

Cultural Aspects of Credit Institutions: Transplanting the Grameen Bank Credit Group Structure to the Pine Ridge Indian Reservation

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In recent decades, individuals involved in economic development have propounded the virtues of poverty alleviation through development of micro-enterprises. Increasing the access to credit of micro-entrepreneurs has been prominent in this "micro-enterprise revolution." Economists have generally focused on the market failures, like asymmetric information, that produce rationing of micro-entrepreneurs in credit markets and inhibit micro-enterprise growth (e.g., Stiglitz and Weiss 1981; Carter 1988). They have also analyzed how various non-market credit institutions alleviate the rationing arising from market failures (Besley 1995; Mushinski 1999).

The credit-group structure developed by the Grameen Bank in Bangladesh has been a popular non-market institutional form because of its high repayment rates. In light of its apparent success, it has been replicated throughout the world (Thomas 1995). The economics literature has generally sought to explain the success of the structure by analyzing how the various economic incentives created by it ease the market failures which produce credit rationing (e.g., Varian 1990; Stiglitz 1990; Besley and Coate 1995; and Conlin 1999). The early theoretical analyses seeking to explain the success of the structure have changed to a more critical analysis of its efficacy (e.g., Morduch 1999; Conning 1999). Concerns are also being raised that these loan

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funds do not result in any long-term change and that they do not work in the context of advanced industrialized nations (Singh and Wysham 1997).

The impact of the social and cultural environment into which the credit groups are introduced on the success of the groups has not generally been considered by economists. The writings of J. R. Stanfield (1986) and Anne Mayhew (1987), among others, on the impact of culture on economic outcomes suggest that culture is important to whether these groups succeed. Timothy W. Guinnane (1994) noted the importance of social factors when analyzing a credit co-operative institutional transplant. Further, the focus of Alexandra Bernasek and James Ronald Stanfield (1997) on the credit-group structure as a vehicle of social change suggests that these groups may have broader impacts than simply access to credit.

The Lakota Fund on the Pine Ridge Indian Reservation in South Dakota is an example of an adoption of the Grameen Bank credit group structure that produced mixed results. The Lakota Fund hoped to foster micro-enterprises on Pine Ridge with Grameen Bank credit groups. Initially, a number of credit groups formed and the economic incentives created by the structure appeared to be working (Mushinski and Pickering 1996). However, the Lakota Fund ultimately decided to terminate its credit-group program in favor of small, collateralized individual loans.

This paper analyzes the causes of the failure of the Grameen Bank credit-group structure to take hold in Pine Ridge.¹ The Lakota Fund experience suggests that a focus on the incentives created by an institutional form alone is not sufficient in determining whether an institutional transplant will be successful. While those incentives may work, the social and cultural environment into which an institution is introduced must also be considered. In the case of Pine Ridge, the impact of Lakota family ties, rules of behavior, and social organization generally posed serious challenges to credit groups deliberately structured to cross family lines.

The World-Wide Focus on Micro-Credit and the Pine Ridge Indian Reservation

In the 1980s individuals involved in economic development world-wide focused on fostering micro-enterprise activities by making credit available to micro-entrepreneurs. The prominence of micro-enterprise lending in development is reflected in the Microcredit Summit in Washington, D.C. in 1997 which was attended by leaders from around the world. The stated goal of the Summit was to ensure that 100 million of the world's poorest families receive micro-credit loans by the year 2005 (Christian Science Monitor 1997).

The credit-group structure developed by the Grameen Bank was prominent in this focus on lending to the poor. The structure contained a variety of characteristics relevant to repayment rates, such as not imposing collateral requirements on participants.² The economic incentives created by the credit groups included joint liability among group members, peer pressure, loan disbursement depending on repayment of all

members and sequential lending so that not all members received loans simultaneously. Other pertinent characteristics were all group members being from the same community and group members not being relatives.

The Lakota Fund was created in 1986 to assist the micro-entrepreneurs who were prevalent on the Pine Ridge Reservation (the Reservation). The Reservation is located in a pocket of persistent poverty within the southwestern edge of South Dakota. The Reservation has consistently high unemployment rates, ranging from 70 to 85 percent over the last fifteen years. As a result of early governmental policies, fewer than 5 percent of households in Pine Ridge engage in agricultural production. Attempts to bring factory work to the Reservation have also been unsuccessful (DeMallie 1978). Almost 50 percent of households receive some form of public assistance (Pickering 2000b). The level of cash activity on the Reservation is also low, with a per capita income in 1989 of \$3,115 (US Census 1993).

As a result of the weaknesses in the formal economy on Pine Ridge, households have engaged in a variety of micro-enterprise activities (Pickering 2000a, 46-57). It has been estimated that 83 percent of the households in Pine Ridge undertake such activities (Shorman 1988). In general, access to formal credit on the Reservation has been limited (Mushinski and Pickering 1996). There are no banks on the Reservation. Furthermore, despite the fact that most Reservation residents own plots of allotted land, banks are reluctant to accept those lands as collateral because the lands are held in trust by the federal government.

Initially, the Lakota Fund made small, uncollateralized loans. It terminated that loan program because of low repayment rates. In 1988, a staff and board member of the Lakota Fund traveled to Bangladesh to observe the Grameen Bank. The Lakota Fund subsequently implemented its Circle Banking Project, which virtually replicated the characteristics of the Grameen Bank credit group structure. Figure 1 identifies the number of credit circles formed over the existence of the project. After a slow start, the Circle Banking Project peaked around 1993, with eleven active circles in place, and then gradually declined until the project was terminated in 1998.

Over the course of time, the Lakota Fund altered its initial group structure to meet local needs. After participants complained that the exclusion of family members from circles contradicted local concepts of families working together, in 1994 the Lakota Fund allowed some, but not all, group members to be relatives. Initially, group members had to meet every other week. Because these meetings were viewed as onerous by many circle participants, the policy was changed in 1994 to allow circles to meet monthly after one year of successful repayment. The credit-group structure effectively ended in 1996 when, because of discomfort with the notion of joint liability, the Lakota Fund allowed groups to form where each member pledged collateral to secure their own loan, without liability for the loans of other members.

Interviews of credit group members in 1992 suggested that the economic incentives created by the credit-group structure were working (Mushinski and Pickering 1996). Further, many group members indicated then and still say that they liked the

Figure 1. Number of Credit Circles over Time, Circle Banking Project

credit groups because the groups allowed them to become familiar with individuals outside of their family. Despite these changes to and positive attributes of the Circle Banking Project, the difficulties of forming and maintaining circles led to formal termination of the project in 1998.

Cultural and Socio-Economic Factors Affecting the Circle Banking Project

The cultural history of the Lakota people on Pine Ridge may explain why Circle Banking failed to take hold. Contemporary Lakota society reflects a complex blending of traditional Lakota concepts and practices within mainstream institutions imposed on the Reservation by the federal government and broader society (Pickering 2000a). Traditionally, Lakota society was built around the idea of *tiyospayes*, or extended family units that functioned as the political, economic, religious, and social structure for each community (Walker 1982, 3–8). Through a process of treaty negotiation, armed conflict, and Congressional acts, the Oglala Band of the Lakota Nation was ultimately settled on the current Reservation. Federal governmental policies historically were directed at replacing the traditional communalism of Lakota society with individualis-

tic nuclear families. Despite those policies, many communities on the Reservation were settled by the members of traditional *tiyospayes*.³

The role of the family in Lakota culture has several implications for providing credit through Grameen Bank groups. In contrast to the Grameen Bank requirement that groups be composed of unrelated members, traditional Lakota concepts of family made groups composed of family members more likely to be effective in providing credit through groups. Despite attempts to assimilate the Lakota into American modes of thought, Lakota concepts of family continue to permeate daily life and continue to be the natural organizing principle for many households in Pine Ridge. In relation to economic enterprises, people express the desire to work together with family members. Further, through a series of historic abuses from federal and tribal governments and the burden of struggling under conditions of extreme poverty, many people discuss the difficulty of trusting people at all, but particularly those who are outside of one's family.

Traditional Lakota concepts of family would be expected to strengthen the economic incentives created by credit groups. Within the family, elders instruct younger individuals on the proper rules of conduct and reprimand them for breaches of etiquette. These traditional family relationships make loan repayment more likely among family members. Further, in the event that a family member defaults, it is easier to repay for a family member within the broader environment of generalized reciprocity and obligations of mutual support found within a family. Finally, the strength of families makes it harder for a defaulting member to avoid relatives in the case of default. The insularity of families also makes it easier for unrelated members to avoid each other, making repayment more difficult in the event of default.

Every culture has unspoken rules about what constitutes acceptable behavior within the society. Outside the family, the strong Lakota respect for individualism means it is bad form to tell another person what to do or to confront them publicly for perceived wrongdoing. These prohibitions against confrontations with non-relatives had several implications for Circle Banking. In the orientation sessions and meetings, individuals were often forced to share extremely personal information, not only about their business but about their family life as well.

The type of self-promotion and oral aggressive behavior that is associated with marketing in the mainstream society is problematic for many Lakota people.⁴ Because of the value placed on self-reliance and avoiding confrontation, the typical Lakota response to having business problems was to avoid group members until a solution could be reached. This ran directly counter to the purpose of bi-weekly meetings at which business problems and loan repayment were to be discussed. Given the intense negative feelings associated with admitting shortcomings in public in front of people outside your family, one could argue that the peer pressure among non-family members in Pine Ridge was actually too strong to make Circle Banking work.

The information possessed by family members about each other may also affect the impact of peer pressure on the functioning of groups. Because family members

have better information about each other's circumstances, they arguably could better assess when a given family member has achieved a bad economic outcome through no fault of her own and adjust the amount of peer pressure imposed accordingly. In contrast, non-family members may impose the same sanction for all bad outcomes since they possess limited information on the underlying cause of non-payment.

One of the ongoing difficulties for the Circle Banking Project was the continuation of circles. Distrust was regularly mentioned as a barrier to accepting joint liability. Once a group made it through the intensive orientation process, however, group members often created a bond that resulted in a positive working relationship. This process may have been a surrogate for the *hunka* ritual, by which outsiders are ceremonially adopted into the family and take on the rights and obligations of a relative (Walker 1982, 63). After the successful bonding of a circle, group members overcame traditional distrust of outsiders and functioned in the way the Grameen Bank model anticipated. Thus, the credit groups appeared to be acting as vehicles of social change (Bernasek and Stanfield 1997).

Because of the difficulty in bonding with unrelated group members, it was generally devastating to a group to have a group member leave. A variety of factors associated with conditions of poverty made losing a group member likely, however. Because of the lack of local wage work opportunities, there is high mobility in Pine Ridge as people move to cities for work (Pickering 2000b). Furthermore, people engage in a flexible mixture of income-producing activities, to which micro-enterprise is generally supplemental. When members are able to get local wage work or need more income than the micro-enterprise is providing, they leave their micro-enterprise and concentrate on other areas of economic activity. The economic vulnerability of the entire community also often forces people to leave their micro-enterprise activity to help with child care, elder care, or ritual and social obligations of the family.

While cultural considerations are critical in understanding how the Circle Banking Project functioned in Pine Ridge, other socio-economic conditions on the Reservation inevitably played a role in the success of the project. For example, the high percentage of households relying on some form of public assistance raised concerns among circle members that they would lose benefits if their micro-enterprise activity was discovered or became so large that they lost their eligibility for public assistance. Further, the simple logistics of engaging in micro-enterprise activity in this extremely isolated rural area (like transportation, finding a market, or locating supplies) were complicated.

Finally, the peak of Circle Banking may have coincided with the beginning of a new source of credit for low income households on the Reservation. In 1996, the federal government passed legislation directing that all forms of federal payments that were currently being made by paper checks be changed to electronic funds transfers by January 1, 1999 (Adamson 1997). As a result, recipients of Supplemental Security Income (SSI) and Social Security checks had to have a bank account into which their

monthly benefits would be directly deposited. Several of the former circle participants mentioned using these direct deposits as collateral for small loans of up to \$1,000.

Conclusion

This paper has highlighted the importance of cultural factors in the success of institutional transplants like the introduction of the Grameen Bank credit group structure outside of Bangladesh. While the economic incentives typically analyzed in the economics literature were present in the circles, the social and cultural context into which the circles were introduced were important elements in the inability of the Circle Banking Project to take hold on the Reservation. For example, the Grameen Bank focuses on drawing members from the same physical community, presumably because the economic incentives created by the groups will be strongest among such individuals. Our analysis indicates that the relevant community depends on the relationships implicit in the culture into which the groups are introduced. In the case of Pine Ridge, the relevant community was the *tiyospave*. Our paper also supplements Udry's (1990) analysis of informal credit markets in Northern Nigeria, where he observed that kinship units can be important for the functioning of those markets. Our study implies that kinship units can also be important for the effective replication of credit institutions. Our analysis also suggests that the peer pressure arising from the credit-group structure cannot be too strong. Cultural aversions to face-to-face confrontations may prevent non-family members from joining groups in the first instance.

Of course, the inability of the credit-group structure to thrive on the Reservation does not mean that the credit groups were a failure. Many former circle members interviewed after the end of Circle Banking were still involved in their micro-enterprises. The vast majority spoke of Circle Banking with great fondness and several expressed the wish that Circle Banking would be revived. This seemed to be tied less to the economics of Circle Banking loans and more to the extended social network of support that was created through the formation of circles.

Notes

1. This analysis is based on interviews with thirty Circle Banking members in 1992 and interviews with twenty of those same members in 1999. In the interim, two of the original members interviewed passed away.
2. See Hossain 1988, 25-27, for a description of the credit groups.
3. Hereafter, the term *family* will be synonymous with *tiyospave*.
4. Guinnane 1994, 56, makes this point when contrasting the efficacy of certain credit co-operatives in Germany and Ireland.

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