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"You cannot save alone"

Financial and Social Mobilisation in Savings and Credit Groups

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in
Savings and Credit Groups

STUDY REPORT

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SELF-HELP DEVELOPMENT; A STUDY ON EXPERIENCES AND PROSPECTS

The establishment of microfinance as a method for alleviating poverty was inspired by a belief that the poor need financial services and, more importantly, that the poor are bankable. Saving and investment in groups became a social movement, which has had a tremendous impact on the lives of millions of poor people. Microfinance has developed into an industry while the informal processes of group dynamics and credit risk solidarity have had less focus and are less documented. This lack of attention on the social impact of the group dynamics, which is usually adapted to local conditions and culture, is not thoroughly documented and requires further analysis. The variety of practices has led to different 'trademarks', distinguishing one sponsor from another, with unfortunately more 'protection of fences' rather than exchange of ideas and experiences.

The much acclaimed slogan "helping people to help themselves" has not materialized into any universal principles or procedures of development methodology. However, gathering and training people in groups to cooperate on a common goal may now in many instances be recognised as a performing approach. 'Social mobilisation' is a term widely applied to define this phenomenon, in particular in South Asia, where such approaches developed into different constellations and has been constantly refined during the last couple of decades. In Africa, the approach is also known as 'empowerment', and has likewise experienced an adaptation to the very different social and cultural environments.

This study endeavour to facilitate for an exchange of experiences; between organisations, within countries as well as continents. Group formation in South Asia, illustrated by cases in Sri Lanka in this study, is based on members assisting each other in planning and implementing their individual projects. The African cases are from Malawi, where groups were established to develop a common business. Once the business is generating income and surplus, the members are encouraged to take their share of the invested capital to form their own individual businesses. Elsewhere in Africa, one can observe a variety of practices, ranging from individual businesses to the more community-action based approach. These need to be well adapted to the specific cultural environment of strong social cohesion, while the Asian environment is more conducive for individual action.

Common denominators for these social actions are to enable poor people to work together to achieve common goals. While the groups receive some external support and training to get started, the group process itself provides for critical appraisal of individual or common projects, learning, innovation and support. The study offers an insight into the dynamics of group formation, as experienced in the provision of microfinance as well as in other self-help development processes.

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Table of contents

Acronyms

ASCA	Accumulating Savings and Credit Association
C-GAP	Consultative Group to Assist the Poor
IGA	Income Generation Activity
MFI	Micro Finance Institution
ROSCA	Rotating Savings and Credit Association
SACCO	Savings and Credit Cooperative
SHG	Self Help Group
SHMG	Self Help Microfinance Group

Executive summary

The point of departure for this study is an assumption that group dynamics and 'self-help' participatory approaches have an interest far beyond their practice. The particular focus is on the widely practiced and increasingly supported phenomenon of people's owned savings and credit groups. The intention is to improve knowledge on some of the practices and methodologies available, in order to make them more accessible for the operations they suit.

The methodology for the study has been literature reviews together with field visits to Sri Lanka and Malawi. The need for the study was twofold: First, In Sri Lanka, Norad and Norwegian NGOs have participated in financing the widespread practice of savings and credit group programmes involving social mobilization. However, since the term social mobilization as it is understood in Sri Lanka is not widely known in the African context there is a need to describe the concept and how this fits into the savings and credit group methodology. By doing this the African actors can better assess whether the success of including social mobilization is achievable. Second, Inventory studies of Norwegian microfinance initiatives have repeatedly identified the widespread practice of savings and credit group programmes financed by Norwegian NGOs. However, they have lacked methodologies to assess these practices.

Traditional Rotating Savings and Credit Associations (ROSCAs) form the original of the donor supported models for self help microfinance groups (SHMGs). Generally speaking, well designed SHMG programmes are those that take advantages of the strengths and balance the weaknesses of traditional local ROSCAs. The primordial conditions to make ROSCAs and SHMGs work are social connectedness between the members, self selection of members, good leadership and transparent money management.

Whether donors should promote and support SHMGs that confine themselves to financial intermediation only - the *specialist*, or *minimalist* approach - or if they should support those pursuing a more *integrated* approach and incorporate a broader set of activities, is increasingly being debated. The study proposes that instead of promoting one standardized type of SHMG, the needs and resources in the target group together with the professional competences and resources in the donor agencies and their partners are what should decide the model to be designed in each context.

In South Asia, the ’social mobilisation’ approach to poverty alleviation has become widespread. Practically all these interventions involve financial mobilisation in self-help groups as an integrated part of the social mobilisation programmes. The claim is that social mobilisation in the form of change in attitude and knowledge at the individual level is needed to make financial operations effective. At the same time financial mobilisation is needed to enable social mobilisation; with the practice of financial mobilisation people become socially mobilised. Thus, saving and investing give the participants the opportunity to practice “learning by doing” and gives them a feeling of mastering both their personal and group development. As well, financial services foster entrepreneurial activities. Taken together: Social and financial mobilisation both interlink and reinforce each other. However, applying bigger ‘dosage’ of social mobilisation in SHMG programmes can be problematic as it is more expensive and needs more overall time compared to more minimalist programme designs.

The study outlines several promising practices as well as unsolved puzzles in SHMG programmes. Some of the recommendations given are:

- SHMG-programmes should be considered a first-rate development tool and not a second-rate alternative to mainstream MFIs.
- SHMG-programmes should be evaluated on their own premises and not on traditional microfinance premises as for example the “good practices” promoted by C-GAP.
- SHMG models should be kept as simple as possible and financially they should first and foremost be designed around the need of the members that are net-savers.
- The specialist approach to SHMG can in itself bring along positive financial and empowering effects. It is not always needed, as some NGOs seem to believe, that projects must integrate several components.
- Social mobilisation as practiced in Sri Lanka has elements that definitely should inspire and influence SHMG-programmes elsewhere. But social mobilisation is first and foremost a philosophy and not a technique. Blueprints are therefore impossible. In contexts where people struggle to identify opportunities and where there seem to be a need for people to become more aware of their own resources, we believe that social mobilisation elements are specially needed.
- SHMG programmes need to document their efforts and results and to team up with researchers. There are still several unresolved puzzles and available knowledge is generally not disseminated.

1.0 Introduction and background

The point of departure for this study is an assumption that group dynamics and 'self-help' participatory approaches have an interest far beyond their practice. Thus, we are in line with Thorp et al. (2005) who argue: *"groups are of fundamental importance to economic, social and political outcomes [..]. Group formation among the poor has great potential for enabling the members to reach their goals. Such groups may affect poverty directly via improved income generation, or indirectly via empowerment and political action." (Thorp et al., 2005, p. 907).*

This study's particular focus is on the widely practiced and increasingly supported phenomenon of people's owned savings and credit groups. The intention is to improve knowledge on some of the practices and methodologies available, in order to make them more accessible for the operations they suit.

The motivations for advocating savings and credit groups differ. While some see the groups as "mini-banks" which offer savings and credit to their members, others consider their main role as social mobilization or in the construction of a civil democratic society. Still others see them as a type of incubator for Income Generating Activities (IGAs) or as platforms for the delivery of other development services related, for example, to HIV/Aids, gender, or literacy training.

Not only the objectives, but also the practice in savings and credit groups differs. Some of the differences are: savings only vs infusion of capital from a donor, social mobilisation 'from inside' vs more standardised (external) facilitation and training, presence or absence of training in IGA or cross-cutting issues, and characteristics of target groups with regards to a.o. poverty.

Recently, there has been an increasing stream of literature related to savings and credit groups. Nevertheless, much of what is written is either "promotions" of some donor's programme or only deals with a limited scope of what savings and credit groups are or can be about. Thus, this study aims to give the reader access to a broader and more systematic knowledge on savings and credit groups, their practices, their opportunities, and limitations. The study is written more as an introductory textbook than a development study. Focus is on general knowledge rather than detailed observations and analyses. The intended audience is development agencies interested and/or involved in projects and programmes related to savings and credit group.

Savings and credit groups are part of the microfinance movement which has become an important developmental tool in the fight against poverty. Through coordinated donor efforts, particularly through the Consultative Group to Assist the Poorest (C-GAP), important lessons have been documented and disseminated to supporters and practitioners alike. These efforts have increased donors' effectiveness and increasingly researchers have been able to document the positive impact from access to microfinance services (Claessens and Feijen, 2006, Littlefield et al., 2003). Nevertheless, several puzzles remain unanswered and still the very poorest and the people living in rural areas remain generally unreached. In addition, practitioners and supporters of microfinance often differ in their understanding of the priorities between various objectives and elements of microfinance. This leads to different methods or approaches of intervention, and it can also easily lead to misunderstandings and quarrels between stakeholders (Morduch, 2000, Woller et al., 1999).

The building of sustainable financial institutions has been considered the main strategy in bringing microfinance to the poor (Helms, 2006, Rhyne, 1998). Still the fact remains that "bank look alike" microfinance institutions (MFIs) have not been able to serve the poorer and more rural markets. It is also increasingly recognized that there can be more to microfinance than just the provision of banking services (Dichter and Harper, 2007, Fisher and Sriram, 2002). For example, can microfinance be used as a tool to spur group dynamics and to mobilize people and lift up their self esteem.

What spurred the need for this study was twofold: First, In Sri Lanka, Norad and Norwegian NGOs have participated in financing the widespread practice of savings and credit group programmes involving social mobilization. However, since the term social mobilization as it is understood in Sri Lanka is not widely known in the African context there is a need to describe the concept and how this fits into the savings and credit group methodology. By doing this the African actors can better assess whether the success of including social mobilization is achievable. Second, Inventory studies of Norwegian microfinance initiatives have repeatedly identified the widespread practice of savings and credit group programmes financed by Norwegian NGOs. However, they have lacked methodologies to assess these practices, their effects and efficiency. This has led to confusion between various practitioners and limitations in the possibilities to assess saving and credit groups.

Terms of References for this study are found in Annex # 1. The main sources of information for the study have been literature studies and special study tours to Malawi and Sri Lanka, in combination with the authors' personal experiences in the field of development efforts in several countries. Furthermore, three meetings with a reference group for the study have been carried out, and workshops have been organized around the topic for Norwegian NGOs and other interested parties. We have not evaluated the programmes visited in Sri Lanka or Malawi. The aim was to understand how they operate and learn from their experiences. A list of the most relevant people and organizations visited appears in Annex # 2.

2.0 Definitions of core concepts

Some concepts are repeated throughout this report and thus deserve some opening remarks and definitions. .

Poverty reduction

In line with the Terms of Reference for this study, 'poverty' and 'poverty reduction' refer to economical development among poor people. It is measured in economic terms. Development aid often applies a broader approach, in which a wide range of objectives only indirectly relate to economic development, or in which the economic change is only a part of a more complex set of objectives. Examples are democracy, human rights, gender equality, or environment. In only referring to economical development, the study does not pay full justice to the fact that many savings and credit group initiatives aim at such broader objectives and measurements only along economic terms. This is in particular relevant when discussing a 'social mobilisation' approach. On the other hand, taking all such objectives into account would make a general discussion on different initiatives and any comparison difficult.

ROSCAs

Rotating Savings and Credit Associations (ROSCAs) are traditional self-help groups where the members pool savings from each other and distribute these as loans or gifts between the members. The principle by which the savings is distributed is balanced reciprocity: each member draws from the pool as much as she[1] puts into it. More details about the ROSCAs will be shared later. For the time being, the most important thing to notice is that throughout this report ROSCA

[1] Throughout the report we use "she" when referring to a member of a ROSCA or a SHMG. By doing this we also highlight that the majority of members in these groups are often women.

means a people's owned and people's initiated self-help group normally of around 10 to 30 members. No donor money or technical assistance from outsiders is involved.

SHMGs

Self Help Microfinance Groups (SHMGs) are similar to ROSCAs, but with one main difference: A SHMGs is promoted, initiated, assisted or somehow supported by donors or other outsiders. Thus a SHMG can often be more sophisticated and take on a broader scope of work. This report is about SHMGs and their objectives, models, challenges and puzzles. SHMGs go under different names like SCGs (savings and credit groups), VSLA (Village Savings and Loan Associations), SLA (savings and Loans Association) etc. To better understand how a SHMG works and why donors often support such programmes we provide in Annex # 3 a recent and very brief example/introduction from OXFAM.

Microfinance

To define microfinance we make use of the following short definition:

"Microfinance is the supply of financial services to micro-enterprises and poor families."

This definition is roughly the same as the one used by recognized books like Robinson (2001) and Ledgerwood (1999). Some may argue that the definition is too narrow and "cold", and that it should also include the development objectives of microfinance. We agree. However, the definition serves its purpose when it comes to understanding the core of microfinance. Three areas in the definition stand out:

1) *Supply* (who supply the services?),
2) *Financial services* (what kind of financial services are supplied?), and
3) *micro-enterprises and poor families* (which market segments are being served?)

In this study the suppliers of microfinance are generally ROSCAs and SHMGs. The financial services they provide are mostly compulsory fixed weekly savings and very short term loans. The market segments served by SHMGs and ROSCAs are generally poor people often living in remote areas.

MFI

Micro Finance Institutions (MFIs) are formal providers of microfinance services. MFIs can be organized as banks, Savings and Credit Cooperatives (SACCOs) or NGOs. MFIs can provide more sophisticated financial services compared to ROSCAs and SHMGs, and normally serve thousands of clients. They are operated by a professional paid staff.

SACCO

SACCOs are member owned MFIs offering savings and credit services to the members. Most SACCOs are rural based and reach less than 1000 members, but some can be huge institutions with several branches. Some can also be urban based.

Social Mobilization

Social Mobilization is a concept with different meanings in different academic and practitioner traditions. The use of the concept Social Mobilization in this report is according to the way the concept has been used in a range of savings and credit programmes in South Asia. Dale (2002) explains the concept that approaches the basic ideological tenets as,

"close interrelations between the economic base of poor people, their perception of social identity, and their degree of self-respect and self-assertion. And that inducements from outside are necessary to initiate positive changes. Social Mobilization focuses on both the individual and the organizational entities to which they belong, as well as on reciprocal influence between them (Dale, 2002, p. 7).

Thus, Social Mobilization represents a holistic perspective on development and recognizes the complexity of achieving development changes. The concept may in some ways be seen as enclosing many of the same processes as those involved in what is often called 'empowerment' in development cooperation, although that concept is rarely defined with any precision.

3.0 The poor and their money

The core activity in SHMGs, as in ROSCAs, is intermediation and rotation of money between the members. Thus, to start understanding SHMGs ,we first need to study what savings and credit actually is and why poor people are in need of these services.

3.1 The need for lump sums

People's participation in development efforts is (or should be) driven by their needs. The first relevant question to ask is therefore why people participate in SHMGs and why they need access to savings and credit. To answer this question we draw on Rutherford (2000) who provides an excellent "down to earth" introduction to better understand poor people and their money. His main answer is that people need access to microfinance because they frequently need access to lump sums of money. Such lump sums of money are larger amounts that cannot be drawn easily from the daily income and require sacrifice and planning. According to Rutherford lump sums of money are needed for:

- *Life cycle events*: Dowries, funerals, religious feasts, rites, marriage etc.
- *Emergencies*: Health care, loss of work, climatic incidents, live stock diseases, loss of home (e.g. bulldozing in slum areas) etc.
- *Opportunities*, either business opportunities or other types of opportunities: Buy a piece of land or a TV, take advantage of fluctuation in food prices (e.g. grains), livestock, machinery, bribes to get hold of opportunities, start a business, increase a business, etc.

Access to microfinance services makes it possible to access lump sums. The most common forms to get access to lump sums of money when needed is either through *insurance* (money is paid out in the event of death, accident, loss of crops or livestock etc.), *savings* (Rutherford calls this "savings up" since the money has to be saved before the good can be bought) or *loans* (Rutherford calls this "savings down" since after buying the good the person has to save in order to repay the loan). Thus, financially speaking, savings and loans are identical. The only difference is that through loans you get immediate access to the money. For this advantage the borrower pays interest. What a possible borrower must assess is whether the advantage of getting access to the money immediately outperforms the cost of interests. This is often not the case and probably one of the reasons why most poor people prefer savings (and insurance) over credit (more on this in (Hirschland, 2005) and (Rutherford, 2000). Furthermore, there are different social implications and risks related to savings and loans. Being indebted with a local loan shark is normally different from being entrusted with a loan from a well reputed MFI. The first will often lead to increased misery, while the other can often lift a person's self esteem and help a person to prosper. Thus one credit is not necessarily similar to another. And when it comes to risk there is a huge difference between savings and loans. It makes a big difference whether a completely failed crop is financed by savings or by debt. The first may lead to misery while the second can mean total ruin.

For donors and others involved in improving poor people's economic condition, it is of utmost importance to base their interventions on an in-depth understanding of the substance of each of the possible microfinance services. This makes more basic introduction appropriate, as follows:

3.2 General characteristics of Savings

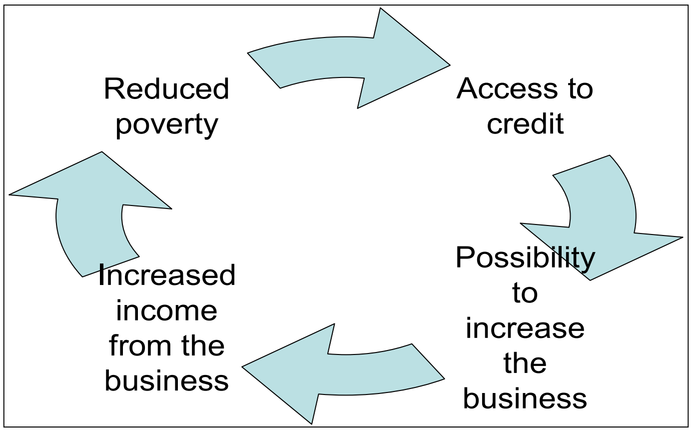
- Financially speaking, savings serve two main purposes. They enable future investments and they can smoothen consumption. For poor people both are essential. The first gives access to lump sums of money which can be used for life cycle events, emergencies or investment opportunities, while the second makes it possible to cover everyday's basic consumption needs even when no daily income is available. Especially the later is of utmost importance as the income for the poor tends to fluctuate considerably through the year. Especially for farmers, this smoothening of income is vital.
- In livelihood projects the aim is often to start up new business ventures. Experience shows that practically all new successful business activities involve some kind of personal savings. Starting a new venture only financed with credit is extremely risky and poor people should generally not be enticed to do so. Savings (or grants) are needed.
- Poor people generally want to save and in most cases they can save at least during some parts of the year. However, they don't necessarily save in cash. Saving in kind like animals, grains and building materials is in many cases more common than saving in cash. However, saving in kind is risky (e.g. animals can die) and from an economic point of view inefficient. The economy will improve if people save cash in a system where the cash becomes available for others for the time the depositor doesn't need the money. This requires intermediation of money. Such intermediation can take place through a bank or a MFI or through a ROSCA or a SHMG.
- Trust and accessibility facilitate the intermediation of money. Banking systems like ROSCAs, SACCOs or Banks must be available and people must trust them. One of the reasons for ROSCAs' continued popularity is probably that banks or MFIs are not available and if available people often tend not to trust them. To increase the trust public authorities like the central banks tend to regulate the intermediation of money. Several initiatives have been and are currently being put in place to better regulate microfinance savings. However, in countries with poor functioning public institutions there is still a long way to go before proper regulation and needed enforcement is in place.

- Poor people demand both voluntary and compulsory savings as well as demand and time deposits. Most economic rationales indicate that consumers prefer flexibility, meaning voluntary savings that can be deposited and withdrawn whenever needed are preferred. However, people may be perfectly rational when they often indicate that they prefer compulsory savings that can only be withdrawn after some time. One of the reasons for this is that they want peer pressure – *"we cannot save alone"*. More on this in Chapter 4.6.
- Gaining interests on savings is something everyone wishes for. However, since poor people are often used to negative interest on their savings (e.g. fees to participate in ROSCAs or to savings-collectors) the level of interest is generally of less importance than availably and trust. Nevertheless, it is a concern that inflation can easily lead to a net negative interest on savings. This motivates people to continue saving in kind (e.g. animals).

3.3 General characteristics of Credit

- Credit is the most known microfinance service. Microcredit is normally a short term high priced (interest rate) loan for working capital to the self-employed poor. The main reason for the high interest rate is because of the high cost of handling many small loans.
- The following figure (figure 1) illustrates the virtuous potential of microcredit.

Figure 1: The virtuous circle of microcredit



- For those without repayment capacity, contracting credit can be a very risky strategy. Most poor people know of peers who ended up in trouble after not being able to repay their loans. Microcredit can also be very expensive due to high interest rates, and the benefit of receiving a loan might easily be lost in face of the costs. Access to credit is not, therefore, an easy prescription to escape from poverty and Hulme (2000) suggests that microcredit should be renamed microdebt.
- The pivotal question asked by professional providers of loans is whether the potential client possesses the willingness and the capacity for repayment. All other arguments fail if the willingness and repayment capacity cannot be proven.
- Credit is normally *not* used to start a new business, but rather to expand an existing one. The reason for this is that starting up a new business is very risky, and a sustainable provider of credit cannot afford to lose money. Most new businesses depend upon personal savings or support from family, and friends to get started.
- Credit for business purposes is what most has in mind when microcredit is being discussed. Yet, microcredit can be used for housing, education, health care or consumption as well. Often poor people value credit for these purposes rather than credit for their businesses. Thus most ROSCAs allow the members free use of the money, while many donor initiated SHMGs impose restrictions on use of the money for economically productive purposes.
- For credit to be effective it is important that the conditions fit the needs of the client. Too often business opportunities are lost because the disbursement of credit is too slow or the

loan amount is too small. Similarly, the repayment schedule must be linked to the cash-flow pattern. In the microfinance literature it is well known that a major hindrance for improved impact is lack of appropriate credit design. Similarly in ROSCAs and SHMGs the credit service available often lacks flexibility.

3.4 The need for more than money

If lack of money was the only cause of poverty, the approach to poverty reduction would be to simply send money to the poor. Of course that is an over-simplification, but the fact that such an approach to poverty reduction is rarely discussed is interesting: It demonstrates that most analyses of poverty include a multitude of causal factors and corresponding multiple approaches to the way out of poverty.

Few, if any, promoters of microfinance will argue against the need for a wide approach to eliminate poverty. Nevertheless, to get the most out of microfinance as a anti-poverty tool many argue for specialist institutions providing microfinance only (C-GAP, 2004). Such a specialist approach allows economies of scale, more sophisticated services, and the concentration of efforts. However, this approach has caused a debate that microfinance can best be used in a broader approach in which access to financial services are combined with skills and capacity building, development of a ‘culture’ of saving, or of entrepreneurship, or other things regarded crucial for economic improvement among the poor (Dichter and Harper, 2007, Fisher and Sriram, 2002). According to this perspective, the overall development effect will be better with a broader approach although the financial services will maybe not be as efficient. Still, the argument is valid that normally a specialist institution provides the best services, hence the microfinance provider should specialise in microfinance while other institutions may provide other services to the same target group.

Some development programmes involved in SHMGs advocate a specialist approach, but many (probably most) promote an integrated use of microfinance in combination with other relevant inputs. However, a problem for those advocating an integrated use of microfinance is that it is difficult to measure the cause-effect of the different interventions. Furthermore, the precise analysis of what else is needed beyond financial services enabling economic empowerment cannot be stated in any general terms; that analysis must be done with each context. A presentation follows of some general areas in which ‘prerequisites’ for economic development among poor people is needed. The list is only intended as a conceptual background for a later discussion on the *social mobilisation* approach to poverty reduction, not as general analyses. In line with the Terms of Reference for this study, the discussion is limited to economical development that is measurable in economic terms.

Enabling factors in entrepreneurship development:

- Human capital, referring to a person's knowledge, skills, self-esteem, motivation, etc.
- Social capital, referring to a person's relations, networks, position in the society, etc.
- Enabling environment, referring to institutions, educational level, general health situation, access to information, bureaucratic goodwill, general trust in the society, etc.
- Access to markets, referring to the existence of markets and a person's possibility to access them
- Access to capital, referring to access to savings and credit

As the list indicates, access to capital is only one among several enabling factors in entrepreneurship development. Most general microfinance literature will highlight the importance of securing at least a minimum level of all the enabling factors before issuing a loan. Yet, it can be argued at the same time that getting access to a loan can spur a person's self esteem and participation in a SHMG can increase social capital. This illustrates that microfinance is not only an enabling factor in itself, it can also help develop other enabling factors.

4.0 ROSCAs

ROSCAs are among the oldest and most prevalent financial system in the world. In some African countries, you find them virtually in every village and household. Participation between 50-95% is not uncommon (Bouman, 1995b, Ashe, 2002). In Bouman (1995a) hundreds of local ROSCA names are reported from more than 70 countries. In Sri Lanka they go under names like Chit Funds, Cheetu/Sheetu, Sittu Danawa, Situ Mudal or Sittu Wendesiya. In Malawi names like Chilemba or Chiperegani are common.

ROSCAs form the original SHMG model. Knowing the roots of the model is therefore essential for donors involved in SHMG programmes. Generally speaking, well designed SHMG programmes are those that take advantages of the strengths and balance the weaknesses of traditional local ROSCAs. Thus, in the following we provide some additional basic knowledge about the ROSCAs.

4.1 How a ROSCA works

In a ROSCA the members meet weekly or monthly, to pool savings from each other and distribute these as prizes or loans to the members. The groups normally consist of 10 to 30 members and are organized by the members, either collectively, or by one or a few of those predominantly involved. In some ROSCAs the members don't meet psychically, but one of the leaders collects the contributions. In some ROSCAs the members pay a fee to the leader or the leader get's her pot of money without making weekly contributions. Thus, even in ROSCAs where all members fulfil their obligations it is common to observe a net negative financial return for the members. Nevertheless, the widespread of ROSCAs indicate that people still appreciate the participation.

In principle, a ROSCA is closed down when each member has received their pot of money. However, in practice many (most?) ROSCAs continue opening a new rotating round. Thus, many ROSCAs are kept intact for several years with the same membership.

4.2 Savings in ROSCAs

Pay-ins (savings) in ROSCAs are nearly always compulsory. Normally all members save the same amount every week. The interest is normally nil or negative if there is a president that charges for organizing the ROSCA. A major problem in many ROSCAs is that the savings can easily be lost, either because the leaders find ways to appropriate the money or because members don't fulfil their obligations. Wright and Mutesasira (2001) report that 99% of participants have experienced losses when participating in traditional ROSCAs. This illustrates the importance of improving the systems to avoid losing savings.

<u>Textbox 1: Cheating in ROSCAs</u>

A respondent emphasized: "The usual form of cheating is for a new member to come to a merry-go-round (the local name for a rosca), and ask for number 1 or 2 because they have an emergency... And then, they stop contributing. (...) There are many cheaters like that, about half of the population! Some of them are well known, and still, some groups fail due to cheating." (Anderson et al., 2003, p. 3)

How a SHMG can improve the savings services compared to a normal ROSCA

There are several ways the savings services in an SHMG involves an improvement in comparison to the services of a ROSCA. In some SHMGs, both compulsory and voluntary savings are accepted. Others have made a system of shares where it is possible to save 1x, 2x or 3x the minimum savings value weekly. This enables the group to include participants of different economic positions. Furthermore, if the money is lent out with interest the members may gain interest on their savings. This interest on savings is normally paid out annually and is called dividends. Another innovation in some SHMGs is to clear the accounts once every year. These are called time-bound SHMGs. That means that the member can withdraw all her savings and thus don't have to leave them within the group over many years. However, where a SHMG can really improve services to the members is in introducing systems to minimize the risk of defaults on the loans and improve money management. Such systems can include improved systems for screening of new members, improved accounting systems, leadership training, and follow up on defaulters.

4.3 Credit in ROSCAs

In normal ROSCAs the savings are paid in by all members and then immediately returned to the members in rotation until everyone has had a turn. To decide when each member is to receive the money most ROSCAs make use of some kind of lottery systems. However, some ROSCAs have an auction system where the members bid for the pot of money. A major disadvantage in a lottery-ROSCA is that the member doesn't necessarily receive the lump sum of money when she needs it. Another disadvantage is that the pot of money available for distribution is normally low and often doesn't fit the need. A major problem in many ROSCAs is that once a member has received her pot of money she can lose the incentive to keep on paying in, thus the last ones often don't receive a complete pot of money.

Some ROSCAs only return the money as regular loans. These are called Accumulating Savings and Credit Associations (ASCAs) since the money is accumulated in the group and not immediately rotated among the members. In this report we use the name ROSCA for both ROSCAs and ASCAs and only when needed we use the more specific term ASCA. More on the similarities and differences between ROSCAs and ASCAs in Bouman (1995b).

How a SHMG can improve the credit services compared to a normal ROSCA

The major difference between a SHMG and a normal ROSCA is that nearly always the SHMG function as an ASCA. Instead of immediately rotating the money among the members, the money is only paid out as loans. Normally not all members in a SHMG will receive loans. Some will only be allowed (or wish) to save.

Most SHMGs charge interest. Some may consider this a disadvantage, but for the net-savers it definitely isn't. When the borrowers pay interest on their loans this income is normally distributed to the members as dividends calculated on the basis of each member's savings. Thus, fundamentally a SHMG is more of a savings scheme than a credit scheme. Many donors misunderstand this and try to design their SHMGs with the needs of the borrowers in mind. We propose that such SHMGs seldom succeed. SHMGs should first and foremost be designed with the need of the savers in mind. Thus, in well designed SHMGs, the credit is given on very short terms to reduce risk. Thirty days or less is not an uncommon repayment time, but some also offer up to 6 or 12 months. Furthermore, the interest is often very high (one group visited in Malawi charged 100% per month). Again, instead of judging this as unfair for the borrowers it can be seen as an excellent opportunity for the net savers. Furthermore, it is also important to understand that SHMGs even if they are promoted by donors and outsiders they are still 100% people's owned groups which have the sole right to decide on their own rules.

4.4 Primordial conditions to make a ROSCA work

It's unlikely there are two identical ROSCAs in the world. Nevertheless, there seem to be some primordial conditions to make a ROSCA, and thus also a SHMG work:

- <u>Social connectedness:</u> This means that the members will normally be known to each other and belong to the same social strata, community, and social group (e.g. ethnic, religious, etc). When the members are socially connected to each other it is more difficult for them to default payments.
- <u>Self selection of members:</u> The group as a whole or the leaders (the president) are the ones who decide who can join a ROSCA. If membership is imposed by others like donors, the group will weaken.
- <u>Leadership:</u> ROSCAs tend to have strong leaders that keep the group intact and are able to ensure the members follow the rules

When designing SHMG-programmes donors and their partners often want to influence the groups. Some will like to mingle people from different social strata, ethnic groups or religions. They want groups to take on outcasts and others that are not easily included when the system is based on self selection, and they want to impose a democratic system of leadership. SHMGs balance a fine line when such values are introduced from the outside, and there is a considerable risk that the SHGM ends up having a donor driven social design with a minimum chance of long term survival.

4.5 Common problems in ROSCAs

Following is a list up of what we consider the most common problems in ROSCAs. These are problems that well designed SHMGs can improve, as they are common in poorly designed and implemented SHMGs.

- Loss of savings
  - As mentioned above, many participants have experienced losses when participating in traditional ROSCAs. This is probably the major problem in ROSCAs. To overcome this problem the system of social connectedness, self-selection of members and strong leadership is fundamental
- Elite capture
  - Elite capture is understood as leaders of the ROSCA who turn it into their personal business. If this is understood and responded to by the members from the beginning, it is not necessarily a problem, but too often leaders enrich themselves on the cost of members without their knowledge.
- Theft
  - Pure theft can happen either in the form of a person (normally a leader) who simply appropriates available cash, or by a member who deliberately stops contributing after having received her round of money.
- Inflexible savings and credit design
  - As mentioned, the savings and credit design in ROSCAs are generally inflexible and only to a minor degree fulfils the need of the participants.
- Exclusion of vulnerable members
  - Self-selection of members facilitates a continued practise of exclusion in the local communities. The more vulnerable, the disabled, the outcasts etc. are often excluded from participating in ROSCAs.

4.6 Why does ROSCAs exist?

Many ask whether SHMGs can survive over time beyond donor intervention. Our answer is that if ROSCAs can survive, so can SHMGs (if they are built on the ROSCA principles). Thus, to understand why SHMG can survive we need to study and understand why ROSCAs survive or exist. The logics of collective action and access to mutual support are probably the best explanations why ROSCAs exist. To the members there is a net-positive overall return to their participation regardless of a sometimes net-negative financial return. This illustrates that to poor people participating in microfinance schemes can be about much more than just accessing savings and credit services.

In the economics literature, the existence of ROSCAs is explained in financial terms. The most common explanation is that a ROSCA is a contract that enables the participants to purchase indivisible assets like a goat, a pair of shoes or a pot (Besley et al., 1993). The reasoning behind this theory is all members except the last recipient of the pot of money will be able to buy the asset sooner than by saving alone. An example: If the price of a goat is 1000 units and a person is able to save 100 units per week, than it will take her 10 weeks to buy the goat. Alternatively, if she joins a ROSCA where they are 10 members and each pay in 100 per week then there is a chance to get access to the 1000 after only one week, and a 90% chance to get the 1000 before 10 weeks.

> **Textbox 2: The value of savings**
> *"If you live in an urban slum or in straw hut in a village, finding a safe place to store savings is not easy. Bank notes tucked into rafters, buried in the earth, rolled inside hollowed-out bamboo, or thrust into clay piggy banks, can be lost or stolen or blown away or may just rot. Certainly their value will decline, because of inflation. But the physical risks are the least of the problem. Much tougher is keeping the cash safe from the many claims on it - claims by relatives who have fallen on hard times, by important neighbours, by hungry or sick children or alcoholic husbands, and by landlords, creditors and beggars. Finally, even when you do a have a little cash left over at the day's end, if you don't have somewhere safe to put it you'll most probably spend it in some trivial way or other. I have lost count of the number of women who have told me how hard it is to save at home, and how much they would value a safe, simple way to save."*
> (Rutherford, 2000, p. 2)

Calomiris and Rajaraman (1998) offer another explanation. According to them, participation in an auction ROSCA, that is a ROSCA where the participants each week bid for the pot of money, is comparable to an insurance mechanism. By paying a fee (the highest bid for the pot) the participant can access money when needed.

Still, the purchase-forwarding and insurance arguments cannot alone explain ROSCAs' popularity. A deeper understanding of poor people and their money as in Rutherford (2000) is needed. Thus, some economists have developed models to come up with other, more "down to earth" rationales for the ROSCAs. First, Anderson and Baland (2002) argue that participation in a ROSCA is a strategy used by women to protect their savings against claims from their husbands for immediate consumption. Second, Gugerty (2007) and Ambec and Treich (2007) argue that individuals join ROSCAs to cope with self-control problems. They argue that individuals simply cannot save alone since there are just too many claims on cash. Thus, poor people appreciate mechanisms forcing them to save. As many ROSCA participants put it "you cannot save alone" (Gugerty, 2007) .

5.0 Self Help Microfinance Groups (SHMGs)

In this chapter we outline more in detail what SHMGs are and how they work. We start out by explaining why donors find the ROSCA model attractive.

5.1 Donor intervention in the ROSCA sector

The ROSCA model is attractive to donors for several reasons. Probably the most attractive are the following:

- It is an indigenous people's owned organizational form
- It has a long history and people are familiar with how it works
- It makes use of people's own resources, both financial and social resources
- It helps develop both financial and social capital
- It is cost efficient and can reach out to less populated areas

With such important benefits it is no wonder that an increasing number of donors have started to finance projects involving SHMGs. Besides, donors also consider that the ROSCA weaknesses outlined in chapter 4.5 can be balanced through training and the installation of proper systems for money management and leadership.

Besides the strengths of the ROSCA-model, another driving force spurring the SHMGs movement is the fact that the building of an inclusive microfinance sector is taking much longer and is much more expensive than expected. Ashe and Parrott (2002) and Allen (2006) argue that the cost of establishing a sustainable MFI normally surpasses several hundreds of dollars per client reached. Helms (2006) outlines that still considerable efforts are needed before "Access for all" in an inclusive financial sector is secured. Johnson et al (2006) demonstrate today the microfinance frontiers go along a geographical and a poverty frontier. MFIs are generally unable to reach out to the poorest population strata and the less populated areas.

Faced with the attractiveness of the ROSCA model, the possibility to improve the weaknesses of the ROSCAs, the high costs of establishing sustainable MFIs, and the frustration of the fact that MFIs are generally not able to cross the poverty and geographically frontiers donors are increasingly getting involved in SHMGs programmes. The fact that saving and credit activities can reinforce social mobilisation and a range of other processes also help motivate donors' involvement. Ashe (2002) presents a very optimistic view on what can happen if ROSCAs are improved and 'modernized' (see textbook 3). Implicit in Ashe's questions is that SHMGs are a very cost efficient and empowering model that is able to provide people with basic and sustainable financial services. Thus, donors should increasingly get involved in SHMG programmes (and less in financing MFIs).

> **Textbox 3: An optimistic view on SHMGs**
> *What would happen if these groups [the ROSCAs] were 'modernized' into effective locally controlled savings and credit groups? Taking this another step further, [imagine] what would happen if these groups with their empowered and prospering members became platforms for literacy, health education, business literacy, and sustainable agricultural training, or even candidates for bank financing?* (Ashe, 2002, p. 127)

However, Bouman (1995b) argues energetically against the modernization of ROSCAs. Particularly since no ROSCAs are alike, Bouman fears donors' uniform formulas that are ready for replication. He finalizes arguing: *"After 40 years of development aid, we must finally accept that indigenous self-help societies have their own ways of helping themselves and their own ideas of what Utopia looks like and at what tempo to get there."* (Bouman, 1995b, p. 382)

Whether donor intervention in the ROSCA sector is recommendable is, in our view, a dilemma that deserves more research.[2] Many donors involved in SHMG programmes will argue that they are not intervening in the ROSCA sector. Such a position is naïve since SHMGs are competitive institutions that might influence people's participation in ROSCAs. Bouman's and others' warning flags are well argued and absolutely worth listening to. However, there are now a growing number of positive experiences like some social mobilisation programmes in Sri Lanka as well as CARE (www.vsla.net), WORTH (www.worthwomen.org) and OXFAM (see annex # 3) that over time have demonstrated their ability to promote groups that survive over time

[2] See also the research puzzle outlined in chapter 9.

providing their members with relevant services. We, therefore, have an optimistic view and recommend donors to finance well informed SHMG programmes. Our aim is that this study will serve as a tool to improve the level of information and knowledge about SHMG programmes.

5.2 SHMG models

During the field work in Sri Lanka and Malawi as well as professional experience from several other countries we have never run into two identical SHMG models. Each SHMG program we have visited has its own twist, but generally all programs are involved in addressing the typical weaknesses of a ROSCA. These are a lack of transparency, high default rates, and weak money management.

The objectives of SHMG programmes can generally be divided in two groups – those who mainly focus on financial benefits and those whose main focus is non-financial and may involve improved health; agricultural outputs or other economic improvements; or social organisation and improvements sometimes termed 'empowerment' e.g. for women. These are typologies; in practice the differences may be more gradual with some overlap. This knowledge enables the presentation of the following figure which illustrates that SHMGs can generally be classified into four different groups depending on their focus. Figure 2 proposes names for the four groups:

Figure 2: A classification of different types of SHMGs

		Focus on financial benefits	
		Secondary	Primary
Focus on non-financial benefits	Primary	**Platform SHMGs**	**Integrated SHMGs**
	Secondary	**Question Mark SHMGs**	**Finance SHMGs**

Platform SHMGs are programmes where the financial services are of secondary priority and considered only a smaller part of a broad service net. In many cases the main idea of including savings and credit activities is to keep the group together so that it can be used as a platform to deliver other services. Such services can be literacy training, farming inputs, training or technology, preventive health care, enterprise training etc. By using the SHMG as a platform it is possible to maintain the participants' interest over time, get better regularity in trainings, work with groups instead of individuals, and thereby obtain economies of scale etc. Thus, platform SHMGs bring community members together so they can work together on other development initiatives.

Question Mark SHMGs are groups where the group's purpose is difficult to observe (at least for an outsider). Of course no programme will admit that they belong to the question-mark group. However, since some places are "flooded" with these kinds of groups it is possible to end up organizing groups more or less by habit and not because the methodology is the most appropriate to the particular situation.

Finance SHMGs are groups which main role is to intermediate the members' money. Quite a lot of the microfinance literature on SHMGs/ROSCAs takes for granted that this is the main and often only reason for organizing the group. However, actually few SHMG programmes have such a pure specialist scope, yet there is a tendency to move towards more minimalism and specialisation in SHMG programme design. We return to this issue in section 5.4.

Integrated SHMGs are groups that tend to focus simultaneously on financial and non-financial benefits. The integrated approach brings community members together so they can work together not only on financial matters, but also on other development initiatives. Thus, probably most programmes will argue they belong to the integrated group. However, keeping focus on many different objectives simultaneously is extremely demanding and our experience is that some integrated groups end up either being Platform- or Finance SHMGs, or they may end up as Question Mark groups - aiming for everything and obtaining close to nothing. SHMGs involved in social mobilization like the ones visited in Sri Lanka are typically integrated groups. More on this in Chapter 6.

Although integrated groups may seem more sympathetic it is not necessarily a better approach. Even if they are able to keep focus on multiple objectives there is the risk that integrated groups may be less effective in reaching the various objectives and perhaps also overall less efficient in terms of outputs to inputs. Some of the reasons are that it may be difficult to find strategies that are optimal for achieving all the different objectives. Moreover, it is difficult to develop the skills and competence of all the various technical areas involved.

5.3 Potential services in SHMGs

Following is a detailed study of the potential services in SHMGs. In this section we build on the work of Dale (2002) based on his field work over years in Sri Lanka. According to Dale programmes that combine self-help group dynamics and microfinance may typically emphasis different mixtures of the following five groups of services:

1. Financial Intermediation
   a. Savings
   b. Production loans
   c. Consumption loans
   d. Insurance
2. Social Mobilization
   a. Sensitisation
   b. Confidence-building
   c. Motivation
   d. Co-operative learning
   e. Linkage-building
   f. Advocacy training
3. Organization building
   a. Group formation
   b. Inducement of solidarity ethics
   c. Money management
   d. Organization and management training
   e. Accountancy training
4. Platform for enterprise development services
   a. Business management training
   b. Production training
   c. Sector analysis
   d. Marketing assistance
5. Platform for provision of social services to group members
   a. Literacy training
   b. Primary health care
   c. Training in nutrition
   d. Primary education

The first, and maybe most important lesson to learn from this long list of potential services is that SHMGs are not a singular type of program, but they vary considerably depending on the type of services included. No programs are alike. With such a broad possible scope of services SHMG projects cannot easily be compared. However, our study reveals that there are two basic groups of services that need to function in all programmes if sustainability and autonomy of the groups is an objective:

<u>Core services in SHMGs:</u>

1. Financial intermediation:

    - Basic savings and credit services must work and the members must trust them.
2. Organization building:
    - Groups must be formed and basic, but still comprehensive, money management must be installed. In addition leadership is needed.

If these basic services are installed there is a good chance a SHMG will survive over time. It is however a major problem in many SHMG programmes that the donors and partners are more concerned with other services than the core services that need to be practiced.

In addition to the basic core services most SHMG programmes take on most elements mentioned by Dale (2002) under Organization building:

- Group formation
- Inducement of solidarity ethics
- Money management
- Organization and management training
- Accountancy training

Furthermore, the introduction of democratic principles in decision making and leadership election are nearly always promoted and imposed by the donors and their partners.

5.4 Specialist versus integrated SHMGs

The discussion of services included in SHMG programmes takes us directly to the main schism in the SHMG debate. Should donors promote and support SHMGs that confine themselves to financial intermediation only - the *specialist*, or *minimalist* approach - or should they support those pursuing a more *integrated* approach and incorporate a broader set of activities? Our experience is that those commentators coming from a mainstream microfinance background tend to advocate a more specialist approach, while those coming from other fields, like rural development, agriculture, education, gender etc., tend to advocate the integrated approach.

Within the mainstream microfinance sector specialization has been a core message for more than a decade (C-GAP, 2004, Helms, 2006). Lately however, and in tandem with the books “What’s wrong with microfinance” (Dichter and Harper, 2007) and “Beyond Micro-Credit” (Fisher and Sriram, 2002) there has been a growing concern whether specialization is what will bring along most development and whether specialization is a viable strategy to reach out to the most vulnerable and geographically remote people in the long term.

In this report we do not aim on taking a stand in the specialist versus integrated debate. However, we recognize that through specialization many microfinance institutions have been able to considerably improve their scale and quality of financial services for the benefit of millions of clients. Yet, we also recognize that the specialization strategy has so far only to a minimum degree been able to bring sustainable microfinance services to remote areas or to more vulnerable groups.

Some of the latest experiences like CARE's and DFID's Sustain programme in Uganda may indicate that the specialist approach known from microfinance can also be applied with success to SHMGs. With costs as low as around 20 dollars per participant, Sustain aims on reaching 100,000 members in only 18 months. Sustain practices a pure minimalist model where the SHMGs only learn what they need to know to be able to provide basic microfinance services to their members. Alongside the upcoming of programmes like Sustain there are also several initiatives to develop benchmarks and ratios as well as potential "good practices" for SHMG programmes. Thus, altogether we foresee an increased focus in SHMG programmes on cost-efficiency, good practices and benchmarks. Such focus will necessarily lead towards a more specialist approach at least to the extent success is mainly measured by financial parameters. We will return to the "good practice" of SHMG in Section 8.

As mentioned, we do not take a stand in the specialist versus integrated debate, yet we would like to draw the attention to what should decide the type services to be included in a SHMG programme. According to our view these are:

- Needs and resources in the target group,
- Professional competences and resources in the donor agencies and their partners, and
- The indicated objectives in the project

Some see this position leading to integrated projects. We disagree. When taking into consideration the resources in the target group as well as the technical competencies in the donor agency and its partners it becomes obvious that some degrees of specialization are always needed, and in some cases a pure specialist approach can make perfect sense. All needs cannot be served in a singular project or programme.

6.0 Social mobilization in SHMGs

In South Asia, the 'social mobilisation' approach to poverty alleviation has become widespread and has taken many forms including the thousands of groups known as 'self help groups' (SHGs). Practically all these interventions involve financial mobilisation as an integrated part of the social mobilisation programmes but focus is on the *social* mobilisation while *financial* mobilisation is included in support of that objective. 'Pure' financial mobilisation is seen as insufficient to poverty alleviation.

According to the classification mentioned in Figure 2 social mobilisation programmes are promoting integrated-SHMGs where saving and credit are combined with a wide range of other services. However, defining it as a certain kind of microfinance does not pay justice to social mobilisation. This is because it is based on values and an ideology that do not fit well with mainstream microfinance thinking.

The widespread and often government supported social mobilisation programmes are perhaps unique to South Asia; however, the same philosophy and approaches is of course found elsewhere. In most African SHMG programmes we've seen components similar to those of the South Asian social mobilisation programmes, but to a lesser degree. However, the term is rarely used. Rather, the same approach more often reflected through terms like 'empowerment', which is not necessarily the same, but a closely related concept. We will return to this later.

The interrelation and the balance between *financial* and *social* mobilisation are perhaps one of the most important dimensions in SHMGs and a major focus of this report. Most would agree that both are needed to some extent, but the balance between them is also a major dilemma as it impacts on the effectiveness and efficiency of programmes. Advocates of social mobilisation argue that the explanation why so many microfinance programmes have been ineffective in poor and in particular rural populations is because people are not only economically and socially marginalised but also lack some 'inner' capacities necessary to benefit from financial and other services, which social mobilisation can provide. But this is in no way a statement that they do not also lack financial resources hence social mobilisation will not succeed without integrating financial mobilisation.

The following chapter elaborates more on social mobilisation. Clear-cut definitions may not be useful as there is a variety of approaches and understandings; rather, the next section sheds more light on how social mobilisation is understood by practitioners and supporters in Sri Lanka representing the 'South Asian approach' to social mobilisation.

6.1. Characteristics of social mobilisation

In South Asia, social mobilisation is a well-established term and concept, and a kind of development philosophy. Exact definitions are difficult and perhaps contested even among the promoters and facilitators. Given the nature of social mobilisation as a dynamic, open-ended personal/individual, social and even political process a degree of ambiguity and vagueness in definition is natural. Practitioners, supporters and observers may miss more clear-cut definitions and delimitations, which would be very helpful. As an example, when many practitioners claim that only they and their kind of approach represent 'real' social mobilisation while others who also claim to support social mobilisation apply a 'top-down' approach. But a clear definition would also involve limitation of the concept and would perhaps draw unfortunate distinctions between various approaches to social mobilisation. Hence, some aspects of social mobilisation are discussed below without clear-cut definitions.

Integrated in the concept is an understanding that things will not change and improvement will not come if an individual doesn't understand and accept that their own personal attitude, knowledge, behaviour and efforts must be changed. Social mobilization can bring along such change.

According to the categorisation by Dale (2002) social mobilization is one of the five potential groups of services found in SHMG programmes. The others are financial services, organisation building, enterprise development, and social services. The need for social mobilisation in SHMGs and the reasoning behind is described in Dale as: *"[In SHMGs] a minimalist approach is hardly ever feasible. Pre-requisites for effective financial operations – in terms of attitude, knowledge, [....] – are normally lacking and therefore need to be promoted as well"* (Dale, 2002, p. 6). Thus, social mobilisation in the form of change in attitude and knowledge is needed to make financial operations effective. However, at the same time financial mobilisation is needed to enable social mobilisation; with the practice of financial mobilisation people become socially mobilised. Thus, social and financial mobilisation both interlink and reinforce each other.

Dale explains social mobilisation involves the following components:

a. Sensitisation
b. Confidence-building
c. Motivation
d. Co-operative learning
e. Linkage-building
f. Advocacy training

The fact that Dale distinguishes social mobilisation from ‘organisation building’ (although these two are of course closely interrelated) illustrates social mobilisation is often seen less as a social/group level mechanism and more of a personal/individual process. To a large extent, the change is expected at the individual level. However it is the social processes, through group formation and group dynamics, what will bring it along. The term ‘social’ in the concept is therefore appropriate. Furthermore, a component of advocacy is often involved; meaning group based activities to influence on outside (political) decisions and structures.

“Social mobilisation focuses on both the individual and the organisational entities to which they belong, as well as on reciprocal influences between them. […] Although, normally, the main emphasis is on promoting people’s own analysis and action, much social mobilisation incorporates elements of advocacy (Dale, 2002, p. 7) .

Social mobilisation also differs from most other SHMGs in its focus on internal resources in the groups. At least this is true in principle. Integrated SHMGs normally provide a range of services related to specific objectives (of the donors) related to business development or entrepreneurship, health, environment or other things. Most social mobilisation programmes also do such, but their main focus (at least in principle) is the mobilisation of resources already in the groups - the individual’s resources and the social capital developed - rather than adding resources (e.g. knowledge) from outside. As such the social mobilisation approach represents an additional dimension compared to the Integrated approach presented in Figure 2. The focus on independence and to avoid ‘dependency syndrome’ – including dependency on development aid and service providers, also leads to some reluctance to add resources from outside. However; these differences in ideology and principle are not necessarily reflected in practical implementation.

Interviews with a range of practitioners and beneficiaries of social mobilisation in Sri Lanka serve to elaborate on the content and the diversity of the concept:

- *The poor should be in the development process. [Mobilisation] make people understand that you can develop yourself* (local mobiliser).
- *[Social] mobilisation is to bring a person to a higher level* (local mobiliser)
- *Social mobilisation is about building people's capacities and bringing them together* (consultant).
- *These members of society have their capacities. We enlighten them, and awake them to their capacities. [Then] we develop the group system to carry on the process we've started. Through that process they are empowered to take decision by themselves* (local mobiliser).
- *When social mobilisation is done, the environment has changed so that new generations will have more self confidence and don't need mobilisation.* (consultant)
- *The main idea of social mobilisation is to make people aware and to be able to draw on each other* (consultant).

The process of social mobilisation is relatively standardised in a range of social mobilisation programmes in South Asia. However it is often not very well described, which has also been mentioned as a weakness in a range of evaluations. This is partly because even the evaluators do not fully understand the process (e.g. (Pass, 2005). Anyway, some of the manuals for training in social mobilisation illustrates that it is difficult through verbal descriptions alone to explain the process. The training manual of Future in Our Hands in Sri Lanka, for example, demonstrates the vast complexity of various aspects of social mobilisation. Not only does it involve advanced and sophisticated analyses of poverty and ways out of the dilemma, it also relates to values and attitudes, social skills and competencies of the mobilisers involved and the need for the mobilisers to possess these skills and share the values and attitudes. These parts of social mobilisation are very difficult to explain to an outsider (e.g. a consultant); to some extent one can justify the statement it can only be understood by practising.

Common steps in the process include forming small groups, which are being helped by a facilitator to analysing one's own situation and context, strategic planning, saving, investing, training, joint and individual business development, and advocacy. Through these activities the groups utilise synergies in collaboration with other members of the group and to support other people in their needs through a shared notion of solidarity. Saving and investing are seen as important steps in the process of being socially mobilized; hence financial mobilisation is a necessary part of social mobilisation. Saving and credit continues throughout the whole process. In addition, various services including training and awareness creation are provided by the development agency, and links between groups are made so that the groups form second level (community level /cluster level) and third level (NGO) organisations. The process normally takes long time. Many informants say, 'social mobilisation never ends'.

Furthermore, steps towards realising one's own goals do also, when necessary, include standing up against people and institutions. Those may include anything from (most often) demanding freedom from control of one's own husband, via confronting local hierarchies and public offices, to gathering in the streets of Colombo against a World Bank policy or project, and almost anything in between. A wide range of advocacy activities on community and district level have also been seen as the results of social mobilisation. Although street protests are most visible, the combined effect of thousands of women becoming less subject to their husband's economic and social control is perhaps the most dramatic result of social mobilisation. The fact that thousands of the poorest and marginalised are better enabled (empowered) to deal with other forces in society are also of uttermost importance. Less dependency on local money lenders due to financial mobilisation is an important part of this. Interviews also indicate that the expansion of social networks is also important in itself: many of the beneficiaries tell that they feel less lonely than before. This seem to be particularly important as a result of inter community interaction between groups, which is also a particular characteristics of social mobilisation while less normal in many other SHMGs.

The stories told by beneficiaries of social mobilisation often indicate that the process through which they were 'mobilised' is seen as the turning point in their lives. It is seen as the process through which they gain self esteem, capacity, and skills to plan the future and take the necessary steps towards realising their goals.

Other indications of the results of mobilisation can be seen by how meetings with beneficiaries are held. Normally during a meeting with aid beneficiaries there will be a leader who meets and talks to outside visitors (and the visitor typically actively tries to involve the others). In successful social mobilisation groups all participants speak in turn, a phenomenon rarely seen elsewhere among poor and marginalised people. Furthermore, women who are otherwise often seen in the background or inside houses when outsiders meet with community representatives, are typically much more visible and often in the forefront when meeting communities having benefited from social mobilisation.

6.2. Components of social mobilisation

To enable a further discussion on social mobilisation, it may be useful to decompose the process into various aspects that needs to be in place for the process to take place. Broadly speaking these include, but are not limited to, the following:

- A certain analysis of poverty and ways out of poverty,
  - This is disseminated from the mobiliser to the beneficiaries. The analysis focuses more on social and political context and characteristics of the personal beliefs and attitudes of the poor than on economic and structural aspects most focused upon in development agencies. The analysis include the lack of self-esteem and belief in individual abilities among the poor as well as their dependency on other people, sometimes also a critique of market mechanisms as a solution to poverty related problems.
- Certain attitudes and values to be held by the mobilisers,
  - The mobilisers can be volunteers or paid staff, from the same community or from outside, and the time they invest with the groups and the individuals varies considerably. Each programme seems to have their own twist, but in all programmes the mobilisers are absolutely essential as facilitators of the social mobilisation process; and their attitudes and values are just as important as their (technical) skills. Mobilisers must themselves internalise the poverty analysis, have a very high degree of respect towards the target groups and behaviour patterns demonstrating such respect. Mobilisers don't only work at the group level, but also invest considerable time and efforts with each individual in the groups. In many programmes the mobilisers should preferably come from the same or similar communities.
- Certain attitudes and values internalised by the target group
  - This includes an improved self-esteem, the belief that there is a way out of poverty through analysing own situation and taking the necessary steps towards improvement within a setting of group solidarity in which members of the group support each other and share resources, and mobilise for collective action around common interest (e.g. political advocacy).
- Social liberation

- ‘Social liberation’ means reduced control by other members of close networks (e.g. family networks). Among the most obvious is for women to be able to take decisions affecting themselves and their family (women empowerment). It also includes liberation from local formal and informal leaders, relatives, money lenders, public servants or other who may misuse their position to control others. Social mobilisation in various ways make people less subject to such control; not only by a larger degree of economic independence but also by having access to other social relations in the groups formed; and a larger number of social relations make people less vulnerable to control by one.

- Group formation and development of social capital
  - Social capital can be defined as *“an attribute that is created in interactions among people which increases the strength and value of personal qualities like intelligence and work experience and is manifested in norms and networks that enable people to act collectively”* (Jenssen and Kristiansen, 2004, p. 5). Social capital has positive or negative effects on different aspects of development. The type of social capital developed in South Asian SHMGs is directed towards a positive effect on mutual and self-help attitudes and entrepreneurial activities. The normal group size in social mobilisation programmes is normally smaller than in most SHMGs. Often the groups only have five members. On the other hand, the links between groups are normally better developed and go far beyond financial transactions.
- Financial services
  - The financial services are more or less similar to those in other SHMGs. Rotating money between the members of a group, deciding on who should get a loan, making investments, setting aside money to save etc., stimulates and helps facilitate the process of social mobilisation. It gives the participants the opportunity to practice “learning by doing” and gives them a feeling of mastering both their personal and group development. As well, financial services foster entrepreneurial activities.
- Skills and capacity development
  - This is normally provided through training, enterprise development, and other services towards members depending on beneficiaries’ needs within the context, but also on the organisation supporting mobilisation and their priorities. But there is also an obvious aspect of skills and capacity development by the group dynamics regardless of formal training. For example, when business ideas are discussed in a group, the combined resources and experiences of all members in the group are

utilised. In some groups members actively discuss the individual business plans in detail, always involving all members. As the members' own savings are being invested in the business ideas (through a loan) they all share the interest that all members have success and minimal risk in their businesses. New ideas, good advice as well as critical remarks are given, often greatly improving the business plans.

- Organisation building in several levels
  - All social mobilisation programmes involve organisation building, which often emphasis leadership development for all the members in the group. Most programmes also involve the creation of a second and/or third layer superstructures or apexes that play an important role when it comes to implementation of the programme as well as in serving as a bank for deposits and loans for the groups, and for discussion and mobilising around common interests in a.o. advocacy initiatives[3]. These higher levels often formalise into an NGO.

Conversely, most SHMGs, even the integrated SHMGs, would focus mainly on the last few of the above components—organisation building, financial services, skills and capacity development, and social capital. 'Platform SHMGs' as defined in Figure 2 may also add other services or components depending on the interests of the development agency, and social mobilisation groups may also serve as 'platforms' for other interventions in addition to the above.

The social mobilisation presented above is presented as a model or an ideal type of a particular kind of development intervention, mainly to present the concept rather than the practice. In practice it has a range of weaknesses. There seem to be a very low level of autonomy in many groups: Many groups don't even meet if the mobiliser doesn't show up, and there are indications that a large number of groups simply stop functioning when the mobiliser withdraws even after years of mobilisation. If the groups are that dependant upon a mobiliser, there is a cause to raise questions about how much social mobilisation have actually happened. To some extent it may be that one has simply created another kind of dependency or patron-client relation; in which the mobiliser has taken the position of patron.

[3] In this report we concentrate our analysis on the microlevel and only occasionally look into the apex structures.

6.3. Social versus financial mobilisation

Most or all beneficiaries refer to economic improvements when discussing being mobilised; demonstrating that although social mobilisation is seen as something different from financial mobilisation these two are interrelated and even in social mobilisation supporters and beneficiaries look upon the economic improvements as among the main results of mobilisation. So, while proponents of social mobilisation seem opposed to a more 'pure' or 'specialist' microfinance approach it should not be seen as statements that financial services are not important. The perspective is rather that real economic improvement in financial terms depends on social mobilisation prior and parallel to financial services. Most often financial mobilization is seen as spurring social mobilisation; the mobilization of small savings or the engagement in small income generating projects nurture the social mobilisation process.

A range of informants also express perspectives saying that social mobilisation is a prerequisite for successful microfinance for the poorest:

- *Before credit there is something that has to come first; the liberation process* (local mobiliser).
- *We were brought into a group to get more strength. We started to develop the ability of speaking to each others, voicing ourselves, and then we went into savings and credit* (female beneficiary).

Some practitioners are opposed to a more narrow focus on financial mobilisation and in particular to microfinance institutions. They may claim that microfinance providers forget about the most important (non financial) aspects of poverty reduction and empowerment. Microfinance institutions are seen in some places seen as destructive as they create dependency upon the provider, as opposed to the self-help and independence that are main objectives of social mobilisation. It is also claimed that MFIs charge high interest rates that only benefit those working in the MFI or owning it.

Among practitioners there is a widespread feeling that social mobilisation is misunderstood by microfinance experts. It is thought they believe it is mainly about financing and hence misinterpret the approach. One of the problems are that such a focus leads to calculations of efficiency not in favour of social mobilisation; if only the financial aspect of social mobilisation is taken into account the overall costs of course seem high.

- *Most of those who focus on social mobilisation do not give priority to sustainable microfinance. They have brought in microfinance as a tool to make social mobilisation sustainable. Most [social] mobilisers are not good in finances, more in encouraging people. That is one reason why most microfinance institution says that Social Mobilisation is inefficient.* (Sri Lanka consultant)

It is interesting to note that when a group of poor, marginalised (tamil) plantation workers were asked to elaborate on changes as a result of a social mobilisation in which savings and credit were the main activity, out of 10 keywords related to their status 'before' and 13 keywords 'after' mobilisation only 2 were about finances. While economic improvement indeed is often the most important aspect of social mobilisation, this may nevertheless serve as a good indication measuring outcomes only by economic terms clearly miscommunicates the processes involved and results of social mobilisation and if only the economic outcomes are compared to the overall inputs, the efficiency will seem lower than in pure financial services.

6.4. Social mobilisation in Africa and Latin America

Outside South Asia the authors of this report have not seen social mobilisation programmes using the same approach as in South Asian countries. When the term 'social mobilisation' is used outside South Asia, it is with a very different meaning. It uses approaches to mobilise people around more limited public interests or as part of aid interventions. This is common e.g. in public health programs; and WHO has been using a 'social mobilisation' approach to a range of issues like tuberculosis control. One definition states that *"Social mobilisation is the process of bringing together allies from various sectors to raise awareness of and demand for a particular development programme or policy change"* (Jong, 2003). Searches on Internet as well as in databases of development literature indicate that this understanding is a more frequent use of the term outside the South Asian context.

These types of approaches can also be applied in a South Asian 'social mobilisation' approach where SHMGs are often used as 'platforms' to 'mobilise' around a public interest. Yet, it can also be seen as the exact opposite of the 'South Asian' social mobilisation model described above. It involves mobilising around a prior defined outside (public or donor) interest rather than the more open ended mobilisation for poor people's own interests that they define themselves. No matter the good intentions it often turns out as a top-down approach as the objectives and the end result of this kind of social mobilisation is already decided and limited in its approach to the poor. In practice the difference may not be that big as even the South Asian practitioners of course bring (consciously or not) their own issues and understanding of people's interests into the process.

The fact that the same terms are used on different approaches makes it difficult to identify similar approaches in other regions. Adding to this confusion, social mobilisation is also used in social science referring to mass (political) mobilisation for political change (Deutsch, 1961).

To identify 'South Asian' social mobilisation in other regions it is probably easier to look for approaches using the term 'empowerment'. That term is perhaps even more difficult to define and is used with a wide range of meanings. Most uses of the term however fit into a simply definition like: *"those empowered have secured greater control over the decision-making processes that affect them"* (Thorp et al., 2005), which also fits very well with social mobilisation. Projects targeting empowerment also have similar components as South Asian social mobilisation, including individual and group level processes aiming at changing people's perception of themselves and their own capacities as well as introducing training, group level dynamics and financial services. These are clearly comparable to South Asian social mobilisation; still the programmes have rarely the same holistic perspectives and the same focus on a particular type of process on individual and group level. Besides, many 'empowerment-programmes' elsewhere do not incorporate microfinance, while in South Asian social mobilization programmes savings and credit is normally regarded as necessary.

In Latin America, the phenomenon closest resembling social mobilisation is the approach developed by the Brazilian educator Paolo Freire and known as 'liberation theology' (although it has little to do with theology. It was a pedagogical approach). His theories, explained among others in 'Pedagogy of the Oppressed' (Freire, 1970/2007) show striking similarities with social mobilisation in South Asia. Still, there are differences: Freire is more oriented towards political mobilisation and freedom from political oppression, and his main methodology is education. The social mobilisation approach in Sri Lanka were, however, originally partly inspired by among others Freire's teaching (Silva et al., 2002).

In sum, social mobilisation as referred to in this report is seen as a particular South Asian approach to poverty eradication, while some of the same components may be found in any other region usually using other terms including ‘empowerment’.

When discussing with various informants in Sri Lanka whether the ‘Sri Lankan model’ could be applied in Africa, the responses were most often positive, but some cautions were raised that cultural factors may make it difficult. This will be returned to later.

6.5. Changes in social mobilisation programmes over time

Sustainability, understood as new and continued social mobilisation efforts beyond external support, is a major issue for these programmes. Few programmes visited in Sri Lanka seem to have achieved sustainability neither in financial terms nor in terms of ongoing social mobilisation. On the other hand, sustainability of the groups and the superstructures is perhaps not the most important; if social mobilisation is successful the social capital and other aspects of social mobilisation would survive regardless of continuation of the organisation and then the groups are maybe not needed? Others will disagree with such a point of view and argue that working with groups and organizing people into groups have a value of its own accord.

Several of these concerns were raised also by Dale in 2002 (Dale, 2002), but seemingly little has happened to address the concerns. In the meantime, several Sri Lankan as well as international actors are increasingly raising the concern of lack of sustainability and cost-efficiency in SHMG programmes. This is leading to increased focus on specialization in financial services and a drive towards making the SHMG programmes into MFI-look-alike structures. Several of the previous SHMG programmes in Sri Lanka of the 1980’s now look more like MFIs where the superstructures’ main aim is simply to be banks to the groups and their members. However, there are also some NGO-programmes that fight against the drive of becoming financial providers only as they consider other elements too important to be left out.

It appears with time that social mobilisation approaches have often narrowed and savings and credit have taken a more dominant role in many groups than originally planned at least in the larger government funded programmes (e.g. Silva et al., 2002). Other programmes often supported by local NGOs still insist on a broader social mobilisation approach. There is a feeling among some of those that the larger programmes, originally aimed at the same processes, now not only have ‘betrayed’ the original idea but to some extent have also undermined the ‘real’ social mobilisation programmes by providing a competing and more ‘bank like’ alternative to the poor.

A simple rationale for this development is that social mobilisation involves costs higher than the beneficiaries can be expected to cover over time. Hence, it must be subsidised if it is to be continued. When external support is reduced, the institutions - driven among others by the strong tendency in any institution to survive and grow - give priority only to profit making activities. The financial services have the chance to become sustainable, but most other components of social mobilisation are simply not profitable and can, in most cases, not be continued without external support.

Hence it is natural that when external support is left out, social mobilisation will probably in most cases be narrowed into bank-like services. These matters were also raised by Dale (2002), but with the current tendency by donors to insist on not subsidising the same programmes over time, the tendency will probably continue. This is not a problem in itself as continuation of social mobilisation within the same groups are not in itself an objective; when a certain level of social mobilisation has occurred the persons involved have escaped the most critical poverty level and are now more able to take charge of their own future without further support; if not, the whole social mobilisation has failed.

However, we raise the question whether the organisational structure developed through a social mobilization programme (including second and third level of organisation) is well suited to become an effective bank. There is a risk that the ‘remnants’ of previous social mobilisation programmes become an ineffective banking system. If the structure ends up in providing mainly financial services, these services may involve less optimal use of financial resources than a microfinance institution for example. Moreover, some mechanisms in the financial system of most social mobilisation programmes lead to people being ‘stuck’ within the structure. In many programmes people are not allowed to take their savings and leave the group. As a result, social mobilisation programmes may end up in making its beneficiaries linked to a financial system less effective than banks.

Over time, the role of groups is an important dimension in terms of change. The groups in social mobilisation programmes are quite static in their membership and several have been active for more than a decade. This is partly a result of the fact that there is no way to take out one's own savings to leave the group (the savings stays with the group and can only be provided to the member through a loan). The question is raised as to whether being member in a group can also hold individual members back from further improving their situation. In Sri Lanka our general observation was that important changes took place in the life of the participants during the first years of social mobilisation. But the development seems to come to a halt after some time. Groups are not only a collective mechanism to lift up the members, but can also be a mechanism that holds back members. Organising people in permanent groups may not be the best way to foster those with an entrepreneurial spirit. If memberships in networks and groups are to be effective in entrepreneurial development, they must be dynamic and change their behaviour and content according to the different members' needs. As development starts to happen, the members' needs can become increasingly heterogeneous which indicates a need for some members to shift into other groups and networks with dynamics more aligned with their needs.

7. Balancing between various types of SHMGs and MFIs.

In the following table (table 1) we try to illustrate some differences between SHMG programmes with 'specialist', 'integrated' and 'social mobilization' approaches, respectively. It is meant for analytical purposes and not as a description; for each issue there are different variables and the variations among SHMGs are so big that few or no actual SHMGs will fit exactly into any of the ideal types below.

Table 1: Comparing types of SHMGs

Issue	**Specialist savings and credit groups only**	**Integrated SHMG**	**Social Mobilization**
Centre of attention	Financial services (savings and credit)	Focus on the group, building the capacity of group, and knowledge and skills of the individual members.	Focus more on the individual, personal attitude, self-esteem, motivation etc. and the individual's role in the group
Role of groups	Groups are seen as intermediators of the members' money	Groups are seen more as institutions to serve its members with both financial and non-financial services	The role is mainly to strengthen the individual and to serve as a centre for mutual help between members.
Size of groups	Typically around 20	Typically around 20, but often more members	Typically small, around 5 (3-10) members, plus group of groups (clusters) in the village and 3rd layer (federation/NGO).

Intervention time	As short as possible (12 months)	Relatively longer. Often follows the time frame of a donor-project	Long intervention time, several years, perhaps a decade or more
Network and super-structure	Little focus on superstructure/networks; if superstructures are included they involve linking to external financial services only	The building of networks across groups often becomes an issue in a second phase of a project	More focus on building networks and superstructures, often of multidimensional nature involving issues like gender, banking, policy issues, community mobilisation, etc
Implementation staff	Field partners are hired to establish groups and train them in basic money management as well as savings and credit	Field workers organize groups and focusing on building systems for money management etc. in the groups, but also uses the group as platform for training/awareness creation on other issues.	Social mobilizers, often volunteers from the same communities, mainly focusing on motivating/sensitation.
Intervention methodology	Standardisation and manuals. Facilitator focus on finances. 'Less is more'.	Standardization and manuals, facilitators well trained in multiple areas.	Attitudes and behaviour of facilitators more important than standardised procedures. Less degree of 'professionalism'. Participatory Learning in Action (PLA) methodology.
Advocacy	No.	Normally the groups are not trained in how to participate in advocacy efforts	The groups often play an important advocacy role in the society
Expected outcome	Optimal use of members' financial resources	Good use of members' financial resources, 'culture of saving', better skills and capacity of members in business development or other things.	Economic autonomy, freedom from oppression, better self-esteem in the individual, social capital/networks for economic benefits as well as advocacy/political purposes.
Expected impact	Economic improvement (which assumedly normally leads to social improvement)	Economic and social improvement	Broader economic and social improvement, improved independence, well-being, women empowerment.
Costs	Low costs: short time span, little labour involved.	Medium costs: more time, more labour involved.	High labour costs but due to a large degree of voluntarism budgetary costs may be medium, however if intervention time is long it leads to high overall costs.
Efficiency (outcome/inputs)	In economic terms high efficiency when successful. (however, in some contexts risk may be higher as financial services are not a sufficient input).	Less efficient than 'specialist' approaches in economic terms; but less risky as training and other services leads to higher chance of success. Efficiency along non-economic dimensions depends on how one measures and values outcomes.	Less efficiency in economic terms; efficiency along other dimensions depends on how one measures and values outcomes.

From the above table it should be clear that SHMG-programmes vary a lot and several questions need to be asked when they are designed:

- Towards what kind of change should one aim? What is the objective?

- To which extent will economic improvements alone lead to the proposed development objective?
- Which inputs are needed in the actual context to enable the intended change?

If financial services alone is sufficient for economic improvement, and economic improvement again will lead to the other intended changes (e.g. social improvements), a ‘specialist’ approach is the most efficient alternative. If other inputs than effective saving and credit are needed to achieve economic improvement and no other agencies provide those inputs, a ‘specialist’ approach will fail. This decision must be taken into account for each context. Still, most SHMG programmes in Africa follow an integrated approach, but increasingly several of them are becoming more ‘specialist’ and some, like Sustain in Uganda practices a pure ‘specialist’ approach with what seems like good results. However, there are also indications that the ‘specialist’ approach doesn’t work in some context. A recent case study from India (in Burra et al., 2005) indicates that the broader social mobilisation approach has a greater impact than pure savings and credit in particular among the most vulnerable people that have little or no land. This would fit into the idea that for those people, much more than financial services are needed to improve their situation. On the other hand, in context where financial services alone may lead to economic improvement, and given that economic improvement again will lead to a range of other improvements, a social mobilisation approach may be seen as unnecessarily time consuming and expensive.

The questions above are of course under heavy debate among practitioners and supporters particularly in South Asia. It is not likely that a consensus will be reached, not least because they involve ideological and political aspects that cannot be answered by empirical investigation. However, the lack of clear-cut answers is much less problematic than the lack of discussion and reflection in particular among Northern development agencies involved with supporting SHMGs. These do make choices and create priorities all the time, but most seldom discuss the implication of their priorities along the dimensions elaborated here. It is also seen that many Northern development agencies seem to apply one particular approach in all contexts. Hence they risk supporting activities that are sub-optimal to the contexts.

7.1 Balancing between social and financial mobilisation

The above seemingly conflicting interests between social mobilisation and pure financial SHMGs should in no way lead to the conclusion that these two should not be combined. Rather, all social mobilisation programmes combine them and most SHMGs also involve some of the same aspects as social mobilisation. The point is simple. Each SHMG-programme has to search for an optimal balance between social and financial mobilisation, depending on the objectives and the local context.

While it may be tempting to choose bigger 'dosage' of social mobilisation (not least because it also includes financial and economic empowerment), it can be highly problematic: Social mobilisation is by nature more expensive as it involves much more time and labour by the people involved (beneficiaries as well as staff and volunteers) and it also needs more overall time. Although well experienced agencies claim that they can 'do' social mobilisation within 3-5 years in each community, experience has shown that more time is needed. Well functioning SHMGs focusing only on financial mobilization can often be established within months.

Furthermore, the authors believe that much of the same objectives as those targeted by social mobilisation can be achieved by a specialised financial approach: Economic empowerment alone will in many cases lead to improved independence, access to social capital, and better capability to influence one's own situation. Savings and credit by itself can also be extremely effective in improving people's self-esteem. Imagine a woman who struggles to set aside 20 cents per week, and who, after one year, can withdraw more than 10 dollars in cash. This is a real merit and an achievement that to many would have been unthinkable before joining a SHGMs, and as a result the woman will probably also gain confidence that she can achieve other things. Being able to save in cash when never before having done so can give a person a tremendous feeling of ability. Also being entrusted a credit can spur a person's self esteem. Shahidul Haque (www.sarpv.org) expresses this in a very eloquently way: *"Credit is acceptance, hope, honour and confidence. It is not easy, rather much harder to attain acceptability, honour, trust and confidence from someone's counterpart. Someone has to be committed to achieve those. Credibility and credit go together. Credibility is the only factor to get credit. So, it goes to those who have credibility, who deserves it, who can possess it and above all who can uphold it".*

To the extent that this is true, a social mobilisation approach is not only expensive and time consuming but also unnecessary as much of the same individual change are also made possible through specialised financial mobilisation. However, this cannot be concluded in any general terms; it will differ between each social and economic context and must be analysed contextually before drawing any conclusions on the approach. In some cases, financial services will not lead to economic empowerment if not supported by social mobilisation, in others, savings and credit is the only thing needed. Of course there are a lot of options between 'pure' financial SHMGs and 'full' social mobilisation. Most programmes lie in between these two. Striking the balance is perhaps among the most important decision to make if one is to support SHMGs, but unfortunately the dilemmas are seldom considered in depth.

There is also another dimension to these dilemmas. Even if one believes that an integrated or social mobilisation approach is needed, it does not necessarily mean that the same organisation should provide all the different services. One organisation, in particular small and medium NGOs, has no chance of developing expertise in more than a very small range of services, and often takes on more tasks than its capacity and competence allow. The option of inviting other organisations to provide various services to the groups should always be considered (also there are added costs, not least in terms of time to develop necessary knowledge and trust if more people and institutions are involved). This should be considered when it comes to financial services, which is a technically demanding activity: Too many NGOs involve in the 'microfinance business' without having sufficient understanding and knowledge of the challenges involved and end up providing poor services.

7.2 Can social mobilisation be applied outside South Asia?

The comparative approach of this study and the call for development agencies to choose contextually between various approaches invite the question: can the 'South Asian' social mobilisation approach be applied elsewhere, e.g. in African countries, and if so, how to do it? The answer is obviously yes, but there are some challenges to consider.

First, social mobilisation as it is practiced in South Asia can be seen not only as an approach, far less a technical field only, but also as a kind of development philosophy which is not known in detail to most African development agencies nor to Northern donors. Its main components are of course well known also in African development discourse; as previously mentioned these are often reflected in the term 'empowerment'; but nevertheless applying the 'South Asian model' would have to start with some pedagogical work to explain all the various aspects of social mobilisation to both African partners and to Northern donors involved. While this is not a particularly challenging task, it requires time: most probably days or weeks are needed with all the people who are expected to take part in a social mobilisation programme. This can easily be done; indeed courses in social mobilisation are held all the time in South Asia on all levels from higher academic institutions to training of local mobilisers. The probably best way to introduce African practitioners to the subject would be to hire some of those people to conduct courses in an African country.

Second, the social and economic contexts are not always comparable. Some particular issues should be considered: A smaller group size seems most effective for the individual and social processes involved in social mobilisation. If the economic situation of the members is even worse in many African contexts than most South Asian contexts, and the opportunities to develop profitable business less, those small groups may simply be too small for any effective financial mobilisation.

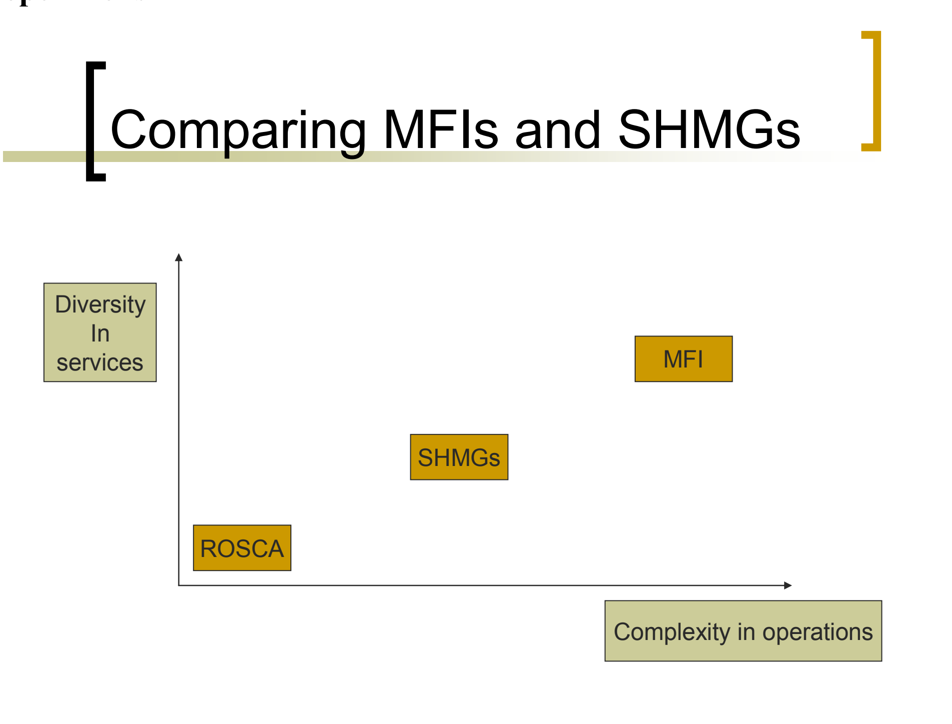
Third. While social mobilisation was promoted by many donors during the 90's, today's heavy focus on results and insistence on short project and programme periods make the approach less attractive: Social mobilisation takes longer time and the outcomes are difficult to measure and evaluate. Thus, only donors willing to take on a long term obligation should get involved in social mobilisation programmes.

7.3 SHMGs compared to MFIs

Northern development agencies not only have the choice of which kinds of SHMGs to support, but also whether to support SHMGs or a microfinance institution (MFI). Both SHMG and MFIs are important development tools and we do not support the promotion of one at the cost of the other. However, it is also important that to some degree MFIs and SHMGs are substitutes; they both provide poor people with access to financial services. It is thus important to try to understand each model's strengths and weaknesses as they compare to each other.

First of all, when academics try to explain why ROSCAs are popular their general assumption is that people don't have access to MFIs. Thus the academics make their models assuming that no MFI is available (either because they are simply not there, or because they don't include some strata of the population), and implicitly if MFIs existed people would generally not, or at least to a lesser degree, join ROSCAs. Also Rutherford (2000) is clear in indicating that MFIs can generally better serve poor people's needs for lump sums than can SHMGs. Rutherford's argument is that MFIs can be better managed and thereby they can take on more complex operations. This capability can be used to design and offer more diverse and complex financial products more aligned with the needs of poor people. Rutherford's arguments are summarized in Figure 3 where we have also included the ROSCAs to illustrate that compared to this form the SHMGs are generally more able to tackle complex operations and offer diverse services.[4]

Figure 3: Comparing MFIs and SHMGs in terms of diversity in services and complexity in operations



As Figure 3 indicates, more diverse financial services that are aligned with the need of poor people require more complex operations. Compared to MFIs, SHMGs are limited when it comes to their ability to offer flexible financial services. Yet, MFIs and SHMGs cannot only be compared based on their ability to take on complex financial operations and offer diverse financial services. It is therefore extremely important to admit that the models are based on different assumptions and objectives. Based on our own experience with SHMGs and MFIs, we have developed a list of strengths and weaknesses of each. We will outline our experience in what follows. We start out with the advantages before outlining the disadvantages:

4 Rutherford assumes that a MFI can not only offer credit, but also savings. This is often not the case since regulation policies in most countries don't allow MFIs organized as NGOs to intermediate savings. Besides the SACCOs, actually very few MFIs worldwide are allowed to mobilize savings.

7.4 Advantages in SHMGs compared to MFIs

SHMGs reach poorer individuals living in less densely populated areas

It is a general concern that MFIs struggle in reaching the poorest segments and the rural population (Littlefield et al., 2003). Johnson et al. (2006) illustrate this in a marked matrix that we have further developed for this study. In Figure 4, we have also included commercial banks and SACCOs to further illustrate that different providers reach different market segments.

Figure 4: The widespread of SHMGs and MFIs

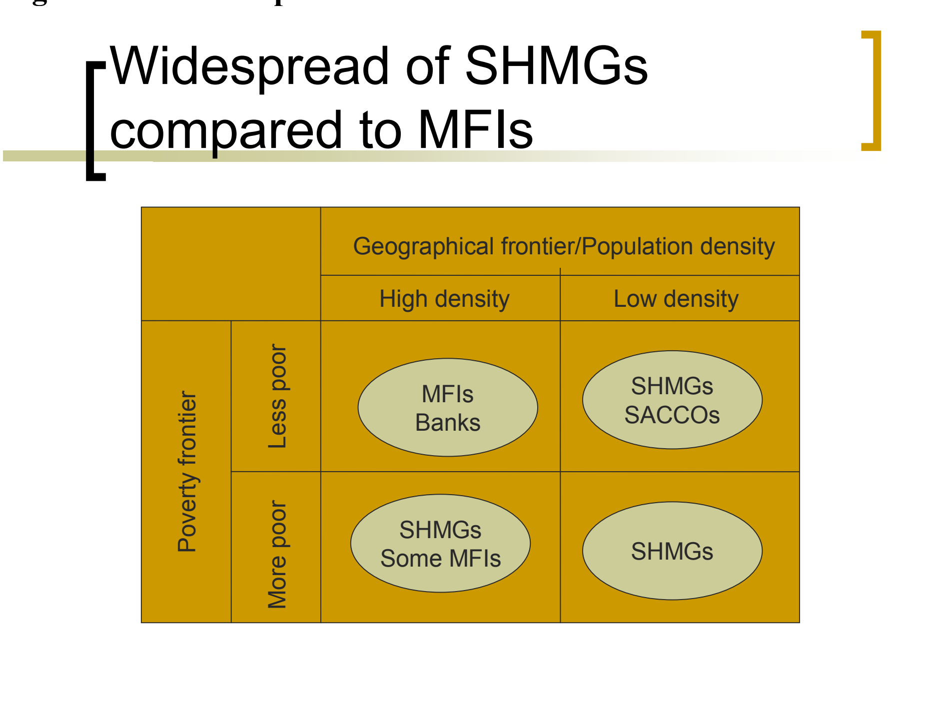


Figure 4 illustrates that generally speaking, the SHMGs are better able to reach poorer population segments living in less densely populated areas..Thus donors with an interest in bringing out financial services to poor and remote areas are increasingly turning towards the SHMGs model. The challenge they then face is whether to design a 'specialist', 'integrated' or 'social mobilisation' type of SHMGs.

The cost per member for establishing SHMGs can be low

The cost of establishing MFIs is high. Often millions of dollars are needed and too often the scale of operations remains small (below ten thousand clients)[5]. Depending on the scale and other factors the cost per client will of course differ, but on average the cost per client surpasses several hundred dollars (Ashe and Parrott, 2002). Similarly the establishment of SHMGs can be done in a much more cost efficient manner. However, exactly how cost-efficient differs widely depending on the aim of operations (e.g. 'Integrated' compared 'Specialist') and the level of professionalism in the promoting agency and its partners. We know of programmes that have cost per member ranging from less than 10 dollars to more than 500 dollars, but generally speaking the establishment of SHMGs can be done much more cost-efficiently than establishing an MFI – if the promoter (donor and partners) have the appropriate knowledge in programme design. The major reasons why the cost per beneficiary can be lower is found in the fact that SHMGs can reach out to many more members in much less time than MFIs, that paid staff is only needed for a limited time, that the needed technology (IT, offices etc.) is close to nil; and that SHMGs can replicate themselves (more on this later).

SHMGs recycle local savings and don't drain resources from the village

Most MFIs don't provide any savings. Thus, they don't help recycle the local savings which spurs development. Furthermore, if MFIs do offer savings services, resources will flow from the generally poorer people to the generally richer people. This is actually the nature of banking; to pool small accounts of savings from many depositors into a fewer larger loans (Freixas and Rochet, 1997).

Also in a SHMG the savings will be pooled and given out as larger loans. Often some members of a SHMG never get the opportunity to borrow, and only participate as savers. Thus, SHMGs also function as banks. However, the advantage of the SHMG is that the savings remain local as the money is given out as loans to people living in the same neighbourhood. Furthermore, the interests paid on the loans is paid out as dividends in the same village, and not used to pay salary to staff and costs to maintain infrastructures mostly located in the cities.

We do not argue against the high interest rates in MFIs. They may have their reasoning. We also observe that the interest rate charged in SHMGs, when the members themselves fix it, is often above 50 and even 100 percent per annum. Thus, for the net-borrowers the SHMG doesn't

[5] Of the more than 3000 MFIs reporting to the Microcreditsummit less than 1000 reach out to more than 2500 clients (www.microcreditsummit.org)

provide any financial benefits compared to the MFI. However, for the net-savers there is a huge benefit as the interest is returned to them as dividends and not used to cover the cost of expensive operations in MFIs or to pay MFIs' investors. Furthermore, for the local economy it is of considerable importance that the little money available remains locally to spur local development and serve the local population.

SHMGs have the opportunity to bring along several non-financial benefits

MFIs are, and should probably generally be, specialized institutions providing their clients with financial services only (C-GAP, 2004). As outlined in this study SHMGs can be different. Some SHMGs are specialized, while others are integrated. Many SHMGs serve as instruments for social mobilisation and/or as platforms for other services. Different from most MFIs, the SHMGs can provide their members with an excellent opportunity to learn about organizations, money management, group work, and democratic principles. Sometimes, they even evolve into civil society organizations. Furthermore, SHMGs give the members the opportunity to meet, to learn from each other, and provide a possible arena for generating positive social capital.

7.5 Disadvantages in SHMGs compared to MFIs

The types of financial contracts are limited

As indicated in Figure 3 SHMGs generally only offer very basic savings and credit services. Savings are generally compulsory and can only be withdrawn once a year, if at all.[6] The loans offered are generally very small, short term, and with very high interest rates. Thus, for those who are net-borrowers, the financial benefits of belonging to a MFI may well outperform those of belonging to a SHMG.

SHMGs are fragile structures

SHMGs are fragile structures and a slight deterioration in the loan portfolio can seriously threaten their survival (Basu and Srivastava, 2005). Furthermore, quarrelling between members, capture of the group by elite members, misunderstandings in money management and frauds are commonly observed in SHMGs as in ROSCAs. Losses of savings in SHMGs are believed to be considerable lower than in ROSCAS, but nevertheless losses cannot be generally avoided. All

[6] There are many SHMGs that only allow the withdrawal of money in the case of death or if the member moves from the village. The purpose of such SHMGs is mainly to serve as a loan fund for the members and not as a saving instrument. Naturally these SHMGs will generally not be able to mobilise considerable amounts of savings.

this can of course also happen in MFIs, but generally speaking MFIs are less fragile structures. While SHMGs may “come and go”, MFIs, at least the ones surviving the initial years, tend to survive over time.

The stigmatized are excluded

As mentioned, ROSCAs SHMGs are normally formed based on the principle of self selection of members. The most vulnerable and stigmatised can be excluded easily. Many social mobilisation programmes involve a strong role of the facilitators in selection, in particular in the beginning, but still selection is based on people with similar socio economic status. Thus, SHMGs can reinforce destructive situations of stigma and powerlessness as many disabled persons, the outcasts, and the most vulnerable are excluded from participation. This situation is, of course, not any better in MFIs. However, the advantage by working with a MFI is that these issues can probably be addressed more easily than in a SHMG where the principle of self-selection of members is a core element.

Participation in SHMGs is time consuming and can be boring?

It is repeatedly mentioned by some commentators that participation in SHMGs is time consuming. Weekly two hour meetings plus travelling time are normal. Furthermore, the leaders often dedicate even more time. The argument is that this time should rather be used for productive purposes. The argument is theoretically good, but in practice it often doesn’t hold since outside the most intensive farming periods, people generally have idle time available and enjoy social interaction with others than just the closest household members. To outsiders, participation in a SHMG may seem boring, and in some cases members have admitted to being so. However, the general observation is that participation in a SHMG to many is the highlight of the week. This illustrates clearly that participation in a SHMG involves attractive social benefits and is about much more that just savings and credit. Still the argument is valid at least in some context that a lot of time is used, which might be used otherwise for economically productive purposes.

The money available is limited?

It is generally argued that rural areas and poor neighbourhoods in general lack access to capital to enable poor people to increase their businesses and build their houses. This is the raison d'être of microcredit. However, it is now repeatedly reported (e.g. Mersland, 2007), as it was also observed during our field visits, that several SHMGs have excess of funds and are not able to lend out all the money collected from the members. This situation is especially found in SHMGs that charge relatively high interest rates on loans. This may signal the demand for unsubsidized microcredit is actually much less than the promoters have claimed. There is of course a need for capital in many areas and to many investment projects, but if the beneficiaries are to pay what it cost to deliver this capital (as the promoters of MFIs argue) then the demand is considerably lower. The savings capacity among the poor is generally underestimated as well.

8.0 Promising practices in SHMGs

In this chapter we share some promising practices in SHMGs. As the practice of donor funded SHMGs move forward and become increasingly more widespread it is inevitable that donors start searching for “promising”, “good”, not to say “best” practices. As in all donor efforts, we foresee that the dissemination of “good practices” in SHMG programmes will become increasingly common in the future. In the following we share practices which we like to term ‘promising’. We start out with those related to financial mobilization followed by practices related social mobilisation.

8.1 Promising practices in financial mobilisation in SHGMs

Keep it simple

Our most basic recommendation is to keep the SHMG model as simple as possible. Don’t make things complicated and don’t take on to many things at the start. Whenever possible, the core principles in a ROSCA should be respected: socially connected members, self selection of members and appropriate leadership. Furthermore, if the savings and credit services don’t work and the members don’t trust them then any other service or objective will most likely not work or be fulfilled. Bookkeeping should be kept at the most minimum levels, money should be handled in public when all members are present, and the whole group should be trained in group operations to ensure transparency.

Concentrate on savings

Design the model around the need of the net-savers, not the net-borrowers. Designing a model that allows the net-savers to withdraw their money, at least once a year, is important if the model is to be able to mobilize considerable amounts of savings. Donors should appreciate the true value of savings amounts that to outsiders may seem small, but to the group members are considerable.

Appropriate size of groups

Keep the number of participants per group balanced. Too few participants results in small pools of capital and increased cost of operation, while too many participants bring along longer term governance challenges to the group.

Benchmarks for SHMG programmes

Benchmarking different SHMG programmes is extremely difficult due to the different practices and objectives of the programmes. The comparison of integrated and specialized programmes is especially difficult. Components included in a programme together with contexts and target groups will strongly influence efficiency measures. Nevertheless, benchmarking is a needed exercise to improve efficiency measures. The presented numbers in Table 2 are averages for relatively specialist programmes involved in SHMGs (reported in Mersland, 2007).

Table 2: Efficiency benchmarks for SHMG programmes

Efficiency measures	**Benchmark 18 months programme**	**Benchmark 36 months programme**
Members per field officer	250	350
Members graduated per year/field officer	270	550
Field staff/total staff	33%	66%
Length of Supervision period	12 months	9-10 months
Cost per graduated member	US$ 100,-	US$ 60,-

The efficiency measures will differ depending on the level of other services provided. It also depends on the implementation methods, especially to what degree remunerated field officers are needed. In very specialized microfinance SHMGs, costs per member as low as between 10-40 dollars are reported (Ashe, 2002, Allen, 2006).

Self replication of SHMGs

In their design, most SHMG programmes don't include the possibility of self-replication. Thus, they fail to include one of the most important potentials of SHMGs. In a study on CARE groups at Zanzibar Anyango et al. (2007) wanted to find out whether the groups were still intact three to four years after CARE stopped its intervention. The surprising finding was that not only were they intact, they had increased by 258%. This story is not unique. In several other CARE, Oxfam, and Worth programmes similar stories were reported. Other SHMG programmes see no replication. The message to donors and designers of programmes is clear: Don't forget to include the possibility of self-replication in the programme design.

Several conditions can help SHMGs to replicate themselves. Among these are the following:

- The SHMG model must be simple and not involve too much need for costly materials
- Set up costs like a cash box, account books, savings and loan passbooks etc. should be paid by the groups and not by a donor
- The SHMG should be totally savings based and not based on externally injected funds
- Groups should be encouraged to replicate themselves and some of the best group leaders can be given additional training in the mobilization and training of new groups.
- Donors should not discourage the common practice that new groups pay the trainers for the service of learning how to organize their SHMG.

Capital infusion in SHMGs

Several (probably most) donor funded programs promoting SHMGs have a credit component where the groups are provided additional capital either as loans to some of the members or as a loan directly to the group that can be used to on-lend to the members. The benefit of infusion of capital is the possibility it gives the members to access bigger loans and invest in more expensive business ventures. The much promoted success of NABARD in India indicates the positive effect of injecting extra capital into SHMGs (Wilson, 2002, SRINIVASAN, 2002). Nevertheless, the SHMG movement in India is a special case. Some of the reasons for this are:

- The government, through NABARD, is strong and is able to play a leading role
- There are capable NGOs available to mobilize and train SHMG groups.
- The Indian banking system covers most corners of the country making linkage between SHMG and formal banks possible (Misra and Lee, 2007).

Most other commentators warn against infusion of capital to SHMGs. The main reasons for this are:

- It creates a typical donor-driven “credit focus” in the groups. SHMGs are first and foremost a savings system.
- When extra capital becomes available from the outside, the members’ incentives to save are reduced. In a Zanzibar CARE project, savings often tripled in the groups when the possibility to access additional resources from the outside was eliminated (Allen, 2002).
- Members' incentives to monitor operations and management are reduced (it is not their own capital that can be lost). This creates governance challenges and can hamper the sustainability of the group (see textbox 4).
- Access to sustainable credit is expensive and the payment of interests will drain resources from the local village where they are needed.
- A provider of capital that can serve the groups over time is generally not available, and if available the groups risk getting into a dependent relationship.
- Providing capital to SHMGs raises the question of sustainability and ownership of the capital provided. If a group start borrowing external money than the operations will in most cases continue to demand extra money over time. This calls for sustainable providers of external capital. This situation raises the question of ownership of the external capital. Too many times we have visited projects that have started to lend out money to SHMGs without a clear idea on how this lending activity will be organized at the project’s end. And when the question is raised as to who actually owns the loan capital, there is generally no clear answer. Thus, the lack of feasible exit strategies in this type of revolving funds is generally a major concern.
- Injection of extra capital can lead to investments in projects that are too big and will not have the possibility to survive based on the local demand and resources. Too often we get the feeling that the size of the external capital and the financed projects are more a result

Textbox 4: The sustainability in SHMGs

In a CGAP study on community managed loan funds (CMLF) in 60 programmes funded by 23 different donors the following where the findings (Murray and Rosenberg, 2006):

Externally funded groups. When loans are financed by an early injection of external funds from donors or governments, CMLF projects appear to fail so consistently that this model of microfinance support is never a prudent gamble.

Savings-based groups. CMLFs are often successful when loans are financed by members’ own savings, and there is either no external funding, or such funding arrives in modest amounts after the group has a solid track record of lending and recovering its own savings.

MFI-linked groups. When groups start by collecting and then lending members’ own savings, but subsequently receive large loans from a MFI that is serious about collection, performance has been mixed so far.

of the donors' optimistic ambitions and huge budgets than the poor people's need and demand.

Altogether, the viability of SHMGs is generally an inverse proportion to the amount of money it receives externally. Groups that generally depend on themselves will normally continue to have high repayment and capital growth rates.

8.2 Promising practices in social mobilisation in SHGMs

As social mobilisation involves financial mobilisation, the good practices presented above are also valid for SHMG-programmes involved in social mobilisation. However, there are additional considerations, and one has sometimes to make some choices or compromises between good financial mobilisation and good social mobilisation.

Make it simple - but sufficient.

Also in social mobilisation, 'less is more'. If empowerment is possible with a much easier approach or only with facilitating saving and credit, the programme will be much more cost efficient. Remember that social mobilisation is mostly about individual changes. Strategies to mobilise the resources and capabilities of the individuals are needed. Thus, efforts should be invested at the individual level and not only at the group level.

Take the necessary time, not more.

Social mobilisation takes time, and in some cases the intervention time may be a decade or more. As one interviewee said: *"It took 10 years to mobilize me!"* Perhaps donors have the most to learn from this: some individual and social changes necessarily take a long time and if donors are to accept this they may have to consider more long-term commitments than the usual project periods. However, at the same time the need for time should not be used as an excuse to keep up financing projects without the needed results, or after the results have been achieved simply to keep the programme operating.

Avoid new forms of dependency.

A lot of the groups formed under social mobilisation initiatives seen in Sri Lanka are not autonomous. The groups are fully dependant upon the mobiliser and do not even meet when the mobiliser does not arrive even after several years of mobilisation. Social mobilisation is about developing people's own resources to spur independence. It is not about creating new structures for people to become dependent on .

Social mobilisation can not pay for itself

Don't accept arguments that social mobilisation should be self-financed. In that case, it is most likely to develop into a minimalist saving and credit approach or even bank like structures on higher levels.

Concentrate on the micro level

The social mobilisation efforts seen in Sri Lanka have all created 'heavy' superstructures in which it can be difficult to observe what is happing on the micro level. But social mobilisation is first and foremost about change at the individual and smaller group level, at least in the beginning of the process. If superstructures, apexes, and similar things are needed they should come after some time and as a result of the need of individuals and smaller groups, not as a result of building structures to sustain donors' initiatives.

Learn from the South Asian experts

Social mobilisation is more a philosophy than a technique. It cannot be transferred through manuals and procedures. It takes time to learn, and it needs to be internalized. If one wants to start social mobilisation in other countries we suggest bringing in the expertise directly from South Asia.

9.0 Unsolved puzzles in SHMGs

Throughout this report we have tried to outline the important issues about SHMGs and how SHMG-programmes can improve their effectiveness depending on their objectives. At the same time, we have identified areas and issues where little consensus exists when it comes to how SHMG-programmes can be better designed and implemented. In the following summation, we look at such issues and bring in some additional issues that have not been commented upon earlier. We call these issues unsolved puzzles, and by doing so we want to encourage donors and SHMG-programmes to try to document their experiences related to these issues. Furthermore, we want to call on researchers to work on these puzzles. SHMG-programmes have already demonstrated their potential in combating poverty and spur development. Thus, by solving more puzzles, and disseminating new knowledge, the SHMG can become an even more effective and efficient development tool.

Are SHMGs and MFIs substitutes?

MFIs and SHMGs are obviously similar, but also very different types of institutions. We call for empirical research to investigate to what degree people consider them alike and to what degree and why people shift between them. Furthermore, we recommend studies to investigate the need for and the effect of the graduation strategies typically found in SHMG-programmes where the idea and objective are that as the members improve their situation, they should move from being SHMG members to becoming MFI clients. A priori we actually believe that most people would like to be members of both SHMGs and MFIs as the institutions don't serve all the same purposes.

Should SHMGs be federated into SACCOs or similar superstructures?

This is an issue we haven't touched on much in the study, but it is increasingly the subject of debate. SACCOs are similar to SHMGs, but with more members and more formality. To many observers, the evolution from a ROSCA into a SHMGs and further into a SACCO is natural. We have found this logic in several SHMG-programmes like for instance the SCC Lake Basin programme in Malawi, and in Sri Lanka the SHMGs all belong to SACCO-kind of superstructures. Yet, other observers, like the main CARE mentor Hugh Allen, warn against a federation strategy. His view seems to be that stand-alone SHMGs are important in themselves and often the members of a SHMG don't have any interest in being federated into something "more". Thus a federation strategy can easily be a donor-driven agenda. Furthermore, federation brings in the issues of competence, management, and governance. A SACCO is a complicated operation (see textbox 5). Our own position is that if it is not clearly demanded by the members and the needed competence is available locally, federation of SHMGs into SACCOs should generally be avoided.

> **Textbox 5: Securing the survival of SHMGs**
>
> *"By keeping membership below 30 people, meetings are short and the workload light, thus reducing the need for paid professionals. Whenever paid professionals are needed (either to run the management or to keep accounts) something isn't right. This means, in the first case, that the scale is too large and in the second the record-keeping system is too complex. Record-keeping systems get complex when scale requires a separation of transactions in place and in time. By keeping everyone together while transactions take place record-keeping systems can be extremely simple and transparency is better assured. This ensures that while the managers have direct accountability the members do too: what they witness is what they agree to."* Hugh Allen, 2nd of February 2007 at the MFP discussion group.

Can SHMGs become sustainable?

The possible long term survival of SHMGs is questioned by several observers (Rutherford, 2000, Murray and Rosenberg, 2006). According to Murray and Rosenberg (2006) SHMGs need long-term supervision and monitoring if they are to survive over time. The building of superstructures like in Sri Lanka or the piggybacking on a church as in Tuinuane in Kenya (Mersland, 2007) are ways to avoid leaving groups alone after the initial phase. Other programmes tend to continue the monitoring of the groups for a long time (often many years) after the groups have reached maturity levels, while other programmes continue using the groups as platforms for other services. Therefore, the groups are not left to operate on their own. For example, when Anyango et al. (2007) wanted to study the sustainability of different SHMGs promoted by CARE, they found it extremely difficult to find a former programme where the groups had been trained and then left to operate on their own. E.g. in Niger where CARE started a SHMG programme in 1991, they still continued to work with many of the same groups. Similarly, we have often found that new donors come in and inherit former donor initiated SHMGs. Thus many of the same SHMGs are often "counted" in different donors' reports. This typical situation also illustrates that donors tend to use SHMGs as platforms for other services. We believe that SHMGs can be sustainable because SHMGs are, if well designed, similar to ROSCAs. When researchers have been able to come up with good explanations for the existence and survival of ROSCAs we argue that also SHMGs can become sustainable. However, we recognize that empirical studies of the sustainability of SHMGs are scarce and therefore necessary. Similarly it would be interesting to learn more about to what extend the same SHMGs are counted as the result of different donor programmes.

The specialized versus the integrated versus the social mobilisation approach to SHMGs

To us it is not any more a puzzle whether SHMG-programmes should aim for specialized microfinance groups, for integrated multipurpose groups, or for social mobilisation type of groups. It is all dependent on the context, the available resources, and the objectives of the programme. Nevertheless, we want to mention the issue also here since we foresee that this debate has just started and will probably develop into a schism soon. Thus to nurture the debate and to provide arguments this is definitely an issue which should interest researchers.

What motivates savings in SHMGs?

The level of savings in SHMGs depends not only on the poverty level of the members, but also considerable on the design and practice of the SHMG per se. Good leadership and transparent money management are basic conditions when mobilizing savings. Avoiding external capital, allowing flexible savings amounts, combining voluntary and compulsory savings, and relating loan amounts to a member's savings amount are design elements that can help spur savings. Furthermore, to charge high interest on loans and pay out these incomes as dividends to the savers will increase savings. Accessing the savings every years is also beneficial. This can be done in a time-bound model where the savings once every year is paid out to the members. All these design elements are assumptions that probably hold true. Still we recommend researchers to verify the effect of each of them. Also the identification of other design elements motivating savings is needed.

To what degree should SHMGs be used as platforms for other services?

Increasingly donors and governments want to use SHMGs as platforms for nearly all types of services. SHMGs shouldering too much responsibility beyond their capacity was by the field staff considered the second highest risk factor in some Indian SHMGs (Jeyaseelan, 2005). Is it empirically supported that survival rate decreases in SHMGs with more platform services? Not only may using SHMGs as platforms hamper their sustainability, it also raises the question of being donor driven versus being demand driven. Are all the platform services being provided actually demanded by the beneficiaries? If that's not the case, does it matter? Shouldn't donors be allowed to introduce needed changes like stopping female genital mutilation and domestic violence, and give people the opportunity to learn to read and write even if the target beneficiaries don't put these issues on their priority lists?

Should more elements of social mobilization be introduced in African SHGM-programmes?

In Sri Lanka we observed a conscious thinking on how membership in a SHMG can awaken people and provide them with a place to gain self confidence, learn by doing and from peers and to build social capital. In the programmes we visited in Malawi, as well as other SHMG programmes we know of in Africa, we have not to the same degree observed a similar strategy or thinking. Thus, we believe that African SHMG-programmes can learn from Sri Lankan SHMG-programmes. Nevertheless, we have not found easy ways to facilitate the sharing of knowledge and practice. We are also uncertain to what degree social mobilization as it is practiced in Sri Lanka relates to local culture. Our recommendation is therefore to initiate some pilot studies accompanied by action research. Such studies should first and foremost facilitate interaction and peer to peer learning between e.g. Sri Lankan and Malawian SHMG programme officers and leaders.

Is the introduction of SHMGs hampering the existence of ROSCAs?

As mentioned Bouman (1995b) warns against modernizing ROSCAs and introduce SHMGs. We agree that by introducing SHMGs, donors run the risk of hampering a system that has been practiced for centuries, is still widely practiced in developing countries, and provides the members with important services. We, however, remain optimists. Nevertheless, we recommend researchers to investigate how the introduction of SHMGs influence the traditional practice of ROSCA and to what degree SHMGs bring along non intended negative effects.

Should the poorest be integrated or should they form their own groups

Many programmes aim on integrated the poorest into groups where also more resourceful members belong. For example, in programmes working with disabled persons this is often the case. Theoretically this fits into a mainstreaming philosophy which we welcome. However, we have also seen that the poorest and most marginalized often find support and strength among their peers, while they are often continued marginalized when integrated into other groups. Can the social mobilization approach also be used successfully to work only with the poorest? Should the poorest form their own SHMGs? Are there donors willing to assist the probably long time it will take to mobilize the very poorest and help them to organize their own SHMGs?

10.0 Recommendations

- SHMG-programmes should be considered a first-rate development tool and not a second-rate alternative to mainstream MFIs.
- SHMG-programmes should be evaluated on their own premises and not on traditional microfinance premises as for example the "good practices" promoted by C-GAP.
- Donors to SHMG-programmes should be aware that increasingly there are "good practices" available for SHMGs. Most programmes will benefit from learning from these practices without necessarily copying them as no SHMG programme is fully similar to another.

- Donors and others involved in SHMGs should be aware that the origin of the model comes from the ROSCA system. It is thus recommended that new SHMG-programmes take into account the strengths of the local way of practicing ROSCAs.
- SHMG models should be kept as simple as possible and financially they should first and foremost be designed around the need of the members that are net-savers.
- The specialist approach to SHMG can in itself bring along positive financial and empowering effects. It is not always needed, as some NGOs seem to believe, that projects must integrate several components. Thus, when appropriate in the right context we recommend more specialist SHMG-programmes to be designed and implemented.
- Social mobilisation as practiced in Sri Lanka has elements that definitely should inspire and influence SHMG-programmes elsewhere. But social mobilisation is first and foremost a philosophy and not a technique. Blueprints are therefore impossible. In contexts like in Malawi where people struggle to identify opportunities and where there seem to be a need for people to become more aware of their own resources, we believe that social mobilisation elements are specially needed.
- Social mobilisation can not be learned from textbooks. It must be practiced and gradually internalized within the promoters, mobilisers and beneficiaries. To facilitate such an internalization process we recommend peer to peer learning between Sri Lankan and African SHMG programme officers and leaders. But even to the extent social mobilisation is applied in African countries we recommend an approach that is as simple as possible; in most cases that would mean shorter intervention time and a simpler approach than many South Asian programmes.
- SHMG programmes need to document their efforts and results and to team up with researchers. There are still several unresolved puzzles and available knowledge is generally not disseminated. Mainstream microfinance has invested considerably to document and disseminate lessons learned. Since the SHMG-model is partly about microfinance it runs the risk to be marginalized, invisible and overrun by the mainstreamists if its promoters are not able to come up with solid research to support the model as well as lessons learned that can be shared across institutional and international borders.
- There is much more to microfinance than just money. Microfinance can be used to spur people's self esteem and reinforce social mobilisation processes. Microfinance as a development tool should not only be left in the hands of 'bankers' (they are also needed),

but should also be continuously used in grassroots more holistically oriented development efforts.

- Donors should not overlook the potential of groups to empower and raise the incomes of poor people. Thus, group formation should continue to be an important strategy in appropriate contexts.

Annexes

Annex # 1: Terms of reference for the study

Terms of Reference for Study on

Methodological approaches to promote economical development through Social Mobilisation and community-managed savings and credit associations

1. Background

It is often observed that poor people lag behind when economical growth provides opportunities for the better off strata of 'the third world'. While economical growth can lift a country out of poverty, such processes may increase the gap between the upper and middle classes and the poor. The apex goal of development assistance is alleviation of poverty, but it is a paradox that most efforts are directed towards those having a chance of giving relatively quick results, who may be poor, but not the very poorest.

Among the poor – women have a particular interest, since they carry the heaviest burdens and experience the most severe limitations imposed by the poverty situation. At the same time, women have also demonstrated greater potential than men to work together to boost each others efforts to succeed in overcoming poverty. We believe that participatory approaches and the phenomenon of 'self-help' in group dynamics have an interest far beyond its practice. This study intends to label a methodology poorly defined so far, in order to make it better accessible for operations where it could suit well.

Microfinance has become an important development tool in the fight against poverty. Through coordinated donor efforts, particularly through the Consultative Group to Assist the Poorest (C-GAP), important lessons have been documented and disseminated among supporters and practitioners. These efforts have increased donors' effectiveness and increasingly researchers have been able to document the positive impact from microfinance services. Nevertheless, several puzzles remain unanswered and still the very poorest remain generally uncovered. In addition; practitioners and supporters of microfinance often differ in their understanding of and priorities between various objectives and elements of microfinance. This leads to different methods or approaches of intervention, and it can also easily lead to misunderstanding between stakeholders.

During the last two decades the 'institutional approach' to microfinance has been much promoted. In this approach the main objective is to build sustainable institutions which can deliver financial services to the poor over time. Grameen Bank in Bangladesh and Banco Sol in Bolivia are examples of success stories within this approach. Even though several exceptions exist it still stands to reason that the institutional approach has first and foremost been able to cover urban and semi-urban poor with some kind of a-priori resources.

Faced with the frustration that the institutional approach has problems in reaching the poorest and is generally narrow in its focus (building sustainable institutions), several practitioners and supporters with more holistic approaches have continued to develop innovative methodologies. As a result another, approach which we can call 'Community-managed Savings and Credit Associations (CSCA) ' has emerged. In this approach the self-selected members pool savings and distribute these as loans among themselves.

The motives, both among the members and the donors, for forming a CSCA differ widely. While some see the CSCA as “mini-banks” which offer savings and credit to their members, others consider their main role in social mobilization and in building a democratic civil society. Other again see them as type of incubators for Income Generating Activities (IGAs) or as channels for achieving other objectives related to e.g. HIV/Aids, gender, etc.

Not only the motives, but also the practice in CSCA programs differs widely like savings only vs infusion of capital from a donor; social mobilisation 'from inside' vs more standardised (external) facilitation and training;, presence or absence of training in IGA or cross-cutting issues, as well as degrees of poverty in target groups.

Several Norad-supported Norwegian Civil Society Organizations (CSOs) are involved in various types of interventions with microfinance-related activities (institutional-, CSCA- as well as other approaches), seemingly without making a clear conceptual or methodological distinction between the approaches. This study is based on the understanding that there is a need to better understand in which type of microfinance the interventions fit in, and what are the strengths and weaknesses of the different designs and methodologies in various contexts and with regards to various main objectives.

2. Purpose of the study

The study will assess and identify the most efficient approaches to organise people for self-help activities in general and CSCA-related activities in particular as strategies to come out of poverty.

Observing the differences in objectives and approaches in programs and projects related to microfinance as well as the increased practice of the CSCA approach, the aim of the present study should be to:

- Identify, analyze, and compare different models for CSCA promotion
- Describe and analyze how the term “social mobilization” is understood by various stakeholders and how social mobilisation can be promoted in CSCA programmes.
- Analyze the strengths and weaknesses of promoting streamlined (group formation and savings/credit only) vs more holistic CSCA programmes
- Identify strengths and weaknesses in the CSCA approach compared to the institutional approach
- Identify unresolved issues and problems in CSCA promotion and implementation.
- Analyze the relevance of CSCA promotion in reaching the MDGs
- Identify and analyze different practices on training of CSCA groups.

The study will contribute to enable the organizations to better learn from the study it is of utmost importance to involve them throughout the process. To secure the relevance of the study for the organisations one of them, the Development Fund, has been identified as the main case to be studied. As a medium sized well reputed organization with CSCA experiences from several countries as well as having comparatively interesting experiences of different approaches to microfinance on three continents, the Development Fund stands out as an interesting case where to identify lessons learned which can benefit the other Norwegian organizations. In addition also CARE-Norway and their experiences will be consulted along the process of the study.

Of particular interest is the issue of to which extent, and under what conditions, the supposedly widespread success of good results from social mobilization in CSCA-programmes in particular in South Asia can be achieved in African contexts, including which contextual (socio-economical, cultural, others) factors that may restrict this and how to overcome them.

3. Scope of work

The study shall analyse available documentation in micro-finance development, supported by interviews with a range of various stakeholders (implementing agencies, civil society organisations, donors and back donors). A special emphasis will be put on identifying and analysing differences in approaches to microfinance among practitioners and supporters, including different understandings of the relations between microfinance and social mobilisation. In addition field observations of relevant practices in two regions/countries shall be studied: In South Asia using Sri Lanka as case, in particular in the districts of Badulla and Hambantota, where social mobilisation and CSCA promotion has been a common element in most development programmes undertaken by both the government as well as civil society organisations through the last 20 years. In the South Asian context, a main issue will be whether long-lasting impact can be documented from the CSCA programmes.

In Southern Africa using Malawi as case, where the promotion of CSCA programmes has been less attached to the term social mobilisation. Here most programmes can be seen as modernization efforts of traditional savings and credit groups often referred to as "tontines", "Merry Go Round" or Rotating Savings and Credit Associations (ROSCAs). Malawi is of particular interest as a priority country for Norwegian cooperation, and where social mobilisation and CSCA promotion seem relevant and may have a further potential to alleviate poverty. A major issue in Africa and Malawi will be which successful cases of CSCA can be seen and under which pre-conditions and methodologies, with a particular focus on comparison with South Asian experiences.

4. Implementation of the study

An independent consultant will be responsible for carrying out the study. Due to the exploratory methodology of the study the consultant should team up with another highly qualified person during part of the desk study, the field visits and the work-shops in Norway. The inclusion of the person is included in the man-day budget and the budget below.

A reference group consisting of one representative of Norad, one from Development Fund, one from Bistandstorget and the consultant will be established. The reference group shall invite all other CSOs involved in Norad-supported microfinance activities to give inputs to the various phases of the study.

Development Fund shall, in addition to taking part and giving inputs to all phases of the study, make available all relevant documentation on microfinance activities supported by DF, facilitate contact to relevant partners, and assist in planning of field visits.

Sources of information for the desk study:

- Available academic literature
- Reports and studies available, among others at the www.ruralfinance.org and www.microfinancegateway.org
- Plans and reports made available from the Development Fund, CARE and Norad
- Other relevant information

5. Tentative plan

Content	Description
Preparation	Designing the study and preparing the TOR
Reference group	Meeting # 1
Desk study	Identifying and analysing available academic and practitioner literature
Reference group	Meeting # 2
Work-shop 1	Participants from Norwegian donors and other relevant stakeholders Results from desk-study Exchange of experiences
Preparation for field work in Malawi and Sri Lanka	Based on the desk-study and inputs from the workshop a specific TOR for the field visits will be worked out.
Reference group	Meeting # 3. Focus on follow-up of workshop, and plans for field visits
Field Work	Visits to Sri Lanka and Malawi
Draft Report	Summarizing findings, analysis, lessons learned and recommendations
Reference group	Meeting # 4
Work-shop 2	Main seminar at Bistandstorget Presentation of main findings and lessons learned
Reference group	Meeting # 5. Discuss possible changes in the report and follow up of the study
Final report	Summarizing findings, analysis, lessons learned and recommendations
Workshop in Malawi	Organizing a workshop in Malawi for relevant stakeholders Presentation of lessons learned and recommendations

Annex # 2: List of people and organisations visited

Norway:

- **Group of Norwegian NGOs** involved in support to Microfinance and Self Help Microfinance Groups (e.g. Care-Norway and the Development Fund)
- Norwegian Development Network (Bistandstorget)
- Norad

Sri Lanka:

Institutions and programmes:

- **Badalgumbara Development Foundation** (FIOH Cluster Level Organisation)
- **FIOH Social Mobilisation Programme in Mahiyangane**: Representatives of ICO management, cluster level organisations, project staff, youth club, mobilisers and beneficiaries
- **FIOH Social Mobilisation Programme, Dikwella Hali-Ela estate**: Representatives of project staff, mobilisers, beneficiaries, youth club members.
- **Former Social Mobilisation Programme** among tamils in plantation sector in Moneragala: former manager and group of former beneficiaries
- **Forut programme in Ambalantota**; management, staff, groups of beneficiaries
- **Future in Our Hands, Badulla**: Director Prabath Kumara, staff and field officers
- **Hambanthota Womens Development Foundation**: programme management and staff, project staff, mobilisers, groups of beneficiaries (Walawa womens federation)
- **Social mobilisation Foundation, Hambantota**: Programme management and staff, mobilisers, groups of beneficiaries.

Resource persons:

- **Dr. Gamini Batuvitage**, Gemidirya
- **M.P. Gamage**, resource person in Hambantota
- **Mr Anura Athapaththu,** microfinance and SHMG consultant, has worked with Sarvodaya and later SEEDS (Sarvodaya Economic Enterprise and Development Services
- **Mr Azmi Tassim**, director of Hambantota Chamber of Commerce
- **Mr Balasubramaniyam**, former director of a Social Mobilisation Programme among tamils in plantation sector, Moneragala

- **Mr Hector Hemachandra,** previously director of Integrated Rural Development Programme
- **Mr. K.A.J Kahandawa**, Head of Programme Support Unit of Operation Day's Work Sri Lanka, former director of Future in Our Hands, Sri Lanka
- **Mr. Upul Batagoda,** Chief Executive Officer of Stromme Microfinance Asia

Malawi:

- **Care Malawi**: Staff, VSL coordinator, group members (beneficiaries)
- **Civil Society Agriculture Network of Malawi** (CISANET): National Coordinator Victor Mhoni,
- **Harvest Help/Find Your Feet**: Manager and staff, project staff and groups of beneficiaries in Simlemba
- **Malawi Lake Basin Programme:** Management and staff head office, staff at Monkey Bay office, savings and credit groups in Monkey Bay.
- **Malawi Microfinance Network**: programme officer
- **Malawi Social Action Fund**: Community Savings and Investment Promotion (COMSIP) manager
- **Malawi Union of Savings and Credit Cooperatives**: Mr Leroy D. Banda
- **Oxfam Malawi's Shire Highlands Sustainable Livelihoods Programme:** management and staff at Oxfam's Thyolo office, executive committee of Mchamwai rural community Business organisation, and beneficiaries
- **Sakata Green Care** (Community Savings and Investment Group), Zomba: Comsip project staff, group of members/beneficiaries
- **Ulimi Sacco**: management and board members
- **World Relief**: Mr Gibson Nkanaunena

Annex # 3: An example of a SHMG programme

SAVING FOR CHANGE (MICROFINANCE AT OXFAM AMERICA)

JUNE, 2006

The formula for funding Saving for Change (SfC) in a poor Africa country is as follows: $1,000,000 will underwrite the costs of organizing, training, supervising and monitoring an initiative that will involve 70,000 women as members of 3,500 member managed savings and lending groups in more than 800 villagers are too distant and too poor to be reached profitably.

This level of performance is achievable. During the pilot phase in Mali, two local NGO partners with 21 staff trained in the SfC methodology built the program to 610 saving and lending groups with 13,400 members in just twelve months. Groups receive one year of training (including 12 weekly sessions and progressively less frequent monitoring visits) but after the staff train one group in a village the group leaders take on much of the responsibility for training new groups. Group leaders have already trained more than two hundred of the 610 groups showing their growing capacity to expand the program. Three-quarters of the groups trained by the staff in April and May of 2005 are already operating independently (except for occasional staff visits to monitor progress).

Extrapolating from a study of the pilot phase groups we expect that 56,000 of the 70,000 women will have accessed improved saving and lending services for the first time through their self-managed groups and 35,000 will have started a new business. In addition, 42,000 will increase their business income and 28,000 will have purchased an insecticide impregnated bed net. Malaria is endemic in Mali. In September 2006 and 2007 we will restudy the pilot phase groups to track changes in:

- Food security - half said they did not have enough to eat last year;
- Assets – the number and value of productive and household items and animals;
- Rate of malaria infection - 60% last year.

As of April 2006, 75% of each group's fund (on average) was on loan to other group members with three-quarters of the loans used for business purposes. Less than one percent of the nearly 5,000 outstanding loans were late. Money is loaned from the group's savings (there is no loan from an external source with this "savings led" model) and women are serious about collection because it is their money that they are lending.

The cumulative cost is projected at $14 per group member which pays for the local NGO partners that train the groups and Oxfam's costs for developing the methodology, manuals and systems and selecting, training, supervising and evaluating the partners. After a region is graduated the group leaders will be in charge of expanding and supporting the SfC groups (except for monitoring performance and training group associations). An exit strategy, then, is built in from the day SfC is launched.

By building on longstanding village traditions of saving and lending and mutual assistance and seeing this intervention as a "time limited catalyst of group development" Saving for Change is a response for the half billion households worldwide that lack access to improved financial services. Local NGOs with good outreach and training skills, but lacking the financial sophistication to manage a loan fund can effectively serve those left out. This is microfinance "for the rest of us." As Oxfam builds its SfC Initiative to 10 countries and 1,000,000 villagers, it will use this experience to advocate for and disseminate SfC to agencies and donors capable of expanding outreach well beyond what Oxfam can do on its own.

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