Journal of Extension

Volume 59 | Number 2 Article 1

4-28-2021

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Recommended Citation

Edelman, M. A. (2021). Extension-Led Demonstration: Grameen Microfinance Methods and Capital Access for Low-Income Female Entrepreneurs. *Journal of Extension, 59*(2), Article 1. https://doi.org/10.34068/joe.59.02.01

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Cover Page Footnote

I wish to acknowledge the contributions, leadership, experience, and expertise provided by Alomgir Hossain, director of the Solidarity Microfinance program, and contributions of many Solidarity staff. Sandra Charvat Burke, former senior research scientist, Community Vitality Center, Iowa State University, led efforts to design evaluations; Adam Edelman is acknowledged for editing. Craig Downs provided fiscal accounting, loan administration, and credit reporting services. Iowa Community Capital board members, volunteers, and community partners contributed time, resources, and expertise to the development of the Solidarity Microfinance program demonstration project during the time I served as the Iowa Community Capital board chair. Finally, the achievements by the Solidarity entrepreneurs deserve respect and remain an inspiration to those involved and others who may choose to follow.

JOURNAL OF Extension

Research in Brief

Volume 59, Issue 2, 2021

Extension-Led Demonstration: Grameen Microfinance Methods and Capital Access for Low-Income Female Entrepreneurs

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Abstract. A nonprofit community development financial institution and Extension collaborated to conduct a demonstration project to evaluate efficacy of Grameen peer-group microfinance methodology in addressing barriers faced by low-income women entrepreneurs in a small metro area. Program performance metrics achieved by 284 culturally diverse, low-income entrepreneurs (almost all women) over 5 years included a program loan repayment rate of 99%, increased average client income, bank savings accumulation, and increased opportunities for improved credit scores. Client survey responses indicated program methods developed confidence and skills in finances, leadership, and teamwork. Extension professionals may play various roles in such endeavors.

INTRODUCTION

Strategies for achieving equal opportunity and addressing income inequality have been of high public interest in recent election campaigns (POLITICO, 2020). Microenterprise training programs represent a targeted approach for addressing income inequality by improving incomes for low-income clients in rural and metro areas (Schmidt et al., 2006). Lack of access to capital inhibits low-income entrepreneurs' ability to generate profits, create jobs, and contribute to community vitality (Tampien, 2016). Access to checking, savings, or credit accounts is related to savings behavior (Hilgert et al., 2003). Demographic attributes—including age, gender, and presence of children under 18—shape financial behavior for culturally diverse, low-income entrepreneurs (Mauldin et al., 2013). Strategic partnerships can strengthen Extension's community-based entrepreneurship programs (Bassano & McConnon, 2011). Herein I report case study research addressing an Extension/nonprofit partnership designed to demonstrate Grameen methods for improving entrepreneurial skills while addressing gaps in access to capital for culturally diverse, low-income female entrepreneurs in Des Moines, Iowa.

Grameen peer-group microfinance methods have been deployed in more than 64 low-income nations as a strategy for economic development and poverty reduction (Grameen America, 2019). Grameen methodology emerged following famine in Bangladesh during the mid-1970s (Yunus, 2007). Economics Professor Muhammad Yunus observed groups of impoverished women selling handmade products to support their families. Using personal funds, Yunus began providing loans to groups of women and helped them overcome barriers to obtaining greater business returns. In 1983, Yunus formed Grameen Bank using this model for lending capital to groups of poor women engaged in income-generating activities. The lending model does not involve conventional underwriting requirements, written business plans, cash flow projections, collateral, guarantors, or minimum credit scores. Grameen methods involve formation of social networks based on trust, performance, and social support. Grameen methods include regular peer-group meetings and loans for microenterprise. The meetings create opportunities for network mentoring, social support, reinforcement of loan payment responsibility, accumulation of emergency savings, and discussion of business enterprise, family, and community topics.

Grameen America was formed in 2008 and initially involved the development of five U.S. projects in large metro areas with over 1 million in population. The efforts required multimillion-dollar endowments for launch. Grameen America recently reported the existence of 14 projects (Grameen America, 2019). The objective for the case study reported herein was to ascertain whether Grameen methods and performance metrics could be replicated by an Extension/nonprofit partnership in a small metro community with less than 1 million in population.

CASE STUDY DEVELOPMENT

Interest in Des Moines sparked in January 2012, when a carload of community leaders toured a Grameen America project in a large metro area. I was an Extension professional and delegation member who was leading an initiative to revitalize a nonprofit, Iowa Community Capital (ICC) at that time. Our group concluded that a smaller scale project might address a local priority—poverty in the urban core. To verify local demand, we conducted focus group research and a market study. The Community Vitality Center at Iowa State University and ICC organized an Extension/nonprofit collaboration in January 2013. ICC is a 501(c)(3) nonprofit Community Development Financial Institution certified by U.S. Treasury. Another nonprofit, Iowa Microloan, was contracted to provide loan administration and financial accounting services. This case study is unique because Grameen America exclusively served large metro communities with populations over 1 million, whereas Des Moines had a population of 214,000 and a 17.2% poverty rate (U.S. Census Bureau, 2019).

In 2013, Extension staff assisted nonprofit leaders in developing a business plan that included a 1-year fundraising campaign and a 3-year demonstration project. ICC's new program was named "Solidarity Microfinance." ICC secured community foundation funding and a 3-year pledge from a large national bank. The Federal Reserve Bank hosted a workshop for nonprofits and bank compliance officers in the community to introduce the new community reinvestment opportunity. Budget targets were met by April 2014.

ICC engaged two staff for key roles. In June 2014, ICC hired a bilingual coordinator with local nonprofit experience in working with low-income networks. ICC also engaged a consultant with 30 years of experience in Grameen methods and startup project management, including projects in Hispanic communities. The consultant conducted training workshops for staff and board members to facilitate development of program policies and procedures. The coordinator organized a Solidarity program launch for October and facilitated a beta-test formation of two loan groups. The consultant arranged a visit to a Grameen America project in November. ICC staff and board members observed experienced staff and client meeting procedures. Before the end of 2014, one of Solidarity's initial beta-test loan groups failed. As a result, the ICC board concluded that training alone would not be sufficient for program success. The Grameen consultant was hired full-time as Solidarity director starting March 2015. The Solidarity director was on-site for the duration of the demonstration project. Extension professionals participated in program evaluation procedures, survey design, and analysis of project results and outcomes.

PROGRAM STRUCTURE AND PROCEDURES

To be eligible for the Solidarity program, a person must be aged 18 or older, have income below the poverty line, and have resided in the community for 2 years. Peer group formation requires five eligible people to join a group. The members of the group should know and trust each other. Each member must have an income-generating activity. Potential group members receive 5 hours of orientation to learn about program rules, expectations for participation, meeting attendance, loan payments, savings deposits, and mutual support for peer-group members. During orientation, staff and group candidates meet in candidate homes to verify eligibility and ascertain willingness to participate in accordance with program rules and expectations. If all potential members and staff are in agreement, the loan group is approved.

Group meetings occur every other week and are typically an hour long to allow for client-staff transactions and discussions. Two to six loan groups are combined into larger center meetings. Loan groups and centers elect officers annually. Group and center meetings often occur in the home of a group or center president. Group and center leaders and one Solidarity staff person facilitate collections and passbook procedures at each meeting, during which roughly half of the time is allocated to collection procedures and half to client learning discussions and social network development.

Before loan approval, each Solidarity client proposes an income-generating activity and explains to other group members how loan funds will be used. Members typically start with a $1,000 loan. All Solidarity loans are installment loans for a term of 6 months at a 15% annual interest rate. Group members and staff discuss each loan request and then vote to approve, reduce the amount of, or deny the request. If a client has a good record of meeting participation and loan payments, they are approved for the loan. Members are eligible for a $500 increase at the end of each 6-month loan term. No group members are eligible for future loans until all loans in the group are repaid. The maximum loan under current policy is $8,000 per group member.

All Solidarity clients are required to deposit a portion of each installment payment into a local savings account. ICC maintains a custodial relationship with the bank and client. Each savings account remains in the client's name; however, savings can be withdrawn only for Solidarity-approved emergencies during the first 3 years of program participation.

Additionally, special topic seminars are organized each quarter. Extension professionals and local experts are featured and cover topics such as legal matters, taxes, accounting, finance, marketing and credit scores as well as community and family issues and concerns.

PROGRAM PARTICIPANT CHARACTERISTICS AND OUTCOMES

Solidarity client enterprises involve a variety of ventures, such as hair product sales and services, jewelry and clothing sales, cleaning products and services, health and beauty products,

Table 1. Solidarity Microfinance Participation as of Fiscal Year (FY) End 2015–2019

Year	Active loan clients	Cumulative loan clients
FY 2015	50	50
FY 2016	97	118
FY 2017	122	179
FY 2018	150	253
FY 2019	152	284

Source: Hossain, A., (2015–2019). Solidarity Microfinance Fiscal Year Annual Reports to the Iowa Community Capital Board.

Table 2. Gender and Ethnicity Distributions for Active Solidarity Microfinance Clients, June 30, 2019

Demographic variable	%
Gender	
Female	99
Male	1
Ethnicity	
Hispanic	82
African American	17
Caucasian	1

Note: N = 147.

Source: Hossain, A., (2015–2019). Solidarity Microfinance Fiscal Year Annual Reports to the Iowa Community Capital Board.

child and senior care, food and catering, and crafts. Most of the enterprises are part-time and home-based.

Solidarity program client numbers grew slowly during the demonstration project (Table 1). Due to slow growth, the ICC board and staff extended the demonstration from 3 to 5 years. Factors contributing to slower than expected growth included a strong economy with low unemployment, staffing resource issues, and shifting immigration policies.

The Solidarity program initially attracted female Hispanic participants. However, African-American participants and a few men have joined the program following special outreach efforts. Gender and ethnicity demographic data are shown in Table 2.

All working-age cohorts are represented in the Solidarity program (Table 3). The largest share of clients attracted to the program are those younger than age 45.

Client educational attainment indicators show that most Solidarity clients have not attended a college or a university (Table 4).

As noted, the ICC demonstration involved two full-time equivalent staffing positions: a director and a coordinator. During the project, the staff organized 48 loan groups into

Table 3. Age Range Distribution for Active Solidarity Microfinance Clients, June 30, 2019

Age category	%
18–24	6
25–34	29
35–44	39
45–64	26

Note: N = 147.

Source: Hossain, A., (2015–2019). Solidarity Microfinance Fiscal Year Annual Reports to the Iowa Community Capital Board.

Table 4. Educational Attainment Distribution for Active Solidarity Microfinance Clients, June 30, 2019

Educational attainment category	%
Less than high school	31
High school or equivalent	48
Some college or associate's degree	16
Bachelor's degree or higher	5

Note: N = 147.

Source: Hossain, A., (2015–2019). Solidarity Microfinance Fiscal Year Annual Reports to the Iowa Community Capital Board.

18 centers. Average client disbursements and end of fiscal year account balances showed repayment progress (Table 5). At the end of the project, active clients averaged 2.1 years in program participation.

PROGRAM PERFORMANCE METRICS AND IMPACTS

ICC established five performance metric goals for Solidarity Microfinance during the demonstration project period. Nearly all metrics were achieved:

- Solidarity cumulative participation grew to 179 clients by the end of fiscal year (FY) 2017 and 284 clients by the end of FY 2019. The goal of 300 cumulative clients was achieved soon after the end of FY 2019.
- Solidarity achieved a 99% loan repayment rate at the end of FY 2019 as calculated from loan administration data. The goal of achieving a 98% loan repayment rate was exceeded. This goal was based on metrics reported by Grameen projects.
- Client income increased by an average of $6,777 according to client responses to survey evaluations at the end of FY 2019 loan terms. The goal of

Table 5. Average Solidarity Microfinance Client Balances as of Fiscal Year (FY) End, 2015–2019

Program indicator	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Average loan disbursed	$1,114	$1,399	$1,894	$2,255	$2,600
Average loan balance	$803	$896	$1,155	$1,303	$1,455
Average savings balance	$24	$101	$131	$150	$233

Note: $N = 147$.

Source: Hossain, A., (2015–2019). Solidarity Microfinance Fiscal Year Annual Reports to the Iowa Community Capital Board.

increasing average client income by $2,400 annually was exceeded.

- Client savings accumulation averaged $233 per client at FY 2019 end, based on bank statements. ICC's goal of $150 in average client-accumulated savings was exceeded.
- Solidarity clients establishing new FICO scores averaged a credit score of 670 according to 2018 credit reports. Comparisons of FICO scores for clients with prior credit indicated an average 10-point increase in six months. Of course, external credit issues can influence FICO metrics and obscure client progress from Solidarity activities. Client FICO scores ranged from 443 to 781.

Client responses to evaluation surveys conducted at the end of each loan term provide additional indicators of outcomes. Third-party evaluators summarized survey responses and translated Spanish. The 2018 report showed that 79 out of 83 clients, or 95% of survey respondents, indicated that the Solidarity program strengthened their attitudes or business skills in some way. Only 5% identified areas for program improvement. Selected comments included: "helped me grow my business," "raises income for family," "easy getting a loan and easy payments," "helps me invest more wisely in my business," "learning from each other and teamwork," and "provides opportunity to improve self." Some clients mentioned staff transitions and conflicts within some loan groups regarding group discipline enforcement and member responsibilities.

CONCLUDING OBSERVATIONS AND IMPLICATIONS

A philanthropic case for community impact can be articulated for Solidarity Microfinance. For each $1.00 donated to the Solidarity operating budget, low-income clients averaged more than $6.00 in incremental business income. However, sustainability for Solidarity Microfinance remains inconclusive. After 5 years of operation, Solidarity's self-sustaining earnings ratio for FY 2019 was a relatively low 15%, meaning that 85% of the operating budget annually comes from grants and philanthropic giving. A 50% self-sustaining earnings ratio would have been more acceptable. Industry data suggest that a higher level of microfinance sustainability may require a larger loan portfolio of $10 million (Swack et al., 2012, p. 7). Economies-of-size limitations for small metro and rural markets imply that research on strategies for offsetting small-size limitations might focus on reconfiguring program methods. Perhaps electronic payments may allow for less labor and overhead costs (Wanta, 2020). Sequential savings and lending circle models may reduce external capital required. However, discontinuing requirements for regular peer-group meetings and staff participation may alter financial discipline and performance metrics.

A culture for strong philanthropic giving may offset economies-of-size limitations. On March 20, 2020, Solidarity loan payments were suspended due to COVID-19. ICC's pandemic assessments indicated Solidarity clients experienced 50%–100% declines in business revenues. Many clients had family members who became unemployed, and there were increased withdrawals from emergency savings accounts. In 4 weeks, ICC raised more than half of its annual operating budget for an emergency relief fund. Solidarity clients who documented pandemic-related impacts and requested financial assistance received small grants. ICC provided Solidarity clients with 10 weeks of forbearance on loan payment terms and restarted the loan program in June. Between June 1 and October 1, 2020, active Solidarity client numbers grew by a third. ICC received an inquiry from another small metro Extension Council for a similar program.

Implications for Extension depend on which of the various roles are to be played by the Extension professional. Various Extension professionals conduct financial literacy training, conduct program evaluations, facilitate problem-solving institutional innovations, organize collaborations and partnerships, and develop new programs in response to emerging federal, state, and local priorities. Interest is growing for programs that address income and wealth inequalities as communities face hardship. Pandemic-related impacts have fallen disproportionately on minorities and low-wage industries that employ women (Alon et al., 2020). Impacts are compounded by unanticipated responsibilities in the areas of home schooling and childcare. This implies higher demand for home-based entrepreneurship among low-income minority women. Extension partnerships represent an approach for addressing complex problems of capital access, entrepreneurship, and financial responsibility while collaborating with broader networks of community resources, systemic problem-solving capacity, and expertise.

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