

Linking Savings and Loan Associations to External Financing

A guide for practitioners



Danish Forum for
Microfinance



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Dr. Ronald Severson

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Of course, all responsibility for the final version of this publication remains mine.

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INTRODUCTION: TERMS, BACKGROUND, TYPES OF LINKAGES

For readers of this guide, it may be difficult to imagine life without access to banking services, to a savings account, to loan opportunities, and to insurance programs. We have become accustomed to financial services within an environment that provides options. We may believe the options need improvement, but we all use the formal financial services available to us to manage our professional, personal, and household finances.

Yet, half of the adults in this world do not currently enjoy access to formal financial services (Chala, 2009). Some of these persons live in our own countries. The vast majority live in poorer regions of the world where upwards of 80% of adults in some countries lack access to savings accounts and loan possibilities. The percentage is often even higher in many rural areas of developing countries (U.N., 2006).

Exclusion from formal financial services does not prevent people from creating their own ways to save, borrow, and insure themselves and their families. Necessity is a great teacher. Historically and today, people join in savings groups, thrift societies, building societies, cooperatives, and other forms of community managed financial associations to meet their needs (Hirschland, 2005; Wilson, 2010; Rutherford, 2000; Bouman, 1995; Wright, 1997). Informal practices influenced the development of formal banking systems in the past and continue to do so today (Dexter, 1891). As early as 1803, when Priscilla Wakefield, a religious and social reformer, established the Tottenham Benefit Bank, over 7000 Friendly Societies already existed in the British midlands. As Ms. Wakefield stated then: “The only true secret of assisting the poor is to make them agents in bettering their own

condition” (Mason, 2001). This statement has as much relevance today as it did two centuries ago.

This guide will focus on innovations supported by Danish organizations to connect external financing to community managed savings and loan associations (SLAs) in less developed regions of the world. It is quite possible that the banks of the future are being created today through such linkages.

The opening chapter of this guide provides a framework for understanding linkages. Several case studies from the Danish experience follow, focused specifically on Bangladesh, Northeast India, several regions of sub-Saharan Africa, and Mongolia. These case studies describe different linkage designs and identify challenges and lessons learned. The concluding chapter provides guidelines for practitioners.

Why use the term “Savings and Loan Associations?”

All around the world, people without much money form and manage their own savings and loan associations outside of any formal banking system. Sometimes these are simply called “saving groups.” This guide will use the term, “savings and loan association” (SLA) instead of savings groups for two reasons: First, SLAs provide their members much needed ways to save, borrow, and insure their members. The name, “savings group,” understates the need for credit and insurance. Second, as stated in the previous guide published by the Danish Forum for Microfinance (DFM), “The associations we are talking about have constitutions, elections and steering committees” (Pors, 2011). These formal governance structures make linkages between SLAs and financial institutions possible.

How do SLAs work?

The term SLAs will be used to represent all community-managed forms of savings and loan associations. Most are generally defined as ROSCAs or ASCAs. In the case of ROSCAs, or “rotating savings and credit associations,”

members bring a pre-determined amount of money to weekly meetings and pass all of the money collected to a different member each week on a rotating basis. At the end of the cycle, members can choose to start a new round or to disband. Members of ROSCAs sometimes transform their associations into ASCAs—Accumulating Savings and Credit Associations. ASCA members bring an agreed upon amount of savings to each meeting to build an accumulating fund. The first difference in this arrangement compared to a ROSCA is that all money is not kept in circulation. Instead, some money is saved in a lock box or in some other more secure manner. The second difference is that members of an ASCA can borrow from this accumulating fund at an interest rate set by all members. Repayment of principal and interest goes back into the member-owned fund. Unlike a ROSCA, records need to be kept, and a higher level of expertise in financial management is needed to maintain the trust and loyalty of members. Records are typically kept both by elected members of the association and by individual members for their own accounts to ensure a match (Bouman, 1995; Rutherford, 1999).

It is not necessary for purposes of this guide to understand all of the variations of ROSCAs and ASCAs. Let it suffice to say that in the case of ROSCAs, the order of rotation is sometimes decided randomly, sometimes by need, and sometimes by some other system such as an auction. In the case of ASCAs, some require purchasing a share and others (as in the Indian SHG system) do not allow shareholding. Still others allow the purchase of more than one share. Some require members to take loans; others do not; others require members to loan to non-members in order to generate additional revenue streams. Some combine ASCA and ROSCA features by accumulating money for a period of time and then using a revolving fund to rotate larger sums to each member.

Variations on ROSCAs and ASCAs can also be categorized as customary, promoted, or

transformed by member votes. Customary forms arise from within a culture, such as Tontines in Niger, Stokval in South Africa, Hui in Vietnam, Kou in Japan, and Pasanakus in Bolivia (Bouman 1995). In terms of cultural analysis, these forms are “emic” rather than “etic” in nature—unique to the culture rather than designed for cross-cultural use (Avruch, 1998). Promoted forms are often designed by international agencies and include, among others, Village Savings and Loan Associations (VSLAs) promoted by CARE, Savings and Internal Lending Communities (SILCs) promoted by Catholic Relief Services, Saving for Change (SfC) groups promoted by Oxfam and Freedom from Hunger, solidarity groups promoted by Grameen Bank, village organizations promoted by BRAC, and village banks originally promoted by FINCA (Wilson, 2010; Allen and Panetta, 2010; Rasmussen, in progress). In addition to customary and promoted SLAs, the policies of many SLAs are often transformed by member votes over time following principles of civil society, self-governance, and cultural fit. This guide assumes that linkage designs need to include the self-determination of SLA members themselves if internal and external influences are to be combined in ways that can be sustained by SLAs as partners to the linkage.

Beyond ROSCAs and ASCAs—SACCOs, or “savings and credit cooperatives,” also exist. These larger groups already operate as cooperative banks. The financial services CRDB Bank provides to SACCOs in Tanzania serve as a good example from within the Danish context. As this guide focuses on linking community-managed SLAs to external financing, it does not focus on cooperative banks that already exist. More can be learned about the existing cooperative bank program in Tanzania from CRDB’s website.

What do the terms “internal SLA funds” and “external finance” mean in terms of linkages?

Within linkage arrangements, internal SLA funds will be defined as savings from income generated by SLA members, including interest paid on

member loans. External financing will be defined as money obtained by SLAs from sources beyond member savings and interest on loans. External financing can be provided by another SLA, by an association of SLAs, or by any other financial agency operating in the informal, semi-formal, or formal economic sectors, whether domestic or international.

This distinction becomes important in terms of debates about mixing “hot” or “cold” money within SLA funds. Hot money comes from SLA members’ own savings. It is considered hot because members have a stronger relation to the money. Cold money, within this understanding, comes from external sources beyond members’ own savings, shares, and interest paid on loans. It is considered cold because members may have a weaker relationship to it.

When it comes to the ability and the *willingness* to repay an SLA loan, much depends upon the degree of loyalty and sense of social obligation the borrower feels toward the SLA and upon the exercise of peer pressure to enforce repayment. Some suggest that these mechanisms do not work as well when money from other sources is mixed within the SLA fund. The addition of external money could produce irresponsible behaviors by borrowers leading to default. Greater distance between insiders and outsiders could potentially lead to higher levels of moral hazard.

Moral hazard occurs when the costs associated with risks taken by borrowers are experienced more by lenders and others than by borrowers themselves. We know this concept best from our own developed economies. If a bank can continue to provide lucrative loans at little cost to itself, then some banks, to maximize profits, may choose to forego due diligence and caution in their loan evaluation processes as the risks of default are sometimes absorbed by others. On the flipside, a person who borrows other people’s money (external money), particularly within informal economies lacking good credit bureaus and collections processes, can simply run with the

money or spend it on speculative ventures causing more harm to others than oneself.

Several potential conclusions related to linkages can be drawn from this discussion of hot and cold money. First, joining an SLA is already the first step toward gaining access to other people’s money. Most of the money in a community-managed fund does not accrue from one’s own savings as an individual, and some members may already view the fund as an addition of cold money to their own savings. Thus, they may decide to run with the money at little or no financial costs to themselves. The existence of cold money and its effect on repayment already exists at the heart of every SLA. When considering linkages, it may be instructive to ask how SLAs often succeed as a way of reducing moral hazard when members have access to the money of others. Successful methods used within SLAs may be applicable to broader linkages.

Second, there is little doubt that some who have very little money will avoid paying back loans in some circumstances, even to their own SLAs. Other factors, though, explain non-repayment better than the traditional distinction between internal (hot) and external (cold) money. Those who have little money and great responsibilities do not necessarily operate in terms of financial moral hazard. In a world without insurance or any predictable source of income, it may be more ethical to pay hospital fees to keep one’s child alive than to repay any organization, including the SLA within which one is a member. Financial ethics are, sometimes, a luxury. What is called “moral hazard” from a banker’s point of view might be seen as “moral obligation” from a poor person’s point of view, whether the money comes from an SLA, from an external institution, or both.

This does not mean that those without much money or assets are less trustworthy than their wealthier counterparts, as over-borrowing and default exist on a larger scale in developed economies. It only means that risk management processes must differ for people who have few

assets compared to those who have more assets. Traditional responses to default, including reclaiming asset collateral, lowering the borrower's credit rating, or liquidating and dividing assets through bankruptcy procedures do not exist as options. Partners committed to linkages need to manage these quite understandable risks, among other ways, by establishing emergency funds, providing microinsurance if possible, offering more flexible repayment and loan restructuring processes, and building customer loyalty.

Third, members of SLAs living in impoverished regions of the world rely on every financial tool available to them just as wealthier people do in other contexts. Like all people, those without much money routinely borrow from many sources and receive money from others beyond their SLAs. People borrow from neighbors, moneylenders, shop owners, and others. They give money to each other when in need. They receive internal and external remittances (Higazi, 2005). They join several SLAs simultaneously. Gugerty (2007) found that 47% of participants in a sample of 70 customary ROSCAs in Kenya participated simultaneously in more than one ROSCA. Rutherford (1999) found that households in one village joined an average of seven different savings groups. Collins (2009) shows the complex portfolios people patch together to maintain a positive cash flow. As an East African woman quoted in Wright (1999) states:

I do not touch the savings with the Uganda Women's Finance Trust (UWFT) because that will ensure that next time I get a bigger loan. I also save with Munno Mukabi who will do all the work and provide all the food if I have a wedding, death or baptism in the family. I also contribute Ush. 1,000 (\$0.69) weekly to an association within the UWFT [United Women's Financial Trust] group just in case I have any emergency and need quick cash.

In short, money from multiple external sources, including borrowed money, is always already mixed within SLA funds.

Fourth, since the rapidity of turning over small loans from SLA funds makes money more volatile, growing the funds of SLAs through responsible linkages may allow members to take larger loans with longer maturation periods providing more stability to the fund—in effect making the fund less volatile and increasing the sense of ownership and community-managed control over the fund.

Generally speaking, as long as money arriving from numerous sources is mixed with the same SLA fund, the distinction between internal and external money and its relation to moral hazard becomes less relevant from the point of view of SLA members. External or cold money does not necessarily lead to more risk taking and speculation at the expense of others. For people without much money who already live lives filled with risk, any loss of money due to excessive risk taking is a pure loss, not a missed gain as it might be perceived among high risk investors in more developed economies.

This general answer to the debate about hot and cold money in relation to SLAs is insufficient—as any general answer will be when applied indiscriminately to all situations. Contexts matter and perceptions of internal and external money differ from one context to another and from one person to another. Furthermore, this guide focuses on linking financial institutions to SLAs, not on the ways individual members bring external money into SLAs on their own. When considering linkages between associations rather than individuals though, it is important to recognize that members of SLAs have already taken steps to save regularly and repay others. The primary difference when moving to the level of institutional linkages has to do with SLA members' perceptions of the external institution—as an insider or an outsider. If members of SLAs already treat other people's money responsibly, it

is useful to ask what factors might lead SLAs to treat institutional financing in the same way?

This question also involves how SLA members perceive the payment of interest, in general, and more specifically how willing SLAs are to pay interest to others for financial services rendered rather than absorbing all costs of management themselves and paying interest only to the SLA. Options for sharing costs and interest of managerial services through partnerships may provide a way to help SLA members perceive the value of linkages in terms of reduced labor, increased efficiencies, lower costs, improved access to financial services, and better outcomes. Access by SLAs to financial management services could strengthen the possibility that SLA members would view financial partners as insiders worthy of repayment rather than as outsiders to whom the SLA has no obligation.

Why do SLAs need linkages to external financing?

This question may seem straightforward when one realizes that people have much in common whether they are rich, poor, or otherwise. Just as we all use savings, loans, insurance and other financial tools routinely to manage our economic lives, so do those who have little money. We all need access to external financing, defined as financing beyond our own savings.

Still, this general answer avoids the question somewhat. If SLAs are already designed for purposes of saving, borrowing, and sometimes insuring members, then why do SLAs need external financing? Frankly, not all SLAs do need external financing. Using informal economic arrangements, in some cases, may be preferable to using formal financial institutions. Linkages must provide benefit to all partners exceeding what can be achieved by each partner without a linkage. This is one of the challenges that will be addressed throughout this guide. How do SLAs and external financial providers determine if a linkage will be mutually beneficial?

Generally speaking, SLAs probably do *not* need external financing if, as associations, they:

- a) can break the cycle of poverty on their own;
- b) do not have the competencies to invest productively;
- c) gain more benefit from relying solely on own savings rather than on a broader linkage;
- d) do not have good financial partners and/or choose not to link.

Yet, an SLA and its members do need access to external financing if:

- a) the SLA cannot accumulate large enough funds to invest in viable microenterprises or significant assets;
- b) the SLA has or can develop the capacities to participate prudently in the linkage;
- c) the SLA fund grows large enough that a formal savings account is needed to protect the money;
- d) the SLA has good financial partners, and members decide they want to link.

Internal savings of SLAs, particularly in rural areas, often do not enable members to borrow enough to purchase an item that might truly be needed to start a microbusiness—a food processor, a better food storage unit, a bicycle and a cart to transport products to market, an additional employee to expand a business—or to acquire an asset such as land, a cow, or a house.

SLAs also need external financing because those without much money often experience two kinds of liquidity traps not experienced as much by those who have more money. Either members do not have money when they need it, or they do have money when others need it. In the first instance, it is difficult for many SLAs to store enough money to meet the legitimate demands of members for productive loans. When funds are small and needs are great, members often take quick loans for consumption. In the second instance, persons in some regions of the world often give their money away when others have a pressing need in return for receiving money from

others when they have a pressing need. This is how many communities develop their own social security systems in the absence of viable alternatives.

Understanding how economically disadvantaged communities sometimes work in terms of reciprocity arises from a practitioner's perspective and enables a different view on the question between hot and cold money, or on a more relational level, between perceptions of insiders and outsiders. People tend to build trust and a sense of obligation to others through repeated acts of giving and receiving at appropriate times. These acts are not measured by zero balance accounting systems, yet the reciprocal transactions are also not meant to result in profiteering at the expense of others. Profiteers eventually get excluded from the social system, unless they find appropriate ways to give back.

Issues related to trust have mostly been viewed from the perspective of financial institutions. Aryeetey (2008), for example, states that many formal financial institutions in sub-Saharan Africa have not linked up with informal finance sectors because of considerable distrust, inadequate knowledge about the informal sector, and in some cases prejudice. Few have researched, from an equally important and understandable perspective, why members of SLAs within developing countries may not trust external financial institutions.

This presents a dilemma to any financial association that hopes to link to SLAs. Within a needs and relationship-based community ethic, those who have money and honor relationships are often expected to give more than they receive from others. This ethic does not easily translate into financial sustainability for external providers. It is possible, though, for external organizations to give back in non-monetary ways greatly valued by a community in terms of services, flexibility, reliability, willingness to restructure loans, consumer protection policies, education, or community forms of sponsorship and good will—

in order to develop new markets while building customer loyalty, insider status, and institutional trust. Too often, the issue of trust is viewed only from the perspective of financial institutions without considering that those without much money or assets may not have much reason to trust MFIs and banks.

Why do external financial providers need linkages to SLAs?

This raises a very important question for providers of savings, credit, and insurance products and services. Why would a financial institution bother to serve those who have few bankable assets and work to gain their loyalty? We often imagine that those without much money need access to finance but that financial institutions do not need access to customers without much money. When one considers that in many countries over 70% of persons live below the poverty line and even a larger percentage often live in rural areas not currently served by formal institutions, then the amount of money circulating within informal economies is extremely large. MFIs and banks doing business in less developed economies face liquidity problems of their own which might be resolved by linking to SLAs.

The vast majority of financial transactions within less developed countries are rapid and informal; therefore, these transactions are not captured as savings by deposit taking institutions. This reduces institutional accumulation of capital and renders banks and MFIs dependent upon borrowing from international capital markets. International capital lenders also have their demands, leaving slim margins for banks and MFIs in developing countries. While rural areas in developing regions have too much liquidity of small amounts of money, banks and deposit taking MFIs are forced to capitalize in ways that reduce liquidity, making it difficult to extend long-term financing to women, rural communities, and more vulnerable populations (Obwono, 1998). One challenge and opportunity raised in this guide, then, involves the extent to which linkages can be designed to resolve the different kinds of

liquidity problems faced by SLAs and financial institutions.

Rural areas represent relatively untapped, emerging markets for financial institutions, and the use of social collateral and guarantors in SLAs lowers the risk for institutions to develop this market. Insofar as linkages also produce asset development within SLAs, more traditional ways of securing investments also become possible.

What types of external financial providers might be linked to SLAs?

The types of external financial associations already engaged in linkage programs are nearly as numerous as the types of SLAs themselves. Commercial banks, government banks, microfinance institutions (MFIs), NGOs, non-bank financial companies (NBFC), social businesses, fair trade associations, venture capitalists, VCs, investors, insurance companies, foreign aid agencies, international relief agencies, solidarity groups, mobile phone companies, etc., currently provide external financing to SLAs (Kirsten, 2006). To some degree, the extent to which the linkage benefits SLAs depends upon the agency involved in the linkage. Evidence suggests that venture capital money has fueled over-indebtedness and desperation among SLAs in some regions (Roodman, 2012). At the same time, evidence suggests that government subsidization and social investors providing loans well below market rates may increase on-lending by individual profiteers (Armendariz and Morduch, 2007). On-lending between wholesalers and retailers of loans is an established practice for developing financial supply chains. Yet, an SLA that borrows money at well below market rates within a region where the money supply is tight, can become a moneylender and profiteer in relation to the wider community.

Institutions linking to SLAs also sometimes target individuals for loans rather than the SLA itself. This can result in luring the best entrepreneurs away and moving them into more traditional asset-based loan programs with less risk for

lenders. This outcome would, in effect, weaken the SLA by loss of its most promising entrepreneurs. This guide focuses on linking SLAs to external finance in ways that strengthen SLAs and civil society more generally. Organizations engaging in financial linkages need to consider ways in which their good intentions may produce unintended consequences (Karlan, 2011).

For all of these reasons, designing a linkage that actually achieves the intentions of all partners, including SLAs, is complicated. General principles can be established, yet regulatory and cultural contexts matter greatly. No universally effective model exists. As stated in the 2006 U.N. publication, *Building Inclusive Financial Sectors for Development (2006)*:

A single institutional model is not likely to have the flexibility needed to respond to different market segments in different locations. The need for a diverse set of institutions, structures, and approaches requires policymakers to examine existing legal, regulatory and policy frameworks (for example, for cooperatives, rural banks, credit-only organizations, and legal structures to transform NGOs into formal financial institutions) to determine whether the diversity of the organizations permitted by law adequately serves the market.

To summarize briefly, this guide focuses on linking SLAs to external financing based principles on mutual benefit, interdependency, community management, and sustainability within particular contexts.

Linkage Types

This guide distinguishes between direct and intermediate roles that agencies serve in linkage arrangements (Kirsten, 2006). An agency operating in a direct role extends or receives finance without relying on separate support agencies to sustain the linkage. Thus SLAs finance their members directly from their own

funds. Also, MFIs or other financial institutions and SLAs sometimes form their own direct linkages without relying on intermediating organizations. An agency operating in an intermediate role does not provide direct financing but facilitates linkages between financial institutions and SLAs in other ways, for example by building capacities, helping to design linkages, negotiating terms of agreements, or developing accounting and governance systems to increase transparency. Some organizations, as will be seen in a few of the cases included in this guide combine direct financing with educational and capacity building services.

The focus on direct and indirect roles performed by various agencies within linkages emphasizes strategic choices over typologies. While typologies are used for purposes of classification, the focus on strategies provides a better basis for agencies to understand the kinds of decisions available to them when designing linkages with others.

At the same time, it is useful to identify typologies often used to describe and analyze linkages. Awareness of these frameworks can improve decisions related to linkage design and processes. One typology used within the field distinguishes among formal, semi-formal, or informal economic sectors following legal regulations for each sector. Using this typology, one can assess the direction of agency—whether the linkage is initiated by the informal, semi-formal, or formal sector, for example—and the impact of the regulatory environment on linkage design. A second typology distinguishes between formalizing (converting SLAs to regulated agencies) and federating (associating SLAs in networks providing centralized services). This typology helps practitioners design different pathways for establishing linkages by connecting to other civil society SLAs or by joining the private sector as a registered financial company.

Several other typologies also exist. The distinction among governmental, civil, and private sector agencies provides a useful template for

considering cross-channel cooperation; the distinction between domestic solutions and international interventions helps determine some macroeconomic issues and questions about dependency and local sustainability. The distinction between moving upstream (partnering with large banks) and moving downstream (partnering with community managed SLAs) helps private sector organizations examine business-to-business (B2B) possibilities from an industry perspective. Some researchers focus on the level of subsidization involved compared to the level of financial sustainability. In terms of particular outcomes, distinctions among financial, social, and environmental outcomes within a triple bottom line theory (Elkington, 1997) as well as distinctions among the eight Millennium Development Goals (U.N., 2000) provide typologies for designing linkages based upon particular organizational missions and goals.

While many theorists favor one of these typologies for describing and designing linkages over others, practitioners who work with savings and loan associations in developing economies tend to find them all useful. Those who do not currently have access to financial services need diverse options—more choice. Practitioners have the advantage of understanding how constraints and opportunities within certain contexts require innovative strategies that cut across theoretically distinct typologies in more pragmatic ways. When a commitment to a single typology becomes too rigid, ideology drives practice in ways that reduce options for the poor. Most often, successful linkages draw liberally from disparate theories, which might seem to be mutually exclusive.

The distinction between direct and intermediary roles used within this guide focuses on the decisions different agencies need to make when joining forces to design and implement sustainable linkages. Ever since Ms. Wakefield already in 1803 emphasized that, “The only true secret of assisting the poor is to make them agents in bettering their own condition,” (Mason, 2001) agency-based approaches to delivering financial

services have deserved particular attention. This approach also emphasizes the importance of establishing effective communication and mutually beneficial partnerships aimed at strengthening the agency of all partners, including SLAs. The emphasis on strategy also embraces the relatively new focus on microfinance as an emerging industry subject to forms of decision-making and analysis used in other industries. As David Roodman states in *Due Diligence* (2012), “The success on which microfinance can stake its strongest claim is in *industry building*.”

The use of the terms “direct” or “intermediate” to describe the roles of organizations engaged in linkages reconfigures the more traditional use of the terms “providers” and “promoters.” This reconfiguration is recommended for a few reasons. First, as companies, most providers also promote their products and provide services, so in a business sense separating organizations into financial providers or more service-oriented promoters can be misleading. Second, this guide recommends that organizations move toward developing full-financial services with broader outreach to rural areas in developing countries, and the provider-promoter distinction may prevent innovation on the service side by institutions characterized as providers and not promoters. Third, relegating some groups to the

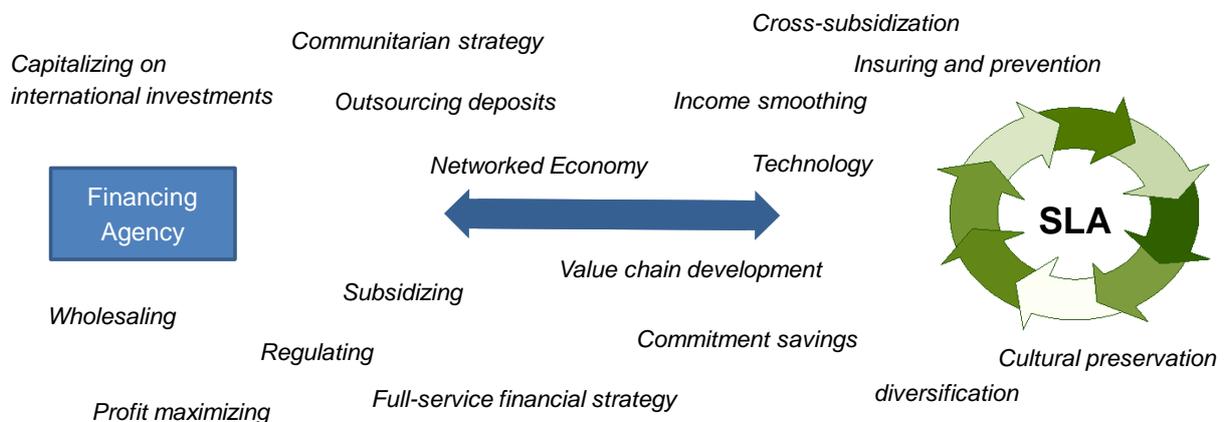
roles of promoters hides that fact that those roles might not be financially sustainable themselves. Necessary services provided by promoters function as subsidies to financial institutions and may affect the overall sustainability of the business model. Thus, this shift marks a gain in transparency and a new way of understanding financial sustainability based on value chain and supply chain analysis, which necessarily includes services. As the industry develops, direct financiers will increasingly need to count the intermediate or facilitating organizations they work with to reach customer segments as part of their value chain and their costs of doing business.

Direct Roles and Linkage Strategies

A number of strategies performed by different direct and intermediate agencies are used to create linkages. The examples provided in this chart and briefly explained below provide only a partial sampling. Other strategies used by organizations engaging in direct or in intermediary roles in linkages can be seen in the cases that follow in this guide.

Some MFIs operate in environments within which they are prevented, by regulation, from taking savings deposits. BRAC in Uganda, for example, is not allowed to take deposits. Instead, BRAC combines strategies of *outsourcing deposits* to

Direct Roles and Linkage Strategies



informal savings groups while *capitalizing* on international investments to provide direct loans to SLA members. The international providers of capital in such cases use *profit maximizing*, *social investing*, or *subsidizing* strategies. Sometimes, as is the case of KIVA, the largest international on-line provider of loans, investors use a *0%* or *gifting* strategy. Investors receive the principal on their loan in return but no interest, thus providing a “gift” of the interest they could have earned by investing that same money elsewhere. In turn, KIVA reinvests the money directly into MFIs, using a *wholesaling* strategy.

The National Bank for Agricultural and Rural Development (NABARD) in India provides wholesale loans to agencies which then on-loan at a government mandated and subsidized rate to SLAs (referred to as SHG’s or self-help groups in India); NABARD uses *subsidizing* and *regulating* (capping interest rates) strategies within this series of direct linkages. Farmers’ associations and merchant associations in many regions of the world sometimes use *value chain development* strategies by providing seasonal financing to SLAs in order to secure forward contracts with larger buyers.

Some MFIs combine value chain and *income smoothing* strategies. Asusu, an MFI operating in Niger, provides credit on a receipt basis to farmers who store their harvest in its warehouses. This direct linkage arrangement enables farmers to smooth over their loss of current income in order to bring their products to market at off-harvest times when prices are higher. Through this linkage to an external credit system, “The farmer’s liquidity problem is being taken care of by a short-term loan,” and “the cost of the loan is more than offset by the increase in market prices” (Rothe, 2011). As a less tangible form of value creation, this program also increases food security for the community. In another example of income smoothing for farmers, CACN (Central de Cooperativas de Ahorro y Crédito Financieras de Nicaragua) has developed a savings product for farmers’ associations that provides a monthly

salary based on an analysis of farmers’ annual income.

Sometimes financial providers use *commitment savings* strategies to store money for SLAs in ways that provide mutual benefit to financial institutions and to SLAs in the linkage (Ashraf, 2006). The SLA sets up a time deposit in exchange for a loan at a lower interest rate while the deposit serves as partial security and investment capital for the bank. The largest amount of direct investment into SLAs, based on the use of a *communitarian strategy*, probably comes from remittances, sometimes provided by family members who have emigrated but most often provided from extended family members who have moved from rural villages to urban areas within the same country and have managed to find employment. In Kenya, M-Pesa, a mobile phone financial transaction service, bases its business model on facilitating internal remittances using a *technology strategy*.

Several other direct linkage strategies between financial providers and SLAs are worthy of mention because they have shaped opportunities and continue to do so. The Grameen Bank uses a *social business* strategy based on member-ownership of the bank and the payment of dividends (Yunus, 2007, 2010). The broader linkage of these SLAs to many additional social businesses, such as Grameen Phone, Damone, and Shakta, comprises a *networked economy* strategy. Compartamos uses a *profit maximizing* strategy based on public bond sales and high interest rates on loans in order to expand its reach to SLAs in Central America. In Kenya, ASCA management groups (AMAs) such as the Partnership for Productivity (PFP), the Women’s Enterprise Development Institute (WEDI) and the Small Enterprise Development Institute (SEDI), provide both financial advice and external loans to ASCAs within the region. Combining financial advising with savings and credit products to SLAs employs a *full-service financial* strategy resembling services provided by banks to customers in developed economies. The Cooperative Insurance

Company (CIC) in Kenya directly insures more than half of Kenyan members of SACCOs and, combining *insuring and prevention* strategies, works to reduce exposure to HIV/AIDs.

Jamii Bora, in Kenya has recently combined several strategies, including *merger and acquisition, diversification, and cross-subsidization* strategies to directly serve poorer clients. By acquiring a bank, Jamii Bora now provides loans to wealthier clients and then cross-subsidizes from profits made in one market sector to link financial services to SLAs with more vulnerability, including the homeless. In Indonesia, the governor of Bali established Lembago Perkreditan Desa (LPDs) using a *cultural preservation* strategy. The government initiative funded existing local savings and credit organization out of a concern for the “preservation of cultural and religious identity” of indigenous Balinese communities (Seibel 2010). This strategy builds on Article 4 of the U.N. Declaration on the Rights of Indigenous Peoples (2008), which states:

Indigenous peoples, in exercising their right to self-determination, have the right to autonomy or self-government in matters relating to their internal and local affairs, as well as ways and means for financing their autonomous functions. (underlining added)

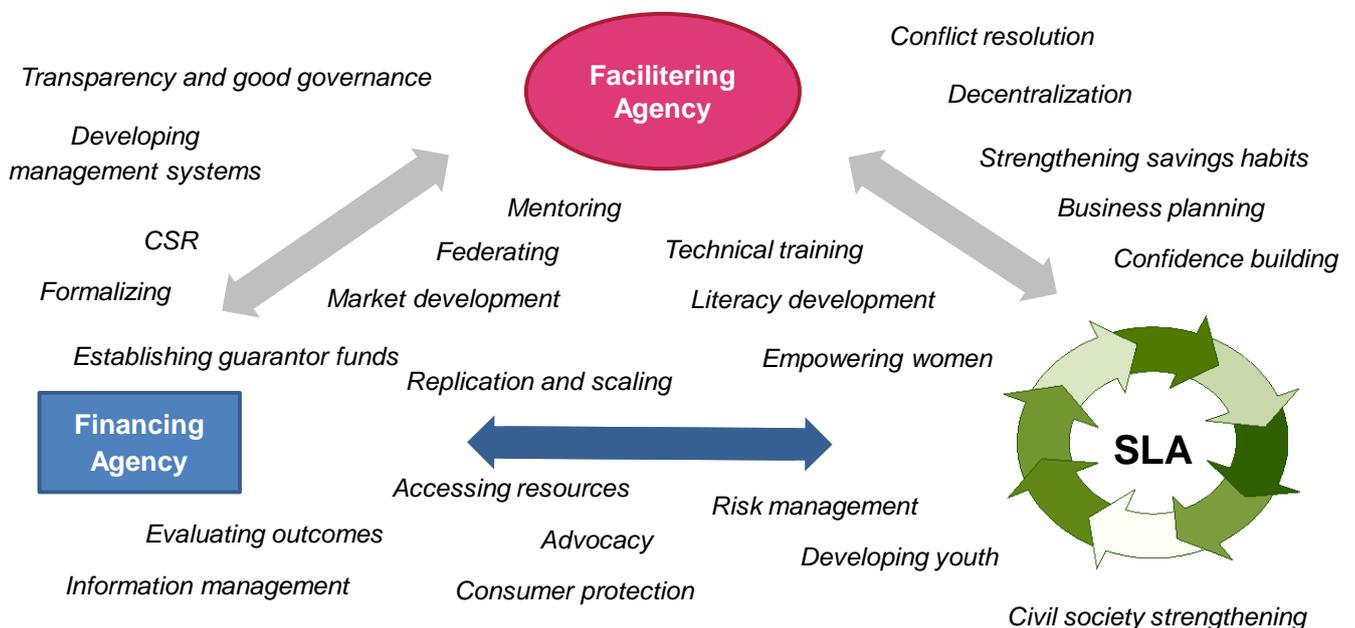
Access to financial services, in some international circles, is gaining recognition as a human right and as a way to strengthen the autonomy of groups and individuals.

Intermediate Roles and Linkage Strategies

Intermediate roles, in terms of agency, will be reserved for the wide range of organizations and strategies used to facilitate linkage programs without necessarily supplying direct finance. Examples of strategies are provided in this chart and briefly explained below. Strategies used by organizations engaging in direct or in intermediary roles in linkages are further described in the cases that follow in this guide.

Nordea Finland, for example, offers a credit card arrangement through which a small portion of each transaction goes to the Women’s Bank which then on-loans to SLAs in many countries, including Liberia and Cambodia. Nordea uses a *corporate social responsibility* strategy to attract and maintain the loyalty of Finnish cardholders, indirectly financing SLAs associated with the Women’s Bank. Microenterprise Access to Banking Services (MABS) in the Philippines establishes credit bureaus for use by MFIs and rural banks to help the poor build credit histories while improving transparency and accountability. In this sense, MABS facilitates linkages between

Intermediate Roles and Linkage Strategies



MFIs and SLAs through intermediary *credit tracking* strategies rather than through the provision of savings or credit options. The New Partnership for African Development, using a *technical training* strategy, helped to link 21 ROSCAs managed by women in East Kenya to savings accounts provided through M-PESA.

Many commercial banks are partnering with promoters of SLAs to form linkages. CARE develops village savings and loan associations (VSLAs) in African nations and helps link them to banks. In Uganda, CARE has partnered with Barclays Bank to establish 1,400 VSLAs and link 15% of members to the bank (Barclays, 2012). In its ACCESS AFRICA strategy, involving 39 sub-Saharan African countries, CARE predicts “20 to 30 percent of VSLA participants will want to access more sophisticated financial services” (CARE, 2011). In these cases, CARE uses *market development, replication, and scaling* strategies to create opportunities for SLA members to gain access to formal financial services and to reduce costs for financial institutions to offer savings accounts and loans to SLAs.

Facilitation strategies include services provided directly to formal financial institutions and to SLAs engaged in a linkage. Facilitation services provided directly to financial institutions include assisting with linkage design, forming SLAs and attracting new account members, measuring outcomes, bundling loan applications from federations of SLAs, providing guarantor accounts to satisfy bank policies for providing loans to those without assets, etc. Facilitation services provided to SLAs mostly use *capacity building* strategies and include education in business development, financial literacy, and good governance, forming SLAs to serve distinct populations, women, youth, or the disabled, and providing negotiation, mediation and conflict resolution services, for example. Intermediate services also include working with groups to form larger federations, integrating uses of mobile money and other mobile information and communication services into association

processes, and connecting SLAs and associations to external financial opportunities if and when appropriate. Many other strategies exist and innovation continues.

Cases

The first set of case studies in this guide focuses on direct linkages. The Danish Mongolian Society (DMS) directly finances SLAs in China, Russia, and Mongolia. DMS has assisted Mongolian communities since 1990 and developed its direct financing program in 2007, a program that continues to expand and innovate. The program shows much promise for considering ways that a diaspora of people in an age of increase global mobility may be able to use linkages to enhance social and political development within the countries of their origins. The second case focuses on MYC4, which began operations in 2007. As a first mover in the field of peer-to-peer, for profit, on-line investing, MYC4’s story shows how an organization can learn from initial problems to improve outcomes over time. It also shows an example of a Kenyan MFI, KEEF, which takes a customer-oriented view of market development by bringing banking services directly to SLAs in villages rather than requiring customers to travel to the central MFI. The third case shows the design of a small project linkage, the MOMM Project, in post conflict Northern Uganda and Eastern Uganda. The Danish partners to this linkage, Oikos Trust and Momentum Trust, provide direct financing to SLAs through the intermediary assistance of MAPLE Microdevelopment Uganda Ltd. This case shows promise for exploring ways to break down distinctions between insiders and outsiders through joining SLAs and sharing risks, obligations, and privileges with other members. The fourth case focuses on the work of SUPOTH, the “Scheme of Underprivileged People to Organise Themselves,” in Bangladesh. SUPOTH, since beginning operations in the 1980s, has moved from providing services within a self-help model, to providing direct external financing and more recently to providing crucial mentoring

services. Thus, the organization has moved from a direct financing role to mediating role to facilitate direct local linkages, and the case is instructive for understanding why these shifts have been made.

The second set of cases focuses on Danish organizations that have primarily served mediating/facilitating roles in relation to larger projects. In the fifth case, Caritas, since 1999, has provided services to SLAs (called SHGs or self-help groups) in hard to reach areas of Northeast India. Caritas plays an important intermediate role in what is perhaps the largest linkage program in the world, today. The case is instructive for understanding the importance of fully integrating benefits and engagement among all partners in the linkage, from SHGs to mediating NGOs, to regional retail banks, to national banks. In the sixth case, CtS (Cycles to Senegal) has been working in Senegal and The Gambia since 1996 and began to work with SLA development 2002. The case shows the historical progress in SLA models used by CtS, starting with the VSLA model, moving toward facilitating a linkage model, and then moving toward a self-help model focused on building the capacity of SLAs to choose and negotiate their own linkages to MFIs.

Among other points, the case helps readers understand the importance of considering how regulatory environments both constrain and enable what might be possible in decentralized linkages with larger federations of SLAs that cross national boundaries. The seventh case, describes the mediating role BØRNEfonden plays in relation to SLAs in Mali. This case shows the importance of formalizing governance and decision processes when establishing larger federations of SLAs and the importance of developing managerial capacities and linkage arrangements that can be sustained by SLAs and MFIs on their own once a facilitating organization moves on. The eighth and final case focuses on the work of The Danish Refugee Council (DRC) starting in 2007 to help women displaced within conflict zones in the Central African Republic to rebuild their livelihoods. The case describes several approaches for moving from dependence on humanitarian aid to more interdependent models involving linkages to MFIs beginning to establish operations in the region. In some ways, this case also shows how an organization serving an intermediate role can begin to finance SLAs more directly over time, given changes in the industry.



Case 1: The Danish Mongolian Society—combining direct finance with capacity building

By *Bulgan Njama*

The Danish Mongolian Society (DMS) was established in 1990 to develop relationships between the Danish people and the Mongolian people involving scientific, cultural, professional and popular organisations in the two countries. The core activity of DMS is to support development activities in Mongolia, including the strengthening of civil society and the private sector. Long term development projects have mainly focused on work within the social sector and the education sector. The main donor for these projects has been Danida, but private donations have also been received. Additionally DMS has provided humanitarian aid during the extreme winters (dzud), which have repeatedly hit Mongolia's one million nomads. DMS also provides financial support to young people from poor families, who are unable to pay tuition fees to educational institutions.

DMS has over 200 members in Denmark, and a few members live in other places of the world. The DMS magazine, "Ger," is published four times a year. Three to four times a year DMS arranges meetings, which include cultural, historical and socio-economic themes relevant to Mongols who live in Mongolia, China and Russia.

The Partner Organization in Mongolia

DMS has partnered with the Mongolian NGO, Niigmiin Tunshleliin Suljee (NTS). Translated into English, the name stands for Social Partnership Network and suggests the development of social networks, cooperation and mutual support as the main pillar of its work. NTS was established in 2004 to promote advocacy and to reduce poverty

through mobilisation and empowerment of local communities. NTS is an umbrella for 15 local organizations and has over 1,300 members spread across the Mongolian local communities. NTS has been the local partner for DFM on the project, "Strengthening of Social Partnership Network in Mongolia" (2007-2012).



Project Activities

Based on years of experience working with social empowerment of vulnerable groups in the Mongolian society, DMS and its Mongolian partner, NTS, resolved to work with economically yet active poor who had no access to loans yet faced great difficulties surviving in competition with formal firms. These persons also have insufficient knowledge to organize themselves and to exercise their influence over local authorities and organizations. Given this background, the project partners have worked to empower and mobilize the poor to participate in community activities, to establish self-help groups, and gradually to exercise their influence over local decisions.

The SLA Approach and Role of the Partner Organization

Once members of the target group are identified, they organize into small self-help groups consisting of up to 12 people. Then, these smaller groups are further organized into larger associations of self-help groups. This is so that in each project area four large self-help groups are established, and these form a local branch of NTS, the Mongolian Social Partnership Network.

During the socialist period of development, Mongolia's population both in rural and urban areas lived on one month's salary to another without the possibility of saving. The salary was hardly enough to cover the most necessary basic expenses. There was no room for higher spending and shops had insufficient supply of goods. Therefore, Mongolians continue to lack traditions for saving. But as the money economy began to influence the country's population at the end of 1990's, and the shops began to offer a larger range of all kinds of goods, people began to recognize the need for saving. Those who could establish savings, though, were usually people with considerable money. The prices of daily goods were increasing every day, eating up the small savings the poor attempted to make. Thus, few rewards for saving were experienced by the poor. In recent years, some international and Mongolian organizations have worked with savings and loan associations in Mongolia. The organizations ADRA and the "Vision Fund" of World Vision, for example, have experience working with savings and loan groups in certain areas of Mongolia. And the savings culture remained weak. Some informal saving clubs or groups were established in some work places in Mongolia. Apart from the above cases, the poor are usually not involved in saving groups and do not believe that it makes sense to start saving groups when they have so little to save. Additionally, because of demands for collateral from lenders, the poor have no access to favourable loan options.

At the start of the Danish Mongolian Society project implementation stage, the project managers attempted to negotiate a contract with a formal bank to provide loans to self-help groups. However, due to the high fees and some other procedural complications, the DMS project managers decided to provide loans directly to self-help groups and, otherwise, to continue discussions with formal financial providers about future possibilities. Therefore, the project developed and successfully piloted internal loan policies and a delivery structure directly linking DMS to Mongolian self-help groups and branch networks of NTS. Existing legal and regulatory policies do not clearly state whether NGOs can engage in financial services or not, yet pilot projects are allowed. It should be noted here that the self-help group lending methodology had been piloted by different MFIs since the end of 1990s in Mongolia. Most switched to more individualized, collateral-based methodologies over time either because the group lending pilot was not successful or because more formal MFIs insisted on managing risks through traditional uses of asset-based collateral. However, a few implemented the methodology successfully, including the DMS—NTS project.

The self-help groups with whom DMS works were not previously involved in any other savings and loan groups and, therefore, needed to develop a culture of savings from the ground up at the same time that they requested loans. One of the project requirements is that the self-help group members needed to save 10% of the loan amount before applying for a loan. Subsequently, as self-help groups' loan applications are approved, other members are encouraged by those who had successfully saved to increase their own savings regularly. Self-help groups also establish their own rules, which include meeting frequency and the schedule for delivering specified amounts of savings to the group's treasurer for deposit in the joint bank savings account. The project provides micro loans approximately equivalent to \$80 USD for each group member for 6 months at 1.5% interest per month or 9% total for the duration of

the loan (18% APR). Loans are disbursed each month for the six-month cycle, and there is relatively minor financial loss over any six-month period. The interest rate is considered to be low compared to banks and more formal MFI's, yet banks and MFIs do not complain about competition because they would not lend to the active poor in Mongolia in any case. If the project helps the poor gain assets, the project actually helps the banks and MFIs consider lending in the future.

Governance Issues

Each project area, defined as a branch area for NTF, establishes a volunteer Loan Approval Committee (LAC) consisting typically of 5-7 people depending on local decisions. The loan approval committee includes the project facilitator, representatives of the local government administration, and NTS members who have experience working with community members. Loan approval committee members should meet the required qualifications such as knowledge about the local residents in the target area, knowledge of micro and small businesses, and experience in micro-lending operations. The NTS General Assembly elects the NTS representatives to the LAC. Therefore, it is unlikely that corruption or favouritism exists, and DMS has not experienced such cases. Local government representative are often administrators or leaders of a *Baga*, the smallest administrative unit in Mongolia, located in the same area as self-help groups. Therefore, the representative knows the local area well, and it is great advantage that she/he is involved in the Loan Approval Committee (LAC). Also, the NTS project facilitator plays a loan officer's role in loan disbursement and monitoring processes. The project facilitator supports self-help group members to work effectively by encouraging participation, promoting mutual understanding, and cultivating shared responsibility. The facilitator works on a voluntary basis, but some of her/his expenses are paid by the project. The facilitator is selected on the basis of recommendations from the local NTS Board and interviews. Each quarter, facilitators

and local NTS leaders are trained and on these occasions the facilitator brings the latest accounting records and activity reports to the NTS Secretariat for financial reporting, supervision and monitoring. Although the project uses a social collateral, peer pressure method, there are cases that require loan committee members' involvement to help with repayments. All loans and savings-related procedures are performed in accordance with written procedures agreed upon by all participants. These documents are prepared by the project partners in collaboration with local advisors.

NTS loans, supported by the Danish Mongolian Society (DMS), differ from loans offered by formal financial institutions in Mongolia in the following ways:

- No physical collateral is required because many of the members have no collateral. Rather, the solidarity group guarantee mechanism is used to secure loans.
- The loan approval process is simpler and faster compared to formal financial institutions.
- NTS loans support start-up businesses, and formal financial institutions never support start-up businesses.
- Interest rates are lower, loan maturation periods are longer, and repayment schedules are more flexible compared to formal financial institutions.

Previous experience of the DMS with vulnerable groups has been of great support for this project. Still, working with microfinance requires specific knowledge and experience. The DMS has supplemented its knowledge with courses and with research on available literature and reports. DMS also has regular meetings with relevant individuals and organizations to exchange knowledge and experience in microloans and savings. After working with SLAs in Mongolia for the past five years, DMS has become an expert in

ways that more formal banks, without access to cultural and contextual knowledge of working closely with vulnerable groups, often lack.

During the project period, 287 groups of up to 12 members each have been established. Of course, it is difficult to determine in any definite way how many of the target groups have become self-reliant. According to the evaluation report of November 2011, 22% of respondents replied that they have established new micro-enterprises, 60% of respondents believed they had strengthened their businesses, and 5.2% of those surveyed responded that they had officially registered their business or cooperative. As part of the loan policy, members are required to have compulsory savings and encouraged to have voluntary savings. From the perspective of DMS, the highlight of the project is the cultivation of the savings discipline among the self-help group members through the introduction of the savings requirement in conjunction with micro loans.

Thus, DMS provides loans through NTS to those groups that we promote because there is no other option within the existing environment. Banks and MFIs do not serve this segment. DMS, in cooperation with its Mongolian partner, NTS, is also developing a member owned credit union. To this end, DMS has also established cooperative agreements with an experienced and well-functioning credit union in Mongolia. The agreement includes valuable advice but does not include loans or any other direct obligations to our groups from the well-established credit union. We have also held several meetings with local banks and have urged them to cooperate with us in order to promote appropriate lending to active groups that make great effort. In addition, our local partners are working to link groups or individuals for favourable loans or other short term activities that may lead to improved sale of products or other external financing opportunities. However, it is only in very few cases where they are successful in obtaining such loans, as most loans in Mongolia are secured entirely by assets, meaning that those who are already wealthy enjoy

ready access to loans while those who are poor do not.

Recently, there were examples of groups that have established cooperatives and more formal associations. They are well-functioning groups that have systematically worked to improve their knowledge, product quality and organization. Their ability to access external financing has increased significantly as they have been able to accumulate assets to secure loans.

Until now, Danida has provided funding for start-up help and for project costs. Now that the Danida funded project has ended (since September 2012) we have no access to this kind of funding and have not included funding for loans in our application for the next project phase. Project partners will attempt to combine savings and loans among SLAs into the creation of a Credit Union comprised of member groups. This new direction implies that individuals and groups have to save and accumulate capital to a greater extent than was possible for them to do in the previous project. DMS is committed to this end and working with several local partners to make it happen.

Self-help groups do not have the opportunity to have access to loan finance from banks in Mongolia, unless the Danish Mongolian Society or our local project partner (NTS) is ready to provide guarantees for banks. Bank fees for loan administration are also unrealistically high for our target clients. Therefore, our attempts to facilitate contact with relevant banks and create their interest in general have not been as successful as we hoped, as formal financial institutions in Mongolia continue to view the persons and groups with which we work as unbankable. However, our partner organization, NTS, has been able to intermediate some loans to groups from financial institutions. At this point, given our funding situation, it is better and more appropriate for the DMS to support and train individual groups to establish formal enterprises or cooperatives and in this way increase their ability to access external

funding from more formal Mongolian financial institutions. Self-help groups are being encouraged to mobilize their own resources through savings and equity, supplemented by other domestic resources, in order to build assets that can be used for more traditional bank loans. In 2013, when NTS has planned to open its own credit union to serve SHGs, perhaps this competition will move other local financial providers to consider the active poor as a viable target market as well, leading to innovations both within the new credit union and within previously existing banks and MFIs. Of course, the long history of loyalty developed between NTS and Mongolian self-help groups, with the assistance of DMS, will give the member-owned credit union an advantage in the market while continuing to meet the development goals and objectives originally set by DMS.

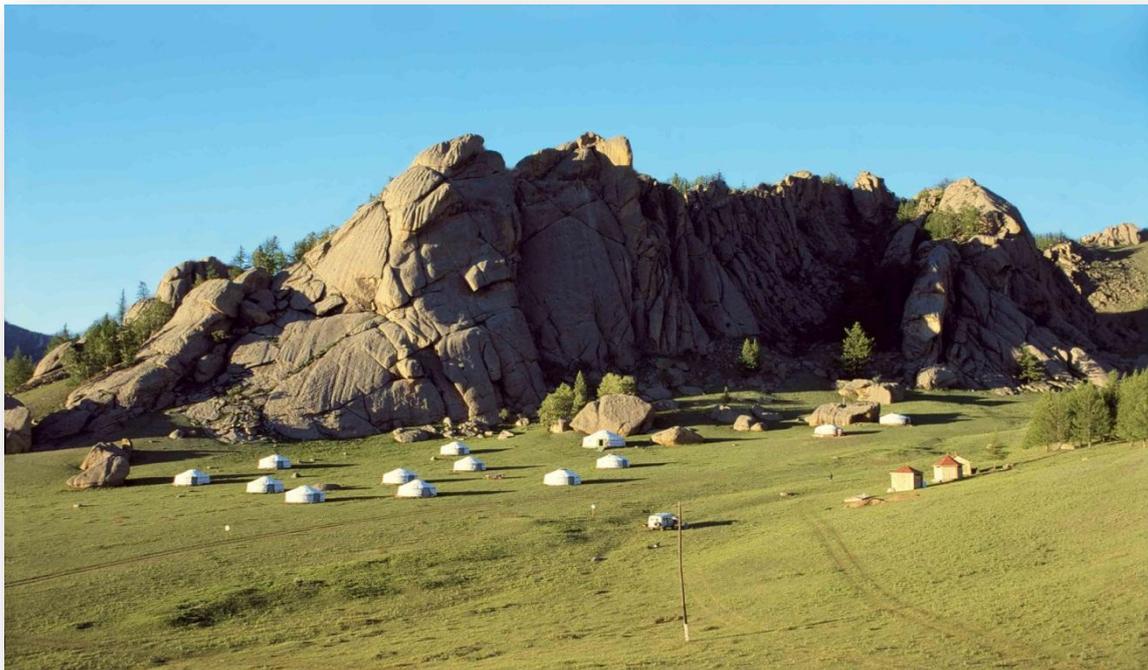
The Mongolian reality and current situation has forced us to think about these options. Moreover, we have monitored and evaluated our on-going projects and have had ample opportunities to discuss options with relevant stakeholders (for instance banks), local board members, local NTS boards, loan committee members, and self-help groups. These discussions have led us to conclude that establishing a credit union is our best option today. It is always possible, though, that an existing partner will emerge among already established banks or MFIs in Mongolia due to the vast number of persons within this target market.

Lessons Learned

Over the past several years of supporting direct and indirect approaches to making financial services available to the active poor in Mongolia, the Danish Mongolian Society has learned several lessons:

- Micro finance is a really strong and efficient tool for mobilization, empowerment and organization of the poor.
- Those involved strengthen their dignity and act as equal partners.
- Microfinance involves the poor to a greater degree than traditional finance.
- “The SHG members showed examples that even the low income people can save certain amount for their future needs to protect them from future vulnerability. Since they have learnt it, they will continue to save and the savings culture can be disseminated to other people.” (from the evaluation report)
- The microfinance component of the project played both direct and intermediate roles to link the low income micro-business owners to access to financial services for their business expansion.
- The most important impact is to cultivate the savings discipline among the groups’ members. Savings protect against the seasonality of cash-flows and provide insurance for emergencies.
- Loans and savings tie community members with each other to work jointly to improve their living conditions and improve their neighbourhood.
- Microfinance is not for everyone. Recipients must be well motivated and be economically active in spite of poverty
- Group savings and microloans could be a good starting point for mobilisation of community members to undertake further community empowerment activities. However, the group formation process is lengthy and time-consuming, should not be undermined in the name of efficiency or time management, and is critical for the project’s outreach and sustainability.
- NGOs can provide financing to the active poor, often more tailored to the needs of the poor, compared to many traditional financial providers. In such cases, NGO staff needs to commit to increasing their knowledge of loan management processes.

- Ability is necessary to run a successful microenterprise and not all potential customers are equally able to take on debt. The same applies in relation to community leadership abilities. Not all participants are born to be leaders in their local communities. However, the project can help make potential leaders visible. For example, the project facilitators became community leaders.
- According to project staff, micro-loans in comparison with other interventions are sustainable. The loan repayments revolve and benefit many people.



Case 2: MYC4 in Kenya—linking on-line investors to SLAs

By Rasmus Torpe Hansen, MYC4

As savings and loans associations (SLAs) and microfinance institutions (MFIs) have become widespread across developing nations, linkages become increasingly relevant. To solve demand for access to capital by savings groups, the Kenyan MFI, *KEEF*, partnered with the funding platform, *MYC4*, to supply external financing on transparent market terms.

Who is KEEF?

The Kenya Entrepreneurship Empowerment Foundation (KEEF) registered as a non-deposit taking microfinance trust in 2004. KEEF works with SLAs for its core business model. With its head office in Kiambu in the outskirts of Nairobi, KEEF serves rural and semi-urban clients engaged in small agricultural production, processes, and distribution. KEEF focuses on empowering rural women and youth; over 80% of the clients live in the rural areas, and 93% are women.

KEEF has a head office and no branches as client activities take place at monthly meetings of SLAs. Clients need to save regularly in their groups as a precondition to receive loans, and KEEF provides financing up to five times the amount of individual savings the borrower has in the group. The required savings serve as collateral for the external loan, along with a solidarity guarantee from group members. Also, for KEEF to work with an SLA, the group must have existed for at least 3 months and have at least 10 members. At first, members borrow only from savings within the group – typically consisting of around 20 women. Eventually, some members demand more capital than what can be provided from SLA own savings. At this point, KEEF lends additional funds to the SLA for on-lending to members. In

every case the loan is appraised by one of KEEF's loan officers who estimates how much each borrower will be able to repay within the 1:5 ratio of her own savings. In many cases loans are funded using MYC4 loans, but some external funds are also provided in grants from *Grameen Foundation* and *Tides Foundation* among others.

KEEF borrowers do not have to go to a bank/MFI when they demand a bigger loan.

KEEF takes care of that directly at their monthly village meeting. Besides providing credit, KEEF also collaborates with different external linkage partners to assist groups and their members with insurance, environmental conservation, psychological support, and capacity building. This model has allowed KEEF to grow at a rapid pace. Since 2007, KEEF has tripled its number of clients each year. As of June 2010, KEEF had 6,014 clients, 4,841 active borrowers and a loan portfolio of 416,518 USD (approx. 33.3m KES at the time). To date, KEEF has formed 450 SLAs, of which 200 have become self-sufficient and no longer need KEEF microloans as they have accumulated the necessary assets to become customers of larger MFIs and banks. Financially, KEEF has been making profit since 2008. In the same interval KEEF has also had an Operational Self Sufficiency ratio of over 100% which means the institution is operationally sustainable. The PAR (Portfolio at Risk) and Operating Expense ratio have been within microfinance best practice benchmarks, according to internal MYC4 analysis of KEEF's financial documents and performance. KEEF aims to serve 35,000 clients by 2015, and currently has 0% defaults on MYC4-funded loans.



Who is MYC4?

MYC4 is an online, peer-to-peer, crowd-funding platform. Small-scale and retail investors upload money to their account on MYC4.com and bid an amount and an interest on loan requests posted on-line. Once a loan is funded and below the client's maximum wanted interest rate, and once the local MFI, such as KEEF, has appraised what the borrower can afford, the money gets disbursed to the local MFI, which then disburses to the borrower. In KEEF's case, the loan received from MYC4 is disbursed to the savings group for on-lending to the borrowing member of the SLA. MYC4 currently operates with 10 local partners divided across regions in Kenya, Uganda, Tanzania, Rwanda and Ghana. All amounts get disbursed in local currency, which means that the investors on MYC4 hold the currency risk – not the borrowers or the MFI. Payback periods on the majority of loans vary from 6-18 months, and currency exposure (as average annual currency change against the Euro in the past 3 years) as of August 2012 varied from as low as 0.12% in Rwanda, to 3.34% in Kenya, and to as high as 6.14% in Tanzania and 7.26% in Uganda/Ghana. Loans funded by MYC4 cannot be restructured under any circumstances, as restructuring would change key indicators of PAR and default rates. Repayments from borrowers are collected by SLAs and, then, by the local MFI and transferred to MYC4 which repays the respective investors on the platform. Most local partners use cash or bank transfers for payments and collections, but some – like KEEF – use mobile transfers through M-PESA to reduce transaction costs.

MFI's need MYC4 for additional growth capital, and MYC4 needs local MFI's to increase activity and expand its portfolio available to investors. Prior to any partnership, the MFI's are assessed by MYC4 through an agreement to General Terms, Clearing in Principals, a thorough Due Diligence process, personal meetings, and a week of training of the local MFI's staff on how to use the platform and upload loans. Some MFI's looking to partner



with MYC4 over the years, have not been approved, and some – in the early phases of the business – have been approved which should clearly not have been approved. Being a first mover in the field of international peer-to-peer lending, MYC4 has learned and improved the model continuously since the early phases of trial-and-error in 2007-2009 when extensive defaults and a case of fraud occurred. In the interest of both innovation and complete transparency, MYC4 has made the history of these early transactions fully accessible to all on the organization's blog blog.myc4.com. Improvements since then, among many, include bi-annual spot-checks, annual reviews, and monthly PAR-requirements for partners.

Since MYC4 started operations in 2007, more than 19,000 investors from over 100 countries have lent more than €16,500,000 to nearly 10,000 small businesses in Africa. MYC4 is not yet a financially sustainable organization, but the goal of reaching €2.5m in Outstanding Loan Balance (OLB) by the end of 2012 should permit reaching break-even.

Example: Susan Muthoni Njuguna

Take Susan Muthoni Njuguna for instance. Susan borrowed €200 from the savings in her SLA to buy a cow in 2010. In March 2012, with her own

Farming & Fishing - Retail, Kenya



Susan wants to invest the borrowed amounts to buy a 3rd dairy cow, this investment will help her attain the optimal number of dairy cows that will enable her engage in farming on a commercial scale. The increased incomes from the farming will also help her venture into poultry farming in coming years.

View business

Ask provider questions about Susan Muthoni Njuguna

Status ▲

Status	Started repaying as of 20/04/2012.
Investments	100% of €586 funded by 28 investors.
Repayments	<div style="width: 100%; height: 15px; background-color: #0070C0; margin-bottom: 2px;"></div> <div style="width: 100%; height: 15px; background-color: #ccc; margin-bottom: 2px;"></div> 5% repayed. Repayment is on track.

Key Figures ▲

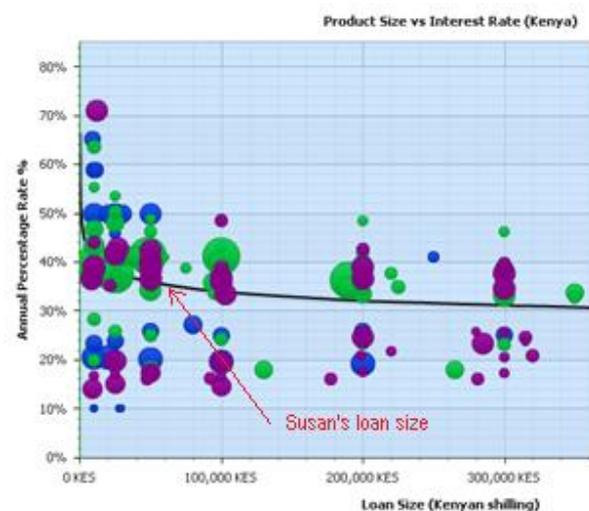
Amount	€586
Currency	Kenyan Shilling
Investor interest rate	16.00% p.a.
Current investor interest rate	10.31% p.a.
Total cost for business (APR)	38.63% ≈ €157
Payback period	18 months (no grace period)
Collateral & security	Group guarantee, savings and 2 dairy cows.

savings of nearly €135, the SLA's own funds were no longer sufficient for her next step. Therefore, she requested a MYC4-loan through KEEF of €586 to buy her third cow. The payback period is 18 months, and Susan has put her savings and her two other cows as collateral for the loan. She pays an Annual Percentage Rate (APR) of 38.6% (2.2% interest per month and 5% closing fees) which amounts to a total of €157 in interest and fees over the period of her loan. Just like in any other MFI-capital supplier relation, each link adds some interest. In this example (see picture) KEEF charges 13% interest p.a. and a 3% closing fee. MYC4 charges 6% interest p.a. and a 2% closing fee—the same on all loans. The MYC4 investors in this case ended up earning 10.31% (before currency risk) as the result of the bidding process, even though Susan had been appraised by KEEF's loan officer to be able to pay a rate of 16% for MYC4 financing.

Total cost for business (APR)	38.63%	≈ €157
Total interest	29.31% p.a.	≈ €128
Interest to provider	0.00% p.a.	≈ €0
Interest to administrator	13.00% p.a.	≈ €57
Interest to MYC4	6.00% p.a.	≈ €26
Interest to investors	10.31% p.a.	≈ €45
Total fee	5.00%	≈ €29
Fee to provider	0.00%	≈ €0
Fee to administrator	3.00%	≈ €18
Fee to MYC4	2.00%	≈ €12

What matters most is that this rate is completely transparent to all. There are no hidden costs. The APR is also in line with Kenyan market standards benchmarked by mfttransparency (see chart). Yes, Susan, when asked about the cost of borrowing externally, considers it as too high. It is high compared to borrowing from her SLA, but it is not high compared to the average cost of borrowing for the sector in general in Kenya, and her SLA could not afford to provide the loan. The KEEF-MYC4-partnership provides her with a loan product slightly below market rates. The bidding on her loan decreased her interest nearly six

percentage points due to high competition on MYC4. Susan's net monthly income, assessed by KEEF's loan officer, is in the range of €100-250 and the monthly installment on her loan consists of €41. With the new cow and the current wholesale prices for milk, Susan is enthusiastic about her business. Even after the loan has been repaid, her asset, the cow, remains for several years to create a stable income for her and her family.



Additional Risk Management and Technological Efficiencies

Besides teaching the savings groups and eventually providing credit for the clients when group savings are no longer large enough to meet demand, KEEF includes insurance, through an external insurance company, on all loan products in case of critical illness, permanent disabilities, and death. Moreover, this insurance is included in the total cost of the loan, a fact which is often left out of the calculation of benefits to the borrower compared to other loan options. Also, in relation to the partnership with MYC4, KEEF holds a 100% Risk Guarantee Fund, which covers all defaults on loans for the investors on the MYC4-platform. This means that the only risk for investors is currency fluctuations. Retrospective currency information is available directly at

MYC4's homepage to assist investors in making financially responsible decisions. This further implies that KEEF takes the full responsibility for any loan appraisal. KEEF has been partnering with MYC4 since January 2012, and so far (as of August 2012) has disbursed more than €443,000 in 816 loans on the MYC4 platform, with an average loan size of €546 and average payback period of 17 months. Another of KEEF's advantages is that it exclusively uses M-Pesa, a mobile- money transfer technology. Repayments from the individual borrowers are transferred via the cell phone one day before the monthly group meeting, and disbursements to the borrowers are made directly to their cell phones at the end of the meeting. This technology is one of the ways KEEF/MYC4 reduces the costs of providing loan products. KEEF has integrated data from the technology directly into its Management Information System (MIS) using open source software.

Conclusions

The majority of KEEF's borrowers are rural farmers, many of whom would otherwise be excluded from ordinary financial institutions. Some borrowers succeed better than others – that goes without saying. Not all borrowers apply for external funding; not everyone has the same entrepreneurial spirit or capacity. Many choose to stay with lower interest group loans for smaller uses and, through this process, enjoy the return interest repaid to the group when disbursed to all members. But for those who have the potential and desire to take on larger income generating projects, the process, methodology and capital are there. For KEEF, the link from SLA to external capital is very much in place – it's the very foundation of their business model.



Case 3: The MOMM Project in Uganda—linking through Membership

By Ronald Severson, Flemming Kramp, Christian Hoff, and Iga Luganda Fred

The M.O.M.M. Project partners include **MAPLE** Microdevelopment Uganda, **Oikosfonden**, **Momentum Trust**, and the **Makerere University Business School Centre for Microfinance** in Kampala, Uganda; hence the acronym, M.O.M.M. The partnership exists to provide business development services to savings and loan associations (SLAs) in rural areas of Northern and Eastern Uganda, to increase good governance and financial transparency, and to link SLAs to external partners in innovative ways, when appropriate.



MAPLE

Operations began in 2008 with a field study conducted in post-conflict Northern Uganda to determine how effectively the Ugandan microfinance industry was meeting the needs of rural, agriculturally-based communities. The study concluded that the existing industry was not adequately serving the needs of rural communities in Northern Uganda, that banks often did not inform borrowers of hidden costs, and that harsh collections methods and lack of transparency generated widespread institutional distrust among villagers. It was also determined that members of rural savings and loan associations needed education in financial literacy, new business development, governance, and consumer protection. Thus, MAPLE began to offer business development services to SLAs and life skills training + financial literacy to young women in upper primary through secondary schools.

The SLA Approach Prior to the Linkage

In Northern Uganda, many people were confined in IDP camps for nearly two decades during the LRA insurrection prior to 2007. Since humanitarian aid was shipped in to the camps for years, the dependency syndrome continues to be strong. For this reason, MAPLE initially chose to work with already existing ROSCAs, ASCAs, and SACCOs. Finding existing pockets of self-initiative and customary forms of community-managed financial services started by locals themselves within an area otherwise prone to dependence was deemed critical to local sustainability. Over time, the organization has been invited by locals to form new SLAs. When it forms new groups, MAPLE uses the VSLA model, without the prescription that persons cannot borrow from external sources. In Northern Uganda, given our assessment of everyday practices among existing SLAs, attempts to contain borrowing beyond one's own SLA would have been unenforceable and unrealistic. It is possible to mentor individuals to keep mental track or even to record all of their household saving and borrowing transactions in order to discuss the important issue of avoiding overindebtedness. Yet, learning the VSLA model in other ways instills the savings culture, financial habits, and initial governance procedures necessary for establishing successful community-managed SLAs. As the groups are community managed, though, they choose to change the VSLA model over time according to needs, cultural preferences, and member votes—usually into a continuously accumulating SLA. This occurs more often as SLAs begin to link to more formal savings accounts.

Members have always accessed external finance in informal ways beyond their SLAs/VSLAs to meet their needs as they could not save enough from their own resources to fund much needed loans. Informal sources of borrowing included external loans from other SLAs, from extended family members or community members, from money lenders, from shop credit, and occasionally from MFIs. Once groups received on-going education

in business development, members formulated viable plans for starting new businesses and had new reasons for seeking external loans. Some of these ideas to increase income generation required start-up capital not available through group savings alone. Members of SLAs also began to develop capacities necessary for participating in wider value chains and to access new markets. For example, some farmers with ancestral land began to work cooperatively to grow cash crops or keep bees to produce honey. Other SLAs with access to lakes began to farm fish. Engineers without Borders helped SLAs establish irrigation systems enabling farmers to grow rice during the dry season. Other SLA members began to engage with green supply chains for solar lighting, low carbon emission stoves, and water purifiers. In order to participate in these extended value chains, which connected villages to external markets, SLAs needed access to additional financing.

During the first three years of MAPLE's operations in Uganda, the organization focused solely on providing capacity building services to SLAs while members used their own funds and sought external financing mostly in the informal sector to meet their needs. As the most recent FINSCOPE II study found, the provision of financial services within the informal economy in Uganda has grown rapidly over the past several years, while the formal industry has grown slowly. Thus, the study concludes that in Uganda, "Financial inclusion is highly influenced by the informal sector."* Partly this is due to the high levels of institutional distrust of banks and MFIs among rural Ugandans, and partly it is due to cost factors and risks faced by Ugandan MFIs operating within an increasingly competitive but slow growing commercial market that sometimes prevents broadening and deepening financial services to the rural poor. To begin to bridge this mutual divide, Oikos Trust, Momentum Trust, MAPLE, and the MUBS Centre for Microfinance began to design a linkage based upon a membership model.

While those excluded from formal financial services need to understand how MFIs and banks work, formal providers also need to know what is important to their customers if they hope to serve the 85% Ugandans who live in rural areas. Within these communities, flexibility exists related to timely repayment, and people find ways to share resources and risks. Many people follow a community-based ethic of reciprocal social obligation. When someone is in need, all give. Giving to others in need entitles persons to reciprocity when they or their families experience hardship. The following excerpt from an interview with a villager from Northern Uganda is exemplary:

Interviewer (I): *When someone dies, what happens, financially?* **Respondent (R):** *Everyone in the village pays a bit to help the family of the deceased afford a proper burial. I: Truly, everyone? R: Yes. I: Hmm. That's interesting. R: Actually, in my village, I know of one man who did not pay to help others cover funeral costs. I: What happened in that case? R: It didn't change much. I: What do you mean? R: Well, we all joked about it. We renamed him, "The man who would not pay," in our local language. Sometimes, people would joke with him that way. But he was still part of us. I: That's it? R: Well, yes, he remained with us his entire life. When he died, though, nobody paid for his funeral. I: What happened then? R: Well, we just left his body in the hut he was renting and the landlord had to take care of it. I think he knew this would happen, so it was ok with him.*

From a banking perspective, these realities create risks. Relations of reciprocal obligation do not constitute a purely financial accounting system. If one gives 12 ears of corn to a neighbor, it's not written down that the neighbor owes 12 ears of corn in return before the debt is cancelled. In the excerpted interview above, people are socially accountable in ways that cannot be reduced to the time value of money and zero-balance accounting.

Persons shift between earning and giving. Yet the accountability structures are well developed among the rural poor in Northern and Eastern Ugandan, and these structures have consequences for determining who gains insider and outsider status. To build transactional reliability, it helps to be viewed as a member of the community.

The Partners

MAPLE's first partner in this linkage was the Makerere University Centre for Microfinance, which works closely with umbrella groups and policy makers in the field of microfinance, including the Association of Microfinance Institutions Uganda (AMFIU). Makerere University Business School (MUBS) provides interns, recommends graduates who speak the local languages to serve as MAPLE field officers, and conducts culturally-informed governance workshops with SLAs. Its second partner, Oikos Trust, is connected to Andelskassen Oikos, a Danish ethical bank committed to putting people before profits in all of its investments. Its third partner, Momentum Trust, is a Danish not-for-profit, on-line lending platform devoted to working directly with SLAs and their members rather than through MFIs to build the businesses and confidence of customers. While MAPLE and the MUBS Centre for Microfinance serve as mediating partners in this linkage, Oikos Trust and Momentum Trust provide direct financing to SLAs and their members. MAPLE Microdevelopment Uganda Ltd. is registered as an educational company in Uganda and allowed to facilitate loans as parts of its educational mission. Each of its partners are committed to an overall research and education mission to develop innovations that may help the broader MFI industry in Uganda link more constructively and sustainably to the rural poor.

The Linkage Approach

The linkage established among partner organizations in consultation with Ugandan SLAs follows these process protocols:

Step 1

First, MAPLE responds to requests for assistance from SLAs or, sometimes, from groups that want to start an SLA. MAPLE meets with group members, conducts an initial needs assessment, and becomes familiar with the existing group by-laws or, in the case of newly forming groups, recommends starting with the VSLA model. Then, MAPLE provides education in business development, financial literacy, and governance while helping the groups organize their accounting and management systems to improve transparency and trust. MAPLE also provides mentoring services to individual members of groups in relation to their own specific business needs and ideas to strengthen group funds. From working closely with each SLA, MAPLE can assess the rate of return each community-managed fund generates over time. MAPLE records written records for SLAs in Excel sheets and discusses issues with members based upon audited records.

Step 2

Second, MAPLE discusses with high performing groups whether they would like to invite Oikos Trust to become a group member represented by MAPLE. As Oikos Trust is committed to a savings-led linkage model, it has set a limit on its own savings investment in any particular group not to exceed 15% of the amount the group has been able to save, including loan repayments from members, during the previous year. The 15% match is designed to incentivize increased savings of all group members while increasing the size of the SLA fund available to members for loans. If the group chooses to accept Oikos as a member, then Oikos becomes subject to the same rights, obligations, risks, and rewards as any other member, determined by the constitution and by-laws of the SLA. Loan decisions, including interest rates and collections are still entirely governed by SLA members, with Oikos having one vote at meetings, exercised by proxy through a MAPLE representative. Oikos shares financial risks with members in order to engage as an insider. As high performing SLAs served by

MAPLE generally earn between 20-30% per annum, this is a risk Oikos is willing to take. When the fund is divided or dividends are paid, Oikos receives its share as a member.

Oikos has expressed that it is primarily interested in receiving the principle + transaction costs back on its investment as a member of Ugandan village SLAs, and that the group can retain additional earnings from interest. Transactions costs, including wire transactions, exchange charges, currency risks over time, etc., currently run about 9%, depending upon the length of the cycle for payouts within each group. In this sense, Oikos Trust is willing to forfeit some return for a social good in accordance with its ethical mission.

Stage 2 of the project is currently in its pilot phase, and Oikos Trust has been a member of one group since January of 2012 and is currently joining three others. Early results show that group members are saving more as a result of membership by Oikos. Yet, the true test of this innovation will come in terms of measuring increases in loan sizes, income generation directly tied to loans, increased savings, asset building, repayment of loans to the SLA, and payout by the SLA to Oikos, as a member.

Step 3

The 15% boost in the size of the SLA fund provided by Oikos as a member does not completely address the need for particularly successful entrepreneurs in a SLA group to move toward microenterprise or to access more distant markets through participation in value chains. Thus, Momentum Trust, as an equal partner in this linkage, plays a critical role in the third step of the M.O.M.M. Project. Momentum Trust, a non-profit on-line platform for social investors, has partnered with MAPLE and Oikos to develop direct and fully transparent relations between social investors and SLAs. Transparency is provided by MAPLE, whose field officers (most of whom are young graduates of Makerere University Business School and associated with the Centre for Microfinance) provide education and

mentorship to SLAs in local languages and know members well. Momentum Trust does not send money to MFIs in Uganda, as other prominent on-line lending platforms do, including KIVA. It is often difficult, when sending money to MFIs to gain full transparency beyond financial reports. MFIs working within highly competitive environments simply cannot afford to know about social processes, governance practices, the well-being of an SLA and its members, and other non-financial outcomes measures. As a not-for-profit, on-line lending platform similar to KIVA, Momentum invites investors to loan money to borrowers with a guarantee of receiving the principle of their loan without interest in return. This means that socially minded 0% investors who fund loans through Momentum, using a partial gifting strategy, are willing to forfeit the 1% they might otherwise receive if they put the small amount of money into a standard savings account. Unlike KIVA, however, Momentum works with organizations such as MAPLE in Uganda and Jamii Bora in Kenya who truly know the persons and groups with whom they work and have no financial incentive to distort outcomes or financial reports. Momentum's mission is to build the confidence of borrower's to successfully engage in savings and loan processes and, eventually, to grow microbusinesses enabling them to acquire the assets necessary to gain more customer-friendly recognition from formal financial service providers.

Risk Management

Once the first and second phases of this linkage work, and MAPLE and Oikos are viewed as insiders, Momentum Trust's risk of providing a loan to an SLA group member is greatly reduced. Risk reduction occurs through relationship building plus full knowledge of the local context, including knowledge of the financial performance of the SLA, the individual borrower's situation, and the viability of her/his business plan. This creates a kind of reciprocal credit rating (of the borrower and of the lender in relation to one another). In addition to being perceived as an insider, through partnership with MAPLE and

Oikos, Momentum has implemented five additional levels of risk management. First, loans given to members of groups must be approved by the entire group, who serve as guarantors. Second, loan proposals are evaluated following due diligence procedures at the local level by MAPLE field officers who have vast local knowledge and who have helped to mentor persons on the development of business plans. Third, the loan application must pass the due diligence test of Momentum Trust. Fourth, Momentum Trust has also established its own guarantor fund to insure that all persons who invest through its platform will receive the principle of their investment back, regardless of any defaults or loan restructuring processes arising from often quite understandable, local situations. Fifth, the project partners use a dynamic loan system in which loans start small and increase in size only if SLA members continue to save at high rates and repay loans. Since Oikos in its savings led approach limits its annual investment to 15% of the previous year's savings, and since Momentum loans start at below 200 USD and probably will not exceed 500 USD, the amount of money invested in any particular group by all partners will, in all likelihood, never exceed \$1,000. This constitutes an additional risk management procedure based on portfolio diversification.

Lessons Learned

The design of this linkage is based on years of working together with SLAs in post-conflict Northern and Eastern Uganda, yet the linkage itself is only now being piloted. Full implementation will occur following analysis of results from the pilot. Therefore, it is premature to say that lessons have been learned in any definitive sense. Still, the following lessons can tentatively be identified:

- SLAs, particularly those operating in impoverished rural areas, need access to financing beyond their own savings.
- Rather than set an arbitrary length of time to start a linkage to an SLA, it may be better to develop criteria for readiness based on a principle of “do no harm” in terms of disrupting positive savings habits or causing overindebtedness.
- Post conflict areas are characterized by a history of dependency on humanitarian aid, yet are also characterized by high levels of social interdependency. Joining relations of interdependency may be the best step toward promoting independence, over time. This may be easier for smaller organizations to accomplish compared to larger financial institutions, as they can be more flexible and innovative in their procedures.
- Organizations engaged in linkages need to thoroughly understand the cultural, social, economic, regulatory, and political contexts they enter. If those excluded from formal financial services need instruction in financial literacy, those who are fully embedded in Northern/Western financial perspectives also need to acknowledge their illiteracy about the ways informal economies work in developing regions. Reciprocal transmission of knowledge is essential as in all likelihood, within the lives of the poor, formal and informal economies will continue to operate simultaneously, influencing the outcomes of any project.
- Regarding financial transactions within interdependent communities, the distinction between insiders and outsiders, as persons and agencies, may be more important than the distinction between internal and external money. Once money is included in the same SLA fund, members treat it the same way.
- Becoming a member of an SLA and sharing risks and rewards represents a potential way to overcome the insider/outsider distinction. The challenge, of course, is that this move reverses the current discourse within the

microfinance industry. Instead of focusing on how to move SLAs into the formal economy, it may be more productive to focus on how formal institutions can cost-effectively move into informal economies while also adopting a customer-friendly approach.

- Transparency is difficult to achieve, but possible, and all claims to transparency need to be critically questioned.
- Formal financial providers hoping to enter informal markets need to find intangible yet valuable ways to give back to communities for the profits they earn.



Case 4: SUPOTH in Bangladesh—mentoring is key in direct linkages

Kristine Kaaber Pors, DMCCD; Dayal Chandra Paul and Allen Faithful, Supoth

Supoth is a Bangladeshi NGO working with community development in Northern Bangladesh since the late 1980s. Supoth is an abbreviation for *Scheme of Underprivileged People to Organise Themselves*, and the word, “Supoth” means *the right way* in Bengali. The organisation basically promotes savings and loan associations (SLAs) which empower participants socially, politically, and economically. The primary aim for Supoth is to empower people through participation, and the programme uses a “savings plus” model to include training in human rights, leadership, basic health and other topics beyond the savings and loans component. Supoth began by encouraging SLA members to save and build on their own resources rather than taking micro-loans externally. The strategy to build solely on participants’ own savings has proven to create ownership and independence or, as Supoth puts it: “By keeping savings at the centre, people learn to “stand on their own feet.”

However, due to increased demand for credit among SLA members, Supoth, from 2005-2010 also directly linked SLAs to a Danida-financed revolving fund for business loans. At the same time, Supoth assisted associations to form broader federations. In 2011, the revolving fund was passed on to the federations to manage, and Supoth now focuses on providing mentorship to entrepreneurs within SLAs.

Figures and Facts

Supoth was founded in the late 1980s by the development wing of the Bangladesh Lutheran Church facilitated by Danmission co-workers and

the Christian Reformed World Relief Committee, CRWRC, which is the development wing of the reformed church in North America. Since 1995 through Danmission and the Danish Mission Council Development Department, Supoth has received financial support from Danida. By mid-2011, Supoth had formed a total of 615 savings and loan associations which included over 14,000 members.

SUPOTH’s Governance Structure

To understand how Supoth works, one must understand its governance structure. Supoth works on three basic levels:

The basic savings and loan association level: At the village level, one association for men and one association for women are typically formed. Separate organizations for men and women were initially established to respect local cultural norms of rural Northern Bangladesh and to secure for women a space of their own, as the men otherwise would take the lead. Also, as Bangladeshi men typically work outside the home, they preferred to meet in the evenings while women, who typically worked inside the home, preferred to meet during the daytime.

Central committee level: At the union, or basic Bangladeshi administrative level, Central Committees are formed which unite SLAs from the area through representatives, including women and men.

Federation level: At the sub-district level (Upazila), federations of SLAs are formed as People’s Institutions, or PI’s. The PIs monitor existing SLAs, start up new SLAs, and promote business development and advocacy, particularly concerning land rights. PI members work voluntarily, apart from the health committee members who get small fees from the community for their services. The spirit of voluntarism is strong and matches SUPOTH’s emphasis on building self-sufficiency.

Business Development in SUPOTH

In the early 00's, business development beyond basic income generation became an issue. It turned out that for some Supoth members, their own internal basic savings and loans cycle was not sufficient to create much needed services such as rice mills or to create jobs. However, as many Supoth members actually joined Supoth because of earlier bitter experiences with the too extensive and competitive loan business in the Bangladeshi micro-finance sector, Supoth was determined to keep the savings-led approach. So the dilemma was-how to keep the virtues of savings while creating larger financial opportunities? This case outlines how Supoth and the participants' own federations have sorted out that balance.

The savings and loan association level: Moving from income generation to business development

All Supoth members are involved in SLAs and continue regular weekly savings activities. Having opportunities to save together constitutes one of the initial motivating factors in the formation of SLAs, particularly as the benefits of savings are initially most helpful for the individual and his/her family. Association members are encouraged to find simple earning sources, even at the initial stages, and to establish a habit of saving small amounts of money on a regular basis. SLA members, in consultation with Supoth staff and the People's Institution Income Generation Sub-Committee (PI sub-committee) decide the weekly savings amount. PI sub-committee members are volunteers, selected on the basis of their experience and business management skills.

Step 1: Promoting savings and generating income from savings and loans

Each SLA, with the assistance of Supoth staff or the PI sub-committee opens a bank account in their local area, which today is possible everywhere in Bangladesh, e.g. in every market place. A yearly interest % from the savings account is paid out to the association savings fund. The bank accounts ensure the security and

utilization of the fund. Bangladeshi inflation rates were 10.7% in 2011 and 8.1% in 2010. Interest rates on savings accounts have typically been set 6%.

From the onset, the SLA members are encouraged to use savings for individual and/or small association income generation projects. Supoth and the PI sub-committees assist SLAs in formulating income generation guidelines, loan application processes, and interest rates on loans to members.

At the association level of income generation activities, there is no external credit given. Supoth considers internal credit to be own savings plus loans from relatives and SLAs. External credit would include the Supoth revolving fund, described later, or loans from banks, MFIs, or NGOs. The Supoth SLAs set an interest rate of 6%. This interest rate equals the bank interest for their savings account. Loans are mostly used for undertaking small income generating activities, but it is also possible to get a loan for school fees, medicine, etc. if the other association members agree. By participating in small income generating activities, association members learn how to manage money, to set goals for income generation and, later, to develop more robust microenterprise activities. Once basic financial management skills are mastered, SLA members are encouraged to expand to micro enterprise activities at the individual and the association level. Examples include starting small shops, purchasing land, purchasing rickshaws, raising farm animals, etc. Some activities like pulling a rickshaw or becoming a street vendor need extremely low capital and do not require much skill. These transactions are usually carried out on an association-level and are monitored by the associations themselves as well as the PI sub-committees. Supoth members are also free to be members of other NGOs or SLAs and can opt to take external loans from e.g. BRAC or Grameen if they wish. Supoth however, encourages its members to build as much as possible on their own savings.

Step 2: Providing a revolving fund for credit to start microenterprises

As an income generation association builds up slowly, many entrepreneurs seek more capital to expand their enterprises. Supoth decided to provide direct financing by linking SLAs to a revolving fund. Part of the motivation for this decision was based on the need to support women's efforts to grow their businesses. Women's entrepreneurship is important for pro-poor programs. Development of women's entrepreneurship contributes towards women's empowerment and has important implications for family relationships and household economies.

The idea to create a Supoth central business unit with the assistance of competent advisors and a revolving loan fund was born in 2006 and funded by a Danida grant. Primarily the Supoth PIs (sub-district level federations) gained the opportunity to borrow from the revolving loan fund to start larger enterprises such as rice mills. The PIs in

question had to apply for the loan via the central Supoth business unit and a business plan was required. Furthermore, opportunities were created for micro-enterprises run by individual Supoth members or by single SLAs. Prior to the revolving fund, many smaller micro-enterprises existed based on borrowing from savings only. Many of these continued to be self-sufficient while some start-ups or business expansions required additional capital to become successful.

To borrow from the revolving fund at least 60% of total investment needed to be provided by the borrower. Applications with a detailed business plan are evaluated by the PI sub-committee and the local staff and then sent to the Supoth head business unit for more feed-back and evaluation. At the end of every year, Supoth members with a micro-enterprise, whether funded internally or externally, are taught to conduct an audit of their own business. They do this with the help of staff.



Mentoring is Key

The most important factor for the success of the Supoth initiated MEs and SMEs as confirmed by evaluations as well as by Supoth entrepreneurs (individual and associations) is the mentoring provided by the Supoth business unit. The Supoth business unit provides business development training for the participants, including how to identify suitable business opportunities plus basic concepts of business, planning, bookkeeping, marketing and cost control. Also skill development training is offered related to particular occupations, and participants are encouraged to start new businesses. Staff members monitor the business activities, give necessary advice, and help to prepare documents and arrange field trips to learn from successful small businesses in the area. Some Supoth SLAs have also linked to other agencies such as BRAC for assistance with skills development and product marketing. Labor costs and training for Supoth staff mentors are supported by Danida.

Figures

From 2006-11 associations could apply for micro enterprise loans from Supoth at an interest rate of 12 per cent APR, which was the Government approved rate. In Bangladesh no money lending authority can charge more than 12% annual interest on their general loans. Supoth has financed business expansion based on set criteria, emphasizing business ethics and running businesses with integrity. Supoth has supported a mix of individual and association based businesses with preference for businesses that hold promise for additional job creation. Businesses are classified as: ME (Micro enterprise > 100,000 Taka—approximately 7,000 kroner— and SME (Small & medium enterprise < 100,000 Taka level. If the capital requirement for starting a suitable business is larger than can be provided by Supoth, the organization helps entrepreneurs apply for other sources, e.g. from MFIs. By 2012, 438 MEs and 5 SMEs existed in the communities as a result of Supoth's support, and these enterprises have created 694 jobs.

Step 3: Promotion, linking and mentoring

Since 2010, the Bangladeshi government has been more restrictive towards the microfinance sector. Due to Bangladeshi policy change, loans from Bangladeshi MFIs are increasingly favoured, rather than loans coming from international sources channelled through development organisations. This means that Supoth, registered as a social development organisation can no longer provide loan funds, whereas the PIs themselves, all registered as local organisations by 2010, are allowed to manage loan funds with set criteria. As a result, Supoth staff have since 2010 devoted their energy to the mentoring role, welcoming the PIs to take over the providing role. Supoth sees this transfer of the revolving fund to the PIs as a beneficial part of their development as independent institutions.

Civil society and business promotion

Learning from this, it is evident that civil society organisations can play a piloting role in business development. This can happen by providing seed money through a loan fund, given there is a solid savings base and sound loan policies and assessment of the loan applications. However, from the Supoth experience, it is first and foremost the mentorship role, focused on strengthening the capacities of the entrepreneurs, individual or groups, to establish and grow sustainable income generating businesses, which should be explored further by organizations devoted to civil society strengthening and development, particularly related to pro-poor models of development. The primary strength of civil society development organizations is that they often possess an intimate knowledge of the area and its people and opportunities. Banks and MFIs might compete on providing credit and administering the loans, but they cannot match the ability of civil society organizations thoroughly embedded within villages to enable small and medium enterprises to fly.

Case 5: Caritas in North East India—working with a national Bank Linkage Program

By Peter Blum Samuelsen and Shivaram Kanathila

Savings and Loans Associations – which in India are called Self Help Groups (SHGs) – have played and continue to play a vital role in pro-poor development and in linking groups to financial institutions for additional external capital. Caritas Denmark has been working with a number of local partners in North East India (NEI) to support the establishment and further development of bank linkages for SHGs and their federations.

While Self Help Groups in India are of indigenous and ancient origins, NGOs have played a pivotal role in innovating and developing the SHG model. In the 1980s, policy makers in India took notice and worked with NGOs and bankers to promote SHGs and link them to national banks. Their efforts helped to spread the movement across the country, becoming an important vehicle for rural development.

Today, the SHG-Bank Linkage Program (SHG-BLP) in India is the largest microfinance program focusing on the rural poor in the developing world. 7.5 million SHGs, with some 100 million members, are savings-linked, and 4.8 million SHGs are currently credit-linked to banks in India. Under the auspices of NABARD, the National Bank for Agricultural and Rural Development in India, 441 banks with branch networks, 3,830 NGOs, and 163,730 SHG federations in India are involved. 96.6% of SHGs operate at the village level, supported by a number of major NGOs and state governments. (Source: Ajay Tankha, *Banking on Self Help Groups: Twenty Years On*. New Delhi, ACCESS

Development Services, 2011; Girija Srinivasan and Ajay Tankha, SHG Federations: Development Costs and Sustainability. New Delhi, Access Development Services, 2010.)

Since 1999, Caritas Danmark has been working in partnership with a number of Caritas organisations in the North East India states of Arunachal Pradesh, Assam, Manipur, and Meghalaya. Under a joint programme for livelihood improvements through civil society strengthening, Caritas' has partnered with four Indian financial providers working to support the agricultural and income generating activities of indigenous, marginalized tribes in these North East Indian states. These providers serve approximately 2000 SHGs, many of which have accessed government rural development schemes as well as additional capital through bank linkages.

How SHGs started in North East India

North East India (NEI) is home to many ethnic groups brought to the area during British colonial rule for tea production. This ethnic diversity—combined with a general dissatisfaction about the low priority given to NEI by the Central Indian Government—has created struggles among social groups. These struggles have included the formation of rebel and separatist groups, killings, abductions, ransom claims, and restricted mobility for inhabitants—particularly in the border hill states of Arunachal Pradesh and Manipur. Consequently, NEI is a region characterized by social marginalization and conflict as well as high levels of poverty. 60% of the population of NEI lives below the poverty line.

Thrift societies using rotating (ROSCA) models have deep roots in the communities of Manipur, Arunachal Pradesh and Assam states where people still gather and pool savings distributed in turns to members. The member who receives the savings on a rotational basis, in a modified ROSCA-ASCA model, repays the principal with interest. These thrift rotational groups are usually started by an agent, who may also get a certain

percentage of the interest from every month to pay for his or her services. This system, however, is often characterized by exorbitant rates and unfair practices.

In the late nineties, a different savings and credit association approach was introduced in North East India through government development schemes and NABARD. Many self-help groups were formed by the District Rural Development Agency (DRDA – A government agency) or other NGOs. Caritas entered during this time to build the capacities of key implementers and to provide capacity building workshops organized by the Assam State Agriculture Department for pioneering organizations in Andhra Pradesh state of Southern India and for organizations like MYRADA in Karnataka state. In NEI, the introduction of self-help concepts and behaviors among within tribal communities and tea plantation workers was very difficult due to their structural disenfranchisement and low self-esteem. Even today the quality and outreach of SHGs in NEI is much behind the rest of the India where the outlook and self-esteem of the communities are usually much stronger.

Linking Approaches

Members of SHGs, particularly in NEI, may not have enough funds and capacity development to start economic activities. Therefore the SHGs build close rapport with local level organizations such as MFIs, banks, and government departments to assist them. Groups meet officials and gather information about various approaches to self-help. Groups invite government officials to group meetings and ask them to explain the services available in their various departments. Three types of linkages to SHGs in NEI have evolved through these collaborative activities:

a. Saving Linkages: A group opens a bank account in its name for savings. Here the relationship with the banker is limited to the deposit amount in their account and obligations are limited to depositing the group savings in the account.

b. Credit Linkages: At later stages of the SHG, it can approach the financial institution for loans to start economic activities for members. Credit linkages are not only with the bank but also with any financial institution who can give credit to the group, such as a Post Bank, MFI, or Government agency, etc.

c. Resource Linkages: SHGs can approach and establish linkages to mobilize skill training, enterprise promotional training or any other capacity building activity from various government, NGO, and private organizations.

In order to obtain credit and other financial support, an SHG in NEI must make a written request supported with a sound track record of weekly meetings (minutes), evidence that 50% of members have taken internal loans, a 90% repayment rate, regular savings by all SHG members, 90% attendance at meetings, a constitution and rules, complete books of accounts, proof of income generating activities, and 3-4 months of training in group dynamics, agriculture, advocacy, accounts, democracy, rights etc.

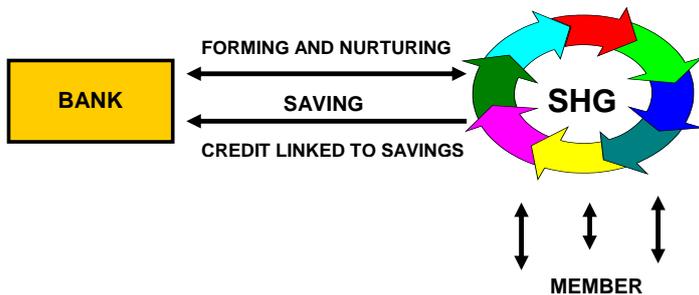
If the SHG is inclined to apply for credit, a joint appraisal committee needs to be formed and appraisal meetings should be conducted at group level for credit rating of groups. Groups are accredited on the basis of their performance parameters pertaining to group dynamics, financial performance, repayment of loans & credibility and maintenance of books, activities undertaken in the group with a total score of 100.

Models of Credit Linkages

In practice credit linkages are established in three different ways in the Indian context:

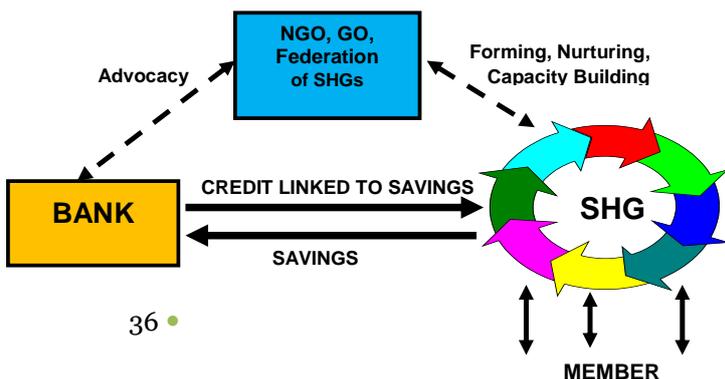
Model 1: SHGs formed and financed by banks themselves.

In these linkages, the bank forms the group, builds management capability of the group, and monitors outcomes.



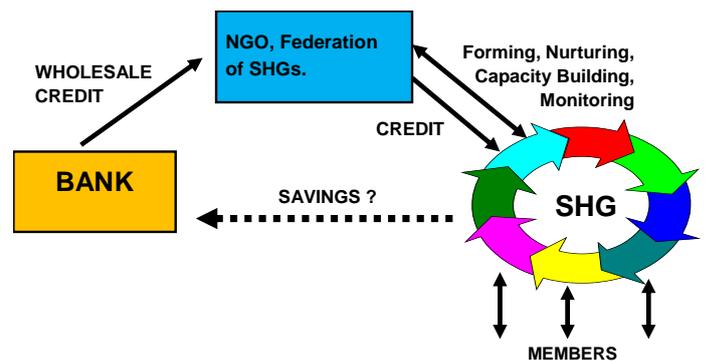
Model 2: Business Facilitator - SHGs formed by NGOs or formal agencies, but directly financed by banks.

This is the most popular model followed in many parts of the country, including North East India (NEI). In this model, the NGO acts as a catalyst and facilitator to nurture the group and to facilitate the linkage to formal financial assistance. The bank or MFI does not cover costs of developing capacities within SHGs. Everything rests with the NGO, except monitoring of the loan. This bank –SHG linkage programme is widely popular in Northeast as the work of NGOs reduce transactional cost for banks, at no expense to banks, while developing the capacities of SHGs to participate successfully in bank linkages.



Model 3: Business Correspondence - SHGs financed by banks using NGOs and other agencies as financial intermediaries

In this case, bulk lending will take place to the NGO or any formal organization who in turn will lend to SHGs. The NGOs act as intermediaries of direct financing and do not necessarily include business education or capacity building. In India some examples are, Sanghamitra, Basix, SEWA, CDF and other MFIs. Banks may conduct thorough due diligence on such entities keeping in view the indicative parameters for loans set by NABARD. Typically Banks publicize the intermediary engaged by them as Business Correspondent and take measures to avoid being misrepresented.



Rate of Interest

The present interest rate structure stipulated by NABARD at different levels, in accordance with Indian banking regulations, is as follows:

- NABARD to Banks (Refinance) - 6.5%
- Banks to SHG - 12.0%
- Banks to NGOs/VAs - 10.5%
- NGOs/VAs to SHGs - 12.0%
- SHG to Members - As decided by SHG

Banks may from time to time charge interest on the finance provided to the Groups/NGOs for lending to SHGs as of the rates indicated by the National Bank.

Payment of commission/ fees for engagement of Business Facilitators/ Correspondents

Banks may pay reasonable commission/ fee to the Business Facilitators/ Correspondents, the rate and quantum of which may be reviewed periodically. The agreement with the Business Facilitators/ Correspondents should specifically prohibit them from charging any fee to the customers directly for services rendered by them on behalf of the bank.

Use of linking models, MFIs and schemes in North East India

Caritas partners only started linking SHGs to banks from about 2006 onwards. NEI partners are now very familiar with the Model 2 of business facilitator, and one partner in Manipur is using the business correspondence model due to reluctance of banks to lend directly to SHGs. In this case a federation of SHGs is emerging as a micro credit intermediary. In mountainous Arunashal Pradesh bank loans are even more difficult as banks are highly inaccessible. Micro finance Institutions (MFIs) are not much active in NEI due to credit culture and fear of repayment of credit facilities. Many MFIs are introducing other services such as insurances, remittances, and pension schemes confined to urban areas.

Other bank linkage schemes are available in NEI such as the three step credit scheme of the DRDA consisting of (step 1) a revolving fund granted to 2-3 months old groups for emergency consumption loans and general startup motivation; (step 2) Economic Activity loan for income generating activities of which only 40% should be paid back in 2-3 years; (step 3) larger business loans for established groups. DRDA also provides skills and group training for SHGs. Several international development agencies like IFAD, World Bank, and Ford Foundation have supported the SHG bank linkage programmes in NEI encouraging others to follow. But the region is still lacking much behind in SHG quality and quantity compared to the rest of the country.



Challenges and Lessons Learned

NEI partners are faced with numerous challenges:

- *Illiteracy among the group members* posed a challenge and it is difficult for them preparing necessary resolutions of meetings and maintenance of other book of records asked by banks. Groups are using simple books and book writers in villages to help groups.
- *Groups may discontinue savings* when receiving credit. Savings are necessary for the growth of groups and for ensuring capacity for inter-lending, and this increases the internal funds and benefits members besides making them self-reliant in the long run.
- *Use of credit for consumption* when the credit limit is quite low. Credit should be available at any time of need. This will ensure better repayment as the members will be able to invest their money into the right income generation activity at the right time.
- *Culture of repayment* of credit is weaker in the region as people are habituated to grants and subsidies. People fail to see the difference between loans and government schemes and subsidy. This has resulted in MFIs being reluctant to open branches in NEI.
- *The banks are located very far* from the village. First, it is difficult for the SHG members to reach to the Bank with their savings. Secondly, the Banks are reluctant to give loans to places that are very difficult to access, as they cannot monitor.
- *Lack of planning of business activities* leading to failures and inability to repay the loan on time is evident. Group members do not always have alternative means to repay the loan in a small business fails. In such cases, loans need to be rescheduled.
- *Group failure due to calamities* such as forced migration caused by threat to lives related to insurgents groups planting

landmines etc. or diseases causing crop failure.

- *Lack of good and viable NGOs* in NEI to motivate and mobilize communities who are often unaware of the benefits of SHGs and also to fill the gap between SHGs formation and linkage to banking network.
- *Bank officials do not participate* much in the formation of groups among the rural customers. They hardly visit the groups once it is linked to bank to look into the operational problems or counsel them about better alternatives. Banks are unable to handle the political interventions in loan sanctions.
- *Lack of integration* as bankers are often not interested in organizing training programs for enhancing entrepreneurship skills. SHGs lack of non-financial assistance and there is lack of integration and coordination between NGO, Bank and Government functionaries.

Conclusions: A nationally integrated and supported programme

The Indian SHG movement, when NGOs provide services to enable the system to work in NEI, represents a highly integrated approach to sustainable rural development that includes both financial and non-financial support. SHGs are not just able to access bank linkages as the self-help concept rests on capacity building through animation and training in technical, organizational, advocacy, business and other areas of development that can take several years of the combined efforts of NGOs and government agencies. This integrated and nationally supported programme approach ensures sustained income, asset building, social services access, reduced vulnerability, women's empowerment, civil society strengthening, local level advocacy and resource mobilization capacity. This programme is not just achieving this in some few corners, but across a huge highly complex and multicultural society representing a true civil society movement through decades.

Case 6: CTS in Senegal - adapting Linkage Strategies to Regulatory Environments

Kristina Grosmann Due, CtS (Cykler til Senegal – Bicycles to Senegal)

Introduction - The CtS and AAJAC/COLUFIFA Partnership

CtS (Bikes for Senegal) was founded as a Danish NGO in 1996 due to a request for bikes coming from the founder of the farmers' association AAJAC/COLUFIFA. This association (Association Africaine de la Jeunesse Agricole et Culturelle/Comité de Lutte pour la Fin de Faim) was created in Senegal in 1974 after a period of very dry seasons in order to improve local food security. Today AAJAC/COLUFIFA has around 4000 members of whom the majority are women. The headquarters are placed in the southern part of Senegal, Casamance, but the association is transnational and has 17 divisions – 13 in Senegal and 4 in the central part of the Gambia. The region of Casamance used to be a very green and marked by small forests, but many trees have been cut for domestic use; agriculture, gardening, plantations of fruits and cashew are dominating, today, as well as some cattle breeding.

CtS has been collaborating with AAJAC/COLUFIFA since 1996 to develop local living conditions and livelihood; the financing source has been CISU (before PRNGO), a structure created by Danida (Danish Development Agency) to fund NGOs working in developing countries. In 2002, CtS started to work with AAJAC/COLUFIFA on the creation of farmers' SLA groups. At that time the MFIs in Senegal did not offer any possibility for poor farmers to obtain loans without considerable guarantee, and no other actors in the local context were engaged in developing VSLA-projects. During the period

2002-04, which was a pilot phase, and during the second project period (2004-09) the activities were guided by a concept of fixed credit and direct collaboration with local MFIs. During the third period, (2009-12) CtS and AAJAC/COLUFIFA have been working with a different concept of SLA; the focus is still on women, but the groups are trained to practice loans and savings in a much more independent manner and linking to local MFIs is introduced as an option after 3 years of practice.

Programme of solidarity groups, literacy and poultry activities

From 2002 microfinance activities were introduced as a part of two pilot projects, and from 2004 until 2009 a large project was implemented having micro credit as one of the central components. The project started by establishing farmers' SLA-groups in about 90 villages. Women members of the organisation (target: most poor members) were invited to form groups of 20 and subdivide into 4 solidarity groups of 5 women each. No specific prequalification was demanded. Each group of 5 women was offered a credit of 20000 FCA (around 230 DKK/30 EURO), which had to be paid back over 9 months, with a fixed interest of 2% per month. This program was designed in collaboration with 4 local MFIs. The CtS injected a guarantee fund into the MFIs, and on the basis of this, the MFIs gave the credit directly to the women's groups with which CtS worked. At the same time the project offered technical training in poultry, and the loans were put into place to finance and develop this activity individually for each woman. The groups also received monitoring and training in functional literacy which was highly appreciated. During the years 2002-09 and using this first micro finance model, CtS and AAJAC/COLUFIFA worked in close collaboration with the Danish Network for Smallholder Poultry Development (Fjerkrænetværket), which had substantial experiences from many development projects that included micro finance.

The concept had success in some villages, but a number of women were unhappy with the fixed amount of credit and did not understand why they had to pay interest to the MFIs. In general, though, the percentage of women repaying their loan was high (93%). During the 5 years project period about 90 farmers' SLA-groups were formed including 2300 women; most of them did not continue to function as SLA-groups after the end of the projects, but a few groups and some individuals continued to take loans at the MFIs.

Programme of Credit and Savings groups - "Musu Bara Kafo"

In February 2009, an evaluation of this project was conducted, and a Senegalese consultant specializing in the field of micro finance recommended a different approach based on introducing a SLA-concept close to the one used by CARE in Niger. On the basis of this recommendation, the Musu Bara Kafo (MBK) - "women working together" (Mandingue language)- concept was introduced in August 2009 during a minor Partnership Project, which was followed by a larger development project in 2010-12. From 2009 until 2012, AAJAC/COLUFIFA has introduced loan/savings groups in 8 divisions: 1 division in Gambia, 3 in Senegal in 2009 and another 3 in Senegal in 2011. About 85 groups (around 1600 individuals in total) are at this moment working with the MBK-concept, and they have combined savings and credit repayments for a total amount of 28.000 EURO.

The MBK-concept used in the on-going project (2010-12) has been implemented together with the local consultant mentioned above who works on contract with AAJAC/COLUFIFA. The consultant has thus been in charge of the introduction of the activities, the provision of tools for the groups, the training of the facilitators and of the extension workers (e.w.) doing the monitoring of the groups, as well as the overall supervision of the implementation of this project component.

The MBK-concept has been offered especially to female members of AAJAC/COLUFIFA, a policy which has been respected everywhere, but a few men are allowed to assist either as witnesses or as advisers. The local consultant, who is in charge of the training programme is also responsible for the gender policy, and an approach of total exclusion of men has not been considered wise as it may cause suspiciousness and jealousy, thus prohibiting women from participation. In order to develop sustainable functioning of the MBK-groups, it is important that the leaders of AAJAC/COLUFIFA and of the local division as well as the men of the households accept and approve that the women can develop and manage their own credit activities and income.

The women have been invited to form groups of 15-25 members. Each group has a facilitator and chooses a leader, a treasurer, and a secretary, who all have to be women, as well as 1-2 persons responsible for the accountability, who can be women or men. The secretary of the group has to be able to read and write. The individual division of AAJAC/COLUFIFA has been in charge of identifying the women who are going to work as facilitators for the SLA-groups. In order to stimulate self-sufficiency the facilitators are not paid by the project but receive a small amount of the pool of money at every MBK-meeting.

To become MBK-member a person has to pay a regular contribution to the pool of savings, to a social fund, and a tiny amount for the facilitator, plus interest on loans taken. The interest on credit has to be at least 10% per month, and the credit has to be paid back within 1-4 months. Each woman has to run an income generating activity supported by the loan, and the activity and loan have to be approved by the group. Many of the activities have to do with buying a big quantity of a certain product (palm oil, dried fish, fruits, fence, tea and sugar) and selling small quantities. Some members produce and sell chickens, vegetables etc. The group is responsible for its organisation and makes its own rules regarding meeting place, number of meetings (often 1

monthly), interest (min. 10%), sanctions, and the criteria for taking credit (acceptance of activity, maximum/minimum of the credit, whether every woman can take a credit at the meeting or if the credit is given on the basis of rotation). Normally, all money is distributed during a meeting and no savings are “sleeping”. The concept defines that the maximum of a credit can be 20,000 FCA/ 31 EURO whereas there is no minimum.

When a group starts up and shows regular interest and practices savings during 3 months, it receives an amount of starting capital (210 EURO/1600 DKK) from AAJAC/COLUFIFA (project financed). The group has the right to work with this capital during 4 months; then the Management Committee of the local division of AAJAC/COLUFIFA takes back the starting capital in order to pass it on to a new group. In 2009 this capital was injected into 20 groups (5 groups in each of 4 divisions). During 2011-12 a similar amount of starting capital has been given to 8 groups (2 groups in each of 4 divisions). The capital has the character of a revolving fund, which has to be paid back to AAJAC/ COLUFIFA without interest and then cycled to continuously serve new MBK-groups. Each group receives regular monitoring by an e.w., and overall training and supervision by a local consultant for 3 years, but no other lending or grant capital. After 3 years of training the group has to decide how it is going to develop. From 2009 until 2012 around 85 MBK-groups (1600 women) have been formed. The first wave of MBK-groups (around 60) will finish their period of 3 years’ capacity building in September 2012.

Linking strategy

The legislation in Senegal and in the Gambia has recently been changed, and now it does not allow informal, independent VSLA-structures to exist. New initiatives are allowed to establish and grow, but at a certain moment they have to be legally formalized either as a federation, as an actor having a formal license to conduct savings and loan associations (SLAs) or as a credit union. Since AAJAC/ COLUFIFA covers different local

areas and as other micro-finance programmes operate in some of these areas, it is likely that the development of the MBK-groups will turn out in different ways according to the context of the areas. And at this moment the 8 divisions where the MBK-concept is working show different results and demands. The fact that 3 divisions are located in the Gambia means that they have a double status as part of AAJAC/COLUFIFA (in Senegal) and as an independent NGO registered in the Gambia, a condition which may stimulate a more independent development. The MBK-groups are encouraged to consider their way of organising as individual groups or as networks, to elaborate a business plan for their activity, to choose MFI partners carefully, and to fully understand the terms of interest, guarantee and reimbursement – before taking a bank loan.

Four primary linkage strategies are used:

a) *Formalizing*

In this strategy, each of the MBK-groups is encouraged to pay the expenses and to obtain a formal, legally recognized status as a group with the right to practice income generating activities as G.I.E. (Groups of Economic Interest). All facilitators (about 30 women) accompanying the groups have received a course of training in entrepreneurial activities and gender in order to strengthen the leadership of the group. The groups are encouraged to plan how they can develop activities and elaborate a business plan as a necessary preparation before eventually addressing a local MFI in order to get bigger loans. The financial sector is developing in Senegal as well as in the Gambia and new banks will come into being, for instance Islamic banking institutions that might offer cheaper services and demand less interest. The project is training AAJAC/COLUFIFA so that the association can help the MBK-groups identify sustainable MFIs and give thorough information advice related to consumer protection.

b) Linking Individuals and Groups Directly to MFIs

The Karongue groups belong to one of the 17 divisions of AAJAC/COLUFIFA located in the western part of Senegal, Casamance; their micro-credit participation in the former project (2004-09) was a success, and thus a number of individuals were able to go to the bank on their own, take small loans and succeed in paying back. All 7 groups of this division have paid and obtained a legal status as G.I.E. (Groups of Economic Interest).

When the MBK-groups started in this division in 2011, they quickly expressed a demand for larger loans. In this division one group (G.I.E.) has been able to succeed with their income generating activities, obtain a small private contribution and on this basis they have invested in two transformation machines for peeling rice and palm oil nuts, and they are planning for a third machine. The group now wants to build up a plantation of fruit trees and gardening, and thus they need a bigger loan to pay for fencing and drilling a well. In the local area the Crédit Mutuel de Sénégal (CMS) is at this moment the only

existing MFI. Some MBK-groups are coordinating together and practice savings in order to obtain bigger loans from CMS to expand other small scale transformation activities.

c) Federating and Creating Networks

The MBK-programme (2010-12) has worked to build up a network among the MBK-groups in each of the 4 divisions that started the MBK-activities in 2009. A group has to pay a fee to become a member of the network and also pay contributions on a regular basis. The network is now well functioning in 2 divisions (Brikamaba, Faoune) and functioning on a small scale in 2 other divisions (Rahmane Seïndy, Balo Kabada). The strategy is to continue empowering the existing networks and build up networks in other divisions on the basis of interest and demand of the groups. In the future, networks may grow up in several divisions, develop cross-cutting relations, and possibly turn into a much larger, umbrella federation.

Foto: Mariama (left) used to be shy in public meetings. She now expresses herself freely and has developed into a very competent facilitator.



d) Obtaining External Resources and Creating a Credit Union

The Brikamaba division is located in the Gambia; it is a division of AAJAC/COLUFIFA in Senegal but also registered as a Gambian NGO, thus giving it a bit more creative control in terms of regulations. The number of groups as well as the network has developed intensively since it was introduced in 2009. The division has a hardworking extension worker who is also a member of the leading committee. He has fine pedagogical skills as well as a talent for leadership, profound involvement, and he is today monitoring an MBK-network of about 25-30 groups. The Brikamaba-network and the MBK-groups aim to obtain external funding and grow large enough to create their own credit union within some years. By 2012, all the MBK-groups as well as the facilitators within this division (about 275 individuals) have received training in entrepreneurial activities. The leaders are seeking further capacity building necessary to create their own credit union provided from a training centre specializing in microfinance.

The division has already been able to get government funding for its MBK-groups, i.e. from the Rural Finance Fund and the Social Development Fund, both government funding institutions. Rural Finance is investing in the development of agriculture, provides funding as a gift that does not require repayment, and gave funding in 2011 and, again, in 2012 in order to expand the number of MBK-groups. The Social Development Fund learned about the good performance of groups using the MBK-concept in Brikamaba, visited some of the MBK-groups, and was so pleased that they have suggested a contract of free training and a favourable loan (7.500 EURO) covering 9 months with a total interest of 10%.

The role of CtS as facilitating agent

The role of CtS as a partner organisation financed by CISU and conducting projects together with AAJAC/COLUFIFA is to empower and ensure

sustainable development of this farmers' association as a whole and to include a certain level of decentralised development among the 17 divisions. CtS facilitates knowledge about the legislation in Senegal and in the Gambia, discusses lessons learnt from internal experiences as well as from outside actors, creates awareness regarding all aspects of savings and credit possibilities, and facilitates access to guidelines and tools for effective management.

CtS has played an active role in identifying and financing local consultants to provide of knowhow and training. The idea of federating i.e. creating networks between the MBK-groups in each division of AAJAC/COLUFIFA was suggested by local professional consultants; CtS and AAJAC/COLUFIFA have discussed the importance of developing the MBK-concept, maintaining a vital dialogue between the divisions and the central level of the association in order to agree on a common MBK-approach yet, at the same time, allow the different divisions the latitude to decide specific policies and external funding strategies that best fit their different contexts.

The strategy of the Karongue-groups in Senegal of obtaining a legally recognized status as G.I.E., to support savings and planning for small bank loans (Crédit Mutuel de Sénégal) has been developed on the basis of previous working experience and positive results with micro-credit activities. The strategy of federating and developing into networks, getting external funding, and eventually establishing a credit union has come from the leaders of the division and by support from a local consultant. As regards the Brikamaba network and groups, they are encouraged to seek further capacity reinforcement from the Microfinance Support Centre in the Gambia.

Lessons learned and challenges

CtS and its partners have faced several challenges and learned several lessons through engagement in these projects.

a) Collaboration with MFIs

During the first project period (2002-09) alliances were established between AAJAC/COLUFIFA, the women's groups and a number of MFIs in Senegal and in the Gambia. The experiences were mixed as a couple of MFIs collapsed due to lack of capacity, bad management and corruption. Another lesson learnt was that agreements and conditions of loans with MFIs should be negotiated at central – and not at local- level. For project holders and donors it is possible to negotiate collaboration conditions with MFIs regarding interest for loans and guarantee funds. This knowledge was unknown to CtS as well as to the partner association before project start up in 2004, so the external guarantee fund placed in Crédit Mutuel de Senegal was not accorded any interest to grow during the 5 years. This resulted in shrinkage of the fund over time.

To capitalize on the previous experiences with credit and relations to MFIs obtained during the former project and to create awareness, dialogues have been organised in a number of divisions, but especially with the women's groups in Brikamaba and Karongue. AAJAC/COLUFIFA, as an association, and several individual staff members have had continuous, long term relations to the bank, Crédit Mutuel de Senegal. Together with another donor, the association has been working with a local MFI, Mutuel des Femmes de Kolda. The CMS offers micro loans charging 1.5-2% interest per month to groups and individuals. They normally require 30% of the credit requested as a guarantee such as a regular salary, which is difficult for farmers to show, but the source of the 30% can be negotiated and depends also of the amount of savings established. The existence of this guarantee allows the MFI to manage risks better and thus to offer lower interest rates on loans. AAJAC/COLUFIFA screens of a number of local MFIs in Senegal in order to be able to inform the MBK-groups correctly on the terms of loans and interest.

b) Different concepts

From 2002 to 2009 while working with fixed amounts of credit and in direct collaboration with MFIs a lot of women did not find the credit so useful – either the amount of credit was too big or too small, and they did not appreciate paying interest to an external institution like the bank. Among the positive outcomes with the first concept was that a number of women were able to develop their livestock and exchange chickens into goats and into cows for greater income generation. In general the satisfaction of having gained a minimum of new skills within writing/reading was greatly appreciated and potentially transformative.

During the second period (2009-12) working with the MBK-concept almost all women like the model but some are finding the amounts of credit too small. While working with the MBK-model a number of women working as facilitators and secretaries have developed new skills and have become very professional in leading and managing. A lot of women develop ownership of the MBK-concept and enjoy organising their groups, working with their own money and making their own decisions. Many group members have increased their income generating activities and have earned much more money than they did before. There are many expressions of a new self-confidence obtained through the MBK-activities.

c) External capital

While working with a small revolving fund placed in each of the divisions of AAJAC/COLUFIFA, ensuring repayment remained a risk and some of the capital over time was consumed unproductively either by the leaders of the local division or by the groups. AAJAC/COLUFIFA is a cross border association composed of 17 local divisions, covering a large area and with 4 divisions registered as NGOs in the Gambia; such characteristics signify that complex situations can develop, when external donors fund divisions individually and on different conditions (loans and gifts) and with very different demands related

to follow up and evaluation. The market can become very uneven incentivizing bargain hunting, non-repayment, or overindebtedness due to borrowing from several different sources. This situation presents challenges for the capacity of the leaders to manage networks at the central level while also fostering decentralization necessary for maintaining high levels of local participation and control over decisions.

d) Literacy and business plans

It remains also a challenge to empower rural women and support them in organising and controlling their accountability and networks when many of them are illiterate; literacy training remains a growing and unsatisfied demand. The project is handling this challenge by continuously looking for women who can read and write and by encouraging them to work as facilitators and secretaries of the MBK-groups. Training and courses of awareness regarding gender and entrepreneurial activities are used as tools to encourage and stimulate progress. It is equally important that groups develop a socially and financially sustainable organisation to succeed in investing and taking bank loans. Many women in the groups face the problem that they run the same activities; undifferentiated markets can get crowded so the gains become rather small. Further empowerment of female leadership and training of networks in financial literacy and business development are fundamental to growing and diversifying income generating activities, managing accounts, elaborating simple business plans, etc.

When working with linkages, it is important to provide focalised capacity training of small MFIs especially regarding ethically responsible bank services, consumer protection policies, risk sharing, and working together with clients to elaborate sustainable business plans. Exchanging international experiences and lessons learnt can empower SLA-groups in order to organise successfully and develop financially sustainable micro-enterprises.

Case 7: BØRNEfonden in Mali— building capacity of SLAs to link to credit unions

By Karin Wied Thomsen, coordinator for Income Generation, BØRNEfonden

A brief introduction to BØRNEfonden

BØRNEfonden is a sponsorship based development organisation working in five West African countries, notably Benin, Burkina Faso, Cape Verde, Mali and Togo. BØRNEfonden creates opportunities for children and youth to reach their full potential by enhancing their capacities and skills, by promoting their rights to participate in decisions, and their ability to act as agents of change for the development of their communities. BØRNEfonden's programme aims to alleviate poverty from a child-centred perspective and has four key areas of intervention; Education, Health, Income Generation and Children & Development.

- BØRNEfonden works in rural communities the life-time of a generation to make sure that development activities have the proper time to become embedded in the dynamics of local community development. The framework for our long-term development work is called "Community Development Cycle" (CDC). It provides guidance to the planning and implementation of programme work through a period of 15 years divided into three phases of five years corresponding to three 'life phases' in a child's life (early childhood, childhood and adolescence and youth). Each phase has its own set of objectives based on the specific needs of the identified age-group.
- BØRNEfonden's country programmes are carried out through so-called Development Units (DU's) which are community centres

located within the rural areas, with BØRNEfonden staff dedicated to establish long-term working relationships with children/youth, their parents/families and the community as a whole. The families and the community work closely together with BØRNEfonden's staff to ensure transparency and accountability in programme performance and by reaching out to the groups most affected by poverty. BØRNEfonden collaborates with local civil society organisations and aims to establish lasting partnerships with local governments, relevant ministries and other stakeholders.

BØRNEfonden's programmes for Income Generation

Working in the rural areas, BØRNEfonden's programmes for Income Generation emphasise agriculture and agriculture-related activities, including livestock keeping, processing of agricultural produce and petty trade. All the while, we support beneficiaries in the creation of alternative sources of income generation which are not dependant on agriculture, something which is important in a time where natural disasters and population growth put a great pressure on the natural resources. In line with the above mentioned "Community Development Cycle" (CDC), the target group of the Income Generation programmes changes over time: While initially focus is on adults who act as caretakers of the children's wellbeing and upbringing, the main target group towards the latter half of BØRNEfonden's intervention constitutes of youth and adolescents soon to stand on their own feet.

With few formal employment opportunities available in the rural areas, our programmes for Income Generation focus on self-employment and on assisting beneficiaries to establish their own micro-enterprises. In terms of technical training and support as well as training in management issues, BØRNEfonden collaborates with research institutions and the public agricultural advisory services, as well as with other NGO's and locally present MFI's. A number of preconditions need to

be in place for an individual to succeed with his or her micro-enterprise. Accordingly, policy for Income Generation defines three components, three 'core commitments'. These include: i) the stimulation of locally relevant business opportunities, i.e. income generating activities with local market potential; ii) the possession of technical know-how and skills within the activity in question but also basic knowledge of micro-enterprise management and; iii) access to funding - without capital for initial investment, few economic activities will 'take-off'.

Principles for micro credits

Providing beneficiaries with access to micro credits is an integral part of BØRNEfonden's Income Generation programmes. With few Micro Finance Institutions (MFI's) operating in the rural areas, access to funding is very limited in the communities where we work. For various reasons, the approach to microfinance varies between BØRNEfonden's programme countries. However, as a general rule, micro credit schemes are based on the principles of the Bangladeshi 'Grameen bank' experience. This means that the main target group for the micro credits are the women as they rarely possess the resources – such as land or animals – which are necessary for mobilising funds of their own. Moreover, the women are renowned as good repayers, they are less mobile than the men and they are known to invest their earnings into family to the benefit of the children. Loans are granted via so-called 'solidarity groups' where women join into groups of about five persons and caution for each other. Emphasis is placed on savings and low-risk investments: The creation of individual savings accounts enables loan takers to develop a solid base for their economic activities and for gradually gaining an economic power of their own. Likewise, in order to promote low-risk investments and avoid creating indebtedness, technical training and training in basic business management accompany the provision of micro loans. This also implies that basic business plans are formulated for taking loans.

BØRNEfonden-Mali and its approach to micro credits

BØRNEfonden has worked in Mali since 2003. Our work is concentrated in the southern parts of the country, more specifically in the 'Cercles' of Yanfolila, Bougouni and Diola. BØRNEfonden-Mali operates through 22 Development Units placed within rural communities. As mentioned above, BØRNEfonden's work falls within four areas of intervention with Income Generation being one of these. In Mali, a number of income generating activities have been identified as relevant and profitable in the areas where BØRNEfonden intervenes, particularly to women. These are: Agriculture, including processing and marketing of agricultural produce; animal keeping; vegetable and fruit gardening; and production of soap and honey. Where applicable, beneficiaries are offered technical training in relation to these activities, either directly by BØRNEfonden staff or by our partners. Moreover, beneficiaries are offered training in basic bookkeeping and business management, as well as in the management of micro credits.

In relation to micro credits, BØRNEfonden-Mali has opted for an approach which implies that we as an NGO do not enter directly into the provisioning of the micro credits. Instead BØRNEfonden acts as an intermediary, linking groups of women beneficiaries to a professional Microfinance Institution (MFI). The MFI in question is called 'Kafo Jiginew' and it is Mali's biggest MFI. The linking strategy – and thus the role of the MFI Kafo Jiginew – has been thought into the Mali programme for Income Generation from the very onset. In brief, small women's groups have been identified in the communities where BØRNEfonden-Mali intervenes. These women's groups gather into a number of 'umbrella' associations, in French called 'Associations mères' (literally meaning 'mother associations', in the following termed women's associations) which are the entry point for the link to the MFI. The women's groups and associations existed prior to BØRNEfonden's intervention.

However, before BØRNEfonden started reinforcing the women's associations with training and capacity building in relation to their organisation and management, they were loosely structured and few had obtained legal recognition. In order to take part in the micro credit scheme, the women's associations must have in place a number of governing bodies, i.e. a General Assembly, a managing board (comité executif) and a control unit (comité de surveillance), as well as regulations defining the roles and responsibilities of each of these governing bodies. Most associations also establish a social fund based on the members' regular contributions where the women can seek economic assistance in case of disease or death within their families.

Ultimately, the responsibility for the repayment of the micro credits lies with the women's associations. In order to apply for a loan, a woman must be member of a solidarity group. She cannot only be a member of the women's association. Solidarity groups are formed based on the women's own preferences; important criteria for the women to choose each other include mutual confidence, being members of the same family, living close to each other and sometimes also undertaking the same type of income generating activity. In terms of management of credits, the delay for repayment is decided internally within each of the women's associations. Typically, a longer repayment period (up to one year) is allowed for credits invested into agriculture and animal keeping than for credits invested in commerce or vegetable growing (four-five months). This occurs because the latter activities generate returns at a faster pace than those related to agriculture and animal keeping.

In order to allow the scheme to get started, BØRNEfonden has provided the initial guarantee funds required by the MFI. Moreover, prior to accessing the actual micro credits, the women's associations are asked to elect their governing bodies, to open an account with the MFI and to mobilise savings which amounts to 10% of the loan they subsequently can apply for.

BØRNEfonden staff assists the women's associations and their democratically elected leaders with training and guidance for formulating capacity building plans in order to ensure them with the needed competencies to perform their task. Needs for training and re-training are continuously evaluated together with the women's associations. Furthermore, committees of village elders are formed to follow the provisioning of micro credits, thereby ensuring that 'good moral' is maintained and also ensuring the women with general support and recognition of their activities from their communities.

In terms of its history, the micro credit scheme in Mali began in 2007 with a single women's association in order to test the approach. Since then, the number of participants has grown exponentially; as of end-2011, the scheme counted 297 women's associations with more than 23.000 members from the communities. The intention of the approach applied in Mali whereby BØRNEfonden comes to act as an intermediary and not as the direct provider of micro credits, is to build up long-term capacity in the communities and among the women's associations for entering into direct relationship with the MFI. This ensures an aspect of sustainability in our actions from the very onset of our presence in the communities, enabling us to withdraw knowing that the communities, notably the women's associations, are themselves capable of dealing with the MFI, thus continuing the development efforts on their own.

Upon a review of the financial sector in Mali, BØRNEfonden opted for a partnership with the MFI Kafo Jiginew. This is a federation of credit unions and the largest MFI in the country, operating since 1987. The mission of Kafo Jiginew is to offer financial services to low-income populations such as farmers, small-scale traders and artisans who do not otherwise have access to formal financial institutions. Kafo Jiginew's presence is widespread in the rural areas of Mali, something which constituted an important criterion for BØRNEfonden to partner up with

this MFI. BØRNEfonden has signed a Partnership Convention with Kafo Jiginew, stipulating the roles and obligations of each party, both during the initial five year phase where BØRNEfonden acts as an intermediary connecting the women's associations to the MFI, as well as in the long term when BØRNEfonden gradually winds down its technical support and lets the women's associations stand on their own. To BØRNEfonden, the list of obligations of the convention includes supporting each of the women's associations in the establishment of a guarantee fund and in the organisation of solidarity groups lying under the women's associations. Moreover, BØRNEfonden commits to provide the women with technical training and training in business management and management of credits and to assist the women to open up accounts, both for the associations as a whole and for the individual members. As for Kafo Jiginew, among other things, the MFI commits to provide certain rates on savings, to serve individual women as well as the women's associations, and to a certain extent to take over technical follow-up in relation to the women's income generating activities.

The capacities of the women's associations for managing the micro credits, as well as for undertaking the interests of their members in general, are continuously evaluated. Once they are judged sufficiently competent and experienced, BØRNEfonden withdraws its support and the women's associations will be left to deal directly with the MFI. This has not yet happened as the scheme only started up in 2007 with a single women's association, but 2012 will bring the first experiences of this kind.

Lessons learned and reflections

According to our colleagues in Mali, the main challenge in establishing this type of micro credit scheme is to ensure the sustainability of the system, notably sustainability in terms of good organisation and functioning of the women's associations and their collaboration with the MFI. The women's associations must be formally

organised and well run, just as the women's groups (solidarity groups) forming up the women's associations should be solid. Full participation and control of the affairs of the association by the members must be ensured, implying their implication in the decision-making and planning process from the very onset. In the beginning, the women's associations meet many challenges in relation to their organisation (forming of governing bodies, capacity building of members etc.) and the management of activities and therefore they should be accompanied for a prolonged period of time and provided with continued training for managing the association and its organisation, as well as the micro credits and the handling of the many individual loans.

Several positive 'side effects' have come out of the micro credit scheme and the capacity building of the women's associations. These include a reinforcement of the solidarity among the members of the associations and thus a reinforcement of the social cohesion of the involved communities in general. Furthermore, due to training – in literacy/numeracy, management and organisation – a number of leading members of the women's associations work with a high degree of professionalisation. A challenge remains in terms of ensuring that capacities and competencies are maintained and renewed in relation to the organisation and management of micro credits, and other matters of the women's associations, in the very long run, i.e., when BØRNEfonden pulls out.

Micro credits are an integral part of BØRNEfonden's programmes for Income Generation. In Mali, as well as in BØRNEfonden's other programme countries, women in the rural areas are seldom able to mobilise sufficient funds for investing into an income generating activity. However, it should be stressed that micro credits cannot stand alone. They must be accompanied by technical and financial training and follow-up, and, preferably, by other more general initiatives for building local capacity for development.

Case 8: Danish Refugee Council in Central African Republic - moving to linkages

By Davide Stefanini

Introduction

Central African Republic (CAR) is a land-locked country situated in the middle of an acute crisis area covering Congo, Chad and Sudan. It is ranked in the 9th position among the poorest countries in the world, according to the UNDP Human Development Index, and its population lives in a situation of protracted and high instability. Because of its geographic location, its lack of infrastructure (roads, bridges, telecommunications) and basic services (schools and health centres), the absence of any industry sector, and its lack of "good governance", 62% of people in CAR live below the poverty line, and the proportion increases to 69% in rural areas. Due to widespread corruption and conflicting geo-political interests, the population of CAR does not benefit from its wealth, although the country could potentially have important agricultural production (cassava, maize, millet, sorghum, pignuts) and has access to many natural resources like gold, diamonds, uranium, and timber.

For the past 15 years, the day-to-day life of people in CAR has been greatly affected by multiple conflicts and several military putsches. In 2005, the first democratic election in the country seemed to mark a new path for the fragile state toward a more stable and development-oriented future. Yet, continuous clashes between military forces, local rebels, and recently the Lord's Resistance Army (LRA), which fled Uganda, are



still undermining the possibility of peace in the country.

Since the end of 2007, the Danish Refugee Council (DRC) has been working in three conflict-affected regions of the country in order to provide primary assistance to conflict-affected populations and to promote durable solutions. In Paoua, a North-West town of 25,000 inhabitants located at the centre of a crisis-affected region called Ouham Pendé (400,000 inhabitants), DRC started an "early recovery programme" (funded by UNHCR, European Commission, Peace Building Funds and Communitarian Humanitarian Funds) in 2008. The programme aimed to reinforce technical, material and organisational capacities of women and farmers' groups with integrated interventions in order to progressively accompany them on their way back to their native localities while equipping them to re-start economic activities (crop production, animal breeding, petty trading) after having lost their assets during the displacement. The programme followed a phased approach: a first phase was implemented between 2008/2010 to provide primary assistance, and a second phase commenced between 2011-2012 to organize communities and prepare them to enter into a development scenario.

Early Interventions

In the framework of this programme, DRC set up a specific intervention to provide tailored support for women to improve their living conditions. Due to the impact of troubles, national instability and lack of information (cultural isolation), the majority of women experienced three major problems: i) lack of productive assets, ii) extremely low capacities in terms of management, accountability, technical skills and literacy (on average only 10% of women were able to read and write in French) and iii) total absence of formal financial services in the region for managing their savings and providing access to loans.

In order to provide a solution for the first two constraints expressed by the women, DRC supported women groups in restarting their

income generating activities (IGAs) by providing them some basic inputs "in kind" and as "grants" (tools, seeds, soft equipments, etc...) to support the ability of women to rebuild their productive assets. DRC also established a multi-sector plan of training based on the needs of women including organisational, technical and literacy courses which allowed targeted women to increase their skills and capacities to implement their IGAs in a more successful ways.

Finding a solution to overcome the third problem was neither immediate nor easy. DRC is not a banking institution, and therefore finding a way to provide essential financial services tailored to women was an immense challenge for the following reasons:

- In the area, banks, MFIs, and mobile phones were very limited in terms of presence and access.
- It was very complicated to attract financial institutions because of lack of enabling and conducive factors (security, strong investment opportunities, telecommunications, internet, skilled staff, etc.).
- In this area, more than 70% of population lives under the poverty line.

Thus, lacking other options, DRC explored possibilities to provide financial services to support the creation of sustainable IGAs in the Paoua area. The first possibility would have been to introduce a direct-microcredit programme. Nevertheless, this option presented limits:

- Women expressed needs for both microcredit and a safe place to store their savings;
- The provision of both grants and loans, because the expectations for each service are different, can be confusing for the clients;
- DRC did not have local staff who specialised in microcredit in CAR;

- The risk for mismanagement of loans, in this situation, was high.

Finally, DRC realised that the women's groups in Paoua were already very much involved in the practice of traditional RoSCAs called in local languages "Kelemba" or Tontines (as in French speaking countries). Rooted in the Central African Republic cultures and traditions, the "Kelemba" is an endogenous method for promoting economic development and building a safety-net among women in rural areas. Traditionally by organizing themselves into self-selected groups of 20-40 women on average, the RoSCA members would collect small savings in a common pool and redistribute the savings among group members in a rotating way; sometimes the members would also provide financial assistance to each other if in emergency situations (new birth, death, hospitalisation...).

A Savings-Led Approach: From Tontines to Innovated Savings Groups

Considering the existing strong involvement of women in the "tontines" system, DRC decided to adopt a "savings-led approach" integrated with "multi-sector training" and "in kind" support. The crucial point of our reflection was how to improve this informal saving and safety-net mechanism in order to provide basic financial services without destroying the endogeneity and spontaneity of the groups.

After some discussions with the women involved in the saving groups, DRC noted that one of the major limits of this system was that the saving is collected among the group members and immediately after distributed to one member. Therefore, at the end of each meeting the "pot" is emptied. By looking at this practice, DRC proposed to insert into this existing RoSCA arrangement an "Accumulating Saving and Credit System" (ASCA) in order to gather and accumulate saving on a regular basis. Inspired by CARE's experience of Mata Masu Dubara (M.M.D.) in Niger, and the "Mutuelle de Solidarité" (MU.SO) created by Bernard Taillafer

in Senegal and Haiti, DRC promoted a hybrid saving-led model based on the traditional "Kelemba" with two funds (one for saving and one for insurance purposes) that were accumulated during the meetings. In this way the traditional RoSCA became "Innovated Saving Groups" (ISGs) or "Tontines Améliorées" (in French).

A previous assessment made by UNDP and surveys administrated by DRC in the targeted area provided positive evidence that a saving-led approach could be a realistic and ideal option in order to offer financial services to the women.

The objectives of the "Innovated Saving Groups" are:

- To improve access to multiple financial services for poor women (saving, loans and insurance).
- To strengthen the life skill capacities of women in other strategic sectors, including AIDS prevention, malaria prevention, human rights, financial literacy, health, hygiene, by including key messages and short workshops during the meetings of the saving groups.
- To reinforce social cohesion and trust among the women affected by conflict.

In the absence of a local partner in this post conflict area, DRC played the role of facilitator and promoter of the innovated saving groups according to the willingness of the women to alter their traditional methods. The most relevant steps for promoting innovated saving groups included:

Identification: It was first important to identify and strengthen the good practices of traditional *tontines* groups, such as: regularity of meeting, sustainability of the tontine, involvement of members, amount of contribution, etc.

Information Campaign: Second, it was important to discuss the opportunity to develop an "Innovated Saving Group". The group ultimately decides if it is interested in developing a non-rotating and accumulating fund or not. Within this stage, DRC emphasized a key message: It is possible to make a "small sacrifice today" (do not distribute immediately the collected saving during the weekly meeting) in order to gain a "bigger advantage tomorrow." At the end of the first two months, the accumulated saving was used for two or three loans, and in the next months the saving and loan fund could grow from both savings and repayment of loans.



Preparing Internal Procedures: Third, it was important to design, in a participatory way, internal written rules for participation in the scheme: defining a minimum amount of saving, determining interest for loans, establishing minimum and maximum amounts for loans, penalties, financial assistance in case of accident, etc.

Training: Fourth, it was important to develop and provide training sessions consisting of several modules, such as:

- Steps to manage a meeting
- Accountability procedures
- Saving, loans and insurance procedures
- Reporting and monitoring tools.

Test Period: Fifth, it was important to establish a pilot period (2 months) and enable participants to discuss experiences and results after that period and prior to continuing the ISG.

Monitoring and Evaluation: Finally, it was important to implement continuous internal monitoring (by the Women's Group Committee) and external monitoring (by DRC field agents) to ensure good governance and to build trust.

Through these processes, the DRC and the women decided on the following procedures:

For Savings:

For savings, each member would put at least 500 CFA Francs (around \$1) in the green box at each weekly meeting. Each saving contribution would be written in a personal saving book and in the register of the group. Every two months the saving box would be opened, and the accumulated savings would be used to satisfy loans requested by the members of the group. The agreement not to touch the savings for two months constitutes a commitment savings program which enabled women to postpone benefits while developing a savings culture. After 12 months (52 meetings) each member would receive her savings back plus

	Traditional Saving Group	Innovated Saving Group
ROTATING POOL	Available	Available
INSURANCE	Exists in informal and discontinuous manner	Is pre-established and fixed in the internal rules by the groups
SAVING	It is in a rotating manner (No accumulation)	Exists in both rotating (where traditional system is maintained) + accumulating manner (into the Green iron box), though accumulation is limited to 12 months.
LOANS	Rare/infrequent	Every two months
INTERNAL RULES	No written rules	Written internal rules
TOOLS AND PROCEDURES	Rarely, a register for member's participation in the meeting	Different books (saving, loans, monitoring) and simple procedures provided in the KIT
SECURITY	Very low (plastic bag)	Iron box with locks provided in that KIT

a share of total interest generated by loans disbursed during the year. This of course would depend upon borrowers repaying all loans with interest by the date of disbursement, a feature that functions as another commitment mechanism felt as an obligation to the group.

For Loans:

For loans, each member could ask for a loan, yet the amount of the loan could not exceed more than twice the amount of the member's accumulated savings at the time of requesting the loan. Also, each member requesting a loan would be required to find 2 other members as guarantors and submit a written request to the Management Committee of the group, a committee elected by members. If approved by the committee, credit would be 100% secured: 50% by the saving of borrowers and 50% by the saving of the 2 guarantors.

Loan Characteristics:

5% interest per month would be charged for loans. In other words, the borrower would pay principal + 5% if she repaid the loan in 1 month, principal + 10% for a loan of two-months duration, principal + 30% for a loan of six months duration, etc. The maximum amount of a loan for the first cycle (the first two months) would be 100,000 FCFA (\$200 USD), even if a person had saved more than half of that amount. In subsequent 2-month periods the amount could increase to match twice the savings of the borrower. Borrowers themselves would select the frequency of installments to be

paid, e.g., every week, every 2 weeks, every month, every 2 months, etc.

For Insurance:

In relation to insuring members of innovated savings groups, each member puts 100/150 FCFA – \$0.2 in the red box at each meeting. If a member has had an accident or another unexpected and costly event, she can obtain assistance in cash during the meeting according to the agreed upon written rules in the following table:

The insurance assistance scheme is trust-based.

Accident	Amount assistance	of
Illness of a member	4,000 FCFA – \$8	
Illness of a member's relative	1,500 FCFA – \$3	
Illness of a member's child	1,000 FCFA – \$2	
Death of a member (given to the husband)	5,000 FCFA – \$10	
Death of a member's relative	3,000 FCFA – \$6	
Death of a member's child	2,000 FCFA – \$4	
Childbirth	1,000 FCFA – \$2	

Storage of Savings, Loan Repayments, and Insurance Contributions:

To provide safe storage:

- Each iron box is closed by two locks;
- Two selected members keep in separate place the two keys of the locks;
- A third member keeps one iron box;
- Each iron box is opened only during the weekly meeting in front of all the members;
- Every time an iron box is opened and closed, each member has to learn by heart the amount of money inside the box;
- The final amount at every meeting is written in a dedicated accounting book.

The KIT required to start an ISG includes: 2 iron boxes with 4 locks, books and registers, pens, pencils, rubber, Calculator and savings books. The Cost for the KIT is around \$100 USD and is provided "in kind" by DRC. The cost for the KIT is matched by the group, and this additional amount is put in the saving box. DRC does not receive repayment for the KIT.

Traditional and Innovated Savings Groups Compared

The following chart compares procedures from Tontines to ISGs:

Role of DRC

DRC provides the following services and, in this phase, does not provide external financing.

- Acts as "facilitator" for the group that decides to start an "innovated Saving Group;"
- Drafts the intervention strategy and training modules design and delivery;
- Identifies potential groups through surveys;
- Implements information campaigns and training sessions for the selected groups;
- Provides the KIT (Iron boxes, locks, books, saving books...);
- Implements the monitoring and evaluation procedures;
- Implements the impact study;
- Develops software to manage financial data;

Initial Outcomes

DRC started its experience in CAR with 16 groups located in Paoua in 2008/2009. Looking at the first cycle for these 16 groups, which ended in March 2011, DRC compiled the following information:

- The total saving mobilized was around 15.800 € with an average saving per group of 989 €;
- The 4 worst performing groups at the end of cycle had mobilized an average of 164 € in savings;
- At the end of the cycle, the best 12 groups had mobilized an average of 1.264 € in savings;
- The total loan portfolio was around 38.100 € for a total number of 567 distributed loans with an average value of 67 € per loan (principal only);
- The average repayment rate was around 95% by the end of the 12 month cycle, and before

the end of the first cycle, 90% of delayed repayment had been repaid by the women;

- 590 women were assisted by the "red iron box" in order to alleviate the cost of illnesses or other personal events;
- 14 groups started a second cycle in Paoua. If we can consider the capacity to organize a second cycle as a measure of "sustainability" of the saving group, we can consider that the successful rate was 87.5%.
- As of May 2012, DRC promoted 71 innovated saving groups in Ouham Pendé Region that are at their 3rd, 2nd or 1st cycle. Initial outcomes include:
 - The total saving mobilized was around 39,790 € with an average saving per group of 560 € (including groups that are at their 1st, 2nd or 3rd cycle);
 - The total loan portfolio was around 49,410 € for a total number of 618 distributed loans with an average value of 79€ per loan.

In case of default by the borrower, the credit would be 100% secured: 50% by the saving of other borrowers in the group and the other 50% by the savings of the 2 guarantors.

Establish a Linkage to External Finance

In 2010, a small Credit Union (with a status of Cooperative) was created in Bozoum (120 Km from Paoua). DRC with EC funding supported this credit Union in order to open new branches in three other localities: Ngaoundaye, Kouï and Ndim. These new branches were finalized in May 2012. In the same period, UNDP supported an MFI called SOFIA CREDIT (with the status of private bank) in opening a new branch in Paoua. Through this process, currently in all of the most relevant localities where DRC promotes 100 saving groups, we can find a Microfinance Institution. In addition, DRC observed two main trends among the most dynamic saving groups:

- The savings accumulated were not totally borrowed (a possible interpretation was that the needs to create saving for these vulnerable women was higher than their loan needs);
- At the end of the first annual cycle of saving groups, many members decided not to re-distribute their accumulated saving but keep it "in the saving box" in order to start a second cycle with an higher initial amount of capital to be borrowed. In this sense, the most dynamic groups showed a preference for a continuously accumulating ASCA rather than for a partial ASCA limited to 12 months accumulation of savings.

Following these two trends, many saving groups asked DRC how they could better manage the savings accumulating in their savings boxes. In response to these requests, beginning in April, 2012, DRC started to promote pilot linkages between the newly created MFIs and Innovated Saving Groups. The model for the pilot linkages worked as follows:

- The Innovated Saving Group, after the first cycle of meetings but before starting a second cycle, could decide to open a "long term deposit" (LTD) savings account in the MFI by putting an amount of saving (eg: 1.000 €) for 1 year.
- A "long term deposit" usually generates a positive interest rate for the saver (eg: 5-6% per year) but no withdrawal is allowed during the year. At the same time, the innovated saving group with an LTD could ask the MFI for a loan equal to double their savings placed in LTD.

Therefore, if the ISG placed 1000 € in the time deposit, the MFI could provide to the ISG a fund of 2.000 € 1 year, which the group could use to on-loan to members. The MFI applied an interest rate from 19% to 24% per year depending upon the size of the initial savings deposit. The saving

amount in the LTD is used by the MFI as security in case of non-repayment.

It is relevant to note that usually the MFI, in addition to the group long-term deposit, requires an amount of saving in an individual account equal to 30% of the loan requested by the borrower before giving the same loan, and this amount is also committed as security. In this way, the MFIs could increase their security considerably and provide the "Revolving Fund" for an ISG which has developed a strong culture of saving and a discipline of repayment could be a very attractive opportunity for the MFI to increase its portfolio.

This revolving fund, when managed by the ISG according to its rules and its interest rate (normally 5% per month) allows the ISG to have a consistent fund in the beginning of new cycle and disburse larger loans (from 80 to 150/200 €) with longer repayment periods (from two to four or six months) compared to the ISG model alone.

At the end of the year, the innovated Saving Group would reimburse the 2.000 € + interest to the MFI and share the extra interest from its higher internal rate accumulated during the cycle among its members. Also, at the end of the year, the ISG could decide what to do with the savings + smaller interest within it had placed within the long term deposit for the bank to use.

Within this pilot linkage model, DRC has contributed to create a Global Credit Facility. The Global Credit Facility is a fund initially established by DRC in order to create financial partnerships with MFIs in the areas where DRC works. These financial partnerships make it more possible for MFIs to provide microfinance services to the beneficiaries of DRC, particularly women's groups, farmers' groups, innovated savings groups, and youth groups, who usually are not bankable.

In the case of CAR through the GCF, the DRC provides:

- A Line of Credit to the Credit Union in Bozoum and in the new 3 branches, in order to reinforce the " capacity" of this new MFI;
- A guarantee Fund for the new agency of SOFIA CREDIT in Paoua, in order to share the risk with this MFI that had enough liquidity but was reluctant to loan to poorer segments unless it could share the risk with another provider/promoter.

By providing these forms of capital and security, DRC made it possible for the two MFIs to provide Revolving Funds for ISGs. Within the arrangement, DRC would also provide training and follow-up to groups in the field oriented to these MFIs. After a period of time during which DRC provides these services, the relationship between MFI and ISG can growth independently.

The role of DRC in the linkage model is, therefore, double. In a direct sense, DRC provides financial support to MFIs to increase their loan capacity to guarantee loans. In a mediating or capacity building sense, DRC also orients more sustainable and dynamic ISGs toward MFIs and supports ISG in the procedures needed to obtain the revolving fund from the MFI.

These linkages aim to valorize the reciprocal comparative advantages of these 2 kind of financial intermediaries: good information and strong discipline in regular saving and repayment on the Innovated Saving Groups side, and larger funding and more security for larger saving from the Credit Union and MFI on the banking side.

The basis for beginning to loan, DRC will analyze the progress of these linkage arrangements and, in the future, may promote conditions in order to promote some form of "federation" or umbrella association to connect the "Innovated Saving Groups" by town or village groupings. Finally DRC will increase training and key messages in order to strengthen the skills and knowledge of women regarding financial literacy, health, education, hygiene, nutrition, etc.

GUIDELINES FOR PRACTITIONERS

Each of these cases raises important issues about the possibilities and challenges involved in linking savings and loan associations to external financing. On the bases of identifying more general agreements as well as constructive differences from the above case studies, and then considering some additional international practices and statements on linkages, guidelines for practitioners are provided below. As the development of linkages is still a very dynamic sector of the broader microfinance industry, much innovation is needed. Therefore, these guidelines are meant to suggest pathways and to open possibilities for practitioners, not to limit innovation by being overly prescriptive.

General Agreement Across Cases

1. Strengthen savings habits.

The cases within this guide suggest it is wise for SLAs to establish a strong savings culture prior to offering loans or designing linkage arrangements. The habit of saving regularly is the cornerstone of generating larger, more useful sums of money and for developing financial literacy and good governance. Developing a culture of savings provides a basis for groups to meet regularly in ways that build social and educational capital and provide experiential ways for understanding issues related to saving and borrowing. Though many SLAs cannot save large enough funds to start and grow viable microenterprises or to invest in assets, the practice of managing even small amounts of money prepares SLAs and their members to engage with external financing if they wish. Once a strong savings culture exists, the success of a linkage can, in part, be measured by its impact on savings. Successful linkages should strengthen rather than weaken SLA savings habits.

2. Understand the context within which your organization works.

Each of the cases in this guide shows different linkage designs are needed in different contexts. No single approach works across all contexts. Linkages are strongly affected by differences in regulatory environments, customary and promoted savings practices, levels of institutional corruption, gender relations, proximity to formal institutions, infrastructure, access to mobile money, regional conflict, levels of dependency, literacy, managerial expertise, etc.

In terms of financial literacy, it is often assumed that those from developed economies are financially literate, and those from less developed economies are financially illiterate. Experience and common sense suggest, however, that those who live in developed economies are quite knowledgeable about formal financial practices while those who live in less developed economies are very knowledgeable about informal financial practices. Development agencies need to design clear reciprocal learning strategies in order to understand the contexts within which they work. Those intending to work with SLAs operating within informal economies need to learn from the knowledge members have about how informal financial transactions work within the community. One can fairly assume that those who begin to join formal economies through linkages will also continue to participate in the informal options available to them as their needs are great and their options few. It is therefore strongly recommended that organizations conduct thorough contextual assessments along with more traditional needs assessments to gauge the extent to which an array of contextual factors may strengthen or undermine project intentions. As Bouman (1995) states: “I do not suggest that international communities abstain from any financial-organizational support, provided it is fully attuned to the context in which it is provided, and to the nature and extent of existing self-regulation.”

3. Choose the right linkage partners, and design linkages to deliver mutual benefit.

Practitioners have already moved beyond theoretical debates about whether linkages are good or bad in any general way. Questions, today, focus more on when, how, with whom, and for what ends to design linkages to meet the legitimate demands expressed by members of SLAs themselves. The first step in designing a successful linkage—beyond strengthening the savings culture and understanding the contexts one enters—is to choose the right linkage partners. Each of the cases in this guide demonstrates that complex, multi-stakeholder partnerships are necessary to build sustainable linkages. All partners must derive some benefit from the linkage if they are to sustain it. It is best for SLAs to avoid linking to poorly governed and potentially predatory financial institutions if good linkage partners do not exist.

If a good linkage partner does exist, formal financial institutions stand to gain several benefits from working with SLAs. SLAs reduce risks related to adverse selection and moral hazard. SLAs provide social collateral through guarantor relations. They reduce informational costs by providing sites for education and training. They develop informal credit histories and assist with collections. They reduce the cost for deposit taking institutions to manage multiple, small savings accounts while increasing the liquidity available to formal institutions. They serve as an inexpensive way to outsource savings for MFIs not permitted to take savings deposits. MFIs and banks need to reciprocate by designing products and services that meet the needs of SLAs, by contributing resources to sustain linkages, and by developing strong consumer protection policies.

4. Map the contributions and benefits of partners as part of the linkage design.

SLAs, facilitating partners, and MFIs need to participate actively in stakeholder dialogues pre

and post linkage. Measures of commitment can be as simple as assessing, “Who pays?” “Who provides technical and financial resources to support the linkage?” “Who devotes time to resolve issues that arise in inclusive ways?” “Who listens to whom?” Partners who provide no contribution either do not benefit enough from the linkage or hope to gain benefit without contribution. The best institutional partners probably take a longer view of financial sustainability, are not interested in pushing credit on customers for quick profits, incorporate more flexible policies to meet customer needs, and share some degree of social commitment to developing pro-poor, rural, and agricultural markets. When designing linkages, it is important for all partners involved to map and measure the contributions and benefits they envision ensuring a sustainable match. Without such a process, partnerships may fail from lack of commitment, communication, and integration.

5. Keep SLAs small, yet increase benefits by combining in federations and associations.

In the cases above, the most effective SLAs remain relatively small—from 12-40 members. When problems arise, group members can actively participate in solutions. Through this process, persons and groups gain confidence and build social capital. At the same time, it is difficult for relatively small groups of persons to save a lot, to earn a lot, or to build the assets often necessary to start microenterprises, invest in assets, or attract investors. In most of the cases above, SLAs combine in federations or associations which, if governed through transparent representation, can increase the confidence that institutional distance does not necessarily translate into disconnection, distrust, or corruption. One of the first forms of external financing can come from federations of SLAs themselves. Sometimes, these organizations may be able to grow into formally registered, member-owned institutions (MOIs) or partner with more local credit unions. Through strategies of combination, community-managed SLAs can

also benefit from purchasing in bulk, participating in wider value chains/supply chains, reaching new markets, and increasing their bargaining power with formal institutions.

6. Combine microfinance services with education and mentoring.

Those without much money need financial services that exceed instruction on policies, processes, and filling out forms properly. Particular areas of education and capacity building within this guide include (but are not limited to) education in general literacy, financial literacy and accounting, governance, business and market development, empowerment of women, health, consumer protection, technical skill building related to income generating activities, food security, life skill development for youth, and ways to access much needed technologies such as solar lighting, water purifiers, or irrigation pumps. The best programs make it easy for SLAs to gain education at meetings, to develop managerial capacities and TOT programs, and gradually to assume or share managerial responsibilities.

When moving from single SLAs to larger federations or associations, the above cases suggest that development of managerial capacity represents a primary key to success. Federations should not grow too quickly. Member SLAs must be adequately represented in decision-making processes, and a separate level of by-laws and governance procedures, understood and agreed to be all, needs to be ratified. As federations grow, they may need to hire financial managers and auditors, either as permanent employees or as consultants, and share these costs with linkage partners.

7. Include SLAs when setting goals, objectives, outcome measures, and operational procedures.

It is crucial that goals, processes, and measures are fully understood and endorsed by SLA members, or projects will fail from lack of engagement by the very persons the projects aim to serve. Too often outcome measures focus on

numbers of groups and persons served and purely financial measures of poverty alleviation. Policy makers are more comfortable making decisions using such measures. Yet, these measures may not represent what people value most in terms of development or financial access. As David Roodman states and thoroughly investigates in *Due Diligence: An impertinent inquiry into microfinance* (2012):

It is in the nature of modern society that talented people specialize. As a result, the global microfinance conversation is carried on by a wealth of experts, each approaching the subject from a narrow angle. But if you want to understand something as variegated as microfinance, you can't just think about it one way. You can't only listen to the economists running randomized trials, the anthropologists living in the villages, or the Wall Street financiers syndicating loans—though all have insight to share. You must be open-minded and patient enough to break down the walls between world views.

We need to break down the walls between world views not only across specialized disciplines, but also across North/South divides. David Alexander Clark, a philosopher and specialist in the ethics of development, takes an important methodological step in his book, *Visions of Development: A Study of Human Values*, (2002). Based upon the assumption that economies do not exist for their own purpose but to support other human values, he first reviews the aims of development as defined by international experts. Then he proceeds to ask people served by development programs how they view their own priorities in life. What constitutes a good life, from their perspectives? Clark's work emphasizes the importance of understanding that development for the benefit of others cannot be reduced to definitions provided solely by specialists from developed countries. His work also helps practitioners understand the importance of fitting project goals to actual community values rather

than simply imposing values and definitions of development on others.

Practitioners have the ability to cut across specialties within very practical contexts and to break down the walls between worldviews held by experts and community members. Much has been written to demonstrate that microfinance is no panacea for eradicating poverty, measured in income and assets. Yet, many SLA members may believe increases in well-being, education, social empowerment, confidence, access to more reliable financial services, and the enjoyment of more options in life, particularly for children, may be just as important as escaping what others define as poverty or lack of development. Microfinance practitioners need to help policy makers and funding agencies understand what values motivate SLA members who desire greater access to external financing.

8. Focus on reducing risk, both for SLAs and for external financiers.

Any linkage must include strong procedures for reducing risk and harm to already vulnerable populations. Each of the cases above shows numerous ways that SLAs reduce risks for financial institutions ranging from selecting responsible members, to providing guarantees, to assisting with monitoring and collections, to reducing informational costs. Risks must also be reduced for SLAs in relation to linkages. To accomplish this, strong consumer protection policies, mentoring programs, and financial advising are necessary—so SLAs can make good use of savings and credit and avoid over-indebtedness. The institutional willingness to be flexible in order not to harm customers is based upon the assumption that people, especially those who have little money and who feel strong obligations to other SLA members, do actually want to save regularly and repay their loans if products and services are designed to meet their needs and values.



Areas of Constructive and Innovative Difference across Cases

Within each of the above areas of general agreement arising from the cases in this guide, constructive differences and innovations also deserve attention. Most of these arise from differences in program goals, populations served, and contextual factors.

1. How best to strengthen savings habits?

Different guidelines arise depending on how strong of a savings culture exists in the region prior to an intervention. In cases where the savings culture is weak due to a humanitarian crisis or lack of incentives to save within a prior economic system, the shift from viewing money as free within a dependency framework towards managing one's own money is difficult to make. This shift cannot be made too quickly or dramatically. The above cases suggest it is possible to combine services for free or to provide in kind materials or equipment for humanitarian purposes while also developing a savings culture. Yet, the cases also suggest that assistance should not be given in the form of money as this will confuse people trying to move from a concept of humanitarian aid to more sustainable financial practices. Commitment savings programs can also help persons who voluntarily participate in them to realize gains from postponing access to savings for a period of time while the savings accumulate. The opposite problem may arise in areas of low security. Once people have learned to save, they may never want to use the money because the savings represent a new form of security to them. Hoarding as opposed to hyper-circulation can result. A balance is needed between saving and spending, and linkages can be designed to reinforce this balance while increasing the security and autonomy of SLA members.

2. When to link?

Good practice on the question of when to link also depends upon the situation. In some cases within this guide (MYC4, Caritas, BØRNEfonden-Mali)

strong SLA structures and habits pre-existed in the region, which enabled linkages to be part of the original intervention. In other cases (Danish Mongolian Society, MOMM Project Uganda, Supoth-Bangladesh, CtS-Senegal & the Gambia, DRC-CAR) linkages came later. Either the savings culture did not exist, the dependency syndrome was too heavy, extensive capacity building was necessary to help people stand on their own feet, first, or no formal institutions existed in the region to support a linkage. Rather than set a prescriptive amount of time needed to establish a successful linkage, it is best to identify and measure a set of "readiness criteria" that fit the particular contexts, capacities, and needs of people prior to linking external financing to SLAs.

3. Why to link?

All cases in this guide agree that at some point in time SLA funds become insufficient to meet the reasonable demands of members. Beyond this broad agreement, though, cases differ in their goals and reasons for establishing a linkage. For the Danish Mongolian Society, a direct linkage could help people survive the harsh winters and develop the confidence and social capital necessary to influence local public policies. In MYC4's case, an auction could reduce interest rates using market-based strategies. The MOMM project in Uganda and Supoth in Bangladesh established linkages ultimately to increase financial independence based on strengthening self-help principles. Caritas aims to include disenfranchised persons from NE India in the SHG linkage program. Cykler til Senegal focuses on empowering women through linking "women working together" SLAs to external financing, and BØRNEfonden-Mali also focuses on empowering women, children, and youth through linkages. DRC is beginning to use linkages to help women from post-conflict areas of the Central African Republic establish more secure, stable livelihoods.

Acknowledging the legitimacy of multiple reasons for designing linkages further suggests that no one size fits all and that different aims lead to different designs. These differences also point to an

imperative for the microfinance industry to support diversity within attempts to develop more standardized rating systems for the industry. Within a dynamic industry far from consolidation, settling on a single set of codified standards and ratings will decrease innovation and favour larger institutions over smaller, more flexible organizations working closely with communities.

4. How to innovate?

The cases in this guide demonstrate that Danish organizations and practitioners are engaged in quite innovative linkages, which contribute to the evolution of best practices. Of course, the Indian SHG program exists as the most well-known linkage. This program, however, is so unique to the Indian banking system and to its highly subsidized and regulated industry environment that it cannot be considered a model for export into contexts without similar traditions. There is no doubt this system has had many successes and some failures, yet the failures have often resulted from a too heavy influx of external venture capital money into the system causing over-borrowing. The Indian government is addressing these problems. The important innovation Caritas Denmark is introducing into the model, within a mediating role, involves its focus on working with local partners to integrate regional banks more proactively in client relations. Within any highly subsidized industry with capped interest rates, banks may simply not earn enough to increase their participation in the linkage. By identifying the reluctance of financial institutions to fully engage with the SHG effort in NE India, Caritas raises a very important question for the Indian SHG model. How do mediating organizations in the Indian SHG program build the capacities and confidence of the SHGs while also incentivizing banks to proactively engage in more fully integrated linkages?

MYC4 is on the cutting edge in terms of technology—particularly seen in the way the company and its partner, KEEF Kenya, have incorporated the use of M-PESA mobile money transactions into the linkage. KEEF has taken a

step further by also integrating data from the M-PESA application into its management information system. The Kenyan MFI also takes its services to SLA group meetings rather than requiring SLA members to travel to the head office. This innovation shows that some financial institutions have begun to treat SLAs as valued customers in order to compete with other MFIs on service.

The Danish Mongolian Society is setting a new standard for ways a diaspora of people can support communities within their home countries beyond the use of individualized remittances. There is incredible promise, particularly in an age of increasing transnational mobility, for building effective international linkages in this manner. DMS and its partner organization also put much effort into building the social and political capacity of persons to voice their needs in more effective ways with policymakers, and in this sense help to redefine what SLAs find valuable in terms of development. DMS has also patiently kept alive the dialogue with more formal financial institutions, even though these institutions in the region have yet to show much interest in linkages. At the same time, DMS is also working with its much larger partner organization to develop capacities necessary to establish a credit union linked to SLAs.

Supoth is establishing best practices regarding ways to build the managerial expertise needed for federations of SLAs to become financially self-governing. In Bangladesh, arguably the most crowded market for microcredit in the world, Supoth began by encouraging women's groups not to take loans but, first, to develop confidence to manage their own finances. Then, through its business development unit, Supoth personnel work closely with SLA federations to manage more complex financial organizations. In this sense, Supoth serves both as a consultant and as a mentor to maintain the autonomy of SLAs as they link to external financial markets.

CtS has become a leader in decentralized approaches to linkages. Partly, this strategy arises from the fact that CtS works across borders and regulatory environments. Decentralization not only increases participation of SLAs in civil society, but also enables SLAs to maximize benefit by taking advantage of the differences in regulatory provisions. CtS also takes a long-term view on the question of linkages. The organization has developed a 3-year cycle of education and financial management training to prepare SLAs to negotiate their own linkages or, as an alternative, to develop member-owned credit unions following the three-year period.

Oikos Trust, Momentum Trust, and MAPLE Microdevelopment Uganda are implementing a member-based linkage to help overcome the distrust of Ugandan SLAs toward financial institutions. By joining SLAs as members, all partners share risks, benefits, and obligations. The project also began as a collaboration with faculty and students associated with the Centre for Microfinance at Makerere University Business School (MUBS) in Kampala. This collaboration enables all partners to include perspectives from Ugandan experts, interns, and SLA members who speak the same local languages. This member-based linkage sets new standards for transparency and trust and helps break down divisions between internal and external perspectives as well as between expert and community perspectives on development. Several other cases in this guide also show the advantages of using local consultants rather than relying on international experts to move beyond persistent colonial attitudes in a post-colonial era.

BØRNEfonden–Mali works with women’s SLAs that pre-existed within the culture and with federations called ‘Associations mères’ or “mother associations.” The approach relies heavily on building the leadership capacities of women who also serve in most of the managerial positions within the federations following by-laws. In terms of best practices, BØRNEfonden–Mali has instituted a well-designed Community

Development Cycle (CDC) and works with a federation of in-country credit unions committed to serving rural areas. The organization also negotiates clear partnership agreements that stipulate the benefits, obligations, and resource commitments each partner needs to contribute to the arrangement. For example, as part of the agreement, “the MFI-credit union commits to provide certain rates on savings, to serve individual women as well as the women’s associations, and to a certain extent to take over technical follow-up in relation to the women’s income generating activities.” This approach increases the likelihood that partners will sustain the linkage over time.

Finally, DRC in the Central African Republic is on the cutting edge of finding ways to assist women in conflict areas to regain control over their lives through self-help methods. The organization has successfully found ways to combine in-kind humanitarian support while developing a savings culture through the use of a 2-month, iterative commitment savings program. Recognizing the importance of insurance for persons living in insecure environments, DRC is also helping women’s groups develop their own micro-insurance programs. In a highly integrated move, DRC has also participated in a Global Credit Facility to assist with the development of linkages between SLA groups and new MFIs recently entering the Central African Republic.

In general, the primary lesson for practitioners from these cases is that best practices are still in the process of being formed. Linking SLAs to external finance remains a highly dynamic and emergent sector of the microfinance industry, and innovations continue—tailored to the needs of SLAs within particular contexts.

5. Proceed with caution.

All cases in this guide also show the need for caution when working with SLAs and linkages, yet take different cautionary approaches. The use of revolving funds, for example, requires a high level of financial management. As funds revolve, they

can lose value for several legitimate and less legitimate reasons including inflation, default, skimming, favouritism, currency risk, and the complexities of tracking multiple transactions simultaneously in order to keep the fund stable. Effective management policies and auditing procedures must be in place. A fund used to seed SLAs which the receiving SLA must first repay before the fund can be used to seed another SLA, may work better than revolving funds managed with several layers of local administration. If the seed funds are not repaid, the project simply does not grow. This constitutes a self-regulating measure and a test of the viability of the model.

Also, many intermediaries establish guarantor funds to secure MFI and bank loans to vulnerable populations. Establishing a guarantor fund shifts risks from financial institutions to intermediaries. This may be necessary within the early phases of market development to attract financing through a “proof of concept” of the business model. Yet, the existence of a guarantor fund to cover all losses can also cause moral hazard on behalf of financial institutions as institutions experience no harm from making bad loans or from pushing too much money onto SLAs in order to claim the guarantor fund at no cost.

More needs to be known about the degree to which guarantor funds are tapped to cover defaults, how they are topped up again if tapped, and how they maintain their value over time given inflation. Intermediaries providing guarantor funds also need expertise and involvement in loan evaluation processes—as direct financiers have less incentive to complete due diligence processes.

Also, more work needs to be done to study how SLAs and financial institutions engaged in a linkage can develop their own guarantor or security funds. If stable funds are established, social investors might be willing to strengthen the fund—particularly if part of the fund is invested in low risk financial instruments while the remainder of the fund is used to cover costs of actual default or loan restructuring.

This issue reiterates a challenge previously addressed. If demand and capacity for using external financing productively exists within an SLA, how does one attract financial institutions to broaden and deepen their services to populations without asset collateral, particularly in rural areas? Many of the cases in this guide suggest that federations of SLAs must create their own member owned institutions (MOIs) or partner with existing credit unions serving local markets in flexible ways in order to gain the attention of the broader industry. MFIs and banks may not develop products and services for more vulnerable populations unless they see a competitive reason to do so. Developing member-owned financial institutions managed by financial experts may be the best means of driving innovation within more traditional financial institutions to serve this market segment.

6. Microfinance is not for everyone; neither are SLAs.

The above cases also clarify that microfinance is not for everyone. The active poor and those with long traditions of striving with others to maintain a community, even in conflict regions, are most likely to contribute to SLA processes. SLAs must distinguish between potential members who will be active and those who will draw energy away from the efforts. Setting benchmarks for establishing a large, arbitrary number of SLAs to satisfy funding agencies increases the probability of attracting members without any real commitment. It is much better for entrepreneurial SLAs to limit their membership to active members and to establish microenterprises large enough to provide jobs rather than to include non-active members in SLAs and linkage programs.

Though it is beyond the scope of this guide, innovations are also needed for providing financial access to individuals who choose not to join SLAs. Some individuals, for privacy or other quite understandable reasons, prefer not to have their own financial decisions depend upon others or to engage in social collateral guarantees. If

microfinance is not for everyone, SLAs are not for everyone either. Stuart Rutherford's work to develop new products through SafeSave, such as P9, provides much insight on ways to improve individual access to financial services (P9 Webpage).

7. Consider gender.

Issues related to gender also circulate throughout the cases included in this guide. Much evidence in the field verifies that loans to women tend to be more productively used to strengthen an entire family compared to loans to men (Armendariz and Morduch, 2007). Women also tend to be more reliable in terms of repayment (Mersland, 2010). At the same time, significant critiques suggest that adding the burden for economic development onto women who already shoulder the burden of almost every form of familial and household maintenance constitutes a recipe for harm in the name of women's empowerment—particularly if women become over-indebted and default on their loans within shame-based cultures (Karim, 2011). Some cases in this guide suggest that men need to be included in SLAs in order to increase familial understanding and support. Other cases suggest that working with men's SLAs and women's SLAs, separately, works best within particular contexts. Following recommendations presented earlier, a thorough analysis of gender relations needs to be conducted as part of the broader contextual assessment prior to designing any linkage.

8. Influence regulatory policy.

Several of the cases in this guide also show the need for civil society organizations and community members to advocate for policy and regulatory changes. In some instances, more regulation is necessary to protect those who have little money from predatory financial practices. In other cases, less regulation is needed if regulatory regimes are being enacted to favour monopolistic practices within the private or governmental banking sectors over SLAs operating in civil society. Once again, there is no general answer to how much regulation is needed. Much depends

upon the environment, the purpose for regulation, and the level of good governance or corruption that exists among regulatory bodies themselves. In some cases, linkages may constitute an important alternative to failed public and private sector financial policies. At the same time, in cases where community-management processes themselves evidence high levels of corruption or when NGOs attempting to help actually do more harm than good, more regulation may be needed to protect consumers and financial institutions.

Beyond influencing public policy, best practices on this issue also include determining the extent to which more centralized or decentralized linkage designs may produce the best outcomes. In highly corrupt environments, in regions characterized by regulatory instability, and in cases where civil society development depends upon small group governance, decentralized approaches to linkages are recommended as they increase transparency and civil engagement in ways that may improve governance systems more widely, over time.

9. Reframe the dichotomy between subsidization and sustainability.

As in the Indian SHG linkage program, regulation and subsidization sometimes go together. The question of subsidization and its effects on the financial and operational sustainability of MFIs is hotly debated and carefully studied (Armendariz, 2007; Cull, 2009; Hudon, 2011; Roodman, 2012). In the Indian SHG linkage system, central government banks heavily subsidize rural development through SHGs while also heavily regulating the market by mandating hard caps on interest rates for government sponsored loans. This system works as long as the supply of money for SHGs through the government banking systems is sufficient to meet demand in rural areas. If the supply of money is insufficient to meet demand, the capped interest rates will not replace moneylenders or private MFIs charging high rates of interest following simple laws of supply and demand. Capped interest rates work either when the internal money supply is sufficient to meet demand or within closed

economies that do not allow any external investment coupled with highly punitive laws to eliminate undocumented moneylending. Effective enforcement of such regulations is extremely costly, however. Legitimate questions exist about who absorbs the costs of regulation and enforcement within closed, managed economies combining heavy subsidization with strict caps on interest rates.

Each of the cases above employs some kind of subsidy, at least initially, and less research has focused on the effects of subsidies within linkages between SLAs and formal financial institutions. It may be time to reinterpret what is meant by a subsidy. The current debate frames subsidization and financial sustainability as oppositional. Yet, banks and businesses operating in developed economies routinely use public goods—roads, public education, communication systems, medical systems, retirement programs, social security, court systems, military defence, public utilities, etc., funded by tax money, which support business activities. These are not counted as subsidies. Yet, few of these public goods exist in any dependable way within developing countries, particularly in rural areas.

Viewing subsidization through the lens of access to public goods should allow a bit more room for financial analysts and MFI rating systems to avoid pre-judging the use of subsidies to support linkages between financial institutions and rural SLAs within less developed countries. Without subsidies of some sort, at least initially, it will be difficult to extend financial services into rural areas. This is not to say that subsidization should not be reduced over time. Yet, to frame the conversation as a dichotomy between subsidization and financial sustainability misrepresents the reality of doing business even in our own economies.

The cases provided in this guide suggest that the use of intermediaries to support the development of linkages provides an initial subsidy, which deserves support from funding agencies and

policy makers. As the rural segment of the financial services industry becomes stronger, though, these services should increasingly be funded by MFIs and commercial banks themselves. International intermediaries providing capacity-building and other services not funded by revenues need to have a plan to move on to serve other SLAs—once institutional mechanisms are in place and capacities are sufficiently developed to ensure the autonomous functioning of SLAs in relation to linkages. Some of the cases in this guide demonstrate that process. At the same time, provisions need to be made by organizations acting as intermediaries to check back, over time, in order to measure longitudinal changes and outcomes of the programs they implement.

10. Develop negotiation expertise and appropriate dispute resolution systems.

No financial system exists without disagreements and conflicts. Internal SLA relations and linkage arrangements require high levels of shared understanding and agreement. A few of the cases above show constructive ways that intermediary organizations have served as negotiators and mediators for SLAs in relation to financial institutions. Some have worked to develop the capacity of SLAs to advocate effectively for their own needs in relation to external financial institutions and have created culturally appropriate systems for conflict resolution as part of good governance.

The importance of developing effective approaches to negotiation, self-advocacy, and conflict resolution cannot be underestimated as a key to success. Within regions characterized by high levels of ethnic diversity, conflict, institutional distrust, legal corruption, and low levels of self-esteem sometimes resulting from structural discrimination and even genocide—the development of reliable and effective conflict resolution systems may be the most important factor for forming and sustaining linkages.

Additional Guidelines Arising from International Practices

1. Avoid pushing the money supply onto SLAs for maximization of profit.

The focus on linking SLAs operating in the informal economy to formal financial institutions is relatively new. At the same time, as stated in the introduction, these kinds of linkages may very well represent the future of banking in less developed economies. Just as innovations within informal building, thrift, and friendly societies were used as models for developing more formal, cooperative banks in the past, linking to SLAs may also produce much needed changes within the formal microfinance industry, today.

In terms of well-documented and researched linkage systems, the Indian SHG program remains the prototype, yet a type that cannot easily be exported beyond India due to contextual factors. This particular program has also become a lightning rod for support and criticisms of linkages in general. Much attention has focused on the suicides that occurred among over-extended borrowers in the Andhra Pradesh region of India. These borrowers had taken loans from the private sector beyond the NABARD supported SHG linkage. The private loans were offered at high interest rates, indicating an undersupply of government money available to SHGs at capped interest rates. The chairperson of NABARD Financial Services, Aloysius Fernandez (2012) recently suggested that the crisis in Andhra Pradesh was created by the dependence of MFIs operating in the region on external venture capital investors using profit maximizing strategies:

Anyone knows that when venture capital comes into the picture, this means that you must grow fast, you must maximize profit and exit as fast as possible....To me, I am happy with profit making. But profit maximization with the objectives of eradicating poverty and improving the livelihoods of people does not work.

The NABARD-SHG linkage model, while unique to India, suggests more broadly that maximizing profit by linking international venture capital markets—through MFIs and commercial banks—to community-managed savings and loan associations in less developed countries may not serve the longer-term interest of any organization. This represents a problem, however, as most international investment from the private sector continues to be governed by short-term profit maximization motives. If linkages are to succeed, patient capital investors, social investors, and public agencies using bonds and other low risk investment tools will need to support linkage arrangements.

2. Pay attention to the increasing importance of non-banking financial institutions in linkages.

Non-banking finance companies (NBFCs) are gaining increasing importance within the Indian economy and elsewhere. A broad range of NBFCs including leasing, mortgage, and insurance agencies, trade associations, farmer's cooperatives, credit bureaus, and currency exchange companies provide banking services. The NABARD financial director currently recommends separating MFIs and NBFCs in terms of regulation (Fernandez). MFIs would remain unregulated but NBFCs would submit to consumer protection regulations in exchange for more favorable equity investments enabling them to link financing at lower interest rates to SHGs.

In East Africa, mobile phone companies are emerging as another kind of NBFC actively linking external financial services to SLAs. Even in many rural areas, SLAs can make deposits at a local mobile money kiosk and load the money electronically onto their phone as savings available for further transactions. They can then wire the money to an SLA federation or to a retailer to pay for inputs to income generating activities. Some mobile money offices also provide credit in this way. No recommendation is made in this guide about linking external finance

through NBFCs to SLAs. More study is needed. However, operating in an intermediary role, mobile technology companies may reduce the costs for MFIs and banks to link to SLAs while simplifying transactions over distances, reducing information asymmetries, and providing better access for SLAs to supply chains and markets.

3. Know the history, yet avoid reductionism.

Beyond the Indian SHG context, Hans Dieter Seibel, a historian of microfinance, has done the most consistent work on linkages since the 1970s to the present. According to Seibel (2006) the decision to pursue linkages as a strategy for increasing financial inclusion was first adopted at the Asia-Pacific Rural and Agricultural Credit Association (APRACA) Sixth General Assembly held in Kathmandu in 1986. The idea was first implemented on a larger scale through GTZ (now GIZ) in Indonesia in partnership with the central bank, Bank Rakyat, serving a direct financing role and a NGO, Bina Swadaya, serving an intermediate role. By 1998, "some 800 rural banks and 16,000 SHGs were involved" (Seibel). The example of using linkages to preserve cultural traditions of local groups in Bali, mentioned in the introduction of this guide, was part of this initial, large scale linkage project (Seibel, in Wilson, 2010).

Seibel also recommends two different approaches to linkages based on the level of social hierarchy that permeates a culture. Hierarchical or "closed" societies may respond better to "development from above," while more segmented or "open" and "competitive" societies may respond better to "development from below." This guide, based on the experience of Danish practitioners supports designing more contextually appropriate linkages, as does Seibel, yet does not use any single criterion such as levels of social hierarchy as the basis for designing linkage approaches. Cultural analysis is too complex to be reduced to a single, social criterion.

The cases in this guide also differ in a couple of ways from Seibel's work. First, the motivations for linkages are not necessarily derived from macro-economic goals. Development measured purely in economic terms may not mean as much to SLA members as other priorities and values. As previously stated, external agencies engaged in linkages need to learn more about what SLAs and their members count as valuable. Secondly, the cases in this guide suggest that any successful linkage must be designed using both bottom-up and top down strategies, simultaneously, to build bridges among linkage partners. Development from below and development from above are not mutually exclusive strategies from the perspective of practitioners.

4. Help funding agencies understand the potential trade-off between scalability and sustainability.

Seibel (2006) identifies a problem, from his point of view, within the funding world related to the development from above approach that is important to consider in relation to this guide.

Donors prefer development approaches and best practices replicable throughout and tend to ignore differences in terms of social systems. Based on my comparative studies, I have argued in favour of good practices, which are adjusted to given social and economic systems and may not be replicable.

This perspective suggests that a significant tradeoff may exist between linkages designed for universal scalability and linkages designed to fit particular contexts, cultures, and communities. The cases in this guide and the principles arising from them suggest it may be better to fund linkages built on dialogue and agreements rather than linkages designed for scalability across all contexts using a "development from above" approach.

5. Strengthen SLAs as civil society agencies prior to engaging in linkages.

Maria Pagura and Marie Kirsten, in “Formal-informal financial linkages: Lessons from developing countries” (2006), have also reviewed several cases where linkages have been established and conclude that, “The cases investigated, in Africa, Asia and Latin America show a rich variety of such financial linkages.” Pagura and Kirsten use the same distinction between “direct” and intermediate or “facilitated” roles in linkages adopted by this guide and focus on some of the same keys to success, including understanding the linkage motivation, having measurable objectives for all partners engaged in the linkage, articulating clear contracts with well-developed risk mitigation mechanisms, and building capacities of SLAs to participate in linkages. Pagura and Kirsten view linkages between more formal and less formal economic sectors as a way “to reduce the high information and enforcement problems that increase transaction costs in rural credit markets.”

Two important differences exist between Pagura and Kirsten’s recommendations and the guidelines for practitioners offered in this guide for practitioners. First, capacity building needs to be reciprocal, not only focused on developing the capacities of SLAs. Formal institutions in many cases need to develop the capacities necessary to understand informal markets and to serve rural SLAs as customers within a large emerging market segment. Second, Pagura and Kirsten argue that linkages are more likely to succeed where the formal economy is strong and the informal economy is weak.

For example, in Rwanda, where both the formal and informal financial sectors are relatively weak the potential for linkages is extremely low. A case in which the potential for linkages is higher is in India which has a strong formal financial sector, but a relatively weak informal sector.

This guide for practitioners suggests the opposite. Since all linkages are based upon negotiated arrangements, increasing the strength of SLAs as well as federations and associations of SLAs as civil society agencies, prior to entering into linkage arrangements, will result in more equal and sustainable partnerships while also reducing transaction costs. Developing linkages within weak informal economies may result in abuses of credit arrangements based upon informational and power asymmetries.

CARE International provides a good example of an organization working to strengthen the informal sector through its promotion of Village Savings and Loan Associations (VSLAs). CARE is also engaged in the largest institutional effort outside of India to link SLAs to external financing. As noted in the introduction to this guide, in its ACCESS AFRICA strategy covering 39 different nations, CARE predicts that “20 to 30 percent of VSLA participants will want to access more sophisticated financial services” through linkages. In Uganda, CARE has partnered with Barclays Bank to establish 1,400 VSLAs and to link 15% of members to the bank (Barclays, 2012).

In the article, “Pushing the World’s Debt Crisis onto the Poorest: Why Savings Groups Should Not Rush to Borrow from Banks” (2010) Hugh Allen of VSL Associates, which promotes the VSLA model, has published one of the first sets of guidelines for establishing linkages. In many ways, the recommendations offered in the VSL article overlap with guidelines provided in this publication. The primary recommendation in the article is to “Start with Savings,” and the overall message is to be cautious. Additional recommendations focus on building managerial expertise over time, maintaining the autonomy of VSLAs engaged in linkages, being flexible, providing consumer education about risks of borrowing, etc.

In a few ways, the article differs from the guidelines for practitioners provided in this guide arising from the experience Danish practitioners.

Primarily, this guide emphasizes the importance of contextual factors, innovation, and local sustainability over more universally replicable models. Second, the VSLA article focuses only on the VSLA model, which is quite distinct from most customary SLAs, from the many models designed and promoted by other international agencies, and from models transformed over time by members themselves. The 2007 FinScope Study, for example, shows that approximately 18% of Ugandans were members of community-managed SLAs operating in the informal sector, yet only 1% were members of VSLAs. What works for VSLAs may not work in the same way for many other types of SLAs.

Different arrangements of ASCAs enable different kinds of linkages. The VSLA model includes shares, for example, and all money in the group fund is always fully distributed to members at the end of one year. These specific attributes of the model are keys to the linkage strategies provided in the VSL article. Other ASCA models depend more on savings than shares, are often continuously accumulating beyond a year, and are often stored as a group fund in a bank, even in rural areas given the increased availability of mobile technologies. Based upon assumptions rooted in civil society strengthening, it makes sense to develop guidelines for linkages that fit diverse models and linkage designs determined in large measure by SLA members themselves.

6. Respect demand for access to external finance from SLA members living in rural areas.

The VSL article also advises that linkages should only be established in urban and peri-urban areas, close to banks, where “good markets, roads, and many successful enterprises already exist.” This advice overlaps with what was stated earlier within this guide—that accounting for public goods as a kind of enabling condition or indirect subsidy is important when establishing linkages. Yet, the case studies from the Danish experience in this guide demonstrate that it is possible to extend linkages into rural areas. 85% of

Ugandans, for example, live in rural areas, and food security in Uganda depends upon improving income generation and livelihood development in these areas. It is important to recognize the relevance of demand for access to external financing among rural SLAs.

All cases in this guide show that the demand for access to external financial services exists pervasively, not as isolated requests, and that loans in rural areas provided through linkages are often used to create sustainable income generating activities large enough to provide jobs for others. In terms of demand, and as previously stated in the introduction of this guide, many international organizations have begun to view access to reliable financial services as a human right associated with maintaining autonomy and self-government. As is also true for those with more money, access to external financing for those without much money can strengthen the autonomy of communities, groups, and individuals.

7. Support transparency in relation to linkage designs.

CARE International’s linkage program now launched throughout sub-Saharan Africa is moving at a rapid pace. Yet, it is not clear if the program is proceeding in accordance with the cautions included in the VSL guidelines for linkages, and CARE has not made its model for linking SLAs to external finance transparent. If in the CARE model, loans go to individuals (even if through the VSLA), for example, and are not guaranteed by group savings or social collateral, then it is not clear what role the group serves in the linkage. If the borrower can secure loans using individual collateral (own shares or other forms of individual asset collateral) then loyalty to the SLA may decrease. If 20-30% of participants in VSLAs take this route as estimated by CARE’s Access Africa strategy, community-managed SLAs may be weakened by the CARE model due to the loss of their most successful entrepreneurs. Also, it is not clear if this linkage model requires the commercial banks with which CARE has

partnered, such as Barclays Bank in Uganda, to change their products or services in order to meet the unique needs of SLAs and their members.

More research on these questions is needed as the Access Africa strategy expands and becomes more transparent through implementation. At the same time, it is important for those most closely associated with the CARE linkage program to speak more directly and publicly about issues related to the model. It may be that CARE is designing different models to fit the different contexts within each of the 39 sub-Saharan African countries targeted by Access Africa and that CARE is including mechanisms to increase the loyalty of individual borrowers to their SLAs. The industry can only gain from greater transparency in relation to these complex issues.

8. Expand the dialogue, and continue to learn from innovations.

For purposes of this guide, it is most important simply to recognize that areas of agreement and constructive difference exist on these issues among international, national, and local agencies engaged in linking external finance to SLAs. These perspectives are all part of a growing and important dialogue among organizations which, largely speaking, hold the same goal—to ensure that if and when linkages occur, they actually “strengthen - not undermine- the group’s autonomy” (Allen). This guide endeavors to further that dialogue and encourages careful innovation.

Within this spirit, several of the innovations from the introduction of this document, beyond the Danish context, also provide constructive ways for moving forward within the industry. In many countries with higher levels of corruption, MFIs choose lower levels of government regulation which prevents them from providing institutional savings accounts. BRAC, for example, often chooses not to take deposits but to outsource savings to SLAs. Then BRAC provides training and links SLAs directly to its credit programs still using a savings-led approach. Other

organizations, such as KIVA, attract 0% investors who are willing to forego the small percentage of interest they might otherwise receive in a traditional savings account to send money to KIVA, with a guarantee of receiving full return of the principal. This enables KIVA to invest in MFIs, which retail loans to SLAs.

Many in-country MFIs and credit unions have begun to provide income-smoothing loans to farmers’ associations and SLAs using various strategies. These include providing loans to farmers who store a portion of their harvest in warehouses contracting with the MFI, so farmers can gain higher market prices by bringing their product to market in off-harvest times. This enables rural farmers to repay their loans while also making a profit.

Grameen Bank continues to use its strategy of solidarity groups, while also offering more individual options over time. The largest innovation within Grameen, though, involves developing social businesses, either based on a model in which those without much money own the business themselves, or on a model within which those with more money start businesses to solve well-defined social problems using a “non-loss, non-dividend” approach instead of maximizing profit (Yunus 2007 and 2010). This social business strategy, combined with linkages to SLAs, could be used to develop supply chains for needed products, such as solar lighting, into rural areas (Rippey and Nelson, 2010). Such linkages can also create networked economies based on SLA federations to improve value chains, to negotiate forward contracts with suppliers and buyers, to access to more distant markets, and to gain more favorable terms from external financiers.

Other financial institutions are beginning to combine direct and intermediary roles to compete on service. Examples of this include organizations providing consulting services, financial advising, and direct financing to SLAs as well as

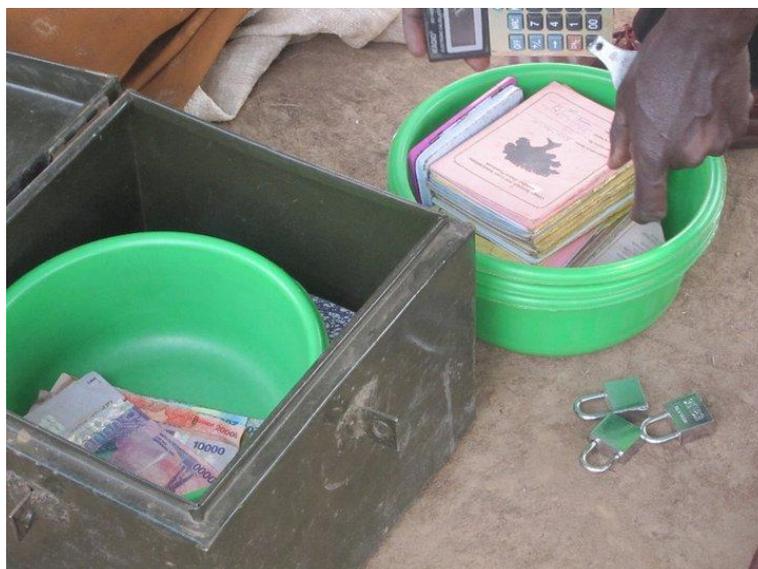
organizations developing credit-bureaus which, if used properly, can help SLAs and financial institutions manage risks through information. Some larger financial institutions with social missions have begun to diversify their portfolios to earn more profit in one segment and then use the increased revenues to serve more vulnerable populations in rural areas. This strategy follows the same process that companies use in developed economies to gain market share. Companies are often willing to absorb costs within a longer term strategy to develop new markets, to gain customer loyalty, and to increase revenues over the long term. This strategy represents the flip side of a commitment savings program, which from the perspective of a financially sustainable business, could be called a commitment spending program—a commitment to spend now in order to earn later by developing emerging markets.

Related more particularly to the emerging connection between access to finance and the advancement of human rights through increased control over the finances necessary for autonomy, indigenous peoples have begun to participate in linkages to enhance sustainable income generation, for example through developing ecotourism, ethnotourism, and volunteer tourism industries (Krell, 2012). Beyond cultural preservation, some of these arrangements focus on strengthening the ability of indigenous peoples to secure rights to ancestral lands.

Conclusion

Each of these examples, in addition to the Danish cases included in this guide, show the continued emergence of best practices within efforts to link SLAs to external financing. The sector of the microfinance industry focused on linkages is developing rapidly. Those engaged in linkages or considering linkages need to keep the dialogue about best practices alive by inviting new perspectives, continuing to innovate, and including the perspectives of SLAs and in-country experts in the dialogue.

When working to provide access to financial services to more vulnerable populations, the best advice is always, to "do no harm." At the same time, as legitimate demand and capacity to meet demand increase, it is also wise to consider whether denying access to external financing might cause harm by overly restricting the options available for people to improve their own livelihoods.



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