

Joint Liability Groups: Theory, Practice and Implications for Poverty

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Abstract: While joint liability groups (JLGs) are fundamental to MFIs, theoretical knowledge on JLGs seems to have overtaken the empirical evidence available. The effect of JLGs on poverty is unclear. Employing a mixed method approach, this paper examines JLGs in two MFIs, NWEF and SAT, in a rural community in Ghana. This study showed that, contrary to theory, JLGs are essentially top-down strategies because of MFIs' determination to control the JLG implementation process. Peer monitoring was irrelevant in the situation where the use of loans for non-business purposes was widespread. Regarding the effect of JLGs on poverty, consensual decision-making within groups yielded positive benefits to service users. Service users who benefitted the most from MFIs disliked JLGs suggesting that they inhibit poverty reduction. This is perhaps an indication that it is time MFIs looked for other innovative ways of providing financial services that is acceptable and fair to poor service users.

Keywords: joint liability groups, microfinance institutions

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Introduction

Joint liability groups (JLGs) form the basis upon which most microfinance institutions (MFIs) operate and they constitute a form of social collateral that replaces physical collateral, which the poor are unable to provide. However, how they are formed and the contextual understanding of activities of such groups, including their effect on the poor, is not well understood. Studies on JLGs have also relied on theoretical models to the extent that the theoretical knowledge has overtaken the empirical evidence available. Most studies assume groups are self-formed and therefore fail to scrutinise group formation activities (Lensink and Mehrteab, 2003). Of the many studies on JLGs (see Besley and Coate, 1995; Wydick, 1995, 1999; Armendariz de Aghion and Gollier, 1996; Sharma and Zeller, 1997; Marr, 2002; Ahlin and Townsend, 2007), none of them have adequately examined the process of JLG formation.

Additionally, most studies have neglected the issue of context in the study of JLGs. The main reason for this has been the preference for quantitative analysis especially econometric analysis (Ghatak and Guinnane, 1999; Sadoulet and Carpenter, 1999; Ghatak, 2000; Cason, Gangadharan and Maitra, 2008; Guttman, 2010). Clearly there is the need for contextual-based studies on JLGs. Marr (2001) makes an argument for contextual analysis of microfinance programmes by cautioning that it is important not to assume group lending dynamics as existing in a vacuum, but to perceive the process as embedded in social, economic and cultural factors.

Employing a micro-analysis of two microfinance institutions, this paper intends to contribute to the understanding of activities of JLGs and their implications on poverty. The importance of the paper rests on the ubiquity of JLGs in microfinance programmes. This paper is structured as follows: after the introduction, the literature on JLGs is reviewed in section two using the Simtowe and Zeller's (2006) dynamic model as a guide. Section three presents a brief background of the microfinance

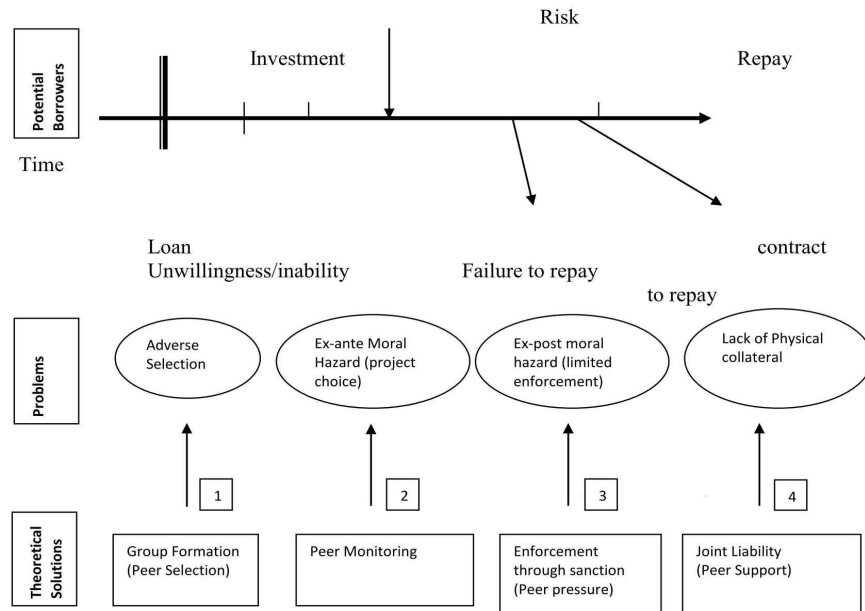
institutions and the community studied, paying attention to factors that have implications for microfinance activities. The data collection and analytic techniques are also presented in section three. Analyses of the formation and activities of JLGs are found in section four. Section five examines the implications of JLGs on poverty. Finally, section six concludes the paper and delineates the contributions of this paper to the microfinance literature.

Joint Liability Group Theory

The paper employs a modified version of a joint liability model¹ presented by Simtowe and Zeller (2006)² to guide, explain and understand the JLG strategy in microfinance. Figure one shows the loan transactions and various stages (numbered one to four) in the JLG approach, starting from group formation through to joint liability (repayment). Each stage is associated with a problem that group lending is supposed to address. The four stages identified in figure 1 will form the basis for the organisation of the remainder of this section.

¹ The modification is to enable a logical, sequential and complete depiction of the role of JLGs in microfinance.

² Simtowe and Zeller's dynamic presentation of group lending (Figure 1) should not be seen as just a simple and direct problem and solution stages: some solutions address problems in other stages. For instance, peer selection can mitigate the problem of ex-ante moral hazard: members select peers who they know are likely to engage in non-risky projects. Depicted in Figure 1 are the dominant solutions to potential problems at each stage of the intervention.

Figure 1. Dynamic Group Lending Model

Source: Adapted with modifications from Simtowe and Zeller (2006).

Group Formation

Allowing groups to form on their own is crucial and ensures that potential service users can utilise local information they have about each other's project or attributes, in order to look for the best partners (Ghatak, 2000; Armendariz de Aghion & Morduch, 2005; Al-Azzam and Sarangi, 2007). It is argued that self-selection into groups also ensures socio-economic homogeneity within groups, which is important for ensuring some degree of consensus in decision-making within groups (Yeboah, 2010). Enabling the self-selection of groups reduces the incidence of adverse selection (Ghatak, 1999). However, some empirical observations reveal that not all groups in microfinance interventions are formed using peer selection. Karlan (2003), for instance, describes how FINCA³ affiliates in Peru invited interested borrowers to add their names

to a list which later becomes a group.

It is argued that while groups may want to self-select themselves into homogeneous groups, there are some factors that hinder attempts at making that possible: imperfect information, lack of time to adequately choose similar members, inability to fully screen members of similar risk type (Sadoulet and Carpenter, 2001; Lensick and Mehrteab, 2003). Furthermore, Sadoulet and Carpenter (2001) found in a study of a credit group in Guatemala that borrowers deliberately formed heterogeneous groups in order to set up insurance arrangements. On the other hand, while Marr's (2002) research in shanty towns and rural Peru revealed that groups were formed based on self-selection, they started off as fragmented and heterogeneous. Marr found initial information levels among group members to be generally superficial. Marr attributes this state of affairs to four factors: the lack of interest of loan officers in the screening process; members selected for their readiness to hand over loans to another relative; persons in position of power ignoring the selection criteria for political favours and money; and the pressure to find enough people to attain the minimum number to start a group. Groups therefore exhibited traits of heterogeneity, due to what she calls 'hidden agenda' of group members and officials.

The above discussion indicate that self-selection will not always lead to assortative matching, or indeed group members will deliberately self-form into heterogeneous groups. However, the compelling argument that underlies self-selection into groups is that if members are to be jointly liable for loan defaults of their peers, then they should be responsible for choosing persons who become members of their groups. In support, Ghatak (2000) and Sadoulet and Carpenter (2001) argue that issue of joint liability in groups should induce members to self-select themselves into groups.

What are the implications of the methods of forming groups? Perhaps the most important concern for the use of self-selection in the

³ Foundation for International Community Assistance

formation of JLGs is the danger that relatively poorer people, who are perceived as more risky, might be excluded (Hulme and Mosley, 1996; Johnson and Rogaly, 1997). Does this imply that forgoing self-formation and instead permitting anyone interested to join a group will ensure that poorer people will be included? The microfinance literature is unable to provide answers to this question.

Peer Monitoring

Peer monitoring means service users checking on their peers to ensure that they do not engage in activities that will jeopardise loan repayment. For service users, the incentive to monitor the use of loans stems from the issue of joint liability and the potential loss of access to future loans for all members in a group (Sharma and Zeller, 1997). Stiglitz (1990) adds that the success Grameen Bank and other similar group lending programs have enjoyed is a result of the peer monitoring strategy. Aghion (1999) argues that peer monitoring can also prevent strategic defaults in group lending by verifying peers project returns (ex-post moral hazard) as well.

How does peer monitoring work in practice? Marr (2002) found a very low level of monitoring in groups in *La Chanchita* microfinance programme in Peru. More than half of service users had undertaken no peer monitoring whatsoever, and those who claimed to have monitored their peers, did so on an inconsistent basis. One reason, according to Marr, was that JLGs were often unable to harness local information for the purpose of peer monitoring. As well, peer monitoring was found to be expensive, and the cost of monitoring appeared to be the most important hurdle in the peer monitoring process. Marr also discovered that monitoring was discouraged when sub-groups were composed of close relatives with strong interest in avoiding monitoring and penalties. Another important finding of her study was that information obtained through peer monitoring could be distorted, hidden or not divulged to group members or programme officers. People who volunteer such

information could be labelled as informers and suffer some consequences. It is however, important to note that Marr was of the opinion that peer monitoring was essential for loan repayment.

Enforcing Loan Repayment

Enforcement refers to the use of peer pressure and/or sanctions to induce service users to repay loans. According to Marr (2002), before applying peer pressure, group members audit non-paying members to ascertain if their actions were wilful or otherwise. Besley and Coate (1995) demonstrate that if social penalties (enforcement) are strong enough group lending can improve repayment rates. Marr (2002) argues that when the level of monitoring is low, groups tend to rely more on the use of peer pressure and sanctions to achieve high repayment. Paxton (1996) found in Burkina Faso that groups were more willing to exert pressure to encourage repayment before the loans were due, rather than after default had occurred. In the study area in Burkina Faso, if reasons for default were considered uncontrollable members did not put much pressure on the defaulting service user. Village harmony was so valued that even when default was wilful, there was not much pressure applied. In contrast Marr (2001) described the type of social sanction taken against defaulters in Peru. Defaulters could be ostracised from community-based relationships and harassed till payment was received. Violent sanctions such as aggressive public humiliation, seizure of private property and even burning of houses are not uncommon.

Peer Support/Joint Liability

When peer pressure and sanctions have been applied and have failed to result in loan repayment, other members in the group have to make good the default. Simtowe and Zeller (2006) refers the problem at this stage as that of limited liability. It can however, be argued that joint liability is not just a stage in the group lending scheme, but underlies the

entire process of group lending (Ghatak and Guinane, 1999). Service users have joint liability in mind when they organise themselves into groups. It is the idea that all members of a group are jointly liable for any loan default that compels peers to self-select, monitor and apply pressure and sanctions to ensure loan repayment (*ibid.*).

Although joint liability is perceived as the basis of group lending, it is not enforced in some microfinance interventions. Jain (1996) observed in the Grameen Bank that even though there was much discussion and emphasis on the concept of joint liability, it was the individual defaulter who was pursued. Other members of the group did not have to suffer jointly for the non-payment of the loan by the individual.

The review of the literature sought to clarify the theories regarding JLGs. To conclude, it is evident that in the study of JLGs theoretical understanding dominates the empirical. Clearly, contextual-based studies that take into consideration information of service users and their environment to understand microfinance programmes are required.

Methodology and Background of Study Area

The paper uses data collected for a doctoral research on two microfinance programmes in Nsoatre, Ghana, from August 2007 to January 2008 (see Yeboah, 2010). To facilitate a contextual study, the researcher selected a community in which he had intimate knowledge of the language, customs and the lived experience of the people.

Qualitative data was first collected through personal interviews and the variables that proved significant and important were identified and incorporated into a questionnaire. This was to ensure that the quantitative data was context-based. In total 22 service users and 4 members of staff of the two MFIs were interviewed, while for the quantitative data 100 questionnaires were administered.

The effect of microfinance on poverty reduction was measured based on a series of questions on households and businesses of service

users. There were 13 questions in total (see table 1). These questions were amalgamated into two composite indicators: business and household outcomes. The composite variables were appropriate, because as single variables, they measured various dimensions of household and businesses of service users. Qualitative data were analysed thematically, while ordinal logistic regression and cross-tabular analysis were the main analytic strategy used on the quantitative data. For more on data collection and analyses (see Yeboah, 2010).

Table 1. Poverty Outcomes of the Microfinance Interventions

Business Variables	Household Variables
Expanded size of business	Contributed/increased contribution to household finances
Added new products	Enabled household to cope during lean season
Hired more workers	Acquired long-term assets
Reduced cost by buying in greater quantities	Contributed to the acquisition of household assets
Improved quality of business products	Increased ability to cope with household emergencies
Developed new business	Make/increased household savings
Increased business assets	

Source: Fieldwork Data, 2007/08

Background of Nsoatre and Service Users

Nsoatre is a large community with rural characteristics and lies in the forest area of the Midwestern part of Ghana and has a population of about 16,000 (Ghana Statistical Service, 2006). Nsoatre is predominantly agricultural with about 87% of the population mentioning farming as their major occupation with food crops being the main agricultural products cultivated (Yeboah, 2001). It is a matrilineal and a moderately patriarchal society. Women cater for the household, while the male spouse is responsible for the financial upkeep of the household⁴. Most of the businesses of microfinance service users, who were mostly women,

were found near their household, and they tended to be small so that they could perform household chores as well. Ledgerwood's (1999) description of women's businesses in developing countries fits very well with what was found in Nsoatre: women, in juggling household duties and businesses, place less emphasis on business expansion and prefer businesses close to home.

Table 2. Basic Features of the SAT and NWEF

Features	SAT	NWEF
Characteristics of Organisation Operating MF programme	Sinapi Aba Trust • NGO • Poverty-reduction oriented • Christian-based Organisation	Nsoatreman Rural Bank (NRB) • LLC (Rural Bank) • Profit-oriented
Features of MF programme	• Targets men and women • Targets economically active (already in business) • Does not support businesses that go against biblical injunction (tobacco products, alcohol) • Meets Fortnightly (Fridays)	• Established by the Freedom from Hunger (FFH) Org. • Employs the Credit with Education (CwE)⁵ strategy • Targets women exclusively • Targets economically active (already in business) • Meets weekly (Wednesdays)
Group Formation and Structure	• Self-formed • (Initial) Trust Bank: 20-30 members • Trust Bank divided into smaller sub-groups: 5 to 7 members	• Self-formed • (Initial) Solidarity Group: 5 to 6 members • 5 or 6 Solidarity groups combined to form credit and Savings Association (CSA)
Services	• Loans • Savings • Business Training • Insurance • Occasional Educational Programmes	• Loans • Savings • Business Training • Education in Health, Nutrition and Maternal Practice

Source: Fieldwork Data, 2007/08

⁴ Females are increasingly playing an important role in the financial upkeep of the household. Women are apt to say that they play a supportive role regarding financial contributions to the upkeep of the household.

⁵ The FFH methodology, CwE, recognises that increasing incomes is only the start of the self-162

The community is characterised by severe economic fluctuations that reflect the seasonal variations in agricultural productivity. Interviews indicated that demand for goods and services were generally low in the community. This reflects the level of poverty among food crop farmers, who were found to be the poorest among the rural poor in Ghana (Ocran and Adjasi, 2009).

Nsoatre has four microfinance programmes, however only two, Sinapi Aba Trust (SAT) and Nsoatreman Women's Empowerment Programme (NWEPP), had been in operation for three or more years and were therefore selected for study. It is envisaged that for that period of time, the activities of the MFIs might have settled into regular patterns and also have some impact on the service users as well. Table 2 provides some basic information on the two microfinance programmes.

Analyses

Group Formation and Structure

Asked about how they formed their Trust Banks in SAT, interviewees stated that the people who were interested and met the selection criteria of the programme would put their names down on a list. Once the required group size was attained SAT staff provided them with some training, and this group then became known as a Trust Bank. Staff of SAT explained that such group formation strategy was to ensure that each Trust Bank consisted of members of differing occupations and socio-economic status, so as to prevent covariant risk and also ensure that the less poor assisted the poorer service users during periods of repayment difficulties. In Bolivia where Mosley (1996) found that there was much higher likelihood that group members assisted their peers when the socio-economic profile of the group was more heterogeneous. While the official SAT documents said groups were divided into smaller groups, no evidence of such sub-groups was found.

In NWEF, the solidarity groups were formed through self-selection. Freedom from Hunger (FFH), the organisation responsible for the establishment of NWEF, employed and trained some personnel who assisted potential service users in organising themselves into groups. FFH's emphasis on self-selection is exemplified by this statement:

We heard that there was such a scheme (NWEF) and we were made to understand that if we come together we were going to have access to loans. So if I knew someone who is serious and trustworthy, and can help work out such a group I could call her. So that was what we did and formed the group. (Yaa Mansa, NWEF: interview).

Interviewees stated they were assisted to organise themselves into solidarity groups of between 4 and 6 women. Solidarity groups were usually formed on the basis of proximity and/or occupational homogeneity. For instance an interviewee remarked 'the four of us who formed the group are banku⁶ sellers'. NWEF staff combined five or six of the solidarity groups to form a Credit and Savings Association (CSA).

Regarding the issue of joint liability, NWEF had a two-tier structure: the solidarity groups were initially responsible for any loan default within their group. However, if the solidarity group was unable to repay the loan, the burden fell on the CSA. This joint liability arrangement did not seem to work. The service users observed that the CSAs were gradually taking over the function of joint liability from the solidarity groups.

Some salient conclusions can be drawn from the above analyses. First, there were some implementation gaps in the SAT programme. For example, official SAT documents indicated that groups were self-formed, in reality they were not. Second, it can be argued that CSA groups were not self-formed. The practice of combining solidarity

⁶ A popular Ghanaian meal prepared from maize flour.

groups together to form a CSA by staff of NWEF defeated the idea of constituting groups on the basis of self-selection. This is significant given that CSAs were increasingly taking over the functions of the solidarity groups. While Ghatak (2000) argues that the issue of joint liability induces group members to self-select, this paper indicates that service users may not have influence over how groups are formed.

Third, it was evident that group formation strategies were part of already-packaged programme over which service users had no influence. Apart from the solidarity groups in NWEF, service users had no control over the formation of Trust Banks or the CSAs. Service users stated that they were not consulted regarding how they wanted to constitute their groups. This observation fails to support the assertion that microfinance is a bottom-up approach to providing finance to the poor (Dowla and Barua, 2006; Agrawala and Carraro, 2010).

What were the implications of the method of group formation in the two microfinance programmes? First, regarding the issue of poorer service users in the programmes, evidence from NWEF service users showed that enabling self-formation of groups did not lead to the exclusion of poorer service users as feared by Hulme and Mosley (1996) and Johnson and Rogaly (1997). Second, in SAT, the strategy of forming groups without recourse to self-selection meant that group contained people of differing socio-economic status and risks. To ensure the survival and therefore continued access to loans, such groups had to purge themselves of recalcitrant members. Members who struggled to repay loans, and those who did not want to repay loans, were promptly kicked out of groups. Expulsion rates were high in SAT, especially in the initial stages of group formation. For instance, members in the first group formed in SAT were reduced from 75 to 30 in its first year of formation. In comparison to NWEF, however, expulsions were found to be minimal, perhaps because groups were based on self-selection.

The problem with post-group formation screening as observed in SAT was that while strict adherence to the rules of expelling recalcitrant members enabled groups in SAT to get rid of people who wilfully refused

repay loans, it was also likely to result in the expulsion of poorer members who faced nascent repayment problems. Montgomery (1996) also found in a study in Bangladesh that it was usually poorer service users who were likely to encounter repayment problems and face possible expulsion from MFIs. Marr (2002) and Johnson and Copestake (2002) have observed that poorer service users were more likely to be expelled from microfinance interventions than the relatively non-poor. Yunus (1998) applied Gresham's law to expulsions from groups: if the poor and the non-poor are put in one group or program the non-poor will always drive out the poor.

Marital status was employed as a proxy for poverty to assess differences in levels of poverty between SAT and NWEF. Table 3 showed that the non-married⁷ constituted 37.5% and 28.4% in NWEF and SAT respectively. The literature highlights the vulnerability of one-parent households (especially female-headed households) and the fact that such households are more likely to be poor compared to two-parent households (Seufert-Barr, 1995; Rowlingson and McKay, 1998; Garcia and Kazepov, 2002).

Table 3. Marital Status in MFIs

Name of Intervention			Frequency	Percentage
SAT	Valid	single	7	11.7
		married	43	71.7
		divorced	6	10.0
		widow/widower	4	6.7
		Total	60	100.0
NWEF	Valid	married	25	62.5
		divorced	14	35.0
		widow/widower	1	2.5
		Total	40	100.0

Source: Fieldwork Data, 2007/08

⁷ The non-married constitute all other categories apart from the married category.

The study found that the structure of groups in the two interventions also had implications for retention of poorer service users. While in NWEF both the solidarity and CSA groups were both jointly liable, it was only the CSA that had the power to expel service users from the programme. This meant that if solidarity groups successfully dealt with issues of loan defaults and prevent information from reaching the CSA, members would not be expelled from a group. SAT had no such solidarity groups and expulsions therefore occurred at the Trust Bank level. It was perhaps the absence of solidarity groups in SAT that accounted for its high attrition rates. As argued previously, it was the poorer members of the groups who had the greater likelihood of being kicked out of the group. Evidently, MFIs that employ solidarity groups, which act as buffer against expulsions, are likely to be more beneficial to poorer members.

Peer Monitoring

The paper assessed the extent to which groups conduct peer monitoring as a strategy to mitigate ex-ante moral hazard to ultimately ensure that loans are repaid. According to staff of NWEF the task of peer monitoring is entrusted to the solidarity groups, while in SAT members of the Trust Banks were to be responsible for monitoring their peers.

Service users claimed not to have resorted to peer monitoring to ensure the repayment of loans. Further probing indicated that the main reason for the irrelevance of peer monitoring to ensuring the repayment of loans in the rural area was the widely acknowledged and open use of loans for non-business purposes. Table 4 indicates that the majority of service users, 51.7% and 67.5% of SAT and NWEF service users respectively, claimed they consistently used part or all of their loans for non-business purposes.

Table 4. Using Loans for Other Purposes

Name of Intervention			Frequency	Percentage
SAT	Valid	Yes	31	51.7
		No	29	48.3
		Total	60	100.0
NWEP	Valid	Yes	27	67.5
		No	13	32.5
		Total	40	100.0

Source: Fieldwork Data, 2007/08

It is argued that the rationale for peer monitoring was to mitigate ex-ante moral hazards and, to some extent, ex-post moral hazards. In other words, it is assumed that group members would keep an eye on each other to ensure that loans are invested in viable economic activities to ensure its repayment. If loans were routinely used for non-business purposes such as payment of school fees, household consumption, and acquisition of building plots among others then peer monitoring will be rendered redundant. The reason being that it is virtually impossible to predict how the use of loans for non-business purposes influences the ability to repay loans. It was therefore obvious that peer monitoring was of very little value in an environment where most service users declared they used loans for non-business purposes. Service users were not particularly bothered about how loans were used as long as they were repaid.

In sum, if loans were used for non-business purposes and its repayment did not depend only on profitability of micro-enterprises, then service users did not need to monitor their peers to mitigate ex-ante and ex-post moral hazard. The utility of peer monitoring as a strategy for mitigating ex-ante and ex-post moral hazards has mainly emanated from theoretical suppositions rather than from empirical observations. This is based on the assumption that loans can only be repaid if they are only used for viable economic activities. What has stood in the stead of peer monitoring is the emphasis on service users' trustworthiness and one's

tenacity to repay debts rather than on business performance. The words of a service user on group formation encapsulate this idea:

We look [during group formation] for someone who is not difficult when it comes to debt repayment. Someone who will not give us problems when the time comes for repaying the loans. We seek for someone with a good character. (Mary Adu, NWEF: interview).

Peer Pressure

From the literature it can be seen that when peer monitoring was weak, peer pressure was very strong (see Marr, 2002). Similar findings were observed in SAT and NWEF. In the absence of peer monitoring, peer pressure and threat of sanctions became very important strategies to ensure loan repayment. Indeed interviewees in the two interventions dreaded the amount of peer pressure and sanctions brought to bear on them in case of repayment difficulties. It was therefore not surprising that during a recent follow-up interaction with service users, especially from SAT, dropouts unanimously cited intense peer pressure as the reason for leaving. Peer pressure and sanctions took the form of ostracisation, verbal abuse, and even threats of violence among others. These measures were particularly effective in a rural community where people usually have close interaction with each other. This finding also reflects Besley and Coate's (1995) assertion that in a rural setting with high level of social cohesion, peer pressure constitutes a strong instrument for enforcing repayment. It is noteworthy that through observation and interviews, peer pressure was at its zenith if loan defaults impeded the commencement of a new cycle. Observations pointed to a positive relationship between intense peer pressure and sanctions on one hand, and expulsion and dropout rates on the other.

Joint Liability

With regard to the issue of joint liability, service users in both interventions continually used this statement in interviews: *obi case ye me case* literally meaning, ‘someone’s problem is my problem’. There was high awareness amongst service users on the issue of joint liability including all its ramifications. Aside jointly sharing the burden of loan defaults, group members used informal arrangements amongst themselves to ensure that loans were repaid. Members would lend each other money to make scheduled repayments. It was observed that intra-group informal lending activities occurred more frequently in groups where members were more familiar with each other. In effect such activities were more likely to be prevalent in self-selected groups. In SAT, however, the relatively well-off would help other members of the group to repay loans. This is what a member of a group in SAT said:

When we are unable to make enough money within the two weeks to make the repayment Yaa Benewaah [a leader of a group] makes up the difference which we later pay back to her. (Victoria Ntim, SAT: interview).

Thus, SAT’s idea of forming groups composed of service users of differing socio-economic status to ensure that the better-off assisted the poorer service users seemed to be quite effective.

As already discussed, NWEF had two tiers of joint liability: solidarity groups and CSA. The solidarity groups were initially jointly liable for loan defaults and if they are unable to repay then the burden of payment passed on to the CSA. Some service users were concerned that the CSAs were increasingly being made liable for loan defaults. The two tier peer support system did not seem sustainable, because once a solidarity group passed on its burden of joint liability to the CSA, other groups were likely to do the same because members paid a smaller amount if the loan in default was shared among the CSA than the

solidarity groups.

Implications for Poverty

This section assesses the implications of the formation and activities of JLGs on poverty. The paper draws on microfinance literature and findings of this study assess the poverty implications of JLGs.

First, the impact of microfinance programmes is influenced by the socio-economic category of people the programmes target. Most studies point towards a positive relation between level of poverty of service users and benefits of microfinance programmes (Hulme and Mosley, 1996; Buckley, 1997; Remenyi and Quinones, 2000; Coleman, 2002, Copestake, 2002; Shaw, 2004; Johnson, 2005). For example, after a comprehensive study of 13 microfinance institutions (including BRI, Grameen Bank, BRAC, TRDEP, BKK, K-REP, BancoSol, and SANASA), Hulme and Mosley (1996) concluded that the impact of microfinance programmes on service users' income was positively related to their income. Hulme and Mosley (1997:102) explain that 'those with higher incomes have a greater range of investment opportunities, more information about market conditions and can take more risk without threatening their minimum needs for survival.' In the case of SAT and NWEF, since they targeted those who were already established in business and not considered as the very poor, their impact on the users is likely to be greater than MFIs targeting poorer people. Additionally, group formation and structure could indirectly influence the impact of microfinance through their effect on group attrition. As was found in section 4, group formation and their structure influenced dropout and expulsion rates of groups. Our findings in the same section established that it was poorer service users who were likely to be expelled or drop out from microfinance programmes. Therefore the impact of microfinance programmes will vary depending on the changes in the poverty profile of service users as a result of group attrition.

During interviews it became evident that there were variations in decision-making within groups. This paper examined whether decision-making styles in groups had any effect on household and business outcomes. How decisions were made in groups was constructed as a two-category variable: by consensus (decision-making by the group as a whole) and by leaders (decision-making by executive/s only). Decision-making was found to significantly influence household outcomes. The ordinal logistic regression results (see Table 5) indicated that service users who said decision-making within groups was based on consensus were 4.4 times more likely to state that the microfinance programme had a positive influence on their households compared to groups whose leaders were the main decision-makers. The possible explanation for the above finding is that even when it was expedient, service users were reluctant to use loans for the benefit of the household for fear of being expelled by the dictatorial leaders. Furthermore, it was discovered that when the executives took decisions on behalf of the groups, expulsion rates were relatively high and this occurred especially in SAT⁸ groups. For instance, in one SAT group where the leader claimed to make decisions especially regarding expulsions, the group had been reduced from 30 to 5 members. As reiterated previously it was the poorer service users who were more likely to be expelled for infractions of the programmes.

Service users were asked whether they ‘strongly agreed’, ‘agreed’ or ‘disagreed’ with the statement ‘group liability is the optimum way of doing microfinance.’ From Tables 5 and 6, service users who ‘strongly agreed’ or ‘agreed’ were 31% and 83% respectively less likely to say the intervention had a positive effect on their households compared to those who disagreed with the above statement. For business outcomes, service users who ‘strongly agreed’ or ‘agreed’ were 50% and 72% respectively less likely to state that their businesses experienced positive effects than service users who ‘disagreed’ with the statement. The explanation could

⁸ This was perhaps due to the fact that SAT groups were not self-formed.

be that service users who had experienced relatively positive household and business outcomes were not enthused with joint liability strategy. The concept of being one's brother's keeper did not resonate well with such service users. It can therefore be argued that the use of joint liability is likely to inhibit business growth, if the more progressive service users always have to support non-performing ones.

Conclusion

Some important conclusions can be distilled from the above analyses. The mode of group formation and group structure turned out to be the most important factors that had implications for subsequent activities of the groups and poverty impact assessments. The paper also showed that contrary to the important role accorded to peer monitoring in microfinance programmes in engendering high repayment rates, it was irrelevant in an environment where service users routinely used loans for non-business purposes and also relied on non-business sources for loan repayment.

This paper showed some mismatch between what the MFI documents said about the organisation of group (intervention designs) and what was done in reality. These implementation gaps, if not captured and factored into impact assessments, are likely to result in incorrect conclusions. Microfinance researchers must be particularly concerned when it is realised, especially in developing countries, that intervention designs (on which impact assessments focus) can vary significantly in how they are implemented (Matin and Hulme, 2003).

Another important and disturbing finding was that contrary to the perception of microfinance as a bottom-up approach to development, findings of this study indicated that it was essentially a top-down development strategy. Service users were not involved in the formulation and implementation of the JLGs strategies and indeed the entire microfinance programmes: the programmes were introduced as

already-packaged interventions.

Regarding the implications of JLGs for impact assessments, it was found that the socio-economic category of people targeted by programmes, group formation strategies and group structure played significant roles. Particularly worth mentioning is the positive effect of consensual decision-making on households. This finding highlights the importance of ensuring that groups are self-formed to ensure homogeneity in groups, which can then translate to consensual decision-making within groups.

Service users whose businesses benefited the most from microfinance were less likely to express a favourable opinion of the concept of joint liability. However, microfinance seems to be stuck on joint liability as the major mechanism for doing financial business with the poor. It is high time the microfinance industry looked for other innovative ways of providing financial services that are acceptable and fair to the poor service users.

Table 5. Ordinal Logistic Regression Coefficients for Household Outcomes by Group Issues

Variables	Categories	B	EXP B	Std. Error	Sig.
How are Decisions Made in Group?	Consensus	1.486	4.419	0.701	0.034
	Leaders	0	1.000	.	.
Knowledge of Members' Loan Use	Yes	0.514	1.672	0.475	0.279
	No	0	1	.	.
How does your Group Enforce Repayment	Peer Pressure	0.656	1.927	0.680	0.335
	Court Action	0	1	.	.
Group able to Influence Loan Use	Yes	0.195	1.215	0.554	0.725
	No	0	1	.	.
How Do you Rate GL as a Method of Enforcing Repayment?	V. Effective	1.745	5.726	1.126	0.121
	Somewhat Eff.	0.145	1.156	0.632	0.819
	Not Effective	0	1	.	.
Group Liability the Optimum Way of Doing Microfinance	Strongly agree	-0.371	0.690	0.877	0.672
	Agree	-1.764	0.171	0.591	0.003
	Disagree	0	1	.	.

Link function: Logit.

Source: Fieldwork Data, 2007/08

Thus this paper, in addition to contributing to the contextual understanding of JLGs in microfinance programmes, assessed the implications of the organisation of JLGs for impact assessment. The paper has demonstrated that to understand the impact of microfinance programmes, it is important to examine their various features or components such as the JLGs.

Table 6. Ordinal Logistic Regression Coefficients for Business Outcomes by Group Issues

Variables	Categories	B	EXP B	Std. Error	Sig.
How are Decisions Made in Group?	Consensus	1.131	3.099	0.676	0.094
	Leaders	0	1	.	.
Knowledge of Loan Use	Yes	0.442	1.556	0.470	0.347
	No	0	1	.	.
How do You Enforce Repayment	Peer Pressure	0.176	1.192	0.659	0.789
	Court Action	0	1	.	.
Is group able to Influence Loan Use	Yes	-0.277	0.758	0.538	0.606
	No	0	1	.	.
How Does Group Enforce Repayment	V. Effective	0.778	2.177	1.029	0.450
	Somewhat Eff.	-0.381	0.683	0.626	0.542
	Not Effective	0	1	.	.
Group Liability the	Strongly agree	-0.686	0.504	0.865	0.428
Optimum Way of Doing Microfinance	Agree	-1.276	0.279	0.549	0.020
	Disagree	0	1	.	.

Link function: Logit.

Source: Fieldwork Data, 2007/08

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