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Danish NGOs and microfinance

A learning process facilitated by

Projektrådgivningen

www.prngo.dk

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Executive summary

Projektrådgivningen (PR) has found that Danish NGOs are increasingly involved in microfinance. Hence, to better understand the concept of microfinance and Danish NGOs' involvement in microfinance, a learning process was initiated involving core staff of PR and Danish NGOs. To facilitate the learning process, Roy Mersland was hired as a process consultant. All together the learning process has consisted of two desk studies, a visit to six different Danish NGOs involved in microfinance, one work shop for the NGOs, a field visit to Uganda and Tanzania and a final workshop where this report was presented. Having concluded the study the aim of PR is to disseminate the findings further through manuals and training sessions. The target groups for this effort will primarily be the Danish NGOs who are able to subsequently involve their partners.

It is important to keep in mind that this is not an evaluation report. The findings are intended for learning opportunities, not for evaluation. The issues addressed in this report are those that earlier in the learning process have been considered to be of major interest and need among Danish NGOs. Especially, the report responds to the need of learning more about different delivery models of microfinance services. Hopefully such learning should enable better project designs. Hence, most of the report is organized around the discussion and analysis of the following three delivery models and nuances of these:

- Specialized microfinance institutions
- Savings and credit groups
- Integrated projects with credit components

With the help of theoretical insights as well as findings in prior desk studies and field visits to Uganda and Tanzania this report argues that specialized microfinance institutions and well structured stand alone savings and credit groups are feasible and effective models for the delivery of financial services. When it comes to credit components within integrated projects the report presents doubts to whether this is a feasible mode of sustainable and effective credit delivery.

The findings from the received questionnaires in Desk Study 1 reveal that most projects supported by Danish NGOs are integrated projects including credit components. An interesting aspect of the Danish portfolio is the high incidence of savings and credit groups.

However, the high incidence of credit components in combination with SCGs reveals, probably, a weak understanding of SCGs as potential sustainable stand alone groups. Very few Danish projects support the development of specialized microfinance institutions, which is one of the main bottlenecks for the further outreach of sustainable microfinance services according to C-GAP. However, few Danish NGOs are likely to have the competencies and interest needed to provide such support.

The report also raises several questions to whether DANIDA's strategy for the support to the civil society provides effective guidance to projects involving microfinance.

The report recommends strengthening Danish NGOs' capacity in microfinance, especially in savings and credit groups. There is also a need to further outline how Danish NGOs increasingly can take part in *promoting* microfinance, but not necessarily in *providing* it. Projects with microfinance components should probably in most cases be phased out or redesigned. Future support to projects involving microfinance should only be given if the Danish NGO can demonstrate and document beforehand that they have the needed microfinance competence and that proper exit strategies are in place before initiation of the project. If these criteria are not fulfilled, support should only occasionally be given as smaller pilots to innovative schemes. Together with DANIDA, Projektrådgivningen or others should write up some guidelines on how microfinance can be supported within DANIDA's strategy for support to the civil society.

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Acronyms

AMFIU	The Association of Micro Finance Institutions of Uganda
ASCA	Accumulating Savings and Credit Association
CBO	Community Based Organization
C-GAP	Consultative Group to Assist the Poor
MFI	Micro Finance Institution
NUDIPU	National Union of Disabled People in Uganda
PLA	Participatory Learning and Action
PR	Projektrådgivningen
PRA	Participatory Rural Appraisal
ROSCA	Rotating Savings and Credit Association
SACCO	Savings and Credit Cooperative
SCG	Savings and Credit Group
SHG	Self Help Group
TOR	Terms of References
UCA	Uganda Cooperative Alliance

1. Background and introduction

Projektrådgivningen (PR) is a network of around 220 Danish NGOs involved or interested in development efforts in developing countries. PR provides counselling and training to its members and administers a grant facility (Minipuljen) on behalf of DANIDA.

PR has found that Danish NGOs are increasingly involved in microfinance. Hence, to better understand the concept of microfinance and Danish NGOs' involvement in microfinance, a learning process was initiated involving core staff of PR and Danish NGOs. To facilitate the learning process, Roy Mersland was hired as a process consultant. DANIDA financed the process and has also been an active partner throughout. Terms of References (TOR) (in Danish) for the learning process in annex # 1.

This report finalizes the learning process initiated in November 2006. Roy Mersland is the author of this report, but input and contributions from core staff in PR and Danish NGOs have considerably influenced its content.

All together the learning process has consisted of two desk studies, a visit to six different Danish NGOs involved in microfinance, two work shops for the NGOs and a field visit to Uganda and Tanzania. More on the planned outputs from the study in annex # 2.

After the conclusion of this study the aim of PR is to disseminate the findings further through manuals and training sessions. The target groups for this effort will primarily be the Danish NGOs who are able to subsequently involve their partners.

It is important to keep in mind that this is not an evaluation report. The findings are intended for learning opportunities, not for evaluation. The issues addressed in this report are those that earlier in the learning process have been considered to be of major interest and need among Danish NGOs. Especially, the report responds to the need of learning more about different delivery models of microfinance services. Hopefully such learning should enable better project designs. Hence, most of the report is organized around the discussion and analysis of the following three delivery models and nuances of these:

- Specialized microfinance institutions

- Savings and credit groups
- Integrated projects with credit components

Microfinance, as most development efforts, is filled with acronyms and concepts that can be difficult to keep track of and to understand. To facilitate a better understanding for readers unfamiliar with microfinance several key concepts are defined and explained in annex 3.

The report starts out by giving an overview of Danish NGOs' involvement in microfinance together with other relevant findings throughout the learning process. Thereafter the three delivery models are described and analysed followed by a brief reflection on how DANIDA's strategy for the civil society may influence microfinance efforts. The final sections conclude and provide recommendations.

2. Main findings

This section outlines the main findings in Desk Study 1, Desk study 2, visit to six Danish NGO and Work Shop 1.

2.1. Desk study 1

Desk Study 1 consisted of questionnaires sent out to the members of PR. The study revealed that Danish NGOs are increasingly involved in microfinance. The following bullet points detail the main findings from desk study 1:

- Of the 135 organizations answering the questionnaire, 29 indicated that they have been involved in supporting microfinance during the last five years, while another 17 are interested in starting microfinance activities. In all, one third of the responding NGOs has been or has interest in getting involved in microfinance.
- However, the study revealed that involvement in microfinance is thin, fragmented and probably weak in strategic comprehensiveness:
 - Of the 29 organizations involved in microfinance, 20 of them have or have had only one or two projects where microfinance is a part.
 - 22 of the 29 organizations indicated that microfinance is only a minor area/component of intervention.

- Projects involving microfinance vary in value from 10,000 to 29 million Danish Crones (DKK).
- Of the 29 organizations, 17 have not received any training in microfinance; only nine organizations know C-GAP's guidelines, but none of them practice them in a comprehensive manner.¹
- Generally, the objectives for the projects involving microfinance are different types of social empowerment, as well as improved livelihoods and agricultural outputs.
- Nearly all projects are integrated projects where microfinance is only one component among several.
- Nearly all projects involve the organization of different types of Savings and Credit Groups.
- Only a couple of the projects aim to build/strengthen specialized microfinance institutions.
- 67% of the projects are in Africa.
- Nearly all projects involve microcredit, while around 50% of the projects also involve savings.
- Only one project is involved in micro-insurance.
- Of the 36 projects, eight have not provided any kind of loan capital in the project.

The overall impression of Danish NGOs is that microfinance is a powerful and relevant development tool. Generally the NGOs consider microfinance to be a tool that can mobilize people around other developmental issues like organization, empowerment, rights and livelihoods. Few seem to have considered that their involvement in microfinance should also be seen as a contribution to provide poor people with a sustainable banking system (the main objective of C-GAP; (Helms, 2006). However, it is important to highlight that C-GAP's perhaps narrow view of microfinance is not shared universally by practitioners, donors, researchers and others.

¹ C-GAP, Consultative Group to Assist the Poor, is a donor consortium dedicated to improving donor effectiveness in microfinance. C-GAP has developed several reports, tools and guidelines to improve donors' work. DANIDA is a founding member of C-GAP. More on www.cgap.org

2.2. Visit to six Danish NGOs

To gain further insight into Danish NGOs' knowledge of microfinance, six NGOs were visited by two of PR's staff and the process consultant. The visit confirmed the findings in desk study 1: Danish NGOs are interested in microfinance, but their theoretical knowledge in the field is weak. Hardly any networking activities or capacity building around the theme of microfinance take place, either within Denmark or between Danish NGOs and international partners/peers.

2.3. Desk study 2

To strengthen Danish NGOs' knowledge of microfinance, desk study 2 was primarily designed as a basic learning report with the aim to give the reader an introduction to some of the main concepts of microfinance, the pros and cons of microfinance, and the different "academic schools" promoting microfinance. A copy of Desk Study 2 is available at PR.

2.4. Work Shop 1

Finalizing workshop 1 where Desk Study 1 and 2 were presented, the participants were consulted about which areas were considered to be the most important to learn more about and look into during the field visit. The participants demanded further insight into the delivery models of microfinance, especially the role, function, strengths and weaknesses of specialized institutions, savings and credit groups, and integrated projects. These areas were therefore included in the TOR for the field visit (see annex # 4). In what follows, different aspects of these delivery models are outlined. For each model, the theoretical background, the findings in Desk Study 1 and the findings from the field visit to Uganda and Tanzania are explained. Furthermore, possible roles of Danish NGO's are outlined.

3. Specialized institutions

3.1. Theoretical background:

Specialized institutions can be banks, different types of financial firms, member based cooperatives or NGOs. In this report I use the term Micro Finance Institution (MFI) to identify any type of specialized institution providing microfinance. MFIs can be considered specialized because they normally offer only financial services to their clients. Some offer a wide range of financial services, while others offer a limited range. For example, some banks offer money transfer, insurance, savings and loans to their clients, a Savings and Credit Cooperative (SACCO) normally offers only savings and loans to its members, while most specialized NGOs offer microcredit to their clients and nothing more.

Being specialized brings several benefits. When operations are more specialized it is easier for customers, employees and other stakeholders to understand the business model. This reduces transaction and operational costs. Hence, C-GAP considers the lack of specialized institutions to be a major problem, hindering the increased outreach of microfinance services (C-GAP, 2004, Helms, 2006).

Not all MFIs are fully specialized. The combination of credit delivery and different business development services like counselling, training and marketing is still practiced by some MFIs. However, generally speaking, such a combination is often not recommended since professional lenders of money need to be 100% objective when making decisions about a loan proposal. There is also an increased risk of credit default if a borrower considers the received counselling to be part of the reason for the possible lack of business success. Nevertheless, as mentioned, several successful MFIs, like Crecer and Promujer in Bolivia, continue to offer microfinance in combination with other services like business training, education, literacy training, etc. Hence, even though I know that several specialists will disagree with me, I do not in all cases issue a general recommendation to always avoid the provision of non-financial services by MFIs.

Basically, a private specialized MFI will be a shareholder firm (often a bank) owned by investors (whether they are motivated by profit or not), a member-based SACCO, or an NGO.

Some specialized institutions are regulated by the banking authorities. Normally such regulation gives the institutions the right to mobilize savings. NGOs and smaller SACCOs are generally not regulated, while investor-owned MFIs are normally regulated. Few NGOs

mobilize savings, while most SACCOs, also the non regulated, are allowed to mobilize savings from their members only.

3.1.1. NGOs

A widespread misunderstanding in microfinance is that NGOs are intrinsically less specialized than other ownership forms. This reveals a lack of understanding of what an NGO legally is. Of course, the legal charters regarding NGOs differ from country to country, but basically an NGO can be whatever is indicated in its bylaws. The only difference between an NGO and other ownership forms is that no particular group or person can legally claim ownership of it or receive profits from it (Hansmann, 1996, Mersland, 2007a). Hence, legally an NGO is an ownerless organization that can be involved in whatever business or activity national law permits and its bylaws indicate. Actually, some of the most successful MFIs involved in microfinance are specialized NGOs like the WWB affiliates in Colombia² and Diaconia FRIF in Bolivia. Nevertheless, most policy papers and legal frameworks consider specialized NGOs as inferior banking organizations compared to other ownership forms. The reason given is that board members are not representing persons with personal money at stake. Hence, their incentive to closely safeguard and monitor the operations is limited. As a consequence, few NGOs are regulated by banking authorities and allowed to mobilize savings (Mersland, 2007a). Thus, in most cases specialized NGOs offer microcredit only to their clients.

Being a specialized NGO can bring several advantages:

- Operating outside the radar of regulators allows for more flexible operations. Thus, NGOs can often be innovative in product development and new markets served.
- Without owners with financial incentives, NGOs can more easily be trusted by their clients.
- Also, other stakeholders like the authorities and the donors often prefer contracting with NGOs since no private person can legally use the organization to enrich oneself.

However, there are also several disadvantages to being an NGO:

² www.swwb.org

- The flexibility in the legal charter and the often slack control of NGOs allows for fortune hunters and briefcase-NGOs. Even though no person can legally enrich oneself from an NGO, this still often happens.
- Without legal owners NGOs tend to have weak boards and become dominated by management. This can easily result in slack operations or in management that first and foremost safeguard their own interests.
- Capital mobilization in NGOs is difficult since they don't have access to capital markets. Few NGOs can mobilize local savings, and generally they depend on retained earnings and donors' good will.

In Denmark, the banking type most similar to a specialized NGO is the savings bank (Sparekasse; (Madsen, 1999). Most people will argue that the differences between a Danish savings bank and a specialized NGO involved in microfinance in Africa are enormous. They are. However, from a legal perspective, the institutions are quite similar, and when we compare the savings banks initiated nearly 200 years ago with today's NGO-MFIs, they are very similar (Mersland, 2004).

3.1.2. SACCOs

The most common specialist provider of microfinance is the SACCO. Most SACCOs are small and rural based, but some are big and operate in the cities. In India alone there are more than 100,000 rural SACCOs (Misra and Lee, 2007). A SACCO is owned by its members, who make decisions about policy issues through their voting rights. The members are also the only ones entitled to receive the proceeds from the operations, either through dividends or rebated prices on services (Mersland, 2007a). The SACCOs involved in financial services can trace their roots back to the Schulze-Delitzsch and the Raiffeisen Cooperatives initiated in Germany in the mid-1850s. Today, hundreds of thousands of SACCOs are found all over the world. Nevertheless, there is generally little knowledge among donors and researchers about SACCOs, and often the SACCOs receive little appreciation in the literature and from donors and authorities.

However, SACCOs have several potential advantages:

- SACCOs provide members with a unique opportunity to learn and practice democracy.

- SACCOs are “locked-in” with their members. Different from shareholder firms and NGOs, a SACCO cannot decide to leave its beneficiaries. Hence, as long as the SACCO exists, the members can continue to benefit from its services.
- SACCOs provide their members with important savings services and the savings are recycled (given out as loans) locally. Hence, the money doesn’t “disappear” into the cities or the hands of rich people taking loans in normal banks.
- When they depend mostly upon members’ savings, SACCOs are independent structures that don’t overly depend upon donor support.

Still, there are several potential disadvantages to SACCOs:

- The ownership control exercised by the members in a SACCO is often very weak. Thus, similar to NGOs, SACCOs are often controlled by management.
- SACCOs can easily be politicized and used in political powerplays.
- SACCOs have problems with raising equity capital since they depend upon excess earnings and most often poor members.
- SACCOs are often male dominated.

Probably the two most difficult tasks to balance in a SACCO are:

- The complexity in the business model with the competence of local management, and at the same time, the competence of the board to control the management. If things get too complicated there is no competent local management available, and even if this is available, the members forming the board don’t have the competence to control the management. Hence, the business model in most SACCOs, especially in rural areas where the members lack education, should be kept simple.
- The size of the SACCO with the appropriate monitoring and control. To minimize costs a certain size is needed. Yet, the bigger things get, the more difficult it is to manage and control. My rule of thumb is that a rural SACCO should not grow beyond an area where most people know each other. This enables peer-pressure and monitoring. It should be possible to operate a healthy SACCO with as few as 100-200 members.

In Denmark, the banking type similar to a SACCO is called Andelskasse (Madsen, 1999). In several countries, like some states in the USA and Germany, SACCOs continue to be major providers of financial services (Hansmann, 1996, Seibel, 2003).

3.1.3. Shareholder firms

Compared to the thousands of specialized NGOs and SACCOs the number of shareholder firms providing microfinance is limited, numbering only about 224 (Isern et al., 2003). However, the shareholder firms involved in microfinance are generally much larger and serve many more clients than NGOs and SACCOs. The shareholder firms involved in microfinance can be divided into two groups: first, the institutions that have been specially created for the purpose of providing microfinance; and second, regular banks that have decided to include microfinance as an interesting market segment (this is often called downscaling).

Most national legal frameworks impose a shareholder ownership structure on financial intermediaries wishing to mobilize savings from the general public (not only from members like in SACCOs). The reason for this is that investors have a personal stake in the operations. If the financial institution produces good results, the investors make money. Hence, the regulators believe that investors have strong and personal incentives to secure efficient operations and healthy institutions, which in turn will make depositors' money more secure.

Being a shareholder firm brings several benefits:

- The ownership and governance structure is normally very clear and understandable.
- The owners have a personal stake in the operations.
- Equity capital can be drawn from numberless sources, including international investors.

However, there are also disadvantages:

- The institution can decide to leave the beneficiaries for other more interesting market segments. This is often referred to as “mission drift”.
- “Homo Economicus” may become a dominant force, leading to the exploitation of customers.
- Donors may have problems in supporting a shareholder firm since their support may easily end up in investors' pockets.
- Depositors may not want to entrust their personal savings to an institution having owners with personal incentives to engage in high risk – high yield projects.

Even if investor ownership of MFIs is widely promoted by several policy advocates many issue warnings like:

- Pro-poor banking systems have historically been dominated by organizations similar to SACCOs and NGOs. How come investor ownership is needed today?
- Investors have a personal incentive to do the direct opposite of empowering the poor – that is to exploit the poor. Are the possible benefits worth this risk? And, are poor uneducated people able to “defend” themselves?
- Policy advocates argue that proper regulations can help balance the possible downsides of having investors with personal incentives. But, is regulation really the answer in countries where corruption blossom and public governance is, mildly put, weak?

The MFI called Compartamos in Mexico is an interesting case where to study the upsides and downsides of investor ownership. In a few years time Compartamos has reached 600 thousand poor clients and been able to fund the growth by tapping into Mexican and International capital markets. Hence, many argue that this is the way forward. Finally poor people are being reached with financial services. However, the other side of the story is that the real interest rate on loans in Compartamos is close to 100% in a market with less than 7% inflation. Hence, some argue that what Compartamos is doing is nothing else than exploitation and abuse and a step back in development. Compartamos illustrates that both sides of opponents have strong arguments leading to a lively and sometimes dividing debate within the microfinance industry.

3.2. Findings in Desk Study 1

Of the 36 surveyed projects in the Danish microfinance portfolio, only the SUPOTH project of Danmission in Bangladesh and the MADRAC project of DACAAR seem to have the characteristics of aiming to build or strengthen MFIs. Besides, interviews with Ghana Vennskapsgrupperne indicated that they are also involved in building up a specialized institution in Ghana as part of an exit strategy. Furthermore, some projects partner indirectly with specialized institutions in credit delivery. The overall finding is that very few Danish NGOs are involved in building or strengthening MFIs.

3.3. Visit to Uganda and Tanzania

During the field visit to Uganda and Tanzania, four rural SACCOs (members of the Ugandan Cooperative Alliance (UCA), one NGO (UGAFODE) and one shareholder firm (U-TRUST) were visited. Furthermore, the umbrella organization of more than 60 MFIs in Uganda (AMFIU) and the umbrella organization of more than 200 SACCOs (UCA) were visited.

The visit to U-Trust was interesting since it demonstrated that some NGOs transform into shareholder firms. By transforming, several benefits arise, like the right to mobilize savings and the possibility to attract equity investments from investors. However, the visit also demonstrated the disadvantages of becoming a shareholder firm regulated by the banking authorities: costs were increasing due to regulatory requirements like IT systems and branch securities, and gradually U-Trust is targeting better-off clients since these are more profitable.

The visit to UGAFODE was also interesting. UGAFODE is an NGO that is struggling to become sustainable and has problems in balancing social needs and financial needs. Recently there was a change in top management, who is now gradually initiating a transformation into a shareholder firm. Along comes more “banking attitude” and “bank-alike branches”.

The visits to the SACCOs demonstrated that SACCOs are able to penetrate rural areas with sustainable financial services. However, some of the SACCOs’ traditional weaknesses like being male-dominated and becoming “mini-banks” were observed. I consider it to be a weakness when SACCOs intend to copy the business model of a bank, like growth aspirations outside their local area, specialized staff for every position instead of multipurpose staff, overstaffing, paid staff instead of some use of volunteers, reporting systems and indicators mainly designed for more formal types of institutions, the computerization of information, etc. Such practice makes the business model more complicated and makes monitoring and board control more difficult. Hence it weakens the governance structure in the SACCO. The visits confirmed such fears and they also showed that when SACCOs become too similar to banks they can easily experience cost-structure problems. Striking the right balance is extremely difficult something demonstrated in our visits.

3.4. Possible roles for Danish NGOs

The lack of Danish partnerships with specialized institutions is somewhat surprising. In the Norwegian microfinance portfolio, several NGOs have supported the creation and development of successful specialized institutions like Stromme Foundation (provides loans and technical assistance to dozens of specialized institutions), Mission Alliance (has built from scratch D-MIRO in Ecuador and D-FRIF in Bolivia), Normission (e.g., Viator in Azerbaijan) and the Refugee Council (e.g., Normicro in Azerbaijan). Furthermore, the lack of such partnerships in Danish NGOs is surprising since C-GAP has promoted the building of strong specialized institutions over several years, and still considers the lack of such a major bottleneck to allow further increases in the outreach of microfinance services.

However, the lack of partnerships with specialized institutions can demonstrate that the Danish NGOs consider the building of specialized financial institutions to be outside their scope and competence. It can also be seen as a product of DANIDA's strategy for civil societies, wherein all support to Danish NGOs is channelled. Some will probably argue that the building of specialized financial institutions is considered to be outside the scope of DANIDA's strategy. More on this below.

I see three major roles for Danish NGOs in partnerships with MFIs. First, Denmark should have, and DANIDA should allow, a couple of NGOs working closely in line with C-GAPs frameworks for building an accessible banking sector for the poor. There is, according to my view, a need for some Danish actors with a better understanding of microfinance as banking. Professional MFIs need this type of donor partners especially in capacity building and sometimes also as financiers with proper knowledge in due diligence and monitoring of investments. Second, there is a need for Danish NGOs that understand SACCOs, their pros and cons and how to build/partner with SACCOs. Over more than 150 years the SACCOs have demonstrated that the business model is feasible if proper governance structures are installed. Hence, there is a need for development partners who understand SACCOs and their unique business model. Third, potential clients of MFIs need preparation. Typical preparation efforts where Danish NGOs and their partners can make a difference are:

- Consumer education and protection
 - When and how can poor people benefit from microfinance? What is the real interest rate on microcredit loans? How can the services from different MFIs

be compared? When is borrowing smart and when should it be avoided? What are the requirements in MFIs? Etc. etc. The questions are many, but few facilitate proper and unbiased guidance to uninformed customers.

- Capacity building
 - Successful entrepreneurship depends on much more than capital. Business knowledge and vocational skills are prerequisites to access microcredit. Hence, efforts that build poor people's entrepreneurial capacities are definitely still needed.
- A critical voice
 - Many, especially in the Western hemisphere, "praise" microfinance as a potential tool for poverty eradication. From the "South" and from several researchers the message is increasingly more balanced, at best. There is a need for Danish NGOs with proper knowledge to raise and cultivate a debate in Denmark as well as partnering with civil society organizations involved in the debate in the South.
- Innovations
 - Financial services are important in poverty alleviation. There can be no doubt about that. However, there is a critical need for innovations enabling the services to better fit poor people's needs. In the seventies and eighties Western NGOs were in the forefront in financing and testing out innovative solutions. Today the Danish microfinance portfolio show few signs of innovations. Where are the initiatives in entrepreneurial use of remittances received and what about piloting crop insurance schemes for farmers? Where are the well structured grant projects to top up poor people's savings or the new innovative leasing schemes? Who are piloting innovative lending schemes for farmers? And which one of the Danish NGOs is pushing research?

4. Savings and credit groups

4.1. Theoretical background:

Savings and credit groups (SCGs) are probably the oldest financial system in which poor people have also participated. The groups normally consist of 10–30 members, and their aim

is to pool savings and distribute them as grants or loans to members. Fikkert (2003) reports that the first known groups were in China 1,200 years ago. Today the groups have different names in different countries, like Likilimbos in the Democratic Republic of Congo, Merry Go Round in Kenya, Tontines in West Africa, Cadenas in Ecuador, Idir in Ethiopia, Bishies in India, etc. Academics normally refer to these groups as Rotating Savings and Credit Associations (ROSCAs) or Accumulating Savings and Credit Associations (ASCAs) (Bouman, 1995). Others simply call them Self-Help Groups (SHGs) or savings clubs.

Most savings and loan groups are organized by the members themselves. However, lately it has become increasingly popular among donors to promote the creation of improved schemes. The existence and effect of traditional ROSCAs and ASCAs have been well documented by researchers (Adams and Fitchett, 1992, Anderson and Baland, 2002, Bouman, 1995, Ambec et al., 2007, Besley et al., 1993). However, when it comes to interventions where donors help structure and organize the groups (often referred to as modernization efforts), little consensus exists. Bouman (1995) warns against such modernization efforts as they may distort a well-functioning financial system among the poor. Yet, several others support modernization efforts (Ashe, 2002, Allen, 2006).

Some of the best-known examples of modernization efforts are the ones promoted by CARE (Allen, 2006, Grant and Allen, 2002), (www.vsla.net) and Worth of PACT (Ashe and Parrott, 2002), (www.worthwomen.org).³

In a modernized SCG the group is trained in getting organized, installing democratic principles, managing the money and structuring the savings and credit operations. Programs and donors differ in how this training is provided, but in a well managed program the training will be structured and carried out within a pre-established timeline. Around one year is the typical time it takes to bring a group from infancy to maturity, but in some programs practicing the techniques of Participatory Learning and Action (PLA) and Participatory Rural Appraisal (PRA) the time needed is generally longer.

³ In India a special model has been developed in a partnership between the central bank NABARD, several commercial banks and hundreds of NGOs (Wilson, 2002). This has resulted in the creation of 2.2 million SHGs with access to relatively cheap funding from banks (Misra and Lee, 2007). However, the situation in India is a special case, where NABARD has a leading role, and also because the country has one of the most inclusive financial sectors in the world with a wide distribution network of banks and SACCOs.

What often distinguish a well structured SCG program is that more support is provided in the first incentive phases and gradually the group is left to carry out the operations on its own. In less structured SCG programs there is often no pre-established plan for the intensity of the support.

Generally most modernized SCGs meet on a weekly, biweekly or monthly basis. Pay-ins of compulsory savings, repayment of loans and new loan decisions form up the basic agenda for the meetings.

Compared to specialised institutions the SCGs have several advantages:

- It is a feasible model to reach less densely populated areas
- Possible to reach very large number of groups/members
- Potential low cost per member reached
- Local savings are recycled and given as loans locally
- No resource drainage from rural to urban areas (payment of interests remains in the village)
- Strengthens the local civil society and may build democratic structures as well as generate social capital
- Makes possible the involvement of less specialized NGOs/CBOs/Churches etc. in promotion efforts
- Provides a platform for the delivery/promotion of other services/trainings (health care, literacy etc)

Yet, several disadvantages can also be identified:

- Possible capture of the groups by elite members
- Possible fraud
- SCGs are fragile structures and a slight deterioration in loan portfolio can seriously compromise their survival (Basu and Srivastava, 2005)
- Time consuming (frequent meetings etc.)
- Loan funds are limited and it takes a long time to build up capital in the groups
- Limited types of financial services available

Comparing SCGs and specialized institutions should not turn into a competition. Context and people's needs will have to decide. When available poor people often participate in both SCGs and MFIs. However, what can be said is that most NGOs and CBOs don't have the capacity to become efficient providers of microfinance, but they often have what it takes to become efficient promoters of SCGs. When helping poor people to form their SCGs NGOs don't provide financial services, but they promote and help organize the people in such a way that they get access to the services. Such strategy can be powerful not only when it comes to the promotion of SCGs, but also when it comes to advocate and help facilitate MFIs to reach out to new groups. See Rutherford (2000) for more about *providers* and *promoters* of microfinance.

4.2. Unsolved puzzles in savings and credit groups

There are several unsolved puzzles when it comes to the promotion of SCGs. In the following I describe some of the major ones.

4.2.1. Minimalist versus integrated groups

Basically donor funded projects for the promotion of SCGs can be divided in two groups; those who promote minimalist SCGs and those who promote integrated SCGs. In a minimalist SCG the main objective is to serve the members with savings and loans only. In an integrated SCG other needs are considered to be as important as access to financial services. Of course, financial services are important, but why not also make use of the groups for the promotion of other important issues like gender equality, social mobilization, empowerment, business development, new farming technologies, etc.? Hence, most donor funded efforts seem to be following an integrated approach where the savings and credit activity is often seen as just support activities. In annex 5 a model is presented to better understand integrated versus minimalist SCGs.

No consensus exists to whether minimalist or integrated groups bring along more long term benefits. Several recent initiatives to develop standardized monitoring systems for SCGs indicate a pressure towards the promotion of more minimalist design in projects. With increased standardization and streamlining of a project the cost-efficiency ratio improves. Also, other inputs and trainings beside savings and credit can be a donor driven agenda. Yet,

at the same time, if the groups can be used as platforms for a wider approach to development, why not make use of them? Both sides of the debate provide good arguments, but few provide good documentation to support them.

Whether promoting integrated or minimalist SCG my main recommendation is that the savings and credit operations, those are the core activities, must be well managed. Too often I get the feeling that donors promoting integrated SCGs only consider the savings and credit to be “a necessary evil” to enable the promotion of other inputs or to ensure people’s participation or to make up peer pressure to guarantee donors’ loans.

4.2.2. Can Savings and Credit groups become sustainable?

Wright and Mutesasira (2001) reports that 99% of the participants have experienced losses when participating in traditional ROSCAs, ASCAs, etc. Groups are easily captured by elite members and frauds are common. Nevertheless, poor people still consider participation in ROSCAs and ASCAs to be important. The question remains: Can modernized SCGs promoted by donors improve the practice and transparency in their groups and thereby become long term sustainable providers of savings and credit to their members? Several consider the long-term sustainability of SCGs to be difficult without some kind of long-term ongoing contact with the groups. However, Anyango et al. (2007) reported from Zanzibar that three or four years after CARE stopped its intervention, not only were all groups still intact, but they had increased by 258%! All together little consensus exist which in turn should motivate involved donors to better document their efforts and disseminate their results.

4.2.3. Should SCGs be provided with extra capital from the outside or should they solely depend on members’ own savings?

Often SCGs are provided with extra loan capital funded by donors. The argument is that the members are too poor to generate sufficient savings to finance members’ needs for loans. Allen (2002) warns against capital infusion because it reduces members’ incentive to save. In a program in Zanzibar, savings more than tripled after removing the possibility of receiving loans from outside the groups. Murray and Rosenberg (2006) reported that the sustainability of groups without access to outside capital is much higher than for those with access to such funds. The reason is that access to outside capital creates unclear governance and incentive

structures in the groups. In addition, my experience is that access to outside capital creates an unclear situation when exit strategies are to be designed. Who owns the loan capital and how can one secure the sustainability of the lender so that the groups get long-term access to outside loans?

If the capital from the outside comes from a professional MFI the sustainability-risk of the lender is reduced. Hence, if to provide outside capital at all it should whenever possible be provided through a professional MFI. Furthermore, my rule of thumb is to avoid infusion of extra capital whenever possible. Too often I've observed that infusion of capital is unstructured and not based on a real need assessment in the groups. Often in groups where no extra capital is provided the groups still have idle capital because members' demand for loans is actually quite limited (Mersland, 2007c). The lesson learned is that savings is actually a more needed service than loans.

Nevertheless, I also admit that extra capital can sometimes be needed. The issue is that few seem to have found a mechanism to provide such capital to SCGs in a sustainable and effective way and without damaging the internal governance of the group.

In several projects where extra capital is provided to SCGs the organization of the savings and credit in the groups is actually not considered a core activity. Often the organization into groups is done merely to enable the provision of extra capital and create a mechanism for peer pressure securing the repayments of the loans. Such projects are often, according to my view, more similar to credit components (see below) than to the organization of well managed potential sustainable SCGs.

4.3. The Danish portfolio

According to Desk Study 1, 28 out of 36 Danish projects involved in microfinance have participated in the formation or training of savings and credit groups. Hence, knowledge related to SCGs stands out as extremely relevant for Danish NGOs. No project seems to be promoting a pure minimalist model and several of the projects seem to be organizing the SCGs more as guarantee mechanisms than stand alone SCGs.

4.4. The visit to Uganda

While in Uganda we visited four projects that promote SCGs: REPA (Care Denmark in partnership with Care Uganda), ADRA, CARITAS and SUSTAIN (Care Uganda in partnership with DFID). As case studies they clearly illustrate the differences between integrated and minimalist SCGs. REPA, ADRA and CARITAS are integrated projects. The two later basically organize the groups to create platforms for service delivery (basically agriculture) and as guarantee mechanisms for loans to the members. Hence, ADRA and CARITAS fit better into the category of credit components in integrated projects discussed below. REPA organizes the groups as stand alone SCGs, but also uses them as platforms for different kinds of inputs. SUSTAIN is a pure minimalist project where the only focus is to rapidly build thousands of SCGs. The donor cost per member is as low as around \$20, and the aim is to build 5000 groups and reach 100,000 participants within just 18 months. Compared to the often hundreds of dollars per beneficiary in integrated projects reaching a limited number of people SUSTAIN stands out as extremely efficient. It is easy for every involved stakeholder to know their role. The members are only trained in savings, credit and management of the group. The implementing NGO and its staff have a detailed implementation plan and monitoring system concentrating on minimalist benchmarks like the number of members, savings collected, repayment of loans etc.

For outsiders like us it is easy to understand the SUSTAIN model. It is also easy to benchmark it with other programs and projects. However, when it comes to the more integrated projects, much more time and explanation are needed to gain an overview of the models and the objectives. Whether this means that SUSTAIN will “produce” more overall development than the other projects is impossible to say. Nevertheless, I do believe that there is a need to keep models and interventions more simple. Remember, “less is often more.” This was also confirmed by CARE’s staff, who admitted that the groups promoted in SUSTAIN became stronger than the groups promoted by REPA. However, SUSTAIN also illustrates that interventions can end up being too simplified. Interviews with the staff of Care-Uganda and the implementing local partner FOCCA revealed that the staff considers SUSTAIN to be too much simplified. The lack of general business training as an integrated part of the project was especially questioned. For some it was also difficult to understand why the SUSTAIN groups could not be used as platforms for other important inputs. After all, poverty is much more complex than the lack of access to financial services only.

4.5. Possible roles for Danish NGOs

The considerable presence of SCGs in the Danish microfinance portfolio is interesting. However, few initiatives seem to be following a conscious strategy drawing on international experience and research. This calls for coordinated efforts within the Danish NGO community to better understand SCGs, their roles, opportunities and limitations. With such a considerable pool of organizations interested in the same subject Denmark (DANIDA, Projektrådgivningen etc.) should be well positioned to take a leading role in documenting and better understanding SCGs. Especially there seem to be a need to better understand the difference between potential stand alone SCGs and those SCGs that totally depend on other donor inputs, especially credit. I recommend that Danish NGOs interested in the promotion of SCGs familiarize themselves with relevant literature as well as available manuals on how to build SCGs. A place to start is to read the academic references considering SCGs in this report as well as in desk study 2. Besides, interested NGOs can download the manual available at www.vsla.net. Another possible role for Danish NGOs is to facilitate visits for their partners to some recognized and well managed projects promoting SCGs.

5. Integrated projects with credit components

5.1. Theoretical background:

Credit components are typically found in large government/multilateral programs with thousands of beneficiaries or in tiny integrated projects of NGOs/CBOs sometimes with as few as a dozen beneficiaries. The idea with a credit component is to offer credit in combination with several other inputs. Typically credit components are found in different training schemes, in agricultural projects, or in projects working with a particular target group like demobilized soldiers, AIDS victims, refugees, disabled persons, etc. Often credit components are offered in combination with the organization of SCGs. This can easily result in groups focusing on the need for external resources instead of the mobilization of the members' own resources.

Credit components can basically be offered in two different ways, either directly by the organization implementing the whole project, or in partnership with a specialized provider of financial services. When offered by a specialized MFI one can avoid complications when exiting the project. For instance: who actually owns the money and how to secure ongoing access to credit after phasing out the project? In addition the group and its members learn to relate to a genuine provider of finance when credit is offered through a MFI.

From a theoretical standpoint a linking strategy with a MFI can often make perfect sense. The implementing organization, often an NGO, has in-depth knowledge of the target group and the local needs. Their role is often to advocate rights and inclusion. At the same time the specialist institution knows how to screen, deliver and recover credits. However, such a linking strategy often proves difficult to implement. My experience is that the difficulties are often based on one of the following two reasons:

- The implementing organization knows little about microfinance. This makes negotiations with the MFI difficult. It is important to know the “rules of the game” of microfinance to be able to negotiate a partnership that benefits all parties.
- The specialist MFI will often demand some type of incentive to enter into a partnership. In some cases such incentives make perfect sense, while in others they can just be an excuse or an easy access to donors’ money. Hence, to understand whether an incentive is really needed is an exercise in itself. Then, if it really is needed it is normally very difficult to design since such incentives can often reduce the MFI’s own incentives to secure optimal operations.

The arguments for including a credit component in a project can often be catalogued in the following four groups:

1. The target group doesn’t have access to credit (either because no credit is available in the area or because the target group is somehow excluded and marginalized).
2. The available credit is too expensive.
3. Without access to credit the other inputs like training, etc., will not have much effect.
4. The target group doesn’t have sufficient savings capacity to generate enough funds.

Beside these arguments, my experience is that credit components are often included in a project as an incentive to secure better participation from the target group, as a means to build up the status of the implementing organization, or as a mechanism to increase the

sustainability of the implementing organization. Hence, donors faced by partners' wish to include a credit component should try to understand the real motivation behind the request.

In my view, an argument that holds theoretically when it comes to credit components is that successful entrepreneurship (including farming) requires access to a combination of market opportunities, non-capital resources (vocational and business skills, networks, etc.) and capital to become successful. This is illustrated by the following market matrix (adapted from Mersland, (2007b):

Figure 1: Market matrix illustrating the need for capital and non-capital resources

		Access to non-capital resources	
		HIGH	LOW
Access to micro-credit	HIGH	Exemplars	Possibly in trouble
	LOW	Immediate Potentials	Possible Future Potentials

The “*Exemplars*” are those micro-entrepreneurs who have access to both micro-credit and non-capital resources. In addition to being successful micro-entrepreneurs they are also exemplars and role models for others.

The “*Possibly in trouble*” are micro-entrepreneurs who have access to micro-credit without having the necessary non-capital resources. With their current level of non-capital resources they will not succeed in business and risk ending up in deeper misery than before.

The “*Immediate Potentials*” are those micro-entrepreneurs who already have the necessary access to non-capital resources, but don't have access to micro-credit. These entrepreneurs will normally benefit from getting a loan.

The “*Possible Future Potentials*” are those micro-entrepreneurs who don’t have the necessary non-capital resources and don’t have access to micro-credit. For these entrepreneurs it is important not to provide credit before the necessary non-capital resources have been secured. Well-structured micro-grants can sometimes be effective in this group.

However, even if there can be strong theoretical support for credit in combination with other inputs this does not mean that implementing organizations promoting livelihoods and entrepreneurship should include credit components in their projects. The reason is that administrating a credit component is difficult and expensive and falls outside the competence and strategies of most NGOs/CBOs. Another reason is related to the complexity in being both a counsellor and a bank: “Why should I repay a loan to someone who didn’t give me proper guidance?” Hence, CGAP is clear in their recommendation: “Avoid credit components where possible” (C-GAP, 2003). And when credit components cannot be avoided then search for a linking strategy with a MFI.

The arguments that the target group doesn’t have access to credit and there is no MFI to link up to are of course valid. However, the counter-argument is that if others are not able to provide the target group with credit, what makes you believe that you are able to do it? And if access to credit is a constraint, why should this be given as a component in a project? Wouldn’t it be much better to find ways to build up sustainable access to financial services through the creation of savings and credit groups or specialized institutions (new ones or branches of existing ones)?

My experience is also that promoters of credit components often have a too optimistic view of the “speed of impact”. Most projects only consider one or two loans to each beneficiary and estimate that this will be enough to get the person started with a new livelihood activity. However, this is often proved wrong. Repeatedly researchers have demonstrated that impact from credit is highly correlated with time. That means that the longer a person has access to repeated credit opportunities, the more positive impact can be expected (Hulme and Mosley, 1996).

5.2. The Danish portfolio

The results from Desk Study 1 indicate that only eight out of the 36 projects have not provided loan capital in the project. Of the 28 having provided loan capital, 2 (DACAAR and SUPOTH) can be characterized as specialized institutions. Most of the rest have had a credit component in combination with the formation/training of savings and loan groups. All together Desk Study 1 demonstrates that Danish NGO projects involved in microfinance are generally integrated projects with credit components.

Faced with the fact that credit components in integrated projects have generally proved to be non-sustainable, the high incidence of this type of projects in the Danish portfolio is somewhat disappointing. However, of the 28 projects having provided loan capital eight of them have tried out a linking strategy with specialized providers. “Sykler til Senegal” and “Indien Gruppen Fyn” are partnering with banks, “Mellom Amerika Komiteen” with a SACCO, and “Dansk Ugandisk Vennskapsforrening” and “Ghana Vennskapsgruppene” with specialist (hopefully) NGOs. Whether these partnerships have been successful and what lessons have been learned would be interesting to study in the future. Similarly it is interesting to know whether those projects providing credit directly to the beneficiaries can demonstrate a positive outcome generated from the access to the credit component.

5.3. The field visit

The projects of ADRA, CARITAS, DANMISSION and Uganda Farm (very small with only seven loan clients) all provide loans to beneficiaries of integrated projects. In my view, the field visit clearly demonstrated that credit components in integrated projects are generally difficult to practice. The following challenges stand out in all these projects:

- No clear exit strategy
 - None of the projects have a clear exit strategy for their credit components. Especially ADRA, who is in the final phase of their project, now struggles to come up with an exit strategy. Also the other organizations lack comprehensive answers to difficult questions: Who owns the money? How can costs be covered in the future? How to secure high repayment rates in the future?
- Possible market distortion

- All projects provide credit at subsidized rates. At the same time the repayment rates are not at fully satisfactory levels. Not only does this reduce the possibility of long-term sustainability, but it also makes it more difficult for potential sustainable providers of microfinance to become sustainable (the projects take away part of the MFIs' potential customers and at the same time the clientele and the local communities are getting used to subsidized interest rates).
- All projects argue that there are few or no other available providers of credit in the area. This seldom holds true. In nearly all groups visited there were members that had or used to have credit in specialized institutions.
- Complex systems
 - All projects are complex and access to credit is slow and bureaucratic. Examples of more than six months from application to disbursement were found.
- Low cost-efficiency
 - Calculating the cost-efficiency of credit components in integrated projects is in most cases impossible. However, all projects, except Uganda Farm, must have a very low cost-efficiency in their credit components. Relatively few beneficiaries, huge overhead costs, big geographical coverage with overall low penetration of households, complex and bureaucratic loan procedures, etc., all indicate low cost-efficiency in the credit components.

However, the integrated projects also demonstrated that it is possible to improve the outcome of farming through the input of donor-funded interventions. Whether the size of the improvements can justify the costs of the interventions, and which of the often many components actually drives the improvement, remains unanswered. When it comes to the credit components a relevant question to ask is whether the outcome of the projects could have been nearly the same without the inclusion of a credit component. I argue that in many cases it seems difficult to justify the inclusion of the credit components.

During the field visit, one project with a pure linking strategy was visited. In this, NUDIPU (National Union of Disabled People in Uganda) is partnering with AMFIU (Association of Microfinance Institutions in Uganda) in a teamed effort to increase the outreach of microfinance services to the disabled population. In the project the role of NUDIPU is to

inform disabled people about the pros and cons of microfinance and to direct them to nearby specialist institutions. Similarly, AMFIU is to inform the microfinance institutions about the disabled population and to advocate the inclusion of marginalized groups in general, and the disabled in particular. Hence, in this project the role of each partner is to do what it knows best. Since the design of effective incentives has been difficult, no particular incentives have so far been included in the project. Nevertheless, after one year since start-up, both AMFIU and NUDIPU report several cases of the successful inclusion of disabled persons as clients in mainstream microfinance institutions.

5.4. Possible roles for Danish NGOs

Most importantly Danish NGOs should search for ways to avoid the inclusion of credit components in their integrated projects. Yet, I admit that this can be difficult, and by issuing a general warning there is a risk that “the baby can be thrown out with the bath water”. There are cases where credit components make sense, especially when the credit can be provided in a partnership with a specialized MFI.

As a start Danish NGOs may upgrade their knowledge in livelihood promotion and entrepreneurship development. In addition there is a need to better understand the role of savings and not least the very often untapped potential for mobilizations of local resources. More often than not money is not the main constraint for development. Non-capital needs like self esteem, skills, social capital, technology, access to markets, business competence etc. are often higher hindrances to climb than accessing capital.

Yet, there are cases where capital needs to be provided, but microcredit is not the only alternative. In some cases well structured micro-grants in combination with savings and other inputs can be more effective than microcredit. In all cases well defined pre screening processes as well as very close follow up is needed. Since little knowledge is available Danish NGOs could play an important role in trying out innovative schemes for micro-grants like for instance topping-up personal savings.

It is of vital importance to understand the concepts of being *providers* or *promoters* of services. Most Danish NGOs will probably agree that promoting, advocating and educating fit better with their organizational strategies, competences and culture than ending up being

providers of credit. Hence, there is a need for more initiatives that can have demonstration effects to better understand the concept of being a promoter of microfinance.

6. DANIDA's strategy for civil society

Support from DANIDA to Danish NGOs' initiatives in developing countries has to be framed within the strategy of support to the civil society. The strategy document from the year 2000 provides guidance on principles and support areas. There are, according to my view, several benefits of having such a stringent strategy for development support. However, when it comes to support for microfinance initiatives it may also generate some uncertainties and possible controversies.

Can professional MFIs be defined as civil society organizations? Depending on their objectives and methodologies maybe some NGO-MFIs and SACCOs can. But is a shareholder-MFI a civil society organization? If not, can a Danish NGO provide support to a shareholder-MFI? In the worst case, the Danish NGO can end up supporting a weak and unhealthy SACCO to comply with DANIDA's strategy, instead of doing what can bring along more development, for example supporting the building of a shareholder-MFI.

A principle in the strategy is to not support service delivery. However, an exception is made for strategic support to education and health, for example (page 31). Does "for example" mean that strategic support can also be given to financial services? If not, can Danish NGOs support the development of specialized MFIs at all? And, why are education and health higher priorities than financial services? Can support be given to business development services like skills training and market access for farmers?

The strategy is very good in directing the Danish NGOs to get involved in advocacy and promotional efforts. Such efforts are much needed in microfinance. Nevertheless, does this mean that all efforts in relation to specialized MFIs should be of the promotional kind, like consumer education, information about services, rights of being included, etc.

According to my view, savings and credit groups are important civil society organizations. Supporting their promotion and organization should, therefore, be well within DANIDA's strategy. Yet, when it comes to streamlined SCGs like the SUSTAIN program in Uganda,

where the only aim is to build SCGs capable of managing savings and credit and nothing else, would such a highly efficient program be eligible for support from Danish NGOs? It is important to avoid ending up supporting less effective and efficient models with all kinds of “donor-driven extra inputs,” just to comply with DANIDA’s strategy.

My main fear with the strategy for support to the civil society is that the Danish NGOs end up getting involved in all kinds of integrated projects where credit components are designed in unprofessional ways, leading to market distortion, slack business models, ineffectiveness and inefficiency.

This study has not been designed to analyse how DANIDA’s strategy has influenced the microfinance activities of Danish NGOs. Probably the lack of involvement with specialized MFIs and the high incidence of credit components in integrated projects is the result of the Danish NGOs’ and their partners’ own strategies, competencies and priorities. Nevertheless, it cannot be precluded that DANIDA’s strategy may also have led them in such a direction.

My aim is not to change the strategy, but to help all stakeholders to understand what it means when it comes to microfinance. Especially important is to avoid DANIDA’s strategy leading to activities and the type of support that does not benefit the further development of the microfinance sector.

7. Conclusions

- Generally most projects supported by Danish NGOs are integrated projects including credit components.
- An interesting aspect of the Danish portfolio is the high incidence of savings and credit groups. However,
 - The high incidence of credit components in combination with SCGs reveals, probably, a weak understanding of SCGs as potential sustainable stand alone groups.
- Few projects support the development of specialized microfinance institutions, which is one of the main bottlenecks for the further outreach of sustainable microfinance

services according to C-GAP. However, few Danish NGOs are likely to have the competencies and interest needed to provide such support.

- Danish NGOs are generally uninformed about international standards for the effective and efficient development of microfinance services.
- Danish NGOs are probably well positioned to take on a more promotional role in microfinance. Yet, this requires an increased understanding of what type of activities to take on to actually promote microfinance.
- DANIDA's strategy for the support to the civil society provides, according to my view, unclear guidance to projects involving microfinance.

8. Recommendations

- There is a strong need among Danish NGOs to strengthen their general capacity in microfinance, especially in savings and credit groups. A capacity-building plan should be worked out. Since few Danish NGOs are involved in specialized MFIs, C-GAP should **NOT** become the only reference point on donor effectiveness. Nevertheless, it should still be expected that Danish NGOs involved in microfinance know of C-GAP and their guidelines, etc.
- The building of a network where Danish NGOs can interchange experiences related to microfinance, and especially savings and credit groups, seems needed. However, to make such a network efficient some organizations or persons must take a leading role to develop its content and make it into a dynamic learning network. Proper financing is also needed.
- Based on the findings in this study, three areas stand out as of special need and interest:
 1. The promotion of microfinance: What does it mean and how can it be done?
 2. The building and strengthening of savings and credit groups.
 3. The linking between MFIs and other development actors.

Within all these areas there is, according to my view, an international need for debate, studies and capacity building. Hence, Danish NGOs could take on a leading role.

- If some Danish NGOs are interested in becoming experts in supporting specialized MFIs (like Stromme Foundation and Mission Alliance in Norway), there should be room for them within DANIDA's frameworks to develop appropriate strategies and provide effective support.
- Projects with microfinance components should probably in most cases be phased out or redesigned.
- Future support to projects involving microfinance should only be given if the Danish NGO can demonstrate and document beforehand that:
 1. Their partner and themselves have the needed microfinance competence.
 2. That the delivery model to be used is supported by microfinance research.
 3. Close and frequent monitoring of the microfinance part of the project is installed.
 4. Proper exit strategies are in place before initiation of the project.

If these criteria are not fulfilled, support should only occasionally be given as smaller pilots to innovative schemes.

- Together with DANIDA, Projektrådgivningen or others should write up some guidelines on how microfinance can be supported within DANIDA's strategy for support to the civil society.

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Annex 1

Terms of reference for ekstern konsulent til
”De danske NGO’ers erfaringer med mikrokreditter”

Ansvarlig for undersøgelsen

Projektrådgivningen er ansvarlig for undersøgelsen i sin helhed overfor Danida. Dette dokument fastsætter de opgaver som den eksterne konsulent specifikt vil være ansvarlig for. Den eksterne konsulent referer til Projektrådgivningen samt den nedsatte følgegruppe for undersøgelsen.

Baggrund

Flere af de danske NGO’er har igennem årene haft indkomstskabende aktiviteter og herunder mikrofinans-komponenter som et element i udviklingsarbejdet. På det grundlag tog NGO Enheden i Danida i 1998 initiativ til gennemførelsen af danske NGO’ers erfaringer med indkomstskabende aktiviteter. Projektrådgivningen udarbejdede på baggrund af undersøgelsens resultater ”Håndbog vedr. indkomstskabende aktiviteter” (år 2000) – til brug for danske NGO’er og deres partnere i Syd”.

Mikrofinans indsatser blev kun sporadisk dækket af den ovennævnte undersøgelse og der er i HUM et behov for at få mere eksakt viden om god og dårlig praksis i det voksende antal mikrofinans-komponenter der indgår i enkeltbevillingsprojekter. I forhold til Minipuljens bevilligende instans ’Bevillings-gruppen’ er der ligeledes udtrykt behov for mere viden på netop dette område.

På NGO-træffet i marts 2006 blev der i forskellige sammenhænge diskuteret mikrofinans og indkomstskabelse. Der blev udtrykt stor interesse for at fortsætte erfaringsudvekslingen i NGO miljøet, og en interessegruppe har afholdt et møde om emnet den 25/4 2006. Den aktuelt store interesse i miljøet er baggrunden for at designe undersøgelsen således at den forstærker dette momentum og ikke placerer sig i et parallelt spor til dette gryende netværksinitiativ.

Bistandstorget i Norge⁴ har siden 1999 haft en særlig faggruppe, der igennem møderækker og studier har beskæftiget sig med NGO’ers mikrokreditprogrammer (se www.bistandstorget.no). Det vil være naturligt at inddrage erfaringerne her fra således at undersøgelsen kan starte på et højere eller mere præcist defineret niveau.

Formål

Formål med undersøgelsen er at:

- Tilvejebringe viden om, hvad der i dag opfattes som ”det svære” ved at arbejde med mikrofinansieringsformer, hvor ”trykker skoen” og hvilke er de gode eksempler til efterfølgelse?

⁴ Sammenslutning af NGO’er i Norge – parallel til Projektrådgivningen

- Forankre læringen i den del af NGO miljøet, som deltager gennem en procesorienteret tilgang. Formidlingsegne output sikrer, at der efterfølgende kan ske en videreformidling til en større kreds af NGO'er.
- HUM kontoret i Danida, Bevillingsgruppen og evt. andre bevilgende instanser får instrumenter til at vurdere ansøgninger indeholdende mikrofinansierings komponenter.

Metode og forløb

Undersøgelsen vil basere sig på en kombination af desk-studie, workshops og feltstudie. Forløbet er procesorienteret i den forstand, at væsentlige beslutninger først træffes når resultater for de foregående elementer foreligger. Workshop 1 er således central i forhold til at tilvejebringe informationer, ideer og problemstillinger der vil blive benyttet til at fokusere feltbesøget. Følgende elementer udgør tilsammen undersøgelsen.

- Deskstudie 1* – en screening af hvilke danske NGO'er der støtter mikrofinansinitiativer, færdig januar 2007
- Deskstudie 2* - En gennemgang og præsentation af hovedtræk i international forskning og analyse inden for området. Danske initiativer perspektiveret, færdig senest 30. januar 2007
- Workshop 1* - Erfaringsudveksling blandt danske og norske aktører. Diskuterer hvilke typer og antal af feltstudier, der er behov for, for at lukke videnshuller eller afdække løsningsforslag til væsentlige dilemmaer eller problemer i mikrofinans indsatserne, som de er i dag. Februar 2007
- Feltstudie* - Analyser af de specifikke problemstillinger workshop 1 har udpeget. Marts / april 2007
- Workshop 2* - Samlet præsentation af undersøgelsens resultater før den endelige rapport færdiggørelse. Maj 2007

Konsulentens opgaver

På det overordnede plan er konsulenten ansvarlig for at sikre et højt fagligt niveau i undersøgelsen – ud fra de givne tidsmæssige og økonomiske rammer. Det forventes således at konsulenten aktivt bidrager med at inddrage international forskning og analyse inden for området, samt er i stand til at perspektivere de forskellige diskussioner og resultater i forhold til disse. Det er ligeledes konsulentens opgave at inddrage allerede indhøstede erfaringer fx fra norske undersøgelser. Ønsket er at tilvejebringe en fælles platform der gør det muligt at igangsætte en læringsproces på et højt niveau, skønt der i Danmark ikke tidligere har været gennemført lignende undersøgelser (med respekt for gennemførte undersøgelser internt i enkelte organisationer).

Output (fra konsulenten)

Hvad	Output / opgave
Deskstudie 1	Sparing på spørgeskema Sparing på analyse arbejde
Deskstudie 2	<ul style="list-style-type: none"> • En gennemgang og præsentation af hovedtræk i international forskning og analyse inden for området.

	<p>Hvilke skoler og trends gør sig gældende.</p> <ul style="list-style-type: none"> • ”Danmark og mikrofinans”. Hvilke retningslinier har Danida, hvordan arbejder BFT med mikrofinans. • En sondering af hvordan enkelte danske NGO’er (2-3) arbejder med mikrofinans – gerne som eksempler i relation til ”skoler og trends”. • Oplisting af mulige temaer til feltstudie (diskussionsinput til workshop 1) • Anbefaling af afgrænset litteratur til skabelse af fælles referenceramme <p>Rapport på 20 – 40 sider</p> <p>PowerPoint slides til brug på workshop 1</p>
Workshop 1	<p>Sparing på planlægning af workshop (Projektrådgivningen ansvarlig)</p> <p>Deltagelse i to-dages workshop. Oplæg og deltagelse i diskussioner.</p>
Planlægning af feltbesøg	<p>ToR for feltstudie – ansvarlig for besøg til ikke-danske NGO-projekter.</p> <p>Projektrådgivningen ansvarlig for planlægning og logistik vedrørende den del, der dækker de danske organisationers projekter.</p>
1 feltbesøg, for eksempel til Øst-Afrika	
Foreløbig rapport	<p>Synteserapport der:</p> <ul style="list-style-type: none"> - opsummerer resultaterne for feltbesøget - sammenholder med deskstudie 2 og workshop 1 - kommer med konkrete anbefalinger
Workshop 2 (1 dag)	<p>Sparing på planlægning af workshop (Projektrådgivningen ansvarlig)</p> <p>Deltagelse i workshop. Oplæg og deltagelse i diskussioner.</p> <p>Fremlægelse af rapport.</p> <p>Indsamling af kommentarer og synspunkter til brug for endelig rapport (draft).</p>
Endelig rapport	<p>Foreligger i trykkeklar udgave (i Word-format)</p>

Rapporter og analyser udfærdiges på engelsk. Arbejdssprog på workshops og møder er dansk / norsk.

Bemanding og tidsplan

Roy Mersland, i Mersland AS, ansættes som ekstern konsulent for undersøgelsen.

Tidsplanen tager udgangspunkt i ovenstående programmering, men ændringer vil kunne aftales mellem partnerne (konsulent / Projektrådgivningen).

I Projektrådgivningen er NGO konsulenter Nina Lauritzen samt Troels Hovgaard ansvarlig for denne parts del af undersøgelsen.

Litteratur

Inventory of Microfinance Activities Supported by Norway
April 2006, NCG og NORAD

Promising practices microfinance, Promising practices series no 1, the Norwegian
Development Network, Kristiansand/Oslo June 21, 2004

Review of Norwegian Microfinance Activities, Final Report
26 August 1999, NCG og NORAD

Mikrofinans, forretning eller udviklingsværktøj? Flemming Kramp / Andelskassen OIKOS,
Juni 2006

Strategi for dansk støtte til civilsamfundet i udviklingslandene - herunder samarbejdet med de
danske NGO'er. Udenrigsministeriet, Danida, oktober 2000.

Building Inclusive Financial Systems: Donor Guidelines on Good Practice Microfinance,
CGAP December 2004

Annex 2

Output	Time	Content
Desk Study 1	January 2007	A screening of the use of microfinance in the project activities of the Danish NGOs.
Desk Study 2	February 2007	A presentation of the current trends and research results within the field of microfinance – and putting into perspective the work of the Danish NGOs.
Workshop with Danish NGOs and other actors (in Denmark)	February 2007	Presentation of the findings so far and narrowing the focus areas for the field visit. The workshop was held on 9 and 10 February.
Field visit	March 2007	14 days of field visit in Uganda and Tanzania. Go into depth with the themes stated in the previous workshop.
Workshop 2	May 2007	Handing over the draft report and the findings to the Danish NGOs. Decide on final changes in the report.
Final report	May/June 2007	Report written in English, which compiles Desk Study 1 and 2 and the findings and discussions throughout the learning process.

Annex 3

Definitions and concepts in microfinance

To facilitate a better understanding for readers not familiar with microfinance, the following definitions and concepts are explained:

Microfinance

The definition I like best is: “Microfinance is the supply of financial services to micro-enterprises and poor families.” However, some find such a definition too narrow.

Financial services

There are four basic financial services: savings, credit, insurance and money transfer. Hence, microfinance is much more than just microcredit.

NGO

Based on Hansmann (1996), I have a wide understanding of what a Non-Governmental Organization (NGO) is and can do. To me, any organization that doesn't have direct owners with the right to appropriate the organization's assets and profits is an NGO. Several different types of NGO are involved in microfinance. Some are promoters, while others are providers of microfinance; some are just like big banks, while others are tiny local organizations.

Providers of microfinance

A provider of microfinance is the organization that actually supplies services to the beneficiary or client on a contractual basis.

Promoters of microfinance

A promoter of microfinance does not supply services directly, but can be involved in all other ways of promoting microfinance. Training, advocacy, consumer education, organization of groups, research, etc., are typical roles of promoters of microfinance (Rutherford, 2000).

MFI

A Micro Finance Institution (MFI) is a specialized provider of microfinance. An MFI can be an NGO, a bank or other type of financial institution. Normally an MFI aims to become a large, sustainable, long-term provider of microfinance.

ROSCA

A Rotating Savings and Credit Association (ROSCA) is a group of self-selected persons, normally consisting of 10 to 30 members. Regularly, often weekly or monthly, the members of a ROSCA pay in compulsory savings and distribute these as a prize to one of the members. When all members have received the prize the ROSCA dissolves, but more often than not the members decide to start a similar new round.

ASCA

An Accumulating Savings and Credit Association (ASCA) is similar to a ROSCA. The only difference is that in an ASCA the collected savings are not distributed as a prize, but as loans that have to be repaid to the group. Hence, an ASCA is a bit more complicated to operate than a ROSCA.

ROSCA/ASCA – history

The ROSCA/ASCA system is the oldest pro-poor banking system we know of. It has been around for hundreds of years and has operated without the need for donor support or government regulation.

ROSCA/ASCA – outreach

Today, millions of ROSCAs and ASCAs exist in all continents and countries. In some countries they can be found in virtually every village. In Africa, probably much more than 50% of the population participate or have participated in a ROSCA or an ASCA. In the Congo (DRC) they are called Likilimbos, in Uganda Nigina or cash-rounds, in Kenya Merry Go Round, and in West Africa and some Asian countries Tontines.

SACCO

A Savings and Credit Cooperative (SACCO) is a member-owned cooperative providing savings and credit to its members. The origins of SACCOs go back to the Raiffeisen cooperatives initiated in Germany in the mid-1850s. Beside ROSCAs and ASCAs, SACCOs are the most common providers of microfinance. Other names for a SACCO include cooperative bank, credit union, building society, etc. Most SACCOs are small and rural based.

SHG

A Self Help Group (SHG) is a group of people, often between 15 and 30 in number, that organize themselves around a common cause. Donor-funded projects often promote the organization of SHGs to mobilize people and secure their active participation.

SCG

A Savings and Credit Group (SCG) is a modernized ASCA where the group has received donor-funded training and/or support to improve the operation and management of the group. Other common names used for SCG are VSLA (Village Savings and Loan Association), SLA (Savings and Loan Association), or simply SHG.

Annex 4

Terms of Reference for feltstudie til Uganda – De danske NGO'ers erfaringer med mikrofinans

Feltstudiet indgår som et af flere elementer i undersøgelsen "De danske NGO'ers erfaringer med mikrofinans". Ref. TOR for studiet.

Det overordnede formål med feltbesøget er at erhverve viden om, hvordan de danske NGO sammen med deres partnere i det praktiske arbejde løser problemstillinger vedrørende mikrofinansindsatser. Desuden vil besøgene vedr. de danske indsats blive suppleret og perspektiveret med besøg hos lokale MFI's, regeringskontor og andre aktører inden for mikrofinansbranchen. Det vil blive lagt vægt på at studere/besøge et bredt udvalg af modeller for mikrofinansindsatser. Specielt vigtig er det at få et indblik i: a) integrerede projekter, hvor mikrofinans er en komponent blandt flere indsats, b) projekter som promoverer og udvikler spare- og lånegrupper, og c) specialiserede mikrofinansinstitutioner. Behovet for at sikre et indblik i disse tre specifikke emneområder blev også bekræftet under Workshop 1, der blev afholdt den 9. og 10. februar 2007. Specielt ønsker de danske NGO'er at have uddybet følgende under feltrejsen:

1. Integrerede projekter

Det blev anbefalet at vi tager "hensyn" til virkeligheden, og at feltbesøgene også kommer til at dreje sig om integrerede projekter (eftersom mange arbejder med disse).

- 1.1 Hvordan kombineres mikrofinans med andre projektkomponenter i konkrete projekter?
Hvordan er sammenhængen tænkt og er der nogle problemstillinger her?
- 1.2 Er bæredygtigheden i mikrofinanskomponentet realistisk også efter projektets afslutning?
- 1.3 Kan der i strategien tages hensyn til nogle af de allerede kendte svagheder i tilgangen?

2. Empowerment og spare- lånegrupper

Mange danske NGO'er arbejder med mikrofinans igennem spare- lånegrupper. I sådanne grupper kombineres mikrofinans med arbejde med blødere værdier som skal skabe "empowerment".

- 2.1 Hvordan er spare- lånegrupper katalysator for *empowerment* hos deltagerne – hvilke strategier har organisationerne/projekterne for dette?
- 2.2 Hvordan er det indbyrdes forhold mellem finansiel effektivitet og inkludering af mere bløde værdier i arbejdet. Hvilke erfaringer ligger der i projekterne?

3. MFI's – Micro Finance Institutions

MFI'er, det være sig specialiserede NGO'er, regulerede mikrobanks eller rurale SACCOs, kan tilbyde finansielle ydelser til de fattige målgrupper. Der er brug for mere viden om deres forskellige organiseringsformer, arbejdsformer og prioriteringer.

- 3.1 Findes der i området eksempler på vellykkede linking-strategier mellem MFI'er og NGO projekter / fattige målgrupper.
- 3.2 Hvad er MFI'ernes syn på NGO'erne og mulige samarbejdsformer?
- 3.3 Hvordan fungerer landsby SACCOs, og hvad er ligheder og forskelle mellem landsby SACCOs, spare- og lånegrupper og professionaliserede by MFIs?

3.4 Der er danske organisationer hvis partner overgår fra en subsidieret struktur til en kommerciel MFI. Er det muligt at se eksempler på, hvordan andre har løst denne udfordring?

Lande:

Feltstudiet foretages primært i Uganda og med et enkelt besøg i det Nordlige Tanzania.

Fagligt indhold:

Besøget tilrettelægges således at de ovennævnte aspekter (1-3) dækkes i videst muligt omfang samt belyses fra flere forskellige vinkler.

Tid:

Feltstudiet gennemføres fra den 15. til den 29. marts 2007.03.09

Deltagere:

Nina Lauritzen, NGO konsulent Projektrådgivningen
Troels Hovgaard, NGO konsulent, Projektrådgivningen
Roy Mersland, ekstern konsulent, A/S Mersland

Aktivitet/besøk	Særligt fokus / forventet indhold
Caritas: Besøk til hovedkontor i Kampala og til et prosjekt der udføres i samarbejde med KATUKA (lokal partner)	1. og 2
Adra: Besøk til hovedkontor i Kampala Og til til ADRA's projekt i Bunya	1 og 2
Besøk til Danmissions prosjekt i Bukoba i det nordlige Tanzania	1 og 2
Besøk til hovedkontor til Care-Uganda Besøk til prosjektene til Care Danmark (REPA)	2 og 3.1
Besøge Folkekirkens Nødhjælps projekt i ...	
Besøge Africa in Touch's partner ved Masaka	1
Besøk til 3 MFIs (FINCA, U-Trust og Ugafode)	3.3 (FINCA og U-Trust)
Besøk til SACCO nettverk (UCA)	3 og 1
Besøk til MFI-nettverk (AMFIU)	3
Besøk til Apex-lender (Strømmestiftelsen)	3
Besøk til government microfinance promotion program	1, 2 og 3, men mest 3
Besøk til NUDIPU som kan fortelle om erfaringer med komponenter og linking	3
Være sammen med MFI credit officer 1 dag når han/hun besøger kunder/grupper	3
Besøg til små lokale SACCOs i landsbyer (organiseret af UCA)	1 (2) og 3

Output:

Udkomme af de forskellige besøg integreres i den endelige rapport, således at særligt de tre hovedområder identificeret under Workshop 1 grundigt behandles.

Bilag:

Program for rejsen
Baggrundsbeskrivelse på engelsk sendt til besøgsorganisationerne

Annex 5

A model to better understand how social objectives/activities and business development objectives/activities can be integrated in Savings and Credit groups.

		Level of integration of social objectives/activities	
		LOW	HIGH
Level of integration of business development objectives/activities	HIGH	C Business integrated model – financial services and business development	D Widely integrated model – financial services together with business and social objectives
	LOW	A Pure minimalist model – financial services only	B Social integrated model – financial services and social objectives

- Quadrant A illustrates a SCG that only concentrate on credit and savings.
- Quadrant B illustrates a SCG that beside savings and credit also integrate activities related to social objectives like gender equality, health, empowerment etc.
- Quadrant C illustrates a SCG that beside savings and credit also integrate activities related to business development like business management, marketing, accounting etc.
- Quadrant D illustrates a SCG that beside savings and credit also integrate activities related to both social and business development activities.