REACHING THE HARD TO REACH:

Comparative Study of Member-Owned Financial Institutions in Remote Rural Areas

THEMATIC PAPER

Linkages and Networking of Member-Owned Institutions in Remote Rural Areas

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COADY
INTERNATIONAL INSTITUTE
ST. FRANCIS XAVIER UNIVERSITY

with funding by **FORD FOUNDATION**

Antigonish, Nova Scotia, Canada • June 2008

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ISBN: 978-0-9680725-7-8

Published by the Coady International Institute, June 2008

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Abbreviations

AP	Andhra Pradesh
ASCA	Accumulating savings and credit association
BPD	Bank Pembangunan Daerah
BRI	Bank Rakyat Indonesia
LPD	Lembaga Perkreditan Desa
MACS	Mutually Aided Cooperative Society
MC2	Mutuelle Communautaire de Croissances
MFI	Microfinance institution
MOI	Member-owned institution
PACS	Primary Agricultural Credit Society
SHG	Self-Help Group

Linkages and Networking of Member-Owned Institutions in Remote Rural Areas[1]

A few years ago I met a group of women in a village near Nizamabad, in Andhra Pradesh state in India. They were members of self-help groups (SHGs) that had been promoted by the NGO which had organised our meeting. These groups, each with around fifteen members, had done well. The women had made regular monthly savings, and then the groups had taken loans from nearby commercial bank branches. All the members who wanted to had taken loans, and they were all very pleased.

The meeting, however, was not about the SHGs; it was about the 'MACS' (Mutually Aided Cooperative Society), a new cooperative institution which the NGO had recently helped the women to form. This was a 'second-tier' member-owned institution (MOI), owned by the SHGs. Its main purpose was to take bulk loans from microfinance institutions (MFIs) such as the one which I was involved, and to on-lend to the groups which would lend to their individual members. The plan was that the groups would eventually replace their bank loans with money from the MACS.

I asked what interest rate the self-help groups paid to the MACS; 1.5% a month, they told me, or 18% a year. Then I asked how much the groups were paying the banks; 1%, they said, or 12% a year. In either case, they themselves paid their SHGs 2% a month; this meant that their groups' margin was halved when they borrowed from the MACS rather than from a bank.

I was puzzled. Why, I asked, did they prefer the MACS to the banks? Were the banks unwilling to lend or was it difficult to get the loans? Or were the bank branches too far away from their homes? 'Oh no,' they said, 'the MACS office is further away, and the bank manager wants to lend more. We prefer the MACS because it is ours.'

I tried to find out what difference the members' ownership actually made. I pointed out that the margin their self-help groups made was indeed theirs, because they had no expenses and it all went to increase their own group fund. The MACS though, had to cover its costs. Its secretary had to be paid and they had to pay rent for their small office. In fact, the MACS was paying 15% to our MFI for its bulk loans and it barely covered its costs.

Again I asked, would it not be better to borrow from the bank so the groups could get cheaper money and they could retain the entire margin? 'No,' they said, 'the MACS is ours.' Both sides may have missed some of our conversation, since we were talking through a translator, but colleagues who understood English and Telugu assured me afterwards that I had got it right. The women thought that ownership was more important than economics.

Because of this experience and many others like it, I both admire and dislike MOIs and the federations and networks to which they link themselves. This study has helped somewhat to clarify my own views. I hope that it serves the same purpose for our readers.

[1] The author would like to acknowledge peer reviewer Ursula Kraus-Harper.

The Purpose and Nature of Member-Owned Institutions

MOIs can link or network in three ways. They may deal directly with market suppliers of inputs, as with a commercial bank to access liquidity or a consulting company to access technical support. They may create or join a second-tier structure such as a federation, network or apex, and they may have links with bodies which support or regulate MOIs, such as NGOs or government agencies. Small MOIs, particularly those operating in remote areas, may need to link with other institutions for financial intermediation, or in order to obtain non-financial services such as advice or capacity building. Or, they may be compelled to link to 'higher' level institutions for regulatory purposes, or because they are a part of a multi-tier national cooperative structure.

Summaries of the seven cases which were chosen for this study are appended to this paper. Five of these local primary MOIs, the SHGs in West Bengal and Andhra Pradesh in India, some village savings and loan associations (VSLAs) in Niger, the MC2s in Cameroon, and a rural cooperative in Mixtlan in Mexico, have close links to other 'higher level' secondary groups of groups, or to other types of institutions, in order to help their members achieve the objectives for which they joined the primary group.

The other two MOIs have no very close linkages. The Muntigunung LPD (*Lembaga Perkreditan Desas*) in Bali is itself a government sponsored institution, and thus has some supervisory and financial links to local government bodies, but these relationships are for formal refinance and regulation rather than for membership or commercial dealings. The Jardín Azuayo Cooperative in Ecuador is a large self-sufficient institution with semi-autonomous branch offices but has no especially close links either with second tier MOIs, private businesses or government bodies. These last two MOIs may borrow or deposit funds with banks, or carry out other inter-institutional transactions, but the relationships are less close and are not with institutions which are in any way owned or controlled by them. The purpose of this paper is to examine whether these close linkages serve their purpose, whether the costs of making and maintaining the link are more or less than the benefits which the link provides.

Linkages can be to secondary higher tier MOIs, or to private businesses, NGOs, government bodies, or to banks, which may of course themselves be owned by private interests, by cooperatives or by government. Our seven cases include examples of all these, if we define any kind of inter-institutional relationship as a 'linkage.' If by this term we intend closer and more permanent relationships, which are of course possible between private businesses as well as MOIs, such as between a manufacturer and a sole distributor, or a franchisor and franchisee, then all our five close linkages are between primary and secondary level MOIs.

The word 'network' is also used in some of the cases, in particular to describe the grouping of VSLAs which CARE has promoted in Niger. The grouping in Niger, however, is not merely a vehicle for the exchange of information or for aggregating individual attempts to influence policy, like many associations. It carries out financial intermediation functions and requires its member MOIs to deposit part of their members' savings with it, and it generally acts like any secondary tier cooperative or federation. We have therefore treated it as such.

The five closely linked MOIs are linked to another MOI. The linkage has to be sustained financially, but also through other means which cost time and involve risks. The members, whether individuals or primary groups, must provide risk capital for the secondary MOI. This may be legally defined as equity shares, or members' savings may be effectively risk capital, which can only be withdrawn when a member leaves, sometimes without interest, and may be lost altogether. We attempt to assess the total cost of this type of linkage, and to relate it to the benefits received.

Group institutions also demand loyalty. Members sometimes have to use their services even if alternative suppliers may be preferable. They also demand time and attention and members have to participate in the management, since they own the institution, however remotely. This time, and time spent on meetings or other business, is generally unremunerated. The direct costs of the services provided may be lower than from private sector providers, but this advantage can be outweighed by the weaknesses which are usually associated with cooperative institutions.

The following table summarises the nature and origin of the linkages and the types of institutions which are involved.

Table 1: Origins and Nature of Linkage Relationship

	PACS Purulia	MACS Andhra Pradesh	VSLA Niger	Mixtlan Mexico	MC2s Cameroon	LPD Indonesia	Jardín Azuayo Ecuador
Initiator of linkage	Secondary MOI	Primary MOI	NGO promoter	Primary MOI	Promoting bank and NGO	No close linkage, use gov't bank	No close linkage
Nature of linked institution/s	Secondary MOI	Secondary MOI	Secondary MOI	Secondary MOI	Secondary MOI	Government.	Private co. for remittances
Strength of link	Weak	Weak	Weak	Strong	Strong	Very weak	Strong

There are also other costs. Any business can fail, but the record of MOIs is generally worse than that of private businesses. The members of the institutions in our case studies have chosen to take these risks, for good reasons, but their linkages to second-tier MOIs involve a further level of risk. There are obvious reasons for this; groups are inevitably slow to make decisions, tasks are often not performed because of the 'village donkey' problem; everyone thinks it is everyone else's job to feed it. Skilled and honest managers are hard to recruit and retain because members are reluctant to pay their employees more than they earn themselves, and because the managers lack the personal stake which drives individual enterprise.

In spite of all these costs, all the members of these primary MOIs have voluntarily joined their groups, and in five of the seven cases the groups have joined secondary groups, or groups of groups. There may be no alternatives, particularly for people in remote places, or the benefits may outweigh the costs. Our purpose is to use these case studies in an attempt to determine if such linkages are worth while or not.

It might be argued that the market will decide. People will not join or remain in groups, and nor will the primary groups remain linked to secondary groups, unless they themselves believe that it is worthwhile to do so. Unfortunately, it may sometimes be necessary to 'second guess' members' own decisions. They may lack the information they need to choose alternatives, and they may be misled by well- or ill-intentioned governments, politicians, NGOs or donors, all of who may promote group enterprises for a variety of reasons.

There are particular reasons why primary and secondary MOIs may be particularly valuable for people who are remote from the rest of society, for geographical, social or other reasons, but there may also be some disadvantages. There may already be alternative private market suppliers, or the group institution may be crowding out potential private businesses by occupying the institutional space which they would fill. We shall subject each linkage, and the secondary institution which is involved in it, to a series of questions. If they cannot be answered favourably, other primary MOIs should not be encouraged to follow the example.

The success of any linkage is affected by the timing, nature and origins of the relationship. Was the linkage initiated by the primary or by the secondary partner, or by some external third party, and does the secondary institution exist to serve only primary MOIs of this type or are they one among many other types of members?

Linkages and networks also differ as to the services which they provide. Table 2 summarises the services which are provided from various sources to the seven MOIs. These are described in more detail in the brief accounts of each case study which follows.

The secondary MOI or other linkage partner may provide direct financial intermediation to its primary partners through savings and credit and access to additional external funds. They may assist in building their capacity and they may provide some form of supervision to ensure the financial security of the primary group, and they may help to 'empower' the primary groups and their members. All these relationships are of course two-way in that both partners must benefit, but our concern here is with the services provided to the primary MOI partners in the linkages.

Table 2: Services Provided by Linkage

	SHGs to PACS, Purulia, West Bengal, India	SHGs to MACS Andhra Pradesh, India	VSLA Niger to CARE-promoted 'network'	Mixtlan Mexico to UNISAP	MC2s Cameroon (previous links to Bank & NGO)	Muntigunung LPD Indonesia 'links' to gov't dev't bank and regn.agency	Jardín Azuayo Ecuador
Savings	Yes, but limited flexibility and not insured	No	Yes, compulsory	Yes	Yes	No	n/a
Loans	Yes	Yes	Yes	Yes	Yes	Yes, secured and very limited	n/a
Capacity building	Yes, some	Yes	Yes	Yes	Yes	Some, linked to supervision	n/a
Supervision	No	No	No	Yes	Yes	Yes	n/a
Empowerment	Indirectly, through party cadres	Yes	No	Yes	Yes	No	n/a

Questions to be Asked about Linkages, and About any MOIs Engaged in Them

We shall therefore classify the linkages or networks by their origins and the nature of the relationship and the services they provide, and we shall attempt to judge the success of the linkage by asking five basic questions about it.

1. Does it help the MOI to be financially viable, by reducing risk and/or increasing net income?

2. Does it help the MOI to offer more or better quality, services?

3. Does it help the MOI, or others which may start to achieve broader outreach, to reach more people?

4. Does it help MOIs to achieve deeper outreach to reach poorer people?

5. Does it improve the governance of the MOI?

Because all the 'higher level' institutions to which five of the MOIs in the case studies are linked are also MOIs, some further questions must also be asked. These questions, earlier versions of which were used to appraise self-help group federations in India, are as follows:

1. Are there alternative and preferable suppliers, or could existing institutions be reformed so that they could be better sources of services for the primary MOI than the new secondary MOIs?

2. Secondary group enterprises are 'middlemen', a new level of intermediary between clients and service providers. Is the cost added in this case justified by the additional level of services which is provided?

3. Financial institutions must be safe and should be regulated and supervised, particularly when they are serving poor people who are financially unsophisticated and for whom even a small loss would be very serious. Are the authorities able adequately to supervise the secondary institutions?

4. The weaker members of any group are usually those who benefit the least from membership, and groups are always attractive targets for political 'hijacking.' Enforced loyalty to a group can be a form of disempowerment and marginalisation for the poor. This applies equally to federations of groups. Will the weaker members of the federation benefit as much as the larger and wealthier ones?

5. MOIs have to be promoted, their members and staff capacity has to be built, and the cost of this process as well as the cost of continuing operation often has to be subsidised. This is a much more complex and expensive process than for primary groups which can often be formed and operated by members themselves. Is the particular type of secondary MOI likely to depend on subsidy?

We shall briefly discuss the extent to which each of the linkages described in the case studies satisfies each of the above questions. Not all the above questions can be answered definitively, particularly the second where a financial value has to be put on the service, but we shall attempt to make a reasonable assessment. Readers should, if possible, assess the case studies themselves. Their political views or their experiences of similar situations, may lead them to quite different answers. However, such questions should be asked, particularly by members of MOIs and those who promote linkages of this kind. We hope that our answers and their implications will encourage all parties to look critically and objectively at such linkages, rather than to promote them for their own sake.

The Cases, And How They Stand Up To the Questions

SHGs and PACS, West Bengal

The self-help groups (SHGs) in Purulia are linked to the local Primary Agricultural Credit Society (PACS). The groups generally owe their origin to the PACS or, in some cases, to the promotional efforts of local Communist party cadres, and they use the PACS primarily as a source of loans.

SHGs elsewhere in India are more commonly promoted by NGOs and then linked to commercial banks to obtain loans. These NGOs are often remunerated for this service by the government of India. Some SHGs are also promoted by individuals for a fee or as a public service, or increasingly by members themselves following the example of their neighbours.

There are over 100,000 PACS in India which is more than twice the number of commercial and regional rural bank branches. In remote areas, such as that covered by the Bararanga PACS, there is little competition either to promote SHGs or to service them once they have been formed. The PACS is therefore in a quasi-monopolistic position. This is typical of Indian rural areas, but in many other states the PACS are moribund, or have been taken over by government, or have no interest in any business other than their traditional crop lending and farm input supply services, mainly for men. In West Bengal, with a long tradition of socialist government, cooperatives are stronger than elsewhere and they have naturally formed links with SHGs which are themselves effectively very small informal cooperatives.

The linkages with the SHGs were initiated by the PACS, which actually promoted the SHGs. The PACS have been in existence for many years, long before there was any such thing as a self help group in India. The SHGs provide only a very small proportion of the PACS' business, although their savings are becoming an important source of funds, and the quality of the loans can significantly improve what is often the very low quality of their traditional crop loans. In West Bengal, unlike some other Indian states, groups are only nominal members of the PACS, with no voting rights, and this further reduces their impact on governance.

The PACS provides a far from perfect service. It does not allow the SHGs full use of their savings, its interest rates are higher than banks' rates, deposits are uninsured and the PACS itself may be insufficiently liquid to provide all the SHGs with the funds they require. In other perhaps more important ways, the PACS service is better than a bank would offer. The staff is accessible, locally based, and they understand the local community. The quality of financial and non-financial services received by SHGs, and indeed by other clients, varies very much from one PACS to another depending to a large extent on the commitment and interest of the Secretary who actually manages the PACS, and is effectively appointed by local government.

The PACS are not actually genuine cooperatives at all in that they were originally established by the government from 1904 onwards on a 'top-down' basis, as a delivery channel for cheap credit for famine relief. This weakens their financial position and means that they have traditionally been seen as sources of 'soft' money from government, rather than as community institutions for financial intermediation.

Many have, however, existed for over a century and are most unlikely ever to be allowed to default on their obligations. Many have been 'hijacked' by better-off farmers, often with political links, but government will ultimately stand behind them. This does not mean that savings deposited in a PACS will always be readily accessible; they will probably not be lost but they may be locked in.

These weaknesses do mean that the issues of ownership and governance are relatively unimportant as far as the SHGs and their members are concerned. The SHG members play little role in their management and their influence in the PACS is thus far very limited. The involvement of the local political cadres may in the long term be potentially dangerous, but the position of the communist party in Purulia and West Bengal is so secure that this is not likely to be an immediate problem.

Although the PACS are legally MOIs and are thus the obvious linkage of choice for SHGs, the actual condition of the PACS and the relative unimportance of the SHGs in business or membership terms means that the relationship with the SHGs is more like that with a private or public sector financial institution than a member-owned one. The rural locations and large numbers of PACS mean that they are the best and indeed often the only choice of service provider for SHGs in remote areas, especially in West Bengal when they are operating reasonably effectively. Their legal form has little direct impact on the relationship and the lessons are more relevant to linkages between small new MOIs and any kind of older larger institution than between MOIs.

MACS, Mehbubnagar, Andhra Pradesh

This case is unique in that these MACS, unlike many other such institutions in the same Indian state have in part evolved out of a long-standing social movement against caste and gender discrimination. The Dalits ('untouchables') and tribals of Mehbubnagar are remote socially, economically, climatically and geographically. It would be absurd to claim that a few years' provision of microfinancial services could overcome India's 3,000 year old caste system. The Dalit SHGs could not on their own have much impact on their members' social position.

The peculiar circumstances of Mehbubnagar District and the State government's active promotion of self-help groups, supported by extensive assistance from international agencies and the availability of the new MACS act which frees cooperatives from interference by the State, have combined to achieve something closer to genuine social change than is usual for financial interventions of this kind. The empowering effects of microfinance have been grossly exaggerated, but they have come closer to being achieved here than in most other places.

The multi-tier federations are nevertheless in no way a product of the individual women members' or the self-help groups' own initiatives. They have been promoted by agencies such as the UNDP, the World Bank, CARE and the State Government, none of which would individually be considered an ideal Godfather and whose combined efforts might normally be seen as a recipe for disaster. The social capital generated by the members and their communities along with their trade union, appears nevertheless to have enabled them to take advantage of the assistance they have received and to achieve remarkable financial and non-financial results. It remains to be seen whether these young institutions will survive the pressures of commercial competition and subsidy, but the achievement to date is remarkable.

Andhra Pradesh (AP) is itself unusual. Microfinance came late to India, but it came mainly in AP which has been the cradle for most institutional initiatives, from government, NGOs and for-profit microfinance institutions. As a result, microfinance has achieved a high market penetration in the State and even as early as 2003 there was one self-help group for every 22 poor rural inhabitants of the State (Harper & Nath, 2004).

This figure is affected by the membership of many people who are not below the official poverty line and by people who are members of more than one group. Microfinance has probably reached a higher proportion of the total population of this State of some 80 million people than in any other entity of a similar scale, anywhere in the world. Most of the SHGs in AP are linked to MFIs or to banks through state-subsidised programmes, and many are members of MACS although few of them are as strong as the Mehbubnagar example. The PACS have only a very small share of the SHG market in the state.

This success has in some places been destructive, leading to over-indebtedness, suicides and a fierce backlash from political and administrative interests motivated both by fear of losing their own authority and by genuine concern about high interest rates and multiple borrowing (Ghate, in Dichter & Harper, 2007). In Mehbubnagar, possibly because of the long history of social discrimination, the multi-tier linkages between SHGs and MACS have had generally positive results. Almost all the SHGs in the State are linked to secondary MOIs; this situation is totally different from that obtained elsewhere in India where such linkage is the exception rather than the rule.

This success could not have been achieved by the groups on their own without the higher-level MACS. It was fortuitous that the concept of the MACS, as a genuinely member-owned and controlled cooperative unlike the PACS, was first introduced in AP. There are few if any comparable examples elsewhere in India of SHGs having achieved anything near the same level of social empowerment, with 'untouchable' women being able to hold office in large and visible institutions.

The quality of the services which are offered to the groups is not high and the services are nevertheless not cheap, as is demonstrated by the story from Nizamabad at the beginning of this paper. As is all too common in credit-led microfinance, the savings facilities are generally inflexible and savings are seen as a route to loans rather than a valuable service in their own right. The operating costs of the MACS are often heavily subsidised and their long-term viability is questionable.

As the scale of members' needs increases, the MACS may also fail to compete with the commercial banks which are able to offer lower cost loans as well as more secure and more flexible savings products. The banks have been slower to accept SHG business in AP than elsewhere because of the aggressive activities of the MFIs and MACS. As the group members become more sophisticated they may come to realise that social empowerment and 'ownership' of the system come at a heavy cost. Many groups already borrow from banks, taking advantage of the government-subsidised loans which they can offer as well as other services. This may eventually reduce group members' willingness to give their time to the governance of their MACS and to pay their higher interest rates, and the linkages may be fatally weakened. Even if this happens, the empowerment impact may be expected to survive.

VSLAs Niger

The Village Savings and Loan Associations (VSLA) methodology was pioneered by CARE in Maradi, Niger in 1988. VSLAs are no more than a systematic version of the traditional ASCA (accumulating savings and credit association), which has evolved from the even more familiar ROSCA (rotating savings and credit association) and has always been a very popular form of financial intermediation almost everywhere in the world, and particularly in West Africa.

ASCAs often break up because of inadequate records, dishonesty and mishandling of cash, and because minor disagreements and other problems are unresolved and are allowed to fester over time until they cause the groups to collapse in acrimony. The VSLA system ingeniously deals with these issues through the use of simple but rigorous procedures which enable even groups with no literate members to maintain good records, to operate a simple insurance system, and at the same time to determine their own savings contributions, interest rates, loan terms, and penalties for non-attendance or late repayments. Most critically, they 'draw a line' under their operations on a regular basis, usually every year, and 'cash out' and share out their accumulated fund on a mutually acceptable basis.

The VSLA system was originally designed to cope with the remote circumstances of rural people in Niger, one of the world's poorest and most thinly populated countries. The system was evolved as a 'sideline' product by the CARE office in Niger whose major concern in the area of financial services was the development of a normal MFI (which has since failed, along with most of the other donor-driven MFIs in Niger). The VSLAs were for poorer people, particularly women, and were intended as 'stand-alone' village institutions which would be able to survive and continue to serve their members without any external linkages, subsidy, or other long-term assistance from CARE or elsewhere. Linkages were in no way a part of the original design which was specifically intended to enable groups to operate successfully without linkages of any sort.

CARE has also promoted VSLAs in twelve other African countries, as well as in India, Bangladesh and Haiti, and other NGOs such as Oxfam have taken up the concept elsewhere. The experience in Zanzibar provided a good test of the original concept since CARE promoted some sixty VSLAs there in the year 2001 and then went away. In 2006 a group of researchers studied what had happened in the intervening five years (Anyango, et al., 2007). About 100 new VSLAs had been formed and only one of the original sixty had broken up, with most if its members having then formed a new group.

The member dropout rate from the Zanzibar groups had been 3% annually, from all causes. This contrasts very favourably with the 10% rate of dropouts from Indian self-help groups (Sinha, et al., 2008) and the members had enjoyed a 53% annual rate of growth in their savings. Some of the trainers who had built the capacity of the original groups had set up their own promotion institution which was promoting new groups for a fee from the members at no cost to CARE or any other external donor. There is no evidence that any of the groups in Zanzibar or elsewhere apart from Niger, have linkages with networks or federations.

Our case study describes a later development in Niger where the promoting institution has not gone away. CARE, like other NGOs is an enterprise whose staff members depend on it for their livelihoods and want it to survive and grow. The Zanzibar case, where CARE went away, is actually quite unusual.

CARE responded to some VSLAs' (or *mata masu dubara* as they are known in Niger) requests for more loans than their members' savings and accumulated surplus allowed by helping the VSLAs to form federations or 'networks' as they are referred to in the case. The federations would intermediate between member VSLAs which needed more money than they had and those with temporary surpluses, and could also access funds for the VSLAs from MFIs or cooperatives. CARE, like all NGOs, also needed distribution channels through which its services could reach their beneficiaries, and they have used the federations to provide cereal banks for communities which are suffering from a shortage of basic staple foods.

The experience of these VSLA federations has been mixed. Their member VSLAs have great expectations of them and it may be too early to state definitively whether or not these will be realised. There are some clear disadvantages: The VSLAs have to capitalise the federations with an initial entry fee which has discouraged some from joining, and they have to deposit their savings with the federation rather than being free to use them for on-lending to their own members as was originally intended.

It is also impossible to manage the business of federations without some written records and paid staff. This means that the financial situation cannot be as transparent as it was within the VSLAs themselves, and the federations also have to take a 'spread' on the loans they make to the VSLAs in order to cover their costs. This in turn means the VSLAs cannot make any surplus on loans which they make with funds borrowed from their federation, unless they charge more for them than for loans made from their own accumulated savings. The VSLA and its funds no longer 'belong' to the members as they did.

One great merit of the VSLA is the regular 'cashing out', which minimises the building up of inter-member tensions. This has had to be abandoned for the new federations which are too formalised to be effectively closed down every twelve months. There have apparently not been any problems as a result of this but the experience of Indian self-help groups, which are very similar to VSLAs except that they do not 'cash out' and they are linked to banks or other institutions such as the PACS or MACS, suggests that such problems are likely to emerge as the groups mature (Sinha, et al., 2008).

The main incentive for VSLAs to join the federations is the possibility of accessing loans, but the two VSLA federations which are described in the case study have only lent out 28% and 32% of the savings which their member VSLAs have deposited with them. One VSLA chose not to borrow again after its first experience. This suggests that many VSLA members do not actually have any real need for additional money. As often happens, it is easier to complain that a resource is insufficient than to make effective use of increased supplies when they do become available.

The federations are also required to register and in theory, are subject to the West African PARMEC law which applies to all formal deposit taking institutions. The authorities have not actually taken any action to supervise the federations and it is not clear that this will be of any benefit to their member VSLAs if it does happen.

Poorer people, particularly those living in remote areas, have few opportunities for business. This indeed is one of the main reasons they are poor. They may ask for more credit, but if the loans come from their own and their peers' resources, and are commercially priced and have to be repaid, they know very well that they should not risk borrowing more than very small amounts. The members of the Nigerian VSLAs are some of the poorest people in one of the world's poorest countries (UNDP, 2007). It is unsurprising that the modest funds which they are able to accumulate in their own un-linked VSLAs are generally sufficient for their needs.

The VSLA members are unlikely to be able to manage effectively the new federations. The need for literacy, for official registration, and for professional staff means that these federations will be 'distant' from the people who nominally own and control them. The members are naturally grateful for the heavily subsidised cereal banks which CARE has provided through the federations, because they live in an area which is subject to recurrent famine. This does not mean that they need the federations for financial intermediation or that they can genuinely 'own' them. The federations merely perpetuate the dependence on CARE and its donors which the VSLAs were designed to reduce.

Microfinancial services from whatever source cannot on their own make very poor people living in remote areas significantly better off. They can help them to alleviate temporary cash flow problems, to keep their small savings more securely and more remuneratively, and to reduce the cost of emergency borrowing. It is now generally accepted that microfinance is not a 'magic bullet' which can somehow create 'development.' Many other inputs are needed and when they do arrive people may need to be able to manage higher level MOIs, or linkages to other institutions, in order to access the larger sums which their improved economic position enables them to invest effectively. Women in poor communities in rural Niger may be some of the last people on earth to reach that position. In the meantime the simple VSLA concept, which is a modest improvement on their traditional community methods of managing scarce resources, is probably all they need. Linkages and federations will only be needed later when holistic development has reached Niger through other means.

Mixtlan Savings and Credit Cooperative, Mexico

The Mixtlan Savings and Credit Cooperative in Mexico is a long-established local MOI which has recently become a member of a second tier MOI. They have joined UNISAP, a strong federation, and have generally benefited from the linkage. Even the poorest people in rural Mexico are generally much better-off than the poor in India or Africa, and indicators such as literacy as well as the relatively high market penetration by formal financial service providers confirm this. Mixtlan itself serves rather poor people in a remote rural area, but its members' average savings balance is US$1,788, and the average outstanding loan balance is almost US$2,500. This is not microfinance by most standards. Nevertheless, so-called MFIs which focus on the poorer sections of the population are still important in Mexico, with over 3 million clients, and can also be very prosperous, as the recent remarkably profitable IPO by Compartamos demonstrates. MOIs also account for a high proportion of the market particularly but not only in rural areas.

The Mixtlan SACCO was set up in 1960 with support from the local church, and sometime later it became a member of a small second tier institution, the West Federation, which had a total membership of seven MOIs include Mixtlan. In 2002, in response to the national financial crisis which weakened people's confidence in all financial institutions, Mixtlan and the other member MOIs of this earlier federation became members of UNISAP, a large statewide federation of forty MOIs. Mixtlan has grown rapidly since that time, partly in response to this linkage.

About 80% of the members of UNISAP are urban societies. Mixtlan is the most remotely situated of its member MOIs, and also enjoys the highest market share in the two rural communities where it operates—in those communities over 80% of the people are members. The strength and volume of business contributed by the other urban MOIs to UNISAP have undoubtedly enabled the federation to offer or provide access to a wide range of services at prices which individual MOIs such as Mixtlan would never have been able to access on their own.

UNISAP provides financial intermediation like most second tier MOIs, although this service is not of great importance to Mixtlan since its members' financial needs can generally be met from their deposits. More vitally, Mixtlan's membership of UNISAP gives its members confidence that their money is in safe hands and that they will not be defrauded as so many people have been in recent years in Mexico. UNISAP monitors the performance of its member MOIs regularly, and through their membership they are automatically protected and supervised by UNISAP's membership of BANSEFI. This is a government supported tertiary level institution which provides overall supervision and plays the role of a central bank for the cooperative financial sector and stands ready to assist any of its members which are in need of temporary liquidity.

Remittances are a vital service in Mexico, particularly in rural areas such as that served by Mixtlan, where the population has fallen significantly because of migration to the United States. Family members are able to remit funds to Mixtlan for the extraordinarily low flat fee of US$1.60. This is particularly valuable to the women who make up half the membership of Mixtlan, many of whose husbands are working north of the border. It would have been quite impossible for the MOI on its own without the assistance of UNISAP to arrange anything remotely similarly inexpensive for the fifteen or so remittances which it receives every day on behalf of its members. They would have had to use the services of Western Union or a similar private institution, which would have cost ten times as much, or even more.

UNISAP also enables its member MOIs to offer a service whereby their members can settle utility bills through their local accounts and it offers training and capacity building, particularly through the provision of information technology, which also provides UNISAP with routine information to monitor the MOIs' performance.

Many membership institutions demand 'loyalty' from their members, which effectively denies members the right to use alternative suppliers of the services they seek. UNISAP, like other well-managed MOIs, avoids this. Mixtlan and the other member MOIs are free to use other suppliers as they wish, if and when they can find a better deal. This ensures that the ultimate members get the best available service, and that UNISAP has to meet competition, although it is very unlikely that any competitive suppliers could be found who would be willing to match UNISAP's services and prices in the remote areas where Mixtlan operates. These are effectively cross-subsidised by the urban members of UNISAP, and Mixtlan pays an annual service fee of under US$10,000 for all the services it receives.

These services have enabled Mixtlan to prosper in spite of the fall in population caused by emigration. The MOI has compensated for the reduced numbers living in the small towns by extending its services to people who live in even more remote places, who are more likely to be poor than the initial core membership. The linkage has thus facilitated an increase in both the depth and the breadth of outreach of the Society.

There is however, a serious threat. UNISAP finds it costly to deal with small MOIs such as Mixtlan, and they have suggested that it should merge with a neighbouring and somewhat larger institution in order to aggregate their requirements and make it more economic for UNISAP to serve them. This proposal is strongly resisted by the management and membership of Mixtlan, particularly the older members who place a high value on the personal contacts and local knowledge of the staff of what they consider to be 'their' institution. This perception is strengthened by the fact that the manager of Mixtlan has occupied his position for some forty years. The members are almost certainly correct to believe that he would not be able to provide the same level of individual service if his office was subsumed within a larger merged entity.

It is almost inevitable that some form of merger will take place, or that UNISAP will not be able to continue its present level of service to Mixtlan, because it has to compete for its larger urban member MOIs' business with commercial banks and other alternative suppliers. Only time will tell if Mixtlan and its members will continue to benefit from UNISAP's services in the same way as they do now.

MC2s Cameroon

The MC2s (*Mutuels Communautaires de Croissance*) in Cameroon have been promoted and supported mainly by Afriland First Bank, a privately-owned institution whose management appreciates the need for socially-responsible initiatives which can also, in the long term, build a rural customer base for the Bank. The acronym MC2 deliberately echoes Einstein's equation for energy. Afriland has also developed new sharia-compliant savings products for its Muslim clients, which have attracted large numbers of customers who were previously un-banked, and large volumes of relatively low-cost funds (Rippey, in Dichter & Harper, 2007). This is an unusual case of an indigenous African bank investing in the long-term development of its mass market customers.

Afriland's efforts with the MC2s have been supported by capacity building services from ADAP, an NGO, and the MC2s have essentially been products of these two institutions since their establishment. The MC2s appear to have successfully coped with ill-advised subsidised competition from foreign donors, at least in the one case which has been observed (Muyoka MC2, 2002).

Now, however, Afriland and the NGO have taken a joint decision to assist the MC2s to form their own second tier institution, the AMC2, which will take over the functions which they originally provided. The evolution of this MOI, which is as yet only nominally owned and controlled by its member MC2s, is at an early stage and it is not yet clear that it will be able to take over and provide the linkage functions as effectively as Afriland and the NGO have done. It is always difficult for any promoter of an MOI to hand over its management to its members and even more difficult when the members are themselves MOIs rather than individuals. For the purposes of this paper we shall appraise the success of the MC2s' linkages with Afriland First Bank and ADAP in the hope that our conclusions will apply equally to the new linkage with AMC2.

Since the MC2s were originally established by the second level institutions, it is clear that their breadth and depth of outreach, like their very existence, are fostered by the linkage. Their capacity continues to be built with the assistance of the NGO. Afriland provides cross-subsidised funds at lower cost than the MC2s could obtain elsewhere, and the Bank has also been involved in the establishment of MITFUND, which provides more low cost funding when the MC2s need it. The MC2s also benefit from tax concessions which have been facilitated by Afriland. They are supervised by COBAC, an arm of the West African Central Bank, and this function too has been facilitated by the efforts of Afriland. The MC2s owe their existence and their continuing empowerment and viability to their original promoters.

The direct subsidies are limited to the rather high figure of 10% of assets, and it is not altogether clear that the MC2s will be able to avoid continuing dependence on subsidy after their direct relationship with Afriland and ADAP is terminated. However, the relationship with the Bank is mutually beneficial so it is likely to be continued under the new institutional arrangements.

The Bambalang MC2 is only lending out US$35,000 of its members' savings balances of $60,000, but is nevertheless also borrowing US$25,000 from the Afriland Bank. It is not clear why the Society is under-lent and is siphoning money from its area of operations in this way, and nor is it clear why it also needs to borrow additional funds from the Bank. Like many MFIs which enjoy subsidised funds, it may make economic if not social sense to borrow concessional funds in excess of the demand for loans and to 'park' them in low risk deposits at a higher yield. Nanjikom, the other MC2 which is described, operates a more balanced account with US$112,000 of members' savings and US$100,000 of loans, and only a small balancing overdraft of US$4,000.

This difference suggests that the linkage to Afriland First Bank may not always be beneficial to the MC2, since the Bambalang MC2 appears to be borrowing unnecessarily. Nevertheless, both Societies are viable. It remains to be seen how their standard of financial management and the efficiency of their deployment of funds will evolve once they cease to be directly linked to the Bank.

LPD Indonesia

The Muntigunung LPD in Bali, Indonesia is peculiarly Indonesian, and indeed Balinese, in its relationships to traditional community structures and to government, which are themselves inextricably interlinked. It is owned by the traditional council which is nominally controlled by the assembly of all the villagers, but is effectively directed by 21 families with inherited positions in the village hierarchy.

The LPDs were established by government in an effort to reach out to the smaller rural villages and to poorer people in them. Even the poorer and more remote parts of Bali, such as the area covered by the Muntigunung LPD, are better off than much of the rest of Indonesia, and community norms and structures are even stronger so that a Balinese institution cannot be said to be typical of Indonesia as a whole.

The LPD has no close linkage to any one institution, although it is closely regulated by the BPD (Bank Pembangunan Daerah), the regional development bank, and its sister institution the PLPDK (Pembina Lembaga Perkreditan Desa Kabupaten/Kota). Both these latter institutions are part of local government, and the village head, or lurah, who combines official administrative functions and traditional authority, also plays a major part in the governance of the LPDs. Issues such as staffing, interest rates, loan conditions and the disposition of any surplus are laid down by the government bodies, and the LPD, rather like the Indian PACS, is quite close to being a government-controlled entity. Some limited training and capacity building is provided by the PLDPK, but only insofar as this improves the LPD's ability to conform to the regulations and to supply the necessary routine information.

The LPD nevertheless benefits to some extent from the traditional trust between community members which is central to Balinese society. Loans have to be secured, as they have to be in the far better-known village units of the Bank Rakyat Indonesia (BRI), but this is quite a simple process and almost any asset, movable or otherwise, is acceptable. The main sanction for repayment is the threat of ostracism from the village society, even going so far as loss of the right to be buried in the village. This is said to be far more serious to a Balinese than forfeiture of any item of property, and it ensures that the LPD maintains its record of 100% on-time loan recovery. This mutual trust is very much linked to the village and would be unlikely to be transferable to any secondary level institution to which the LPD might be linked.

Members are said to value 'their' LPD because their savings which are deposited with it, and any profits it makes, are re-invested in community. In Muntigunung the manager of the LPD is also the schoolteacher and a local person of standing. Nevertheless, in contrast to BRI, whose savers and savings deposits exceed borrowers and their outstanding loans by 3 to 4 times, there are about 170 borrowers and only 88 savers in the Muntigunung LPD and a significant proportion of the deposit balances are compulsory savings which borrowers are required to maintain.

The members apparently want to borrow more than their deposits and savings will allow, but the LPD has only been allowed to borrow about one third more than its members' savings and at a strictly commercial rate of interest which makes on-lending at the interest rate fixed by the authorities uneconomic. LPDs are permitted to borrow from the BPD, but only to very strict limits, and this means that many members' requests for loans have to be rejected.

A quarter of the savers are women, but almost 90% of the borrowers are men. This suggests that there is some discrimination in the loan rationing process, presumably because the management of the LPD is in the hands of the traditional male-dominated village hierarchy. The hierarchy is supported by the conservative lending policies which are imposed by the government-run development bank and supervisory agency to which the LPD is compulsorily linked. It is not clear why the LPD has not been able to mobilise more members' savings, given the high degree of trust which it is said to enjoy. The rank and file members may feel excluded by the elite, or, as is common in many government sponsored member-owned financial institutions, they may perceive the LPD more as a channel for occasional largesse from government than as a genuinely local source of financial services.

The members are by no means satisfied with the LPD, although they have a strong sense of local ownership and they have asked the government whether it could be converted into a cooperative and linked to the local second tier-union of societies. The union and the government turned down this request. It was felt that such a link would reduce the sense of local ownership and it would also not be an economic proposition for the union. There have also been suggestions from the government side that the LPDs should be merged into larger groupings and transformed into for-profit non-bank finance institutions, but the members have thus far resisted this since they feel that such a change would destroy the LPD's local character. Other LPDs have apparently made this change and have, as a result, moved away from rural areas and into loans for salaried people rather than the self-employed. 'Mission drift' of this kind can affect MOIs as well as independent microfinance institutions.

Jardín Azuayo Ecuador

The Jardín Azuayo Savings and Loan Cooperative is the only case in our collection where there are no close linkages other than normal commercial transactions. Jardín Azuyao works through twenty-three offices. Unlike many secondary-tier MOIs such as UNISAP in Mexico, it does not rely on a majority of wealthy urban societies to cross-subsidise a smaller number of rural members, since it has grown to a size where it can itself provide the services for which a smaller MOI might find it necessary to enter into some sort of federation.

Twenty of its offices are in rural areas, but Jardín Azuayo has nevertheless succeeded in designing a system which successfully combines the advantages of decentralised self-managed and independent local entities with the strengths of centralised direction of policy, treasury management and access to a large and growing range of services, provided either by it or by other organisations.

The key to this success appears to be the way in which Jardín Azuayo has delegated many functions to local offices, which effectively operate almost (but critically not exactly) as if they were independent primary societies which were members and owners of the central society, rather than branch offices which were responsible to their zonal office and then to head office like ordinary bank branches. Each office has a similar staff complement, remunerated according to the same system, and they offer the same range of products, on the same terms.

Each office and each parish within the larger areas covered by some offices, elects a board of local directors. These directors are not paid but they nevertheless do much more than typical cooperative committee members. They work on a part-time basis alongside the office staff and they have the first and final authority to approve or reject all loan applications made in their areas. By doing this, they ensure that loan decisions are based on local knowledge. They keep in touch with day-to-day operations and the work of the full-time staff, and they substantially reduce operating costs. Partly as a result, the Jardín Azuayo's portfolio quality is maintained at a high level and transaction costs are as low as 3.6% of their assets. The local directors perform this work in addition to the usual duties of cooperative committee members, and they are for that reason much better able to participate in the overall direction of the Society's affairs.

The local directors, as well as the employees, benefit from frequent exposure visits to other offices and institutions in order to encourage shared learning and to foster a sense of belonging to the same entity in spite of their quite widely scattered locations. The Society also has a strong social mandate, and operates a very active education programme, which includes links and scholarships to a local University.

Jardín Azuayo has to compete with commercial banks, a number of smaller local credit unions and similar institutions, as well as private moneylenders. It offers savings and loan products which are for most circumstances both the most competitively priced and the most accessible for its members. It also enables its members to access other services, such as remittances, which in spite of the low fees charged by the private provider from which Jardín Azuayo obtains the service, contribute over 4% of the Society's income. The settlement of utility bills and access to an electronic funds transfer system will ultimately enable members to transfer funds free of charge to the members of seventeen other societies, through nearly two hundred offices. The Society also delivers government pensions and poverty relief through its offices. If a member dies, his or her family receives a one-off grant of US$200, and outstanding loans up to US$3,000 are insured in case of death.

Jardín Azuayo has normal commercial linkages with its supplier of remittance services, as it does with government for the delivery of pensions and so on. It has no need for close links to any other financial institutions, since it is remarkably and unusually self-contained in a financial sense. It has 52,000 savers and 21,000 borrowers, which is a typically healthy balance, and the total loan portfolio of some sixty million dollars is within US$1 million of members' outstanding savings balances. It maintains cash balances and short term deposits and overdraft accounts with other institutions at a minimum level for operational purposes.

The treasury management function is critical to this balance. Jardín Azuayo is large enough to enable most of its members' financial needs to be met within the system. Unlike many rural financial institutions, including some cooperatives, Jardín Azuayo does not take savings from poor people in rural areas and lend them to better-off people in the cities. Funds are moved swiftly from surplus to deficit areas, on a day-to-day basis, and none of the branch offices is in a permanently over- or under-liquid basis. As new offices mature, and members come to trust the institution, the volume and numbers of savings accounts increases and management and the local directors try to ensure that the ratio of loans to deposits in each area is close to unity.

Jardín Azuayo is profitable, but modestly so, with net earnings of under 1% of assets, and it appears to have struck the right balance between local autonomy and centralised professional management, without having to rely heavily on any other institutions.

Summary of the Answers, and Conclusions

Tabulation of the Answers

The following table very briefly classifies each of the seven linkages as we suggested earlier, and summarises the implications of the above brief comments on each case. The answer is expressed either as a clearly positive 'yes' or a negative 'no', or as a '?', suggesting that the case study does not give enough information to enable the question to be answered, or as 'n/a', when the question does not apply.

Table 3: Impact of Linkages

	SHGs to PACS, Purulia, West Bengal, India	SHGs to MACS Andhra Pradesh, India	VSLA Niger to CARE-promoted 'network'	Muntigunung LPD Indonesia 'links' to gov't dev't bank and regn. agency	Mixtlan Mexico to UNISAP	MC2s Camn. (previous links to Bank & NGO)	Jardín Azuayo Ecuador
Does the linkage improve -							
viability?	Yes	No	No	Yes	Yes	Yes	n/a
depth?	Yes	Yes	No	No	Yes	Yes	n/a
breadth?	Yes	Yes	No	No	Yes	Yes	n/a
services?	Yes	No	?	No	Yes	Yes	n/a
governance?	?	Yes	No	Yes	?	Yes	n/a
Is the secondary MOI -							
the best source?	Yes	Yes	Yes	No	Yes	Yes	n/a
worth its cost?	Yes	?	No	?	Yes	Yes	n/a
secure and well-supervised?	No	No	No	Yes	Yes	?	n/a
empowering for the weakest?	No	Yes	No	No	?	Yes	n/a
independent of subsidy?	No	No	No	No	Yes	?	n/a

These answers are clearly over-simplified, and some readers will naturally disagree with some of them. This may be because they have more knowledge of the situation than is given in the case study, or because they disagree with these interpretations, or because their prejudices (as do mine) influence their judgement. It is to be hoped, however, that readers will feel free to modify the table if they think fit, and thus to draw their own lessons from the case studies.

Conclusions

The above table, and the seven case studies on which it is based, are clearly insufficient evidence to accept or reject linkage in general or any particular type of linkage or secondary MOI. The case of the VSLAs in Niger, some of which are being federated into and linked to a secondary tier institution by CARE, while others in Niger and Zanzibar are not linked in any way, might provide a means to compare linking to not linking, but this would be a far from perfect comparison. Otherwise, our case studies can provide only some very general indications.

We have examples of linkages which have been initiated or even imposed from above, by government, by NGOs, by a bank and by second-tier member-owned institutions themselves, and others which have evolved from 'below'. The primary level institutions which are or are not linked range from small informal groups of around twenty women to a reasonable sized formal cooperative, and the services which are provided through the linkages are similarly varied. The variety of institutional types, origins and services is too wide to allow valid generalisations.

None of our case studies include significant use of telecommunications. Recent developments such as the Safaricom Mpesa system in Kenya, suggest that mobile telephones cannot only facilitate the movement of information and money between different institutions and to and from their clients or members, but can also replace the institutions themselves. The telephone can itself be a money storage and transfer device. These developments can fundamentally change the ways in which people deal with their financial affairs, particularly those living in remote areas and dealing in small amounts. It remains to be seen whether MOIs will grasp these opportunities, or will be supplanted by other institutions, including telecom providers and banks, which have larger resources at their disposal and can make more rapid decisions.

Nevertheless, the following general lessons can tentatively be drawn from the case studies. Further study is needed of more locally-relevant examples, in the context of whatever local decisions are to be made.

- One obvious issue is the perennial conflict between locally-familiar management and 'ownership', and the benefits of being part of a more distant large-scale, professionally-run institution. The members of Mixtlan in Mexico and the Muntigunung LPD in Bali cannot 'have their cake and eat it'. If they become more prosperous they will almost certainly have to sacrifice some of the benefits of local control in order to obtain the broader range of services they will need. We should not delude members of small MOIs in remote areas that it is possible to avoid this dilemma.

- The VSLA case demonstrates that secondary level MOIs should not be imposed on small local institutions unless there are very real advantages to be gained by the members. It is fortunate that very poor people, living in remote areas, both have the least need for the kinds of sophisticated services which can only be obtained through linkages, and are the least able to manage such linkages. As with SHGs in India, NGOs or others should avoid the temptation of promoting groups of groups in order to provide themselves with convenient delivery channels and a reason for their continued presence.

- The Indian PACS, and the Balinese LPD, were both initially promoted by government to bring subsidised financial services to poor people in remote areas. This was, and is, a laudable aim, but state-promoted entities, whether they operate as cooperatives or under some other legal form, are not usually the best basis for a mutually-beneficial and sustainable relationship. In the long term, it may be easier and less risky for MOIs which are linked to state-controlled entities to enter into arms-length commercial relationships with banks and other service providers rather than to remain dependent on government or perhaps to set up their own second tier providers.

- Linkages should ideally be initiated by primary level MOIs, from 'below' when their members realise that they need services which their own institutions cannot provide. This rarely happens, and was only partly the case for the SHGs in Mehbubnagar and the Mixtlan cooperative in Mexico. In the other examples, it was a purely 'top-down' process. We should not delude ourselves, or the members of the MOIs whom we are trying to assist, that they will, themselves, without assistance, always be able to select or start linkage institutions and to manage their relationships with them.

- We have examined 'vertical' linkages between primary level MOIs and secondary level institutions or other providers, which can supply services that the primary level cannot supply. 'Horizontal' linkages between similar institutions, none of which have the necessary scale or competence to supply the services they need but all of which together may be able to do so, may be a necessary precursor to the evolution of 'higher level' service providers.

- The VSLAs in Niger are linked to what in English is called a 'network', but it intended to perform the same tasks as a financial intermediary which would usually be called a 'federation' or secondary society. We cannot draw any useful conclusions from this study as to the advantages of less formal networks which provide non-financial services such as information, advocacy or training, but experience in India and elsewhere suggests that these may be more suitable tasks for second tier institutions.

All the MOIs with close linkages are linked to other MOIs. In order to find out whether this was the best type of linkage institution, we should ask the counter-factual question: Would the MOIs have been able to obtain the same services on an arms' length basis from private providers?

It is fairly clear that the answer would generally be 'no'. A private bank would be unlikely to cross-subsidise a remote and very small-scale customer such as the Mixtlan Society, and there are no effective financial service providers in the remote areas of Purulia or Mehbubnagar. Nevertheless, it might be more effective if Afriland First Bank did not try to off-load its responsibilities for serving its MC2s onto a new AMC2, or if CARE was not to try to build a VSLA network. Cooperatives are not necessarily always the best source of services for other cooperatives.

Finally, it may not be a coincidence that the most effective institution of our seven examples appears to be Jardín Azuayo in Ecuador, which is more or less totally self-contained and needs no close or permanent linkages beyond those which are normal for any institution. It may be fashionable for businesses to 'outsource' specialised tasks rather than to perform them 'in-house', but MOIs in remote areas may be an exception to this trend. Linkages are not the solution to every problem.

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Appendix A: Methodology and Summary of Case Studies

Study Objective

To illustrate how varied member-owned models in different contexts have been able to achieve significant outreach in remote, rural areas.

Defining Member-owned

- Clients are both owners and users of the institution
- Member equity is tied to ownership and decision-making (shares; savings; rotating/internal capital)
- Member equity is a key source of funds
- Legal entity is based on member-owned (i.e. association)

In order to cut across models definition needs to account for a variety of forms of equity and decision-making. Even what legal entities are possible will vary from context to context.

Defining Remote

Unserved in its own market. This can be due to several factors:

- Geographical distance from nearest service or input provider
- Population density
- Socio-cultural aspects of access such as gender or ethnic background as in the case of lower castes in Asia or indigenous groups in Latin America

Study Methodology

The intention of the research is to help answer some questions about different types of member-owned institutions to determine what potential they have for depth, breadth, scope, length, worth and cost of remote outreach, using Schreiner's (1998) six aspects. In-depth institutional analysis of each MOI sample examines remote outreach and demand by remote members and member groups. The second level of analysis focuses on how remote outreach is influenced by three key drivers:

- Networking and linkages
- Governance and ownership
- Regulation and supervision

The perspective of analysis is from the lowest tier association, SACCO or set of groups and their members. Selection of case MOI(s) is based on the 20% most remote MOIs within their sample universe. Selection is based on remote members/groups that are representative and mostly strong. The sample universe would be the district, sub-region or cluster of MOIs according to second-tier organizations, political boundaries or regulatory areas. Depending on size of MOI and sample, range could be a number of self-help groups to one SACCO or village association.

Case-Selection Criteria

- Remote in terms of households is proxied by one or more of the following:
    - Location of access points (decentralized and centralized level if receiving different services at each point).
    - Distance of access points to local centre and nearest road (nature of road), availability of transportation.
    - Depth of outreach (varies by context but broadly a factor of population density and infrastructure, poverty level, and other indicators of social exclusion).
- Member-owned (not managed externally; members involved in decision-making)
- Strong breadth of outreach relative to the context
- Informative in terms of one or more of our key research questions (governance and member-participation; external resources; regulation and supervision; type of MOI)
- Not so unique or idiosyncratic that it does not have lessons that can be applied to other contexts
- Relatively financially viable
- MOI is transparent, information is readily available or fairly easily collected and staff is willing to collaborate in collecting information.

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Cases Selected

1. PACS (Primary Agricultural Credit Society) with self-help groups as members, Andhra Pradesh, India [linkage between SHGs and cooperative]
2. SHG (Self-Help Group) Federation, India [Federation of SHGs]
3. LPDs (Lembaga Perkreditan Desa), Indonesia [small village-based associations]
4. VSLAs (Village Savings and Loans Associations, Niger [de-linked and networked groups]
5. MC2s (Mutuelle Communautaire de Croissance), Cameroon [federated and decentralized associations]
6. Jardín Azuayo, Ecuador [rural credit union with remote service points]
7. Mixtlan Savings and Credit Cooperative Organization (SACCO) within the UNISAP Federation, Mexico [urban-rural cooperative with some rural SACCOs]

Self-Help Group—Primary Agricultural Credit Societies Linkage, India

The self-help group (SHG) linkage model is the largest-scale and perhaps the best-known linkage model in microfinance. SHGs are informal thrift and credit groups of poor, mainly women that became recognized as bank clients under a pilot project of the rural apex bank NABARD in India in 1992. As of March 2007, there were more than 2.9 million SHGs linked to financial institutions (commercial banks, rural banks and cooperatives) representing over 40 million households. This case study examines the linkage between SHGs and cooperatives, specifically the Primary Agricultural Credit Societies (PACS) which accounts for 69% of the rural financial branch infrastructure (NABARD, 2007). West Bengal has had the highest percentage of SHG-PACS linkages in India and regulation there allows groups to be members of financial institutions rather than requiring groups to serve as conduits for individual members.

This case examines the Bararanga PACS in West Bengal linked with 85 SHGs and 1,382 members, all women. It is located within Purulia Manbazaar II, a border block with a population density of 405 persons per km². This PACS was locally described as the most remote since more than 75% of the SHGs live in the most remote areas of the block and over 80% are from a tribal group, otherwise largely excluded from finance.

SHGs Federated into Mutually Aided Cooperative Societies, India

SHG linkage models have been given much more attention than SHG federated models. This case examines an SHG federation in the Tribal Belt of Andhra Pradesh (AP). AP is the most concentrated state of SHG activity, so it is interesting to understand how inclusive it actually is of people living in remote areas. AP also passed a new law called the AP Mutually Aided Cooperative Societies Act to govern the new generation cooperatives (including SHG federations) to allow them to move from charitable status and forgo government subsidy to become regulated in a new act free of the challenges and bureaucracy of the Cooperative Act.

This case study examines ASP (Ankuram Sanghamam Poram), a federation of SHG federations with nearly 6,000 SHGs and 65,520 members at its base. This system grew out of a local Dalit (Dappu' Dalitbahujan) movement and trade union, and has deep roots in social activism. It is a three-tier system federated at the state and sub-district levels, with the apex serving as the system's wholesale financier and supervisor. Each sub-district MACS has an office as does the state level MACS, and in addition there is some minimal infrastructure for the district level teams. The infrastructure and staff are largely subsidized by the apex MACS, which through a business planning process, is attempting to wean member MACS away from subsidies. However significant levels of grant support are still required in the system.

This case examines Jeevan MACS, a sub-district level MACS, one of 108 within the ASP federation. Jeevan MACS has 1020 members and 68 SHGs. The population density is 190 persons per km². The remote nature of this case is also more socio-cultural than geographical. The federation is largely comprised of lower-caste women who have taken on leadership at each tier. The case allows an interesting contrast to the PACS-SHG linkage model.

LPD, Indonesia

The LPDs (Lembaga Perkreditan Desas) are village-based financial institutions in Indonesia that have been encouraged by the provincial government. LPDs have grafted their governance and management onto local customary institutions as one way to ensure local ownership and accessibility. Basing the financial institution in each village has enabled LPDs to achieve broad and remote outreach through lowered costs and local ownership, as well as a high level of acceptance and trust among local people. Since LPDs are owned by the traditional council and managed in part with traditional laws, member accountability to the MOI is high.

LPDs were chosen because they have high penetration in Bali, Indonesia where over 90% of the households are members of one of more than 1,200 LPDs. Even islands have their remote contexts. In this case, the Muntigunung LPD is one of 156 LPDs in Karangasem Regency/District. Muntigunung was identified by local officials as the most remote and poorest settlement in the hills, with poor irrigation and poor access to drinking water and located at least 45 km from another financial source. The population density is 400 persons per km² and the population is largely dependent on agriculture, as it is distant from the flows of tourism. This LPD reaches out to 1,020 members (all households in the *desa adat*) with 249 borrowers and 88 savers.

Village Savings and Loans Associations, Niger
Niger is the oldest, largest and one of the most remote CARE programs for village savings and credit associations (VSLAs) in Africa. Similar programs with a similar though adapted methodology exist in thirteen other African countries. Through the methodology, CARE has encouraged the formation of village loan funds composed of members' savings, using a simple time-bound savings and lending methodology. CARE tries to limit external involvement to one year of training and follow-up. The number of members in Niger VSLAs is currently about 50,000. While some of these savings and credit associations are entirely self-managing and cash out at the end of their one- to three-month cycles, others have come to network and link to financial institutions including cooperatives. CARE is also using the networks as a springboard for non-financial activities such as cereal banks. For this case, 25 VSLAs were chosen in Tahoua Region including both networked and non-networked VSLAs. The population density in this area is between 10-25 persons per km².

MC2s, Cameroon
Mutual associations have a strong reputation in West Africa for their rural outreach. This case study examines two Mutuelle Communautaire de Croissances (MC2s) in Cameroon, part of a larger network covering 62,744 members through 64 MC2s. The two MC2s, Njinikom and Bambalang, are located in two rural localities in the Northwest province of Cameroon situated 65 km and 85 km respectively from Bamenda, the main city of the province. The population density in the area of study is 107 persons per km². The two MC2s have 3,512 members, more than half of the members found in the province. Overall the MC2 network has 62,744 members. They present a good contrast between a strong and weak MC2 in terms of governance and financial performance.

The case examines the MC2s' complex set of relationships including its own emerging apex structure, government subsidy, support from a promoting non-government organization and linkages with market suppliers. The MC2s offer a variety of savings and loan products, training and other non-financial services to both individuals and groups. Groups include 'tontines'—informal savings and loan groups affiliated with local agricultural and women's associations—that are common throughout Cameroon. Of particular interest for remote outreach is their use of migrant relatives as a key source of funds and other ways that they have managed to secure market linkages.

Jardín Azuayo Cooperative, Ecuador
One way for larger cooperatives to reach rural and remote areas is to provide urban-based services that can provide liquidity balancing and cross-subsidize smaller, costlier service points. The Jardín Azuayo Cooperative case presented here runs contrary to this logic. It is a largely rural cooperative (80,378 members) with twenty of its twenty-three offices in rural areas.

This case examines five rural offices with 29,260 members in the south-east spanning three provinces. The population density averages 39 persons per km² across the offices. Jardín Azuayo uses a model of decentralized representative governance in each office complemented by member education to support member participation. This case also demonstrates a reversal in the trend of rural siphoning (taking savings from rural areas to finance urban lending) common in Ecuador and elsewhere. It is a self-financed cooperative that has successfully moved from a system of self-regulation to prudential supervision by the Superintendency of Banks and Insurance.

Mixtlan SACCO, Mexico
Large cooperatives or federations with economies of scale, an urban and rural presence and a stable asset-base may be one solution to the challenges of decentralized MOIs. In part, Mexico's policy and

regulatory regime have encouraged consolidation and scale in both microfinance institutions and MOIs.

This case examines Mixtlan, a rural SACCO. It is part of UNISAP Federation, a large and highly-rated urban-rural federation. UNISAP has over 350,000 members in Mexico. Of those, 19,155 are rural. Mixtlan cooperative, with 3,452 members, covers over forty localities in the north mountain range of Jalisco State. Mixtlan works in a rural and remote area with a population density of six persons per km^2. The nearest input supplier is 257 km. away and remote collectors are used in some rural localities. Mixtlan is one of few rural cooperatives within UNISAP (Cooperative Federation), which is a largely urban federation (more than 70% of its members are in urban areas). Within the rural MOIs, Mixtlan showed one of the highest rates of local penetration at nearly 90%. The federation's scale has provided important efficiencies and the urban presence is crucial for market linkages including remittances, a highly demanded service for remote members.

Appendix B: External Linkages Questionnaire

Input	Internal within MOI	A market supplier (specify)	A second-tier[2]	An NGO/government body (specify)	Not used
Procurement Mechanism: Back office Services					
Back office Services (i.e. liquidity risk, credit risk, accounting, external finance)[3]					
Management Services					
Planning, budgeting, pricing, reporting[4]					
Personnel Management					
Hiring, training, staff development, human resources[5]					
Information Technology / Electronic Data Processing					
Conceiving & implementing IT systems[6]					
Services to clients and financial products					
Research & development					
Auditing and control					
Auditing, supervision					

[2] Under "apex" we understand a second/third tier structure of which the MOI is a member. This may be another MOI (e.g. a cooperative), a league, a union, a federation. The apex structure may have two or three (rarely more) tiers. A typical three tier structure is the MOI, a federation (regional) and a confederation (national).
[3] Other back office functions could include: Clearing between MOIs, Bad debt - management and collection; Accounting, taxation, reporting; External finance - payments, borrowing, investing; Other: (archival services, asset valuation, base unit furniture inventory, etc.)
[4] Other management services could include marketing, legal services, contracting, representation before the public, advocacy
[5] May in some cases include dispute settlement for employees
[6] May include: user support systems; maintenance; purchase of hardware and software

Choice of Input Supplier					
Case Researcher: Sort from above which inputs came from each source	Please list:	Please list:	Please list:	Please list:	Please list:
How did you choose this option? Explore each if more than one.	□ Didn't consider other choice □ I don't know □ Only choice available □ Had no choice □ Chose because ____________ □ Other ____________	□ Didn't consider other choice □ I don't know □ Only choice available □ Had no choice □ Chose because ____________ □ Other ____________	□ Didn't consider other choice □ I don't know □ Only choice available □ Had no choice □ Chose because ____________ □ Other ____________	□ Didn't consider other choice □ I don't know □ Only choice available □ Had no choice □ Chose because ____________ □ Other ____________	NA
Probe about their choice(s). Please explain why. Important to have details here. Use backside of page if necessary. Probing may include benefits such as reducing risk or costs, cheaper funds, improving quality of services. If they had no choice, is due to restrictions by regulatory environment or how they were formed?					

Evaluation of Supplier of Input					
The quality of the input/service obtained by this supplier(s) is in general	□ Excellent □ Good □ Mediocre □ Bad Comment (*)	□ Excellent □ Good □ Mediocre □ Bad Comment (*)	□ Excellent □ Good □ Mediocre □ Bad Comment (*)	□ Excellent □ Good □ Mediocre □ Bad Comment (*)	NA
In critical situations, the supplier failed to deliver as agreed on	□ Often □ Sometimes □ Rarely □ Never Comment (*)	□ Often □ Sometimes □ Rarely □ Never Comment (*)	□ Often □ Sometimes □ Rarely □ Never Comment (*)	□ Often □ Sometimes □ Rarely □ Never Comment (*)	NA
The inputs/services are adapted to your specific needs	□ Very adapted □ Reasonably □ Poorly □ Not at all Comment (*)	□ Very adapted □ Reasonably □ Poorly □ Not at all Comment (*)	□ Very adapted □ Reasonably □ Poorly □ Not at all Comment (*)	□ Very adapted □ Reasonably □ Poorly □ Not at all Comment (*)	NA
You influenced the design of the inputs/services	□ Very much □ Some □ Not at all Comment (*)	□ Very much □ Some □ Not at all Comment (*)	□ Very much □ Some □ Not at all Comment(*)	□ Very much □ Some □ Not at all Comment(*)	NA
What are the main problems or concerns with this supplier? Probe: dependence; increases costs; reduces quality					NA