Microenterprise Assistance Programs in the United States and the Pivotal Role of Social Capital

by
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Abstract

This paper uses the institutional analysis and development framework (IAD) developed by Ostrom and others (Ostrom 1990; Ostrom et al. 1994; Crawford and Ostrom, 1995), to reveal how community attributes, such as social and economic factors, influence the viability of solidarity lending group programs in the United States. Modeled after the highly successful Grameen Bank model used in developing countries, solidarity group lending programs provide small short-term loans at market interest rates to poor people who are ineligible for commercial loans. The main attribute of these programs is the use of social collateral in place of the physical collateral that is normally required by commercial banks. The overriding goals of microenterprise assistance programs are to alleviate poverty, provide economic development, and graduate the poor to commercial sources of credit.

Attempts to replicate the Grameen model of microenterprise assistance programs in the United States have been met with mixed reviews. One reason for this may be that the social and economic context for microenterprise assistance programs differs dramatically from that of developing countries and hence significantly affects the level and potential of social capital formation. While the literature identifies the important role that social capital plays in the successful maintenance of these groups, the institutional analysis framework provides a fine tuning instrument with which to reveal how community attributes, such as social and economic factors, influence group formation and maintenance.

Introduction and Purpose

This paper uses the institutional analysis and development framework (IAD) developed by Ostrom and others (Ostrom 1990; Ostrom et al. 1994; Crawford and Ostrom, 1995), to reveal how community attributes, such as social and economic factors, influence the viability of solidarity lending group programs in the United States. First, I will provide historical background information about microenterprise assistance programs in developing countries and in the United States. Next, I will analyze the Grameen Bank solidarity group lending model and identify a general model of the constitutional choice, collective choice, and operational rules that characterize the solidarity group lending model. Then I will review the literature on social capital and microenterprise assistance programs and establish the theoretical link between the two. Specifically, I will show that social capital in solidarity lending group programs is a function of community attributes, such as social and economic factors and that social capital may be insufficient to support effective solidarity lending in the United States. I will also identify research questions that I hope to pursue.

The institutional analysis framework is a particularly useful tool for investigating how the same set of rules functions differently in relation to different community attributes. Ostrom (1994) illuminates the importance of the biophysical environment, "In any country where the attributes of the physical world vary substantially across locations, the same set of rules that engender positive outcomes in one physical location can engender negative outcomes in other locations" (1994, 326). For example, the imposition of a set of irrigation system rules is highly dependent on the physical environment such as rainfall patterns and the landscape. Crafting sustainable self-governing institutions requires operational rules that are specific to institutional and physical environments. Failures to take into account the specific circumstances and characteristics—both informal and formal characteristics of the environment— when crafting operational rules may result in less effectiveness. In a similar way, the rules that govern solidarity group lending programs are highly dependent on the social and economic attributes of the community.

A solidarity group is a lending methodology whereby peer guarantee among the borrowers is accepted as collateral in a group loan. The success of the group based lending method hinges on one very important rule, ***the joint-liability rule.*** The joint liability rule creates incentives to participate in loan screening, monitoring and enforcement of rules. Groups lower transaction costs for both the borrowers and the lenders. Members of the group have access to information about one another, such as demographic information, previous work experience and household status. Members of the group use this information to screen each others' business plan and the likelihood of loan repayment. Members of the group also monitor each other in weekly or biweekly meetings, where they engage in face-to-face communication. The actions that group members take in solidarity group lending programs are examples of collective action. Research on collective action requires researchers to understand the nature and structure of a situation in the absence or presence of collective action (Ostrom, 1994). The institutional analysis framework is important to this analysis because it situates the joint-liability rule within a broader cultural and social environment.

Differences in the social and economic attributes surrounding solidarity groups in the U.S. may affect the formation of social capital and ultimately may decrease how well solidarity group lending programs function in the U.S. context. An analysis of the rules at multiple levels of interaction exposes the influence of community attributes on those rules. According to Ostrom, "the imposition of uniform rules can lead to dramatic differences in outcomes" (1994, 326). It follows from this insight that policy prescriptions must take into account differences in the physical world before imposing a set of rules, regardless of the success those rules engendered in a previous setting. This research relies on secondary sources to construct a general model of the rule structure that characterizes solidarity group lending programs. Further empirical testing is imperative— hence, this paper points to research questions that I hope to pursue in the future.

Microenterprise Assistance Programs in Developing Countries: the Grameen Bank Model

Sometimes referred to as "microcredit" or 'poverty lending programs," microenterprise assistance programs provide credit and services to improve the income-generating capacity of the poor. Microfinance is a grassroots, bottom-up strategy that grants small loans, of approximately $50, to poor or under-served people for self-employment projects. Due to limited employment opportunities in both rural and urban areas in developing countries, millions of poor people must make their living by working in the informal economy as street venders, small shop keepers, weavers, pottery makers, transporters and garment makers (Snow 2001,15).[1]

Motivated by the desire to address the unsuccessful attempts of traditional top-down development strategies to combat poverty, Dr. Mohammed Yunus founded the first and most well known microfinance institution, the Grameen Bank, in Bangladesh in

[1] **This information may also be found at the Grameen Bank website, www. grameen.org.**

1976. Yunus observed that a large number of the impoverished households in the village near the university where he taught were engaged in various non-farm activities with small high interest loans borrowed from informal sources (Hossain, 1993).

Several possible factors explain why workers in the informal sector have been excluded from formal banking. First, workers in the informal sector are overwhelmingly female and formal banking is overwhelmingly male, which creates a gender barrier. Second, many in the informal economy lack the literacy skills needed to complete the paperwork required for lengthy loan processes. Third, banks view such small loans as financially unsustainable due to the high transaction costs involved. Ultimately, bankers conclude that overcoming these issues drive interest rates up prohibitively high. Finally, workers in the informal sector are perceived as high credit risks because most lack physical collateral (Anderson et al., 2000).

Yunus hypothesized that if financial resources were made available to the poor at reasonable terms and conditions people could generate self-employment without external assistance. Small loans could be used to buy tools, equipment and supplies. In an effort to develop human capital as well as physical capital, loans were directed mostly toward women. Yunus convinced the bank to provide loans to the poor without collateral by proposing the solidarity group lending mechanism for service delivery. The overriding purpose of the lending group is to shift some of the responsibility for screening, monitoring and enforcement from the lender to the group, thereby lowering the transaction costs and the risk for the lender.

The pilot program enjoyed great success—98 percent recovery of loans at due dates—and slowly expanded into new villages. Within a year the program occupied 24 branches of the nationalized commercial banks. A government ordinance transformed the project into the Grameen Bank in 1983 (Hossain, 1993). The success of the Grameen Bank soon caught on in Bolivia, India, Indonesia, Thailand and many other impoverished countries in Latin America, Asia and Africa (Carr and Tong, 2002).

Evidence suggests microenterprise programs in developing countries are working (Khandker, 1998; Rodriquez-Garcia, 2001; Dignard and Havet, 1995; Wahid, 1993; Bhatta, 2001; Woller and Woodworm, 2001). The Grameen Bank and replicator programs like it have sustained a high payback rate of between 95 and 98 percent (Wahid, 1993). Group-based financial service models in particular have captured the attention of development practitioners and have since blossomed around the world (Edgcomb and Barton, 2002).

Microfinance assistance programs in developing countries are funded by the national government, large nongovernmental organizations or with foreign support. The developing country programs have large loan funds and range from 1.5 million to 29.1 million in the form of external subsidies and grants (Hung 2002,228). Consequently, programs in developing countries have been able to reach many poor people. The Grameen Bank has 2.4 million borrowers in 2002.[2] Since the mid-1980's two other Bangladesh programs have served 25,000 to 650,000 people, and two newer developing-country programs, KREP in Kenya and Mudzi in Malawi have served 223 and 1,177 borrowers respectively (Hung 2002,228).

[2] **This number is updated regularly at www.arameen.org.**

Microenterprise Programs in the United States

The Grameen Bank's success at reaching many people quickly and inexpensively was recognized by officals in the United States who identified a common lack of access to credit and business training in poor communities. While the U.S. was unaccustomed to adopting developing world solutions to domestic social problems, policymakers and organizers recognized some similarities between the developing world context and the U.S. context, namely the unmet credit needs of the poor and persistent poverty (Severon 1999,173).

Microenterprise programs were brought to the United States in the mid 1980s. Some of the most well known microenterprise organizations include ACCION international, FINCA, Women's World Banking, and Working Capital. Microenterprise programs garnered attention in 1992 when both President Clinton and Hilary Clinton extolled the positive affects of microfinance associations, alongside domestic initiatives such as urban enterprise zones and welfare-to-work legislation, in communities across the United States (Schreiner and Morduch, 2002).

Program participants are motivated to take on the risks of starting a business for several reasons. Participants use microenterprises to supplement low wages. Women chose self-employment for the flexibility they need to balance work and home life. Immigrants and refugees who often lack certification, licenses or language skills required for the jobs for which they may be qualified, find self-employment a viable alternative to low-wage jobs.[3] Common self-employment activities in the U.S. include child care, repairs, catering, cleaning and maintenance services, sewing and mending, construction,

[3] Microenterprise Fact Sheet Series, Fall 2002, Aspen Institute Publication. Washington, D.C.

and beauty care. Microcredit loans help people with business costs such as licensing fees, insurance, and materials and supplies.

The maximum loan size in the U.S. is approximately $10,000, but the average loan size is closer to $1,400 with a fairly large standard deviation (Hung, 2002,228). Financial support at the federal or state level for U.S solidarity group lending programs is minimal. Some solidarity group lending programs are started by entrepreneurs who have experience with programs in other countries, but most are started by community development corporations with experience in service delivery to local residents (Vinelli, 2002).[4] In the U.S., loan funds are much smaller, totaling less than $500,000 in most programs, with the exception of some of the larger programs such as Working Capital (Hung, 2002,228). Most funding is in the form of lines of credit from private banks or low-interest loans from charitable organizations rather than grants. The scale of lending in the U.S. is not nearly as large as developing country programs; the average number of clients served by U.S. sample programs is just over 100 clients *(ibid,* page 227).

Less is known about the results of microenterprise assistance programs in the U.S. than developing countries. One reason for this is that microfinance is relatively new to the U.S. Another reason is that researchers are still sorting out exactly how to measure the success of microcredit. For example, Woller ***et al.*** (2001) describes a schism in the field between "welfarists," those who emphasize depth of outreach, and "institutionalists," who emphasize institutional self-sufficiency. In the institutionalist camp, scope of outreach takes precedence over depth or outreach (levels of poverty reached). Self-sufficiency requires microfinance organizations to target low income clients (those above the poverty line). Welfarists argue that this undermines the goal of

[4] For example, Jeffrey Ashe founder of Working Capital.

microenterprise assistance programs, and that it is more important to reach as many poor people as possible (Woller ***et al.*** 2001,280). This concern reflects differences in funding structures for programs in the U.S. and in developing countries— U.S. programs are dependent on donors, whereas programs in developing countries receive funding from diverse, stable sources including the government, large nongovernmental organizations and foreign aid.

Some researchers suggest that many programs face unexpected costs, find low demand for their services, and fail to reach substantial scale (Servon, 2002, Schreiner, 2002). Additionally, microenterprise programs in the U.S. have failed to achieve the successful payback rates achieved by programs in developing countries (Vinelli, 2002). There is also a concern that rm^rofinance programs in the U.S. will not prove to be the antipoverty tool that is in developing countries because those who benefit most from the program are not poor, and have higher levels of education and experience (Taub, 2002).

Others experts support microfinance programs for the economically disadvantaged; however the evidence suggests that the poor are not being reached. The Aspen Institute and its Self-Employment Learning Project (SELP) carried out a longitudinal study of seven microenterprise programs from 1991 and 1997 that tracked a sample of 405 clients over five years. The study found that small gains were made in the poverty cohort, and concluded that this might enable people to "patch" together income from different projects, but that ultimately poor borrowers were not able to sustain self-employment. Similarly, Hung (1999) finds that microlending is more a means to foster economic development than a means to alleviate poverty. Hence, programs might be better suited to serve the needs of the working poor with some regular income and some credit experience rather than the extremely poor (181). This is a significant structural difference between programs in the U.S. and programs in developing countries and one that I will return to in later sections of the paper.

Solidarity Group Lending Model

Solidarity groups typically consist of four to six members. The Grameen Bank requires that members are at or below the poverty line. Group-based models seek to create homogenous groups in terms of the socioeconomic standing of the group members. Most groups are kept small to allow the peer mechanism to function, while also allowing for administrative benefits. Additionally, the small size of the group helps to amend any free rider problems that may arise. Group based lending programs use the joint liability rule, which makes borrowers responsible to each other as well as to the lender.[5] The joint liability rule creates incentives for members to participate in loan screening, monitoring and enforcement of rules. Group meetings are used to determine collective choice rules, and are used to monitor and amend operational rules.

The program makes one loan to the solidarity group on behalf of individual members. The initial loan is quite small and the group representative is responsible for disbursing the individual loans to its members and collecting repayment. After initial screening at the program level, clients are expected to guarantee each other's loans, disburse and collect payments and collect group savings and fees if there are any. Clients are also expected to screen, monitor and sometimes select co-members of the group. Some of the strategies programs use to support social intermediation include giving

[5] Group-based models include solidarity groups, village banking, and savings and credit cooperative models. This paper will focus on solidarity groups.

members authority to control group assets, coauthor by-laws and steer decision making (Khandker, 1998).

Social intermediation has been defined as "a process in which investments are made in the development of both human resources and institutional capital, with the aim of increasing the self-reliance of marginalized groups, preparing them to engage in formal financial intermediation" (Edgecomb, 1998). The joint-liability rule is the most significant feature of the solidarity group lending model but it is also embedded in other rules that require groups to attend training sessions and bi-weekly and weekly meetings. The effectiveness of the peer mechanism in ensuring loan repayment cannot be assumed, for much of its impact depends on the rules that structure the constitutional, collective choice and operational levels of the action situation.

Screening, Monitoring and Enforcing

In most cases the program staff closely monitors the progress of the group; however, groups have their own constitutional choice, collective choice and operational levels of activities. For example, initial screening for the group formation is done at the constitutional level by program members, while screening of the loan is done as a collective choice of group members. At the operational level, members are involved in monitoring loan repayment and group participation, as well as enforcing the rules decided by the group.[6]

Boundary rules determine membership at both the program and the group levels. The expected credit risk of clients is assessed at the program level. Program staff

[6] Information about the rules used by solidarity lending groups is based on Hung 1999, Wahid, 1993, Snow, 2001. Until empirical research is conducted by the author, a general model will be used to illustrate the rules structure of solidarity lending group programs.

members assess the character risk of the client, using qualitative and quantitative measures such as background information and credit history. The program staff members also assess the risk related to the client's business plan. Solidarity group lending programs in developing countries often encourage group members to self-select the members of the group. It is often the case that members invite relatives and friends to join the group. Because members know each other prior to the formation of the group, and because it is in the group members' best interest to invite only those she believes to be trustworthy, the risk of having a member default decreases considerably. In the U.S. context lenders often put strangers together in groups, losing the potential gains from self-selection and informal contract enforcement (Schreiner and Morduch, 2002). All solidarity groups require group members to meet regularly. It is through these meetings that members are exposed to fellow members' business plans. Group members then approve and monitor each other's loan. If all of the loans are repaid on time the loan process continues.

In the U.S., clients who are unable to receive credit from commercial banks often have very poor credit ratings; hence, this process requires more in-depth indicators of future performance. At the group level, group members must agree to adhere to the joint liability rule. This is an important part of the process for it is at this stage that group members estimate the likelihood that they can trust the new member to repay the loan on time, as well as trust the member to adhere to group rules.

Authority rules determine how responsibility will be divided between the program participants and the program staff. Closely related to this rule are information rules that determine the access to information about program participants by the staff and clients.

Information rules define who may know what at screening and monitoring stages. In U.S. programs, information comes from client profile data forms and includes information on demography, income, work experience, and household size (Hung 1999, page 62). This information is very important because the more information the staff or client has, the better able they are able to evaluate the potential contribution of new group members and the possibility of loan default.

Finally, payoff rules specify the benefits of timely repayment and the costs of loan delinquency. In the United States, the cost of default is high if a borrower is personally liable to repay a loan by signing a repayment agreement, but not all programs require such an agreement. In developing countries, the cost of default is high because the borrower's reputation in the community is at stake. If one member of the group defaults on the loan, the other members are obligated to repay the loan. Group members must repay a delinquent loan even if the group does not plan to take another loan. Consequently, group members have an immediate interest in paying back the loan on time because the risk of default is assumed by the peer group institution.

The Pivotal Role of Social Capital

Given that trust and communication factor strongly into how well solidarity lending groups can screen, monitor and sanction members, it is important to understand how social capital is established among the members of the group. It is essential to determine if some form of social capital need exists ***prior*** to the formation of the group, or if in fact solidarity lending groups can actually create social capital. First, I will review several different conceptions of social capital, and then I will explore how social capital fits into the solidarity lending equation in both developing countries and the U.S.

Robert Putnam (1996) defines social capital as "features of social life-networks, norms, and trust—that enable participants to act together more effectively to pursue shared objectives" (1). Putnam views social capital as a set of horizontal associations where social capital consists of social networks. In a similar vein, World Bank Social Capital Initiative defines social capital as "the institutions, the relationships, the attitudes and values that govern interactions among people and contribute to economic and social development."[7] This definition captures relationships that are both endogenous and exogenous to institutions. Even more encompassing, Olson (1982) and North (1990) include the social and political environment that shape social structures and enable norms to develop, employing a more encompassing view of social capital to include informal and formal institutions that govern how individuals relate.

Bowles and Gintis (2000) suggest that "community" rather than social capital better captures the aspects of collective action in social problem solving. Communities are a part of "good governance" because they address certain problems that cannot be addressed by individuals acting alone or by markets and governments. An effective community is able to monitor the behavior of its members and render them accountable for their actions. Communities also foster and utilize incentives to regulate communal activity such as: trust, solidarity, reciprocity, reputation, personal pride, respect, and retribution (Gintis and Bowles 2000, pg. 4).

While the concept of social capital varies in the literature, all of these definitions focus on the relationships and the ways that stable relationships among actors can

[7] **World Bank Social Capital Initiative Working Paper Number 1 page 13.**

improve the effectiveness of both collective and individual action. Also embedded in these definitions is the sense that institutions have public good characteristics because the benefits of social capital cannot be easily appropriated privately, and most rational actors underestimate the effort it takes to maintain them. Ultimately, solidarity lending group members must work together to sustain a common pool resource, in this case it is the loan. This effort requires that group members adhere to a set of values and norms that emphasize the importance of accountability and allow group members to monitor and enforce the rules.

Social Capital and Community Attributes of Microfinance in Developing Countries

The literature on developing country programs suggests that microfinance strengthens social capital by employing group meetings and by empowering groups to make and enforce rules. Bastelaer (1999) finds that social capital is strengthened when solidarity lending group programs require members to meet once a week. One reason for this might be that engaging in the same behavior every week creates routine or cultural habit. Regular meetings, repeat interaction and common credit goals can facilitate the communication, knowledge about fellow actors, common understanding about the incentive structure and trust prerequisite to collective action (Anderson et al., 2000). Research suggests that contact in the form of repeat interaction and face-to-face communication among participants greatly increases the chances for successful collective action (Ostrom, Gardner and Walker, 1994; Berenback and Guzman, 1992).

Berenback and Guzman (1992) observe that the inclusion of participants in the credit screening process builds mutual accountability and trust. Hence, programs that empower groups to make decisions generally fare better than programs that retain control over screening, monitoring, and enforcing (Tinker, 1990). Others find that solidarity lending groups that require members to attend training classes before the loan is approved provide members with a safe environment in which to develop and test interpersonal skills as well as reading and writing skills. Solidarity groups also provide women with an entry point for a wide variety of community services by creating information networks with other women. Tinker (1990) maintains that solidarity groups increase women's personal empowerment in developing countries where women's access to services and economic support is limited (35).

In developing countries, group members often know each other prior to the formation of the group, this base of social capital from which to build on gives group members an advantage. Some group members are family members, but even if they are only acquaintances, they share the common bonds of community and geography. This is a very significant difference between solidarity groups in developing countries and in the U.S. and one that I will return to it in the next section.

The different conceptions of social capital reviewed here suggest that solidarity lending groups may encourage the formation of social capital, but, they do not indicate that social capital can be transplanted or expected to develop spontaneously. It is also implicit in these definitions of social capital that in order for communities or social networks to thrive, members must have an interest in maintaining it. Effective solidarity groups should resemble "effective communities," to use Bowles' term, that are able to monitor the behavior of its members and render them accountable for their actions.

Social capital is an integral factor in how well joint-liability groups can screen and sanction member and ultimately function as effective communities.

Social Capital and Community Attributes of Microfinance in the United States

The way microfinance programs use existing networks of horizontal associations to lower information and transaction costs is well documented, but less well understood is the creation of *new* social capital. The literature strongly implies that social capital is strengthened, not created, by the solidarity group lending mechanism. However, it is not yet clear if solidarity lending groups can build social capital from scratch, or if some form of shared norms must exist prior to the group formation. Burrus and Stearns (1997) suggest that creating peer groups in the United States can be very difficult due to the lack of common institutional ties between the members of the solidarity lending group. The group model must attempt to forge a group-bond between the members of the group but for various reasons that bond may be fragile. Several factors suggest that low social capital may hinder the successful transfer of solidarity lending groups from developing countries to the United States.

Although the poor in the U.S. are often referred to as low-income communities, there is often no basis for assuming that poverty is enough to somehow impart the social ties of a community (Schreiner and Morduch, 1998,11). On the other hand, groups in developing countries build on trust and social capital that already exists. Memberships tend to form among individuals who already know each other, typically among family and friends. Members can screen out bad risks because they do not want to assume responsibility for delinquent loan payment. The amount of information available to members is quite high. Also, groups form among people who interact often outside the context of their group loan (Schreiner, 2001). In the United States, lenders either place members in groups or encourage members to form groups among classmates in their business training class. In either case, members do not know each other prior to the group formation and do not often belong to the same geographic community. Also, unlike many contexts in which microfinance has worked in developing countries, the poor in the United States are not tied to a plot of land or a village and move often. Consequently, the U.S. poor are less concerned with allegiance to a local leader or the maintenance of a stable reputation. "American individualism" may also contribute to people's hesitancy to throw their lot in with the group (Schreiner and Morduch, 2002). Those in generational poverty in the United States may carry around a set of mental models that hinder them from trusting authority or strangers (Paine, 2001). These indicators all point to low social capital in the U.S. context.

Another factor is a social safety net is available to participants in the United States that does not exist in developing countries.[8] People starve quite frequently in Bangladesh; while this is not the case in the United States. Taub (1998) argues that alternative sources of assistance reduces people's motivation to take a loan and try to start a business and that it also reduces the motivation to pay back the loan in some cases. "Taking a loan to start a business is a demanding and difficult choice for many people. At the same time, failure to repay the loan is not a big deal if one does not want to get another. If that loan and its renewal stood between the individual and starvation, it would be paid off. Otherwise it can be perceived as windfall, something like winning the

[8] Although with the passage of the 1996 welfare reform legislation, The Personal Responsibility and Work Opportunity Reconciliation Act (PWRORA there are now time limits attached to welfare benefits.

lottery" (Taub 1998, 66). A lack of motivation to repay the loan has serious implications for the rules-in-use. Without the norms that hold the formal rules of solidarity lending groups together, such as trust, reciprocity and respect, the rules-in-form are not likely to congeal into the rules-in-use. This is, however, necessary to sustain the group and ultimately to sustain microfinance as an anti-poverty tool.

There are also several economic factors that make microfinance more difficult in the U.S. First, the complex business environment that exists in the United States may make barriers to entry quite high, unlike in developing countries. One major difference between the U.S. and developing country economic contexts is the strength of the informal economy in developing countries. The informal economy is not as vital or accepted in the U.S. as it is in developing countries. Sevron (2001) notes, "The U.S. government does much more to enforce the laws surrounding business operation. For example, it is very easy for an entrepreneur in many developing countries to set up a street stall selling food or crafts. In the United States, the same entrepreneur would have to go through permitting, licensing and, in the case of food, regular inspection" (2002, 174). Richard Taub (1998) also finds that there are significant differences in production and distribution between the two economies: "Bangladesh is characterized by small and highly local markets and in that setting it takes little capital to insert oneself into the system" (62).

Another reason the business climate for microfinance is more difficult in the United States than in developing countries is due to competition from large firms such as Wal-Mart that make it more difficult for small entrepreneurs to carve out a niche (Schreiner and Morduch, 2002). Also, for most borrowers in the U.S. the microfinance loan was not their first loan (Hung, 1999). While most borrowers may not have experience with a business loan, a large majority of the poor in the United States have experience with car loans, and the overwhelming majority have access to credit cards.

Poor women in the U.S. who may benefit from microenterprise programs are often also receiving government aid. The amount of government aid, in the form of cash assistance and health care as well as restrictions on the amount of money recipients of government assistance can save, may present the poor with too many barriers to starting small businesses. While the changes in welfare laws that came about in 1996 have increased the amount of money clients are able to save, these barriers make it very difficult for women to become self-supporting.

Social intermediation programs in developing countries focus on outreach to the poorest members of the community. Research suggests that groups that target individuals below the poverty levels or set maximum levels of land holdings are generally more effective (Besley and Kanbur, 1991). However, the results of several studies suggest that microenterprise programs in the United States are more successful at reaching low income individuals with some base level of education and work experience.

Dumas (2001) lists solidarity lending programs on a list of new strategies being used to combat welfare dependence and poverty and to empower low-income women. The analysis Dumas conducted of The Center for Women and Enterprise, Inc. (CWE) found very positive results among women who participated in the program—participants gained knowledge about business, critical thinking skills to assess their ideas, a supportive network and mentors. However, participants in this program all had relatively high levels of education, 83 percent were high school graduates and 58 percent had some education past high school. While an Aspen institute FIELD study conducted in 2002 found that recipients of the Temporary Assistance to Needy Families Program (TANF) are capable of starting and operating businesses the TANF recipients that entered the microenterprise development programs were generally older, had more work experience and had higher levels of education than the national TANF caseload.[9]

It appears that microenterprise assistance programs in the U.S. are doing a better job of helping low income individuals and hence are not accomplishing what practitioners had in mind when they introduced microenterprise assistance programs to the U.S. Because the face of poverty is not uniform across all communities, in order for microcredit programs to be sustainable they must collect information about the local market for microcredit before they offer services. It may be the case that the community attributes in the two contexts are markedly different and hence the programs will produce different results.

Conclusions and Suggestions for Further Research

This paper attempts to sort through some of the factors that may contribute to the potential of microenterprise assistance programs in the U.S. However, much more research is needed before we can make definitive statements about the utility of these programs in the U.S. Several research questions come to mind based on the research I have reviewed in this paper. First, in the absence of community or geographical connections between members of the solidarity lending group, is it possible to foster such connections in training classes or group meetings? Because I was not able to conduct my

[9] With the passage of PWRORA1996 in most states individuals can use self-employment to fulfill work requirements. They cannot, however, use self-employment training activities to count toward their work requirements. Also, on average, the TANF recipients had received assistance for four years.

own empirical research about solidarity group lending programs in the U.S., given the time constraints of this paper, my paper relies on a very general model of the rules that govern solidarity lending groups as well as the community attributes that characterize the two settings. However, I think it is very important that programs and group members are queried about the particular characteristics of their program and group level attributes. For example, it is important to understand how and if programs tailor their services to meet the needs of particular groups. For those who believe that microenterprise assistance programs are still a viable anti-poverty tool in the United States, do they tailor their services to meet the particular needs of the poor? Do they find that the solidarity group lending model is a promising service delivery model for delivering other services to the poor? It is also quite plausible that that microcredit programs are more likely to evolve into sustainable institutions when they are linked with local institutions such as churches, local governments, credit unions, service organizations and job training programs.

Another important question about programs in the U.S. is why do groups disband? Is it that the joint liability rule is not maintained by the members of the group? Is it that the members of the group received the credit and support they needed to sustain self-employment? And perhaps most importantly, how do members of the group negotiate the rules among themselves? This is particularly important for clients in the U.S. who are placed in groups together without any common social ties. It is also a good arena to test theories about social capital formation.

Finally, I think it is very important to investigate the layered environment in which programs and groups operate. Because there are substantial differences between funding structures in the two contexts, it is important to understand how that affects the constitutional choice, collective choice and operational level of the programs and the group. It may be the case that some programs empower groups to make more decisions when the funding structure is such that programs can afford to take more risks. Further research should seek to expose the unique nested environment in which microenterprise assistance programs operate.

The absence of a community of individuals that share similar norms, in addition to the more complex economy microentrepreneurs in the U.S. face, may hinder the successful transfer of microenterprise programs in the U.S. In order for groups to screen, monitor and enforce the rules in the solidarity group there needs to be a substantial investment in the outcome, or the belief that the benefits of belonging to the group outweigh the high cost of gathering information, monitoring and enforcing the rules.

This paper is an initial effort to tease out some of the challenges facing microfinance organizations in the United States. It is clear from the literature reviewed that the social and economic attributes of the two contexts differ, and so the strength of the joint liability rule will also differ in the two contexts. The size of the informal economy, the presence of social capital, the complex business environment all contribute to a more difficult environment for microfinance organizations. While at first glance the principals of microenterprise programs appear to fill a niche in the U.S. domestic policy context, there are several factors that hinder the successful transfer of this antipoverty strategy from developing countries to the United States. Also, due to the relative newness of programs in the U.S. context, much more research is needed. If as Jon Elster maintains, "norms are only social when they are shared," can we assume that solidarity lending groups can build social capital without a preexisting base of shared norms such as trust, solidarity, reciprocity, reputation (1999,99)? Without shared norms, such as trust and reciprocity, groups will not function. The research on solidarity group lending programs in developing countries is clear that social capital formation is a major goal and accomplishment of microfinance organizations; however the research that has been done on U.S. programs is less optimistic. Policy prescriptions must take into account differences in the physical world before imposing a set of rules, regardless of the success those rules engendered in a previous setting. Differences in the social and economic attributes surrounding solidarity groups in the U.S. may affect the formation of social capital and ultimately may decrease how well solidarity group lending programs function in the U.S. context.

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