CAPITALISATION FORM

EdM Group Methodology

Entrepreneurs du Monde ***(all countries)***

July 2012

Starting date: 2007 (In Ghana)

Target beneficiaries: micro-entrepreneurs from the informal sector, including the poorest of the poor

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Summary: The EdM group methodology without joint liability has now been implemented in the field for 5 years, lessons have been learnt and some core principles of the methodology tested and proven. Most importantly, we realised that the RIGOUR in following the key principles and implementing them strictly as they are prescribed in the field was the key of its success (e.g. repayment rate over 98%, PaR below 3%...).
Where MFI and managers decided to make a mix of the EdM group methodology and the traditional joint-liability methodology, the results were highly disappointing.
The purpose of this document is to help EdM programmes implementing the EdM group methodology not repeat the mistakes of the early years, and to make sure EdM programmes already using this methodology do not drift from the initial principals.

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ENTREPRENEURS du Monde

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Introduction

- The origins of the EdM group methodology

Back in 1999, EdM became aware of the methodology used by ASA, a Bangladeshi MFI. It has proven to be the most efficient and the most expanding MFI over the last twenty years (more than 4 millions partners[1] only in Bangladesh!). Its success was such that it expanded very quickly to many other countries – initially mainly in Asia, overtaking the well known Grameen methodology, but now also on all other continents.
EdM decided to adapt this methodology, adding the business and social training to it, and incorporating social performance management principles at each step of the lending and saving cycle, but keeping the rigour and the efficiency of the original precepts.
EdM has since successfully replicated the principles of the ASA methodology in Ghana, Haiti and India, with a specific social focus (which the initial ASA does not bear) and now bases most of its developments on this approach.

- Its local adaptations

We agree to call this methodology the EdM group methodology from then on, but it is important to note that each MFI gave it a local name to emphasise its vision. If other programmes in existing countries replicate the methodology, they will be expected to use the local names listed below – providing they absolutely respect the pillars and principles set out by EdM.

- In Benin, it is called Tovi Nonvi in the local Fon language, meaning 'même père, même mère'
- In Burkina Faso, it is called Taan Yama in the local Gourmantchéma language, meaning 'solidarity'
- In Ghana, it is called Onipa Nua in the local Twi language, meaning 'mutual care'
- In Togo, it is called Amenovi in the local Ewe language, meaning 'togetherness'
- In Vietnam, it is called Doan Ket which means 'solidarity'
- And we hope the list will grow…

[1] On the Mix market website, ASA has 4,425,126 active borrowers as of the end of June 2012. At its peak, it had 5,877,activeborrowers late 2008.

1. Context and justification for implementing the EdM group methodology around the world

1.1 The ASA methodology: making people take responsibility

- The ASA approach makes people responsible for their peers: if the defaulting beneficiary is a reliable one and has the trust and support of the community, in most cases, group members will decide of their own accord to support him/her. The Loan Officer, in most cases, will not even know that some members are being supported by others, as the repayment rate will still be 100%. This is the group's decision.

- If on the contrary the group members do not trust a defaulting member and do not want to support him/her, they will just pressure on this person according to the policies but will not advance his/her payment. The defaulter will, after a while, be excluded from the group if no payment is made and the Loan officer will have to take it into his/her own hands to recover the money.

1.2. General approach: Rigour and discipline in following the key principles of the methodology

Based on a group collection with individual financial liability, the ASA methodology is highly productive, cost-effective, makes people responsible and provides a suitable venue for social and business training activities. It shows excellent track record wherever it has been implemented strictly. A strict respect of the principles is absolutely necessary to be successful, and the main challenges are at the initial stages of the implementation.

The principles vary slightly from one country to the other, but the main aspects of the methodology adapted by EdM for its microfinance programmes need to be followed strictly from day 1. After a few weeks, they will be engrained in the field team's routine and the beneficiaries will also abide by these rules.

1.3. Specific objectives

Specific objectives	Activities scheduled
1- Productivity	- One loan officer usually handles 3 groups of 15 to 30 people daily, making a total of up to 15 groups on a weekly basis. In the case of more distant groups and with a monthly collection like in Vietnam, a Loan Officer could target to handle up to 40 groups in the month. - A typical ASA branch has 4 to 5 Loan Officers and 1 Branch Manager. - One branch handles systematically more than 1,000 active borrowers.

2- Efficiency	All branches are set up according to the same standards, with low expenditures and simple equipment. Reporting is simple and easy (see 3.5 Reporting)
3- Accuracy	In the original ASA methodology, all operations and figures are computed at the branch level. Branches are the ones to produce their own reporting and financial statements. This gives them a very deep awareness of their performance and quickly orients them on what has to be improved. In EdM programmes, branch staff must be aware of their indicators in a very reactive way and this is achieved through maintaining up-to-date group ledgers and using the expected repayment reports from LPF or Perfect.
4- Social impact	Each group meeting is an opportunity to discuss some socio-economic issues and to increase the participants' awareness on different topics. This contributes to reinforce the social links among the community.

2. Partnership and target population

2.1. Target population

This is suited to **residential areas**, where people can form groups in their neighbourhoods, and can also be adopted in **market or rural areas**. It enables loan officers to reach out to very poor people needing just USD10 to borrow and more established micro-entrepreneurs willing to get loans in excess of USD100, as there is no joint liability between members.
Women tend to come forward first, but men are also welcome.
Some groups came from churches, local resident associations or traders' unions and pre-existed the creation of the microfinance activities. Others get together to gain access to the loans.

2.2. Financial partners

This methodology is being used in a number of countries and MFI and therefore financed through our major donors: AFD, Grameen Credit Agricole, Kiva…

2. 3. Technical partners

EdM is the technical partner providing support to the MFI implementing this methodology. It is in the process of writing a charter practionners of the EdM group methodology will need to abide by.

3. Methodology and tools

3.1. On the beneficiaries' side: group formation

- Partners form groups of 15 to 30 people living in the same communities or working in the same place and committing to meet weekly[2]. MFI staff is not involved in the process of forming the groups. In special contexts like Haiti or Myanmar, group size can be adjusted and evolve over time:
- Haiti started with groups of around 5 people and most groups now count 10 people or more.
- It will start with 4 to 7 people in Myanmar but if the approach proves successful, we will quickly be in a position to merge 2 groups into 1 or to motivate each group to reach a dozen members (most importantly, if groups have to merge, the programme staff should not be the one to decide which groups are going to be merged – it is essential that the group formation remains in the hands of the members, even though it can be facilitated by the MFI staff).
- In Vietnam or in Burkina Faso, like in most rural areas, we will face a different situation: some existing groups are too big and will need to be split in order not to exceed the maximum size of 30 people.
- Facilitation sometimes includes discussing with people the optimum size for a group. It proved difficult to split groups used to be working together in half, if they were not warned previously. It can help to sensitise groups by comparing the size of the group with a classroom. Members would prefer their children attending a school with classes of 30 pupils, not 50, even less 100 and respond well to this parallel being made… The quality of the training and the discussions is better in groups of 20-30 people on average.

3.2 Another fundamental aspect: group dynamics

- In groups of 15 to 30 people, groups elect among themselves a Chairperson, a Treasurer and a Secretary. In smaller groups, 2 elected members are enough. In Ghana, we also elect a Peer Educator, in charge of conducting the group discussions on topics chosen in agreement with ID Ghana when the trainer/social worker can not attend the meeting.

- They all choose together their meeting day and time (e.g.: every Wednesday at 11:00 AM for weekly groups, or each third Friday of the month). The meeting should not take more than 1 hour.

- The group meeting frequency can also be adjusted: from weekly (Ghana) to twice a month (Togo) or to monthly meetings (Haiti). But when starting programmes in urban or semi-urban contexts, it is better to start on a weekly basis. It can be twice a month or monthly in rural areas. It is always easier to convince people to meet less frequently, than the other way around. It is therefore better to start weekly for a close follow-up and maximum rigour, and to reduce the group frequency after a few months, <u>if the groups are performing well</u>.

[2] It can also be an opportunity to meet bi-weekly or monthly, depending on the country and the context (rural or urban). What is important is to respect the pace and be rigorous.

- The first weeks of the process are for checking the motivation and strength of the group. Once formed, the group has to start to meet with the loan officer on the agreed frequency and day/time. This will allow them to get used to the policies (attendance and time management), to be given some important information on their rights and duties, to fill in their application forms and to start the saving process. It is crucial to set the rules and to abide by them during these first few weeks. No excuse should be made for absentees during this time.

3.3 Savings management: small but regular and compulsory amounts

- During this process, beneficiaries have to save for 4 consecutive weeks first (this is therefore the time to apply for a loan) or 4 consecutive times if they do not meet on a weekly basis: it can be twice a month or monthly. A minimum savings amount is set[3]. The MFI sets a minimum savings amount for the beneficiaries and writes it down in the methodology. But the groups can decide to save more, and this is determined by consensus at the group level. It has to be adapted to the savings capacities of the less wealthy members in the group. If the MFI agrees for minimum savings of 2,000 dongs, 0,5 Ghana cedis or 200 FCFA per week, then everybody will have to save that minimum on a weekly basis, but groups can decide to put a higher minimum in place at group level to motivate each other. This minimum saving is compulsory. Anyone willing to save more can do so too. The savings are recorded both in the regular weekly collection group register and in the individual savings passbooks.

- Savings can not be done on an erratic basis, but need to take place at each group meeting on a regular basis.

- Whenever possible, savings bear interest, at a sufficiently attractive level – usually a minimum of 5 to 6% per annum. If the MFI is allowed to finance itself through savings, savings are going to compensate loan capital needs so they do have a value![4]

3.4 Loan management: tailored amount and duration for each borrower

- Loan products are standardized and very simple. As there is no joint liability, loan amounts can vary from one person to another according to the needs of their business. Members don't all need to start their loans at the same time. The duration of the loan is also flexible according to the beneficiaries' capacities and wish: we don't impose loan duration to our members, we ask them how much they can pay back on a weekly (monthly) basis, and their answer determines the maximum loan duration.

Of course, this should not prevent the Loan Officer to do a thorough analysis of the repayment capacity of the borrowers. Each loan needs to be sanctioned by a business visit and a home visit, and amongst other things, the Loan Officer needs to check as best as possible, that the person does not have an on-going loan with another institution and provided accurate information on its income-generating activity and repayment capacity.

[3] This is compulsory savings and therefore in line even in countries where the MFI is not allowed to collect savings.

[4] Namely as of 30th June 2012, the following programmes are not allowed to use the savings collected as revolving fund : Ghana, Togo. For the programmes that do, they are subjected to respecting the prudential ratios.

- There is no joint liability in the EdM group methodology. Group pressure alone ensures full repayment. We might have a guarantor for each borrower. But in the EdM approach, this guarantor would act more as a witness, than a guarantor with financial liability. The witness might be the beneficiary's spouse. In most countries, guarantors tend to ask commissions to the loanee, which is an additional burden for them and we want to stop this practice and implement a methodology that gets rid of this bias.

3.5 Attendance and defaulters' management: zero tolerance

- At the beginning of the meeting, the Loan Officer checks the attendance based on the list of names in the group register. People present are marked with a blue or black tick (/). People who are late or absent are marked with a red tick (/).

At the end of the meeting, attendance is checked again: people who did not show are marked with a red cross (X). People who came late are marked with a blue or black slash (X).

- There is zero tolerance for delinquency in the EdM group methodology. If there is a missing member in a weekly or monthly meeting, group leaders should immediately leave the meeting to fetch the person missing (this is why it is really necessary to form groups of people who live or work nearby). If the missing member cannot be found, the group meeting takes place, but once it is over, group members need to visit the defaulter and pressure her/him to repay.

In the regular ASA methodology, if somebody does not payback, a "sit-down" process is undertaken (either by the staff or by the group members) until the defaulter pays, but that practise is not encouraged by EdM as it can quickly turn out to be humiliating for the defaulter and the family. If after regular pressure by the group members, the defaulter still does not pay back, then the loan officer is involved and visits the family, together with group leaders.

- Fines and penalties for latecomers or absentees might not be a good solution as some people might prefer to pay a fine and to be absent. It is advised to strictly implement the methodology without giving that possibility.

- A member having some commitments on the meeting day may be absent as long as (s)he informs the group leaders before the meeting and gives them her/his payment. Such absences have to remain the exception: a member should not miss more than 10% of the group meetings, otherwise they are at risk of not getting their loan renewed.

This threat needs to be communicated with caution by the MFI staff, as some members might fully default, if they understand, there is no chance of their loan being renewed

In some exceptional cases, a member can send a proxy to the group meetings. But this also has to be limited and specified in the group policies.

3.6 Reloans

- The reloan process should be very easy and very fast. There is no waiting period between 2 loans. The MFI just needs to anticipate.

- Unlike first loans amounts, reloans might depend on the total savings accumulated, with for example a ceiling of 5 times the savings amount accumulated on the savings passbook. Borrowers need to be informed of this when joining the MFI, so that they are encouraged to save. Although, they should also be made aware that not only their saving balance, but also their repayment capacity will determine the loan amount. On the day of their last repayment, if it works smoothly, they can be reloaned at the same time. Linking the reloan amount to the savings is optional. In some programs like in Haiti, there is no link between loans and savings, these are two separate products.

- Starting from the second loan cycle, the minimum savings amount requested, if applicable, is blocked and cannot be withdrawn, unlike the voluntary savings. The blocked savings amount can be expressed as a percentage of the remaining loan balance. Example: 2nd Loan is 2 million Dongs or FCFA and according to our policy, borrowers have to keep a minimum 20% of this amount as blocked saving. After a few weeks, when the loan balance goes down to 1 million, the minimum amount to be blocked in their savings account becomes 200,000 Dongs or FCFA, i.e. 20% of the remaining balance.

- Members willing to only save are most welcome in ASA groups. Of course they have fewer obligations, as they do not have loans to repay. It's difficult for example to expect the same attendance from them as they might not be willing to save each week. But as soon as they wish to borrow, they have to abide by the rules described in this document.

3.7 Business and social trainings

Each collection meeting is an opportunity to train our members on social, technical or business issues. A module can last up to half an hour.

The trainings will be provided by specialised people:
- Trainers or social workers from the MFI,
- Peer educators chosen amongst the groups for social topics or to animate a discussion, conduct a debate,
- External people (A local farmer or a vet bureau, a nutrionnist, a nurse…)

During the meeting, usually the collection process goes on and is managed by the group leaders and the Loan Officer. So the group does not get bored waiting for the collection of the money and the recording to be done, the training is done simultaneously by a trainer, a peer educator or someone external. If the trainer is not handling the session, the Loan Officer is expected to take 5 to 10 minutes at the end of the meeting to wrap up the training and leave the group with a key message in relation with that training.

Trainings are supported by interactive methodologies and suitable highly illustrated supports, provided by EdM if needed.

3.8 Reporting is simple and easy

- 1 register/group is kept by the loan officer in which we have names and number of Partners and one page per collection day on which data regarding attendance, loan releases, loan repayments and saving payments are recorded. This register serves as basis for LPF or Perfect encoding.

- 1 notebook at the level of the group is kept by the group leader: in this book, we take one page per collection meeting to sum up what was done during the group meeting: attendance (mention precisely the names of missing Partners, if excused, mention it, mention total amount collected, if different from expected, explain why, total saving collected, mention people who gave more than the minimum and how much, training topics, special guests, special events like officers elections…).

- 1 paper sheet per partner with the loan amortization schedule printed from LPF or Perfect to be updated during each group collection and kept by the member.

- 1 saving passbook, updated during each collection meeting, kept by the member.

4. Assessment of the activities and results for the programme

In Ghana, thanks to this methodology, the PAR of ID Ghana went down from more than 30% to less than 5%.

In Haiti, after less than 2 years of implementation, ID Microfinance became, end of 2011, the best performing MFI in terms of PAR…

In both countries, the retention rate increased substantially, showing some obvious interest from the beneficiaries, and improving the sustainability of the institution.

5. Observations

- A Loan Officer has to arrange his/her groups per area, so all groups visited during a day are in the same area, to avoid wasting time and money.

- The success of the methodology relies on discipline. The Loan Officer has to be a perfect illustration of this discipline, by being on time and respecting the methodology.

- When switching to the EdM group methodology, the MFI has to completely get rid of joint-liability methodology, and to be convinced about the switch. On the other end, front desk products for SME or more affluent micro-entrepreneurs are needed to complement the offer. But for a social MFI willing to reach out to the poorest, it should not excess 20% of active borrowers.

Conclusion

Compared to the Grameen methodology, the ASA methodology not only gets much better results, but in addition it provides much more flexibility to the beneficiaries: no joint liability (so no risk to have the bad effects of the joint-liability groups methodology), loan amounts are granted according to the business needs (no need to give the same amounts to everybody), possibility to start a loan or a subsequent loan whenever needed (and not everybody at the same time as in Grameen)…

All of these are not possible in the Grameen methodology. This explains why as of today the ASA methodology is the most rapidly expanding.

EdM went the extra mile adding the social aspect to it (individual counselling, trainings…) making sure that MFI are aiming at making each beneficiary's business sustainable and not only focusing on the productivity of their staff.

Appendix

http://www.lemonde.fr/idees/article/2011/05/02/ghana-une-microfinance-sociale-au-service-des-familles-les-plus-demunies_1515876_3232.html