

Village Banking Dynamics Study:

Evidence from Seven Programs

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ABSTRACT: The primary question examined in this study is whether client loans grow or stagnate over time. Loan growth is important to financial sustainability and is also a proxy for positive impact. The relationship between loan growth and a variety of factors—program loan and savings policies, site selection, membership dynamics—are explored in the context of seven village bank programs. The study concludes that on average, loan size did not stagnate but increased steadily, although at a rate lower than the original village bank model projections. Only programs that allowed non-poverty level loans (loans above US\$300) approached the original loan growth rate. Other factors positively associated with more rapid loan growth were urban site selection and restricted internal fund policies. Membership turnover—influx of new clients and drop-out of original clients—was also evident across all programs, dampening loan growth rates by approximately 25%. While factors external to the program affect these dynamics, program policies can play an important role in stemming the drop-out rate. In early loan cycles, initial program promotion and orientations need to clearly articulate program requirements and terms. In later loan cycles, policies pertaining to savings access, meeting frequency, and membership requirements may require flexing to enhance clients' incentives to remain.

Introduction

The primary question examined in this study is whether client loans grow or stagnate over time. Village bank programs are established with the ultimate goal of reducing poverty and raising the income and quality of life of their clientele. The ability of borrowers to work and to repay progressively larger loans is a proxy indicator for the viability of loan activities and poverty alleviation at the client level. To accomplish these impact goals, programs recognize the need for financially sustainable operations. Financial sustainability of village bank programs presumes a declining cost per dollar loaned as members' loans grow and as new clientele join existing banks. Therefore, if loan sizes are indeed stagnating, it is important to understand why. The questions below set forth specific areas of study in relation to loan-size growth:

1. What is the average loan size in practice versus the original model developed by FINCA International president John Hatch, and what are the key factors affecting loan-size growth?
2. Does program location—urban versus rural—affect loan-size growth?
3. What is the actual savings rate in practice versus the original Hatch model? What key factors affect borrower savings and how do borrower savings affect average loan size?
4. What are the actual membership dynamics (dropout, drop-in, and client retention rates) as compared to the original Hatch model? What factors affect membership dynamics, and to what degree do they affect loan-size growth rates?

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5. How does internal account lending affect average loan size (of external loans)? What factors affect the degree of internal account lending?

The intention here is not to assess the accuracy of the original model, but rather to learn from the experiences and adaptations of a number of organizations implementing village bank programs since the model was introduced. Specifically, this study sought to improve the understanding of village banking dynamics and identify particularly influential factors affecting program performance over time.

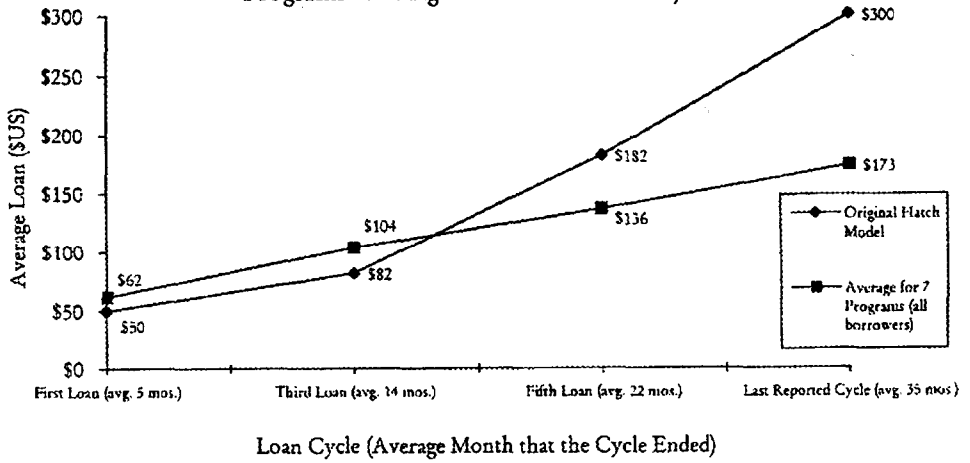
Box 1 summarizes the per borrower loan and savings projections of the original Hatch model. Underlying the original model are a number of basic assumptions:

- First-cycle entrants will remain active borrowers for nine four-month cycles (three years).
- Village banks will grow in size as new members, encouraged by the example of others, join the program.
- Clients will save 20% of their current loan size each cycle. Loan sizes increase based on a formula of last loan plus accumulated savings (see Box 1).
- Based on this formula, clients, primarily women, will borrow a progression of loans starting at US\$50 and reaching the US\$300 loan ceiling by the third year.

Box 1. Original Hatch Model Projections

Loan Cycle (4-mo)	Loan Size per Borrower	Savings per Borrower per Cycle	Cumulative Savings per Borrower
1	\$50	\$10	\$10
2	\$60	\$12	\$22
3	\$82	\$16	\$38
4	\$120	\$24	\$62
5	\$182	\$37	\$99
6	\$281	\$56	\$155
7	\$300	\$60	\$215
8	\$300	\$60	\$275
9	\$300	\$60	\$335

Figure 1. Average Program Loan Per Borrower for all Seven Programs vs. Original Hatch Model Projections



- The projected loan-size growth rate is 500% over a 28-month period.

Methodology

Five nonprofit organizations, CARE, FINCA, Freedom from Hunger, Women’s Opportunity Fund, and World Relief, all of which are members of the Small Enterprise Education and Promotion Network (SEEP) Poverty Lending Working Group, participated in the study. Each organization collected longitudinal information from a sample of village banks in one or two of their programs. Data were collected from a total of 26 village banks (totaling more than 700 members) operating in Bolivia, Burkina Faso, Colombia, Guatemala, Honduras (two programs, one rural and one urban), and Uganda. Still, the sampled programs represent only one or two sites of the participating agencies’ larger program portfolios. In recognition of the lag-time since data collection, and to encourage openness and objectivity, programs are identified in this paper only by geographic areas rather than by implementing agency.

Village bank records were sampled to provide information about member loans, savings, internal borrowing, and participation for selected loan cycles (first, third, fifth, and last completed loan cycle), using a protocol originally developed by Freedom from Hunger. In order to conduct a comparison of actual program dynamics to the original Hatch model, the village banks in the study needed to have reached a certain maturity (of six cycles). Across all the village banks sampled, the last completed loan cycle occurred on average approximately 35 months into the program. This average was calculated across village banks at each program level and then across the seven programs for a cumulative average. In addition, because programs had different loan-cycle lengths (four- or six-month cycles), information is presented by number of months in the program at the end of the loan cycle, as well as the loan cycle number, for uniform comparison purposes.

Findings

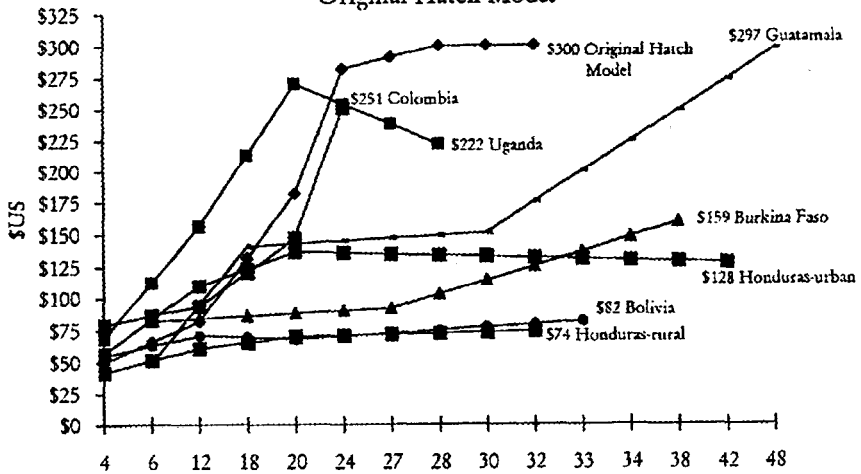
The study explores five major factors found to affect loan-size growth: loan policies and practices, village bank location, savings policies, internal account policies, and membership dynamics.

The first section presents information on the pattern of actual loan growth for the seven programs, relative to the original Hatch model. Subsequent sections examine how policies, setting, and membership dynamics were related to the loan growth rates in various programs.

Loan Growth Patterns

What is the actual pattern of per borrower loan growth versus the Hatch model?

Figure 2. Average Loan Size by Program vs. Original Hatch Model



On average, loan size across all seven programs did not stagnate, but increased steadily, although at a rate lower than the original Hatch model projections.

On average, the loan growth in Figure 1 shows a steady increase across the seven programs, although at a rate less than the original model. The original model projected that loan sizes would grow by 500% (from US\$50 to US\$300) over an approximately three-year period. For the seven programs examined here, the average per borrower loan size grew by 280% (from US\$62 to US\$173) over a similar period. While the growth rate was not as dramatic as projected, a pattern of loan-size stagnation is not evident since, on average, the per borrower loan size continues to climb.

Diversity in Average Loan Sizes by Program

There was tremendous variability in average program loan growth rates and patterns across the seven sampled programs.

The averages presented in Figure 1 mask the tremendous variability in loan-size growth across the seven programs. As seen in Figure 2, two of the seven programs actually experienced relatively rapid and high loan growth rates (Uganda and Colombia). One program,

Guatemala, had high loan growth but over a longer, four-year period; one program had modest but steady growth (Burkina Faso); three had relatively flat loan-size patterns (Honduras-urban, Bolivia, and Honduras-rural).¹

Key Factors Influencing Loan Size

Village banking programs typically select a maximum initial loan size and a loan-size ceiling beyond which individual clients cannot borrow regardless of their length of time in the program. Programs also have various formulas by which individual clients can become eligible for larger loans. The specifics of the loan policies, as well as ancillary services such as internal loans and savings, influence loan-size growth rates. In addition, the commercial development and opportunity in the program area can influence a borrower's ability to use larger loans. Finally, the membership dynamics of longer-term clients leaving the program and new members joining can also serve to dampen loan-size growth rates.

In order to facilitate comparison of how program policies and context might influence loan growth rates, the seven programs in the study were divided into three groups based on third-year average individual loan-size data from each village bank (see Table 1). The high-range category (with an average loan size of more than US\$200) consists of the Colombia and Uganda programs; the mid-range category (with an average loan of close to US\$150) consists of Honduras-urban and Guatemala; the low-range category (with an average loan of less than US\$100) consists of Burkina Faso, Bolivia, and Honduras-rural.

Table 1. Average Per Borrower Loan in the Third Year (24-36 months)

Program	Program Location	Maximum Initial Loan	Highest Actual Loan	Loan Ceiling Policy	Internal Loan Activity
High-Range - Average Loan Size More than \$200					
Colombia \$251 at 24 mos.	urban	\$80	\$488 at 24 mos.	\$500	low
Uganda \$222 at 28 mos.	urban	\$75	\$1830 at 20 mos.	part of time no ceiling; changed to \$600 max.	low
Mid-Range - Average Loan Size Close to \$150					
Guatemala \$139 at 30 mos.	rural	\$75	\$1413 at 54 mos.	up to \$1,000	medium
Honduras-urban Estimated \$141 at 31 mos.	urban	\$60	\$439 at 20 mos.	\$300 + max.	none
Low-Range - Average Loan Size Less than \$100					
Burkina Faso \$92 at 27 mos.	50% rural 50% urban	\$80	\$352 at 29 mos.	\$370 max.	none
Bolivia \$82 at 33 mos.	rural	\$50	\$202 at 32 mos.	\$300 max.	high
Honduras-rural \$74 at 32 mos.	rural	\$50	\$250 at 40 mos.	\$300 max.	high

Loan-Size Policies

If consistently applied, the initial loan-size ceilings reduce average loan size, especially for programs with a large influx of new members joining after the first loan cycle.

In five of the seven programs, initial loan sizes are more than the US\$50 projected by the original model. The range of initial loan sizes span from US\$50 to US\$80 across the programs. Therefore, it is not surprising that most programs equal or exceed original model projections in the early cycles. Also influential to loan growth rates was whether the initial loan-size policy was applied to first-time borrowers joining after the first loan cycle. Guatemala showed 35% of new entrants in the last reported loan cycle receiving loans greater than US\$100—raising the overall average in later months. Uganda, on the other hand, experienced a sharp drop in loan size, partly because of a large influx of new borrowers. If consistently applied, the initial loan-size policy can reduce the overall average loan size of a program with a large influx of new members who have smaller loans.

Maximum Loan Size

Programs with average loan sizes closer to the amounts predicted by the original Hatch model had approximately 30% of their clients taking loans of more than US\$300. Program loan ceilings in some cases were nonexistent or were as high as US\$1,000 per borrower. Programs with the lowest average loans consistently applied a US\$300 loan ceiling.

The maximum loan size or loan ceiling policy was even more influential to the patterns of loan-size growth in the sampled programs. A commonly applied definition for poverty lending is loans of US\$300 or less. While the original model assumes all loans will be US\$300 or less, the three programs with the highest average loan sizes—Uganda, Colombia, and Guatemala—had loan-ceiling policies well above this amount. Table 2 shows the loan-ceiling policy and the percentage of clients in each program receiving loans above US\$300 by the fifth and last reported cycles. It is interesting to note that in three of the seven programs (Uganda, Guatemala and Honduras-urban), borrowers were allowed to take loans larger than the program's stated loan-ceiling policy.

The relatively sharp climb in loan size during the first 20 months of the Uganda program is related to the fact that initially, the program applied no loan ceiling. The later introduction of a maximum loan size of US\$600 and a major decline in retention of original borrowers between the fifth and last reported cycles, contributed to a decline in the average loan size after the 20th month.² Still, it is important to note that approximately 30% of the borrowers in the fifth and last completed loan cycles took loans in excess of US\$300.

Only three of the seven programs had a policy of limiting loans to a maximum of US\$300. The two programs that did consistently

Table 2. Loan Ceiling Policies and Loan Sizes by Program

Program	Loan Ceiling Policy	Largest Individual Loan Made	% Borrowing More Than \$300 in Cycle 5 (avg. 22 mos.)	% Borrowing More Than \$300 in the Last Reported Cycle (avg. 35 mos.)
High-Range Average Loan Size				
Uganda	Initially no loan ceiling, later ceiling of \$600	\$1,830 at 20 mos.	31%	29%
Colombia	\$500	\$488 at 24 mos.	0%	14%
Mid-Range Average Loan Size				
Guatemala	\$1,000	\$1,413 at 54 mos. (above ceiling)	28%	7%
Honduras -Urban	\$300	\$439 at 20 mos.	9%	10%
Low-Range Average Loan Size				
Burkina Faso	\$370	\$352 at 32 mos.	6%	6%
Bolivia	\$300	\$202 at 32 mos.	0%	0%
Honduras -Rural	\$300	\$250 at 40 mos.	0%	0%

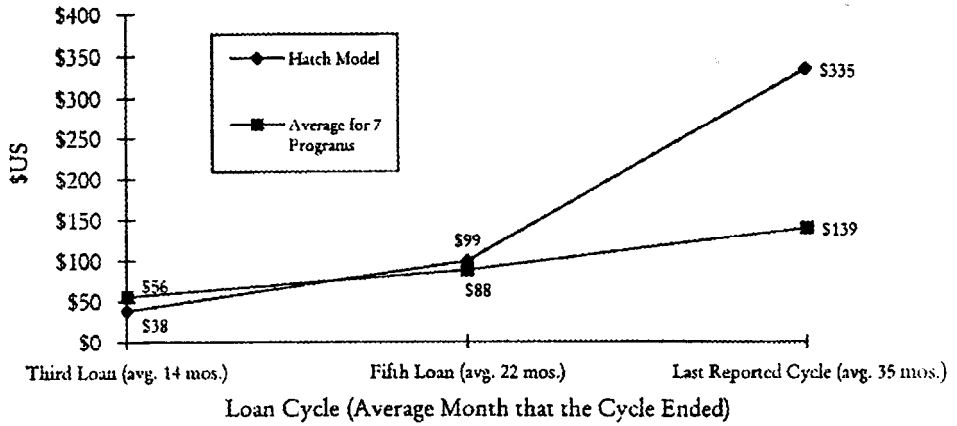
apply the US\$300 poverty-lending ceiling—Honduras-rural and Bolivia—also had the most modest program growth rates. The fact that only two programs have a poverty-lending ceiling of US\$300 begs the question whether a certain portion of the loan portfolio must be allocated to nonpoverty lending in order to achieve the original loan growth-rate projections.

Rural vs. Urban Location and Average Loan-Size Growth

The urban programs had an average loan size of US\$205 at 28 months, as compared to only US\$98 at 32 months for the three rural programs. An urbanization trend is apparent in village banking worldwide as more programs move to urban and peri-urban centers in order to facilitate fast portfolio growth and expansion.

As might be expected, the level of commercial economic activity in the program area appears to impact per borrower loan size. All the village banks in the lowest average loan-size category by year three were in rural areas (see Table 1). An urbanization trend is

Figure 3. Average Program Savings for all Seven Programs (total 26 village banks) Relative to Original Hatch Model



apparent in village banking worldwide as more programs move to urban and peri-urban centers in order to facilitate fast portfolio growth and expansion (Nelson, et al., 1996). The programs in the study sample mirror this trend: approximately half of the sampled village banks were located in urban or peri-urban areas.

The dampening effect that less vibrant economic activity can have on loan size is even more evident among the rural banks in Bolivia and Honduras; those in less commercially developed areas have average loan amounts of 2.5 times less than those in more developed areas (MkNelly & Stack, 1996). This disparity was evident in the Honduras-rural program, where none of the four village banks sampled were located in a town.

Locating banks in areas with more economic or commercial activity results in faster loan-growth rates and higher average loans. Rurally oriented programs face the double challenge of working with clientele more costly to reach who may have lower or inconsistent credit needs. Of course, one of the original goals of village banking programs was to provide rural households with improved access to credit. An overemphasis on the need for rapid loan-growth rates and financial sustainability are likely to shift the focus away

from the less profitable rural operations to areas with more active economic development.

Savings

What is the savings rate in practice versus the original Hatch model? Like average loan-size, savings rates fall short of the original Hatch model by the third year. Perhaps more important than savings requirements are the incentives inherent in savings policies, such as access and return through dividends and interest.

Figure 3 illustrates that savings rates, like loan rates, fall short of the original Hatch model by the third year. Since village bank programs no longer aim to “graduate,” there is less of an imperative to require borrowers to save US\$300 in order to replace their ninth and final program loan. Still, most village bank programs link borrowers’ loan-size eligibility to the amount of savings they have on deposit with their village bank. For this reason, it is possible that clients’ ability or inability to save could act as a brake on loan-size growth rates.

Table 3 groups programs by high, medium, and low average savings in year three. The Uganda program had the highest average savings per borrower (US\$179), which at 28 months exceeded the amount projected by the original Hatch model. It is interesting to note that two of the programs in the highest savings grouping—Bolivia and Honduras-urban—were categorized as low- to mid-range in terms of average loan size. The Bolivia program, in particular, had a high savings-to-loan ratio of 189%. Both the urban and rural village banks in Honduras also had relatively high savings-to-loan ratios approaching 100%.

In the original model, the savings-to-loan ratio was projected to be nearly one-to-one by the eighth cycle, with savings at US\$275 and

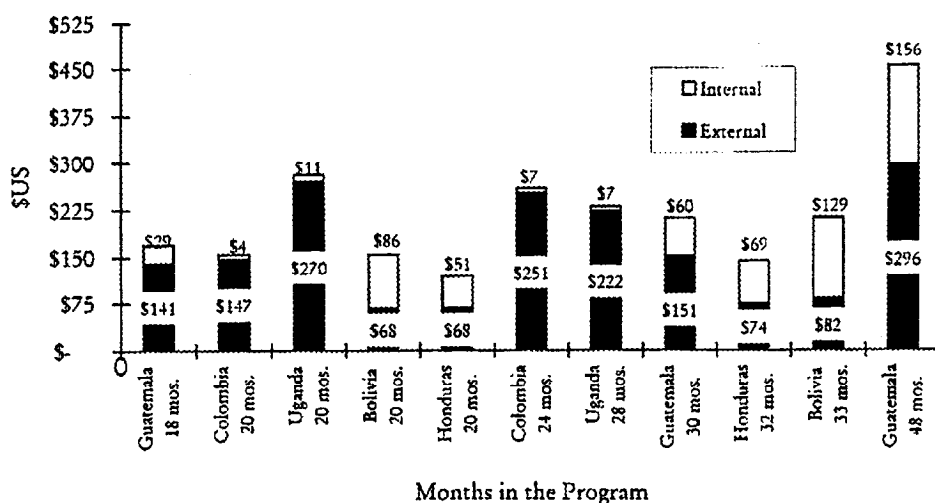
Table 3. Third Year Savings Amounts, Ratios and Policies by Program

	Savings/Loan	Requirements	Access	Formula	Return
Highest-Range Savings \$130 or Greater					
Uganda \$179 at 28 mos.	81%	20% required	resign	original policy was last loan plus total savings, but changed to first loan plus total savings	dividend
Bolivia \$155 at 33 mos.	189%	\$0.25-\$1/wk	resign emergency	last loan plus total savings	dividend
Honduras-urban \$130 at 31 mos.	99%	20% encouraged	resign	last loan plus total savings	no
Mid-Range Savings Close to \$100					
Guatemala \$116 at 30 mos.	83%	\$1.5/wk	discouraged withdrawal	last loan plus total savings	dividend
Colombia \$99 at 24 mos.	39%	10% required	resign	last loan plus total savings	dividend
Low-Range Savings Less Than \$100					
Honduras-rural \$70 at 32 mos.	96%	\$0.25-\$1/wk	resign emergency	last loan plus total savings	no
Burkina Faso \$33 at 27 mos.	36%	10% required	resign	last loan plus total savings	no

the loan capped off at US\$300. While most of the programs had relatively high savings-to-loan ratios (above 80%), those with the smallest average loan sizes—Honduras-rural, Honduras-urban, and Bolivia—are among the highest, at 96%, 99%, and 189%, respectively. These ratios indicate that many members can reach the point where they could capitalize themselves and graduate from the program. Yet many clients continue to borrow because they value building their savings while at the same time having access to credit. Still, over time, these high savings to loan ratios might be expected to lead to client dropout unless clients have liberal access to their savings and they earn some return on their savings.

Savings requirements and policies linking loan-size eligibility to savings do not hinder loan growth directly or even show close correlation to savings rates. However, restricted access to savings may indirectly affect loan growth by causing member resignation. Dividend payments based partly on borrowers' savings and liberal

Figure 4. Internal and External Loans by Borrower



access to internal loans is related to very high savings-to-loan ratios, even when savings requirements are relatively small.

For the programs included in the study, the savings incentives inherent in program policies were more influential to savings rates than were the stated savings requirements. High internal account access, along with guaranteed returns through dividends, culminated in high savings-to-loan ratios in those programs which offered internal loans.

Internal Account Policies

Liberal internal lending policies did detract from external account loan growth in three programs. This phenomenon was most evident for programs in which external loan repayment installments were included as part of the internal fund.

How does internal account lending affect the average loan size (of the external account)?

Internal account loans were originally conceived as a source of complementary short-term loans, which could serve consumption and emergency needs or supplement external loan amounts for those borrowers whose working capital needs exceeded the amount

allowed by the program. In this scenario, the internal account does not compete with the external account. The same is true when the internal account is lent mainly to individuals outside the village bank. The original long-range purpose of the internal account supplanting the external account through graduation is no longer followed. Therefore, programs are carefully examining their internal account policies and the ways these policies will affect the program goals of poverty alleviation and financial sustainability.

Figure 4 shows that internal account lending relative to external borrowing was significant in only three programs—Bolivia, Honduras-rural, and Guatemala. Among the programs surveyed, unrestricted access to internal account loans seems to have detracted from external-account activity, lowering external account loan size (MkNelly & Stack, 1996). By the end of the third year in Bolivia, the average internal loan was US\$129, compared to the external loan of US\$82. Because members had ready access to internal, as well as to external loans, a true picture of borrower demands for and use of loan capital requires examination of the total amount of loans borrowers took (internal plus external loans).

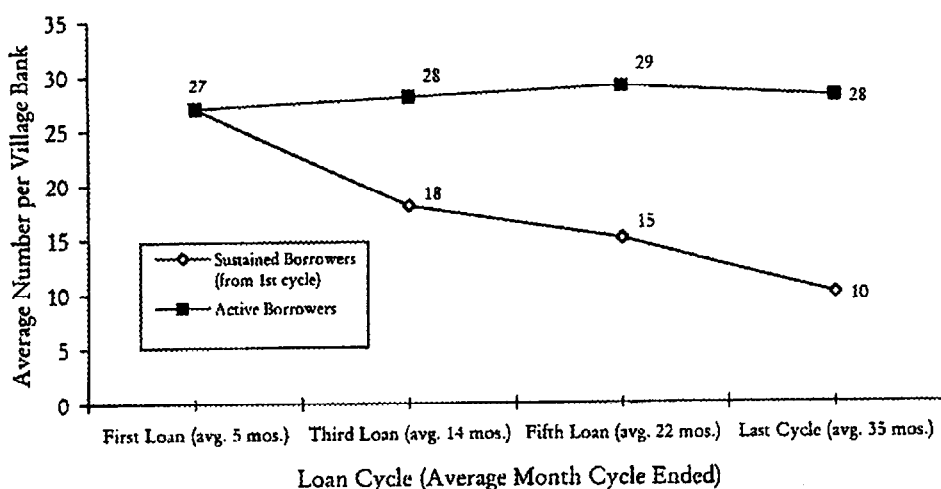
Comparing the average total loans (external plus internal) by program to the original Hatch model reveals an even more pronounced pattern of loan growth rate over time. In Figure 2 and Table 1, the external loan growth for the Bolivia and Honduras-rural programs was relatively modest and flat, but the total loan amounts, US\$211 and US\$165 respectively, are much closer to the original model projections. The Guatemala program also had relatively active internal borrowing and a total loan that was 40% greater than the average program loan.

Key Factors Affecting the Degree of Internal Account Lending

Aspects of the internal account that borrowers find attractive are instructive to village banking practitioners. In those programs where internal and external loan terms differ, clients preferred the lump sum rather than weekly repayment schedule. The requirements of weekly repayment and weekly meetings over time act as disincentives to program participation and increased borrowing from the external account.

The major factor affecting the degree of internal account lending is the program policies dictating borrower access to internal loans. There is considerable range in the internal loan policies. Two programs—Honduras-urban and Burkina Faso—allowed no internal account lending. At the other extreme, the Bolivia and Honduras-rural programs allowed unrestricted lending of the internal account, which included repayment installments on the external loans. The Guatemala program also allowed unrestricted internal lending of member

Figure 5. Average Number of Active Borrowers per Village Bank vs. Number of Sustained Borrowers from the First Cycle—Average for the Seven Programs



installments. The Colombia and Uganda programs had more restrictive and less flexible internal loan policies.

The relatively high internal loan amounts seen in the Bolivia and Honduras-rural programs can also be explained by the fact that only with these two programs did the external loan payments flow through the internal account. This blending of external payments into the internal account is the main distinguishing factor behind the high internal account rates of Honduras-rural and Bolivia.

The programs with more active internal lending also offered terms different from external loans, which terms borrowers found attractive. The Bolivia, Honduras-rural, and Guatemala programs all allowed borrowers to repay their internal loans (principal plus interest) in a lump sum rather than in regular weekly installments. Borrowers also appreciated the fact that the interest they paid on internal loans accrued to the village bank itself and was paid out to members as dividends.

Due to restrictive internal-account policies, programs such as Uganda and Colombia had little internal-account lending. The Uganda program required a 30% cash reserve, forbade internal lending until the third cycle, and limited internal lending to 5% of the external loan amount. The Colombia program limited the amount of internal lending allowed, with greater emphasis on lending to nonmembers than members. In addition, the internal account terms were similar to those of the external loans, in that weekly repayment was required and a limit was put on the amount that could be lent.

Participation Rates

Sustained borrowers make up only 65% of the membership by the end of the first year, approximately 50% by the end of the second year, and only 35% by the end of the third year. Inconsistent bor-

rowing and late joiners dampen loan-size growth. The average loan size of sustained borrowers was approximately 25% higher than the loan-size averages for the general village bank membership at the end of the third year.

What are the membership dynamics in practice as compared to the original Hatch model? The Hatch model projects that membership starts at approximately 30 and increases to no more than 50 after the first few cycles (Hatch, 1989). While it is expected that new members will join in later cycles, the model does not account for the financial implications of original members leaving the program. Figure 5 illustrates the actual membership dynamics by comparing the average number of active borrowers per village bank to the average number of borrowers sustained from the first to the last completed loan cycles. Average membership per bank remains at approximately 28, while the number of sustained borrowers who joined in the first cycle decreases to 10, or about one-third of the original membership, by month 35.

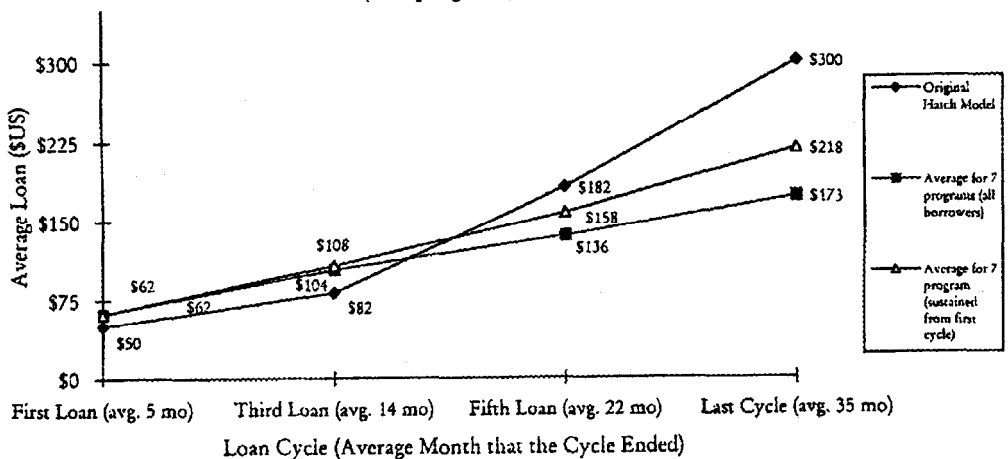
By the end of the first year, 65% of the first-cycle borrowers were still active in their village banks and had consistently borrowed in each of the first three loan cycles. Near the end of year two, 53% of the borrowers had consistently borrowed since the first loan cycle. This number dropped to 35% by the end of year three. It is not possible to say whether these numbers represent relatively high or low rates of sustained borrowing as compared to other credit methodologies, because little empirical evidence is available to make such a comparison. In any case, these membership dynamics run counter to the original model's assumption that clients will demand steadily increasing loans every four to six months over a three-year period.

The most dramatic exit of first-cycle borrowers occurs in the village bank's first year. One theory behind this fact is that the first

three cycles are a period of “weeding out,” as clients come to better understand the requirements of the system and the premium placed on on-time repayment. Members with other options for acquiring working capital, perhaps the wealthier members, may decide to resign completely or suspend loans temporarily. Despite this lack of consistent clientele, overall program loan growth rates do show steady increases for most of the programs.

The number of members joining after the first cycle is also dramatic. By the end of the first year, 35% of the active borrowers had joined after the first loan cycle. As the village banks approach the end of their second year, the percentage of borrowers who joined after the first loan cycle rises to 54%, and to a little more than 70% by the end of year three. This phenomenon of late joiners is consistent with Hatch’s original theory that those more risk-averse (usually the very poor) will join after having the opportunity to observe the program for some time. The risk takers (usually those with more income) tend to join first, but they also leave more quickly if the requirements of the village bank are too taxing on their time. Discussions with late joiners in the Honduras-rural program revealed that some had not heard about the program, some did not

Figure 6. Average Program Loan for All Borrowers and for Sustained Borrowers from the First Loan Cycle Relative to Original Hatch Model (all 7 programs)



join at the time because they had young children, and others were afraid to join because they did not fully understand how the program worked or they were hesitant to assume a loan.

Also evident in the data were those individuals who enter and exit the program numerous times for various reasons. Some of these individuals joined as of the first loan cycle, left in a later cycle, and then rejoined. Others joined after the first loan cycle and followed a similar pattern of leaving and returning in later cycles. These intermittent borrowers represented only approximately 10% of the entire sample, and therefore did not have a significant effect on the overall trends. However, this dynamic of suspending borrowing for one or more cycles at a time does have programmatic implications. Practitioners should be aware of this element in planning projections, and program loan policies should accommodate inconsistent borrowing while not penalizing the member.

The dropout of longer-term consistent borrowers and the drop-in of new borrowers both have the same effect—a reduction in average loan size. First-time borrowers commonly start at the initial maximum loan size, which averages US\$62. Thus, a program with a low resignation rate but a high late joiner or drop-in rate will also experience a dampening of average loan-size growth. Figure 6 plots the average loan size of sustained borrowers, relative to that of all borrowers as well as to the original Hatch model projections. By the end of year three, the sustained borrowers' average loan size was US\$218 as compared to US\$173 for all borrowers, and was 73% of the model projection as compared to only 60% for all borrowers.

Sustained Participation and Average Loan Size Among Individual Programs

The program with the highest sustained borrower rate (Guatemala) had relatively flexible program policies—high loan ceilings, liberal access to internal loans, and lump-sum rather than weekly repayment—that may have been sufficient incentive to keep borrowers active in the program.

If client drop-out was a major cause for slow loan-growth rates, programs with high rates of sustained borrowing should have relatively high average loan sizes. However, this relationship was not consistently found among the programs included in the study. Programs in Colombia, Guatemala, and Burkina Faso had the highest retention rate (40% or higher) of first-cycle borrowers in the third year of operation. These programs represented all three different average loan-size categories: high (Colombia), medium (Guatemala), and low (Burkina Faso).³ Those with the lowest retention rate, Honduras-rural and Bolivia (30% and 17% respectively), show higher savings rates and relatively low program loans but midrange total loan amounts.

Guatemala had the highest retention rate of sustained borrowers at month 30 (67%). Its relatively high loan ceilings, liberal access to internal account lending, and more flexible repayment requirements may have been sufficient incentive to keep borrowers active in the program. The Guatemala program allowed borrowers to repay program loans in lump sum payments at the end of the loan cycle rather than weekly. After the fifth loan cycle, required meetings are biweekly rather than weekly. In addition, refresher training is given periodically in Guatemala regarding bank regulations that may also contribute to higher sustained participation.

In Burkina Faso, the program's initial policy of graduating village banks after the ninth loan cycle may have contributed to a relatively high drop-out rate toward the end of year three. Colombia's retention rate, 48% in month 24, was close to the overall average of 53% in month 22. It is difficult to tell if this trend would have continued into the third year because later data are unavailable.

Causes of Resignation

Resignations are attributed to factors both internal and external to program policy and practice. External factors include migration, illness, and inconsistent economic activity. Early-cycle resignation is more tied to lack of compliance with group regulations, whereas late-cycle resignation is linked with inconvenience of weekly meetings and limited savings access.

Several of the programs participating in the study conducted informal discussion groups with staff and clients on the major reasons why clients leave the village bank programs.⁴ Based on this feedback, the following factors were the most common causes of resignation.

1. Expulsion by fellow members for delinquency or default. This group includes members who did not fully appreciate the regulations when they joined, and consequently resigned early. This may be one reason behind the rapid reduction in sustained membership (35%) between the first and third cycles.
2. Seasonality, migration, or poor market or economic activity. Inconsistent commercial or economic activity was cited in four out of seven programs as causing resignation or, more often, intermittent borrowing.
3. Dissatisfaction with weekly payments. Not only did borrowers see weekly meetings and payments as time-consuming, but

the meetings also reduced the amount of time borrowers had to use the loan as working capital, and increased the real interest rate of loans.

4. Access to savings. Savings access only through the internal account, which was limited in some programs, coupled with no return shown in some programs, appeared to be a disincentive for continued participation. This was especially true in the later cycles when savings amounts were more significant.
5. Illness. Health problems often caused members to leave the program or to halt borrowing temporarily.

Many of the causes behind resignation are outside program control and influence. Still, program policies can influence borrower incentives to remain or to leave the program. Policies regarding earlier orientation and training are likely to have a greater effect on the early dropouts, while greater programmatic flexibility will affect the later-cycle member withdrawals.

Strategies that may increase loan size by increasing the sustained participation of members include better orientation and follow-up on regulations, reduced frequency of meetings and repayment installment, more flexibility with inconsistent borrowing, and an increase in savings access.

Conclusions

The experiences of these seven programs indicate that village banking clients are able to absorb loans of increasing size. In general, average loan sizes, especially for sustained borrowers, do not stagnate at least for the first two to four years. When trends in average total loans (external plus internal loans) are considered, six of the seven programs exhibit patterns of variable but steady growth. Although loan growth rates were slower than the 500% projected

by the original Hatch model, average loan sizes do increase on average by 280% over an approximately three-year period. Without comparable empirical data, it is not possible to say whether this represents relatively high or low growth rates relative to other credit methodologies. The variability in loan growth rates for the seven programs provides useful insight into the effect of various policies, services, membership dynamics, and context on loan growth rates:

- The Guatemala village banks demonstrated the most pronounced loan growth rates, perhaps in part due to their relatively longer program experience. But this good growth is also likely explained by the program's relatively flexible policies—longer loan period, less-frequent repayment installments, access to internal funds, and relatively high loan ceilings—and its subsequently high rates of sustained client participation.
- The Uganda program started off in its first two years with very rapidly escalating loan growth rates, partly because no loan ceilings were applied and some borrowers take relatively large loans. However, this period of rapid growth is followed by a decline in loan size when more restrictive policies, such as loan ceilings, were put in place to better control loan-size growth and repayment problems. These problems and new policies were associated with major membership turnover, which dampens average loan size.
- The Bolivia and Honduras-rural programs are examples of the dampening effect that unrestricted internal borrowing can have on external loan growth rates.
- The village banks from the Burkina Faso program illustrate how the anticipation of graduation with its cessation of program services can lead to relatively high rates of program exit.

The fact that poverty-lending programs usually cater to low-income women, often mothers, indicates that the clientele profile does not lend itself to rapid loan growth at the proposed rate of the original model. Instead, this profile shows steady but modest loan increases. Time frames for expected self-sufficiency may be skewed, given client demand for loans. Although an examination of each programs' financial sustainability performance on the relationship to loan-size growth rates is outside the scope of this study, it should be considered for further review. As the pressures for sustainability increase, so will the challenges for practitioners to continue to evolve and innovate village bank programs to serve this clientele with programs that are financially and institutionally sustainable.

Notes

1. The Bolivia and Honduras-rural programs show a much more dramatic increase in loan size when the total borrowing (external plus internal loans) is taken into account (see Figure 6).
2. The Uganda program also changed its loan eligibility formula from the original model's last loan plus total savings to first loan plus total savings in an effort to better control loan amounts following a period of repayment problems.
3. As mentioned earlier, the devaluation of the FCFA in Burkina Faso deflates the dollar average loan size.
4. Feedback from programs was not uniformly gathered on this issue. In addition, the discussions were conducted primarily with current clients rather than with members who had left the program.

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