Yes
   b. No (Go to #49)

46a. What do you grow? 1) ____________________________
   2) ____________________________
   3) ____________________________

46b. How many bushels or pounds do you grow per year? 1) __________
   2) __________
   3) __________
47. Do you sell any of these products?
   a. Yes  (Complete #47a, then skip to #49)
   b. No  (Go to #48)

47a. How much? 1) __________ 2) __________ 3) __________

48. Would you be interested in selling some of these products?
   a. Yes
   b. No  (Go to #49)

48a. Why haven’t you so far? __________________________________________

49. Do you raise livestock or other animals?
   a. Yes
   b. No  (Go to #54)

49a. What types of animals do you raise? 1) __________________________
     2) ______________________

50. Do you slaughter or sell any of it?
   a. Yes  (Complete #50a, then skip to #52)
   b. No  (Go to #51)

50a. How many pounds of it per year? 1) __________ 2) __________

51. Would you be interested in slaughtering or selling some of these animals?
   a. Yes
   b. No  (Go to #52)

51a. Why haven’t you so far? _________________________________________

52. Do you get products from the livestock? (milk, eggs, wool, honey)
   a. Yes
   b. No  (Go to #54)

52a. [If get eggs or other] About how many dozens per year? __________

52b. [If get milk or other] About how many quarts per year? __________

52c. [If get wool or other] About how many pounds per year? __________

53. Would you be interested in selling some of these products?
   a. Yes
   b. No  (Go to #54)

53a. Why haven’t you so far? _________________________________________

73
54. Do you have a relative or friend who produces food or food products and provides them for you in regular quantities?
   a. Yes
   b. No *(Go to #55)*

54a. What are they? 1) __________________________
                    2) __________________________

54b. How many pounds, quarts, bushels? 1) ________________
                                            2) ________________

55. Do you or anyone in your household do any jobs where you exchange goods for services or goods for goods?
   a. Yes
   b. No *(Go to #56)*

55a. What is it (are they)? ______________________________________

55b. What do you (he, she) get in return? __________________________

56. Have you ever started your own business? *(If now own a business ask: Have you ever started another business besides the one you now own?)*
   a. Yes
   b. No *(Go to #58, unless now owns a business, then Go to #66)*

56a. What was the business? ______________________________________

57. Why are you no longer in it?
   a. Business failed
   b. I became ill
   c. I got tired of it
   d. I was bought out

57a. Exactly what happened? _____________________________________

*(Interviewer: If respondent currently owns a business go to #66)*

58. Have you ever thought about starting your own business (again)?
   a. Yes
   b. No *(Go to #59)*

58a. Did you have a type of business in mind?
   a. Yes
   b. No *(Go to #59)*

58b. What is it? ________________________________________________

58c. Why did you decide not to do it? ______________________________
59. Have you ever thought about starting a business on the side? This means that you could keep up your normal employment or other activities, but run a small business during your free hours or free days.
   a. Yes (Go to #60)
   b. No (Go to #60)

59a. Did you have a type of business in mind?
   a. Yes (Complete #59b and #59c, then skip to #62)
   b. No (Go to #60)

59b. What is it?

59c. Why did you decide not to do it?

60. What do you think of the idea of running a small business on the side?

61. What do you think the problems might be for you if you decided to run a small business on the side?

62. Do you have any skills that would be appropriate for starting a business?
   a. Yes
   b. No (Go to #63)

62a. What are they?

63. Do any of your family members have skills appropriate for starting a business?
   a. Yes
   b. No (Go to #64)

63a. Who? What skills?

64. Has a relative or friend ever suggested to you that you start a business?
   a. Yes
   b. No

65. If you decided to start a business, do you know of agencies or groups nearby that would help you get started or provide technical assistance?
   a. Yes
   b. No (Go to #66)

65a. What are they?

66. Do you have any close relatives or in-laws who are in business for themselves?
   a. Yes
   b. No (Go to #67)
66a. What is their relationship to you and what do they do?

<table>
<thead>
<tr>
<th>Relationship</th>
<th>Type of Business</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

67. If you wanted to start a business but didn't know where to begin, where would you most likely go for help or advice?

a. Friend or local relative in business already
b. Local banker
c. Local business person
d. Someone from your Church
e. Other *please specify* ___________________________

67a. Why would you choose this person? ___________________________

68. Which view comes closest to being your own?

a. Some people say if you start your own business, you are your own boss. That means that you don't have to take orders from others or count on them to see that you get fair pay or reward.
b. Others say that running your own business is too much responsibility and work and will only give you lots of headaches.

69. Which view comes closest to your own?

a. Some people say that the only way to do well in this world is to start your own business.
b. Others say starting your own business is risky, you might fail or lose everything. It is better to work where you get a good reliable paycheck.

70. Would you be willing to risk your house and all of your possessions in borrowing money to start a new business? *(If uncertain, which way would you lean?)*

a. Yes
b. No

71. Do you think people who start a business should be willing to sacrifice family time, church and community activities as they devote themselves to building a business?

a. Yes
b. No

71a. Why or why not? __________________________________________

72. Do you agree that people who work harder, and create and develop successful business ideas should be able to earn more money than the average citizen?

a. Yes
b. No

72a. Why or why not? __________________________________________
73. Do you think someone who successfully starts a business should be able to buy big houses, buy nice cars, and have more good things than the average citizen?
   a. Yes
   b. No

73a. Why or why not? __________________________________________________________

74. Does this statement fit you? I like challenges. Those times when I am fighting to reach a difficult goal are among the best times in my life.
   a. Yes
   b. No

75. Which of these two situations would you prefer if you had a choice?
   a. A job where co-workers are nice.
   b. A job where you could think for yourself.

76. On a scale from one to five, with one being the most desirable and five being the least, please tell how you would rank each in your mind.
   a. Working for the government  1  2  3  4  5
   b. Working for a large company  1  2  3  4  5
   c. Having your own business  1  2  3  4  5
   d. Being a farmer  1  2  3  4  5
   e. Working for a small company  1  2  3  4  5

77. Suppose $20,000 suddenly fell into your lap. Would you use most of the money to: (Interviewer: make certain respondent only selects one choice)
   a. Buy a new car
   b. Apply it toward a new home
   c. Buy land
   d. Put it in the bank
   e. Take a long vacation
   f. Give it to a church or charity
   g. Invest in a business
   h. Share with friends or family
   i. Pay off debts
   j. Other (please specify) __________________________________________

78. Do you attend church?
   a. Yes
   b. No (Go to #79)

78a. How often?
   a. More than once a week
   b. About once a week
   c. Occasionally

78b. What denomination are you affiliated with? _____________________________

79. How old is your oldest child? _________________________________________
79a. How much education do you think your oldest child will get? Or if your oldest child is 18 or older, how much education has she or he received so far? ________

80. Do you think your financial situation, in the next five years, will...
   a. Get worse
   b. Get better
   c. Stay about the same (Go to #81)

80a. Which do you think will happen? (More than one may be chosen)
   a. Reduction in income
   b. Increase in expenses
   c. Increase in income
   d. Reduction in expenses

81. Overall, would you say hard work pays off:
   a. Almost never
   b. Sometimes
   c. Usually
   d. Almost always

82. Which view comes closest to your own?
   a. I am not interested in running a small business on the side. I already work hard enough and I need time to spend with my family and for myself.
   b. I wouldn't mind running a business on the side, even though I know it will be hard work and will probably cut into my time with my family and keep me from doing the other things I like to do.

83. Do you think it is better to plan your life a good ways ahead or would you say life is too much a matter of luck to plan ahead very far?
   a. Plan ahead
   b. Too much a matter of luck

84. Some people feel they can run their lives pretty much the way they want to, others feel the problems of life are too big for them. Which best fits you?
   a. Pretty much the way you want
   b. Sometimes too big

85. What type(s) of insurance do you and your family have?
   a. Life Insurance
   b. Home Owners Insurance
   c. Renters Insurance
   d. Health Insurance
   e. Crop Insurance
   f. Auto Insurance
   g. Other (please specify) ______________________
   h. None (Go to #93)

85a. What is your premium? 1) ___________________ (monthly, yearly?)
     2) ___________________ (monthly, yearly?)
     3) ___________________ (monthly, yearly?)
(Interviewer say: Now I would like to ask you some questions about members of your household.)

86. Please tell me the first name of each person who lives in your household.

<table>
<thead>
<tr>
<th>Name</th>
<th>Relationship</th>
<th>Age</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

87. How are they related to you?

88. What is his or her age?

89. What is the highest level of school he or she has completed?

90. What business or activity does he or she do now?

91. Does he or she have any other job or ways of generating income? (If older, what kind of job did he or she have before?)

<table>
<thead>
<tr>
<th>Education</th>
<th>Occupation</th>
<th>Previous/2nd Occupation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

92. Do some of your family members live away from this house?

   a. Yes
   b. No (Go to #93)

92a. Where do they live?

<table>
<thead>
<tr>
<th>Relationship</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

79
93. Taken all together would you estimate that your total household income is:
   a. $ 0 - 15,000 (Go to #94)
   b. 15,001 - 30,000 (Go to #95)
   c. 30,001 - 45,000 (Go to #96)
   d. Above 45,000 (Go to #97)

Would you say then that your total household income is:

94. a. $ 0 - 3,000   b. 3,001 - 6,000
   c. 6,001 - 9,000   d. 9,001 - 12,000
   e. 12,001 - 15,000

95. a. $15,001 - 18,000   b. 18,001 - 21,000
   c. 21,001 - 24,000   d. 24,001 - 27,000
   e. 27,001 - 30,000

96. a. 30,001 - 33,000   b. 33,001 - 36,000
   c. 36,001 - 39,000   d. 39,001 - 42,000
   e. 42,001 - 45,000

97. a. 45,001 - 50,000   b. 50,001 - 55,000
   c. 55,001 - 60,000   d. 60,001 - 65,000
   e. Above 65,000

98. Do you have a Savings Account? ________________________________

99. May I have your telephone number for clerical reasons? __________

100. Would you like to learn more about the Good Faith Fund? (Hand Brochure)
   a. Yes
   b. No

101. If we scheduled a community meeting in _________ (name town), to talk about the Good Faith Fund, would you be interested in attending?
   a. Yes
   b. No

102. (Interviewer: only ask this if respondent is very strong candidate. Only make appointments for yourself that fit into your schedule.) Would you like us to schedule another visit with you?
   a. Yes   Date and Time: ________________________________
   b. No

103. Do you know anyone else who might be interested?
   a. Yes   Name: ________________________________
   b. No   Address: ________________________________
            Telephone: ________________________________
FIGURE 2. Employment growth by county, 1980-86 showing above/below state average (6%) and loss of employment

SOURCE: UALR
APPENDIX D
Southern Development Bancorporation
Organizational Chart

Southern Development Bancorporation
Bank Holding Company

Elk Horn Bank and Trust
Arkadelphia, Arkansas

Arkansas Enterprise Group
501(c)3 Non-Profit Organization

Opportunity Lands Corporation
Real Estate Development Company

Southern Ventures, Inc.
Small Business Investment Corporation

Good Faith Fund
Small Loans for Self-Employment

Seed Capital Fund
Entrepreneurial Start-up and Bridging Loans

Entrepreneurial Development
Training, Consulting, Market Information

82
APPENDIX E

The Grameen Bank: A Model for the Good Faith Fund

The Grameen Bank (GB) was initiated in 1976 as an experiment by Professor Yunus of Chittagong University in Bangladesh to test the hypothesis that credit can assist the poor to generate productive self-employment activity. After the first several years of experimenting with the model in a small area near the university, the project was expanded to another district. In 1983, GB was authorized to operate as a specialized institution throughout Bangladesh. By 1989, it had mobilized over 630,000 households and had opened branches serving 14,310 villages (Yunus 1989).

Loans from GB are utilized primarily for non-crop activities; 46% for livestock and poultry-raising, 25% for processing and manufacturing, and 23% for trading and shopkeeping. GB's borrowers, then, are engaged in agriculture or livestock-related activities, primarily in the production of high-turnover goods for local consumption.

Households owning less than 1/2 acre of cultivatable land or assets not exceeding the value of one acre of land form GB's target group. Such households are considered functionally landless since the amount of land they own cannot be a significant source of income. Approximately 96% of its members meet these criteria. It has also targeted women, who are doubly exploited in Bangladesh—as women and as poor people in a traditionally patriarchal and polarized society. The Grameen Bank has a growing proportion of female members, from 39% in 1980 to 75% in 1987. Through GB participation, women generate their own income from home work or other activities previously not acknowledged as part of the productive economy.

Despite the fact that its customers fall into the lower asset tier of the rural population and are often underserved by conventional income promoting programs, repayment rates have been extremely high. Fully, 97.4% of loans were recovered within one year of the date of issue (the expected loan term) and 98.6% repaid within two years. These figures are impressive given GB charges an interest rate of 16% (the same interest rate as charged by other specialized credit institutions in the country), which becomes 33% when savings requirements are included.

These high repayment rates have been achieved through the key innovation in its model: peer-group lending. No collateral or financial statements are required, instead borrowers self-select into five member groups which then serve as a support and pressure system. Loans are made to individual members, but if one borrower has a poor repayment record, other members cannot borrow. To maximize the group method, loans are first disbursed to two members, with the next two members' loans conditional on their timely repayment, and so on. The 'appropriate technology' of the peer-group mechanism is that it recognizes and makes use of the closeknit nature of rural villages—people's actions are well-known in the community and, with limited access to resources, residents rely on one another.
While such high repayment rates serve as a direct indicator of effective service delivery, the ultimate goal of the program is increased productivity and improved income generation. These data, while more difficult to compile, are crucial to understanding the effectiveness of the program. The most directly measurable effect has been on the accumulation of capital. For example, the investment in fixed assets is about 2.5 times higher for borrowers with more than three years' membership than those in their first year. In addition, members' savings have grown substantially, from $49,000 in 1980 to $7,600,000 in 1988 (Rippey 1988). In 1988, this translates to $17.50 per borrower and represents about 5% of median annual income in Bangladesh.

The results on income are less clear. Sanyal, through extensive interviews with government officials, international donors and practitioners, found no evidence of improved earnings for participants in income generating programs in Bangladesh (1989:12). On the other hand, according to an in-depth household survey conducted by Hossain in 1985, GB members from five randomly selected villages had incomes about 43% higher than the target group in two control villages, and 28% higher than target group non-participants in project villages (Hossain 1988:66). Borrowers themselves perceive membership in the bank has improved their standard of living.

At what cost have these programs been delivered? Benefits of an intensive credit program like GB need to be measured against the costs. Major sources of funds for GB are borrowings from the Bangladesh Bank and loans and grants from the International Fund for Agricultural Development and to a lesser extent, loans from the Netherlands and the Ford Foundation. Paid-In Capital, comprising about 4% of total liabilities, is owned 75% by the borrowers and 25% by the Bangladesh Bank. On the asset side, (in 1986) loans comprised 36.9% of total assets, long and short term deposits were 48.4%, and fixed assets and cash balances made up the remainder.

The Grameen Bank has been operating at a small profit for several years. In 1986, GB's operating costs were 18.1% of loans outstanding. If interest charged to members is 16%, how does GB meet the difference? The key lies in its asset structure. Note the high percentage of total assets (48.4%) in the form of deposits placed with other financial institutions; these placements generate higher interest than GB pays on its subsidized funds. This spread, then, allows GB to operate in the black. While GB has developed a sound financial structure, especially compared with other rural credit programs, it will remain dependent on subsidized funding for the indefinite future.

The Grameen Bank has been called a 'minimalist' credit program, because it limits its formal program of assistance to credit, without providing training or other technical assistance. In fact, though, these services are provided; responsibility for their provision has simply been shifted to the borrowers themselves. The borrowing groups and the larger centers provide multiple functions necessary for an effective credit program: they act as a preliminary loan committee; they serve as a primary support network for marketing and marketing ideas; they provide mutual technical assistance; they serve as a safety net and pressure mechanism for loan repayment.
Borrowing groups and centers also provide an avenue for social change: the simple fact that women are the primary borrowers and attend weekly meetings challenges traditional patterns of seclusion. Perhaps the most clear evidence of the social inroads made by GB are its Sixteen Decisions, a set of rules designed by a group of GB borrowers five years ago to which all members now adhere. These rules go far beyond the scope of a traditional bank, running the gamut from denouncing the practice of dowry, to affirming the importance of education, to an emphasis on growing vegetables.

The above profile illustrates GB’s main accomplishments. It has provided poor people with access to a primary resource, credit, which in turn allows them to increase productivity and income from self-employment activities. It has been able to expand its membership annually to reach a large number of households and it has done this in a relatively cost-effective manner. Finally, using its centers as the focal point, GB has been able to address some of the broader social issues affecting its members.

Secrets to Success and Issues to Consider

What are the key elements leading to this success? From numerous studies, several elements reveal themselves. For brevity’s sake, I list them here in bullet form.

Program

• The ability of GB to confine its credit services, using ‘appropriate technology’ to those who would otherwise not have access to formal credit at reasonable rates. Key factors include the use of the peer-group lending support mechanism and the collection of repayments in small, manageable amounts.

• By charging a market interest rate, GB precludes the appropriation of benefits by wealthier residents, at the same time provides a unique opportunity to borrowers otherwise forced to pay up to 125% in interest to money-lenders.

• The provision of loans for income-generating activities in which people were previously involved or for which extensive local expertise is available. Sales are

1 For this section, I draw primarily on:
facilitated by widespread and well-developed informal markets; high rural population density also contributes.

**Structure/Staff**

- A strong management system. Some emphasize the decentralized nature of power and responsibilities (Hossain, 1988). Others, in contrast, note GB's extreme hierarchy and limitations on decision-making power (Tendler, 1987a).

- The dedicated service of the field workers, called bank workers, who share a commitment to serving the poor, rather than simply working to earn a living.

- The strong leadership of Muhammad Yunus.

**History/Policy**

- The fact that GB began with a single intervention, credit, using a minimalist approach and did not begin expanding its programs until it could effectively manage and grow its credit program.

- Until 1983, the Bangladesh Bank provided all banking services to GB's customers. GB was thus allowed to focus on processing loans and working with customers; the business of banking was acquired slowly by association over a seven year period.

- The fine line GB is able to walk between the government and the independent sector. Dr. Yunus is well-connected to the establishment and GB receives funding from the government; however, the government does not have a controlling interest. For instance, the Board of Governors is comprised of four members appointed by the government and nine selected from the borrowers.

As for identified problems, in contrast to other development efforts, the available literature and numerous evaluations tends to be overwhelmingly positive. Still, several issues merit attention; most relate to a lack of sufficient information. Some relate to misimpressions rather than problems per se; but such misperceptions may lead to problems in replication.

GB is reputed to be a participatory organization. If participatory is defined as including the membership in decision-making, this holds true only to a limited extent. Borrowers are allowed to select their group members, and also help to approve loan disbursements. In select cases they are also able to influence policy, as in the Sixteen Decisions. However, GB itself sets criteria as to who can participate and final responsibility for loan approval lies with the Branch Manager. In addition, all larger strategic decisions are made by the Managing Director. However, this is somewhat mitigated by the presence of borrowers on the Board, which must approve all major policy decisions. The clearest challenge to the participatory nature of the program is the
firmly established hierarchy and carefully developed rules to be followed by all levels of staff and borrowers. Such rigidity precludes cooperative decision-making.

GB provides a micro-strategy for poverty alleviation, but the enterprises it supports exist in relation to larger firms and the macro-economy. In an interview with 60 Minutes on March 18, 1990, Yunus claimed "the largest impediment to economic development for the poor in Bangladesh is lack of access to capital." This ignores many other macro-economic issues--the need for redistribution of land through agrarian reform, inequitable trade policies, skewed distribution of foreign assistance, widespread state corruption. Such factors affect the environment in which GB borrowers operate, but, self-employment will not directly alter these issues, except possibly over the long run. GB borrowers fill a sound niche in the local economy, through production of basic consumption goods. But, regional growth patterns are heavily influenced by large and increasingly technology-intensive agricultural production units. More needs to be understood about the relationship of the two.

While relations with the macroeconomy deserve further attention, so do relations within the household. Most GB borrowers take on income-generating activities in addition to previous work responsibilities. The average work week, prior to GB membership is 52 hours per week. However, undertaking new self-employment activities requires increased labor. How will this labor be allocated in the household? Does the female simply take on the added burden of responsibilities without benefiting from increased control over household expenditure patterns? Both men and women members have retained their traditional roles in terms of their chosen enterprises; women undertake largely home-based activities and men tend to have more public roles in trading and as shop-keepers. Thus, it is unclear to what extent income-generating activities have allowed participants to claim new positions both in the household and the economy.

Reputed internationally as an autonomous non-governmental organization, it is actually GB's close relationship to the state that gives it credibility to organize at a grassroots level. At the same time, such ties may constrain its possibilities for transformative change. Grameen's success, and limits, lay in its ability to negotiate political space within the larger system. GB has increasingly moved into social issues, challenging the dowry system, advocating and assisting with education for members' children, encouraging clean health practices. How far GB can go in organizing the poor while retaining its legitimacy in the eyes of the state remains to be seen.

**Replication: Issues in a New Context**

It is important to consider carefully the context-specific aspects and limitations of GB's success and the constraints and opportunities inherent in adapting of model. What has been successful in Bangladesh may not be replicable in the U.S.; what generates income and facilitates 'empowerment' in one context may not produce similar results when transplanted to a new culture and socio-economic climate.
Program

A land-scarce country, Bangladesh supports 100 million people in 56,000 square miles, translating to 1,786 people per square mile. Bangladesh, in fact, is the most densely populated nation in the world. This contrasts sharply to most other countries with large rural populations and to states like Arkansas with a population density of 49 persons per square mile. At stake is GB’s mission to ‘bring the bank to the people’ which may prove prohibitively costly in more widely dispersed areas. Another concern is the functioning of the peer-group mechanism in different cultural contexts and less closely-knit environments. Finally, for borrowers, marketing may become a problem where possibilities are limited for selling products to nearby neighbors, on the streets, or in weekly markets. Time and transportation may become constraints.

In developed countries, marketing poses an additional challenge, because of limited experience with informal markets which form such an integral part of economic life in developing countries. However, a growing body of literature in the U.S. and European countries recognizes the presence of informal activities, although most studies focus on urban centers. The informal sector is not a new phenomenon, rather historically it has been a hidden one. New U.S. programs will need to seek out and understand the workings of informal transactions. Small-scale producers in developed countries must also counter a pervasive ‘Sears’ mentality which accepts mass-produced products as superior. The marketing issue must be grappled with in order to determine whether GB borrowers fill a niche in Bangladesh which is not available to their counterparts in developed countries.

Structure/Staff

GB has achieved a delicate balance between leadership and staff motivation that may be difficult to emulate. In reading the literature and program evaluations of GB, I was struck again and again by the number of references to Muhammad Yunus. His charismatic leadership has clearly been fundamental to GB’s growth and increased recognition worldwide. He also manages to select a staff dedicated to working with the poor and believes, firmly, in the GB approach. The question is whether or not the effective implementation of the program depends on the presence of such a dynamic leader and such a committed staff. Can other individuals, even if they possess these qualities, strike the same delicate balance between leadership and cooperation that GB has achieved? Finally, it may be difficult to find staff members with a cooperative nature and a commitment to working with the poor, who are also amenable to the extreme hierarchical organizational structure imposed by GB.

History/Politics

GB began by providing one intervention, credit, in an innovative way. In different economic and social contexts, will this one intervention be sufficient to assist poor people to start or expand self-employment activities? Most employment programs for the poor provide more comprehensive training and other assistance programs, in order
to address multiple needs; i.e. day care, health insurance, literacy training, basic skills training, or technical and marketing assistance. These programs typically are much less cost-efficient than GB and reach fewer people—but these additional interventions may be necessary in different contexts to serve the poor.

Another challenge to independent sector programs will be to contract with commercial banks to take on the banking responsibilities during the pilot phase. Commercial banks are noteworthy for risk-aversion and reticence to schemes involving the poor. A related issue is forging a link with the state that provides sufficient support but retains adequate autonomy. Muhammad Yunus was in a unique position to foster this linkage in Bangladesh; it may prove difficult to emulate with different players and different institutional norms.
### APPENDIX F
Profile of the Impact of Self-Employment on AFDC Recipients in Arkansas

| Profile | Single Mother.  
|         | One Child.  
|         | No child support.  
| AFDC Benefits | $162 per month.  
| Income prior to joining GFF | No income.  

| Borrow $1,000 from GFF | The loan proceeds do not affect benefits. Continues to receive $162 per month.  

| First month, earns $100 | $90 deduction. (=> $10 left in income)  
|                          | 30 and 1/3% deduction. (=> about $7)  
|                          | Minimum earnings must be $30.  
|                          | => No change. $162 per month in benefits.  
|                          | Client's income now $262.  

| Second month, earns $100 | Same as above.  
|                         | Client's income now $262.  

| Third month, earns $130 | $90 deduction. (=> $40 left in income)  
|                         | 30 and 1/3% deduction. (=> about $28)  
|                         | Minimum earnings must be $30.  
|                         | => No change in benefits. $162 per month.  
|                         | Client's income now $292.  

| Fourth month, earns $200 | $90 deduction. (=> $110 left in income)  
|                          | 30 and 1/3% deduction. (=> about $77)  
|                          | => Change in benefits. Reduced by $77.  
|                          | New benefits => $85.  
|                          | Client's income now $285.  
|                          | (Note: here client is worse off by making more money)  

(Note: here client is worse off by making more money)
Fifth month, earns $200
$90 deduction. (=> $110 left in income)
$30 deduction (=> $80)
=> Change in benefits. Reduced by $80.
New benefits => $82.
Client's income now $282.
(Note: because of the change from the first 4 month rules, the client's income drops slightly.)

Sixth month, earns $250
$90 deduction. (=> $160 left in income)
$30 deduction (=> $130)
=> Change in benefits. Reduced by $130.
New benefits => $32.
Client's income now $282.
(Note: even though client received significantly more income from business, because of lower benefits client has same income.)

Seventh month, earns $300
$90 deduction. (=> $210 left in income)
$30 deduction (=> $180)
=> All benefits are lost. Client bottoms out.
Client's monthly income now $300.

******************************************************************************
BIBLIOGRAPHY


