

REACHING THE HARD TO REACH:

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

THEMATIC PAPER

Savings and Spider Plants: What is Good Governance for Member-Owned Institutions in Remote Areas?

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**Reaching the Hard to Reach:
Comparative Study of Member-Owned Financial Institutions in Remote Rural Areas**

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Savings and Spider Plants: What is Good Governance for Member-Owned Institutions in Remote Areas?¹

It was our first meeting for new board members of a recently created community investment fund in our North End neighbourhood of Halifax, Canada. The members of the community committee (neighbourhood associations and concerned citizens) had spent the last five years creating this plan and securing initial funding. We, the new board members, were a strange mix of professional planners, community develop”ers” and local residents, some of whom had come over from the community committee. Seventy-five percent of us were from the neighbourhood. At the first meeting, during introductions, a former teacher who had transferred from the committee to the board, looked around the room. She smiled and said, “I’ve got my eye on each one of you, especially those of you from outside.”

This is governance at the simplest level: representation, accountability, risk and, in these informal circumstances, guilt. Of course, good governance in microfinance, particularly as is practiced in member-owned institutions in remote areas is much more complex than this scenario. However, the guiding principles are the same: fairness and accountability. Good governance is the set of relationships and structures that effectively safeguard the organization’s strategy, manage risk, ensure fair access to services and ensure fiduciary responsibility and legal compliance.

As a starting point, member-owned institutions (MOIs) offering financial services are not homogenous. They include financial service associations, self-help groups, village savings and loan associations, even hybrid models whose clients are the primary shareholders in a share-holding company. While a fine line separates MOIs and other community-based, democratic financial intermediaries, MOIs have two distinct features that affect good governance—their ownership structure and the process of decision-making and oversight:

- Structure of ownership
 - i. Members’ own capital (shares, savings and/or rotating internal capital) is a key source of funds (some MOIs do not have shares)
 - ii. Clients are both owners and users (sometimes managers) of the institution and are generally referred to as members²
 - iii. The legal entity is an association, cooperative, society, or network/federation³
- Member involvement in decision-making and oversight
 - i. Use of member capital entitles owners to participate in decision-making⁴
 - ii. Board of Directors or governance body is elected by members and is often comprised of members
 - iii. Members supervise themselves or supervise others to act on their behalf

¹ The author gratefully acknowledges peer reviewers Susan Johnson and Brett Matthews for their careful reading and helpful suggestions as well as valuable feedback from members of the internal research team (Madeline Hirschland, Renée Chao-Béroff, Malcolm Harper and Derek Cameron).

² Non-members may also be clients but are usually kept to a small percentage of the overall client base.

³ A shareholding company may be considered member-owned where members/clients are majority shareholders.

⁴ May be one member, one vote or one share, one vote. There are many adaptations to this principle.

These features seem straightforward. Those who capitalize the institution have a right to govern it. However, the extent to which an institution is member-owned is blurry since there is a wide range of application of both ownership structure and member decision-making. If member ownership means that the institution is based on members' own capital what percentage of the source of funds need to be internal as compared to external capital or subsidy? MOIs are sometimes called savings-led models. Too much external capital and subsidy (relative to members' own capital) are considered threats to governance where non-members, particularly borrowers, may dominate. For example, the World Council of Credit Unions (WOCCU)-supported cooperatives have policies limiting external capital to less than 5% (WOCCU, 2007).

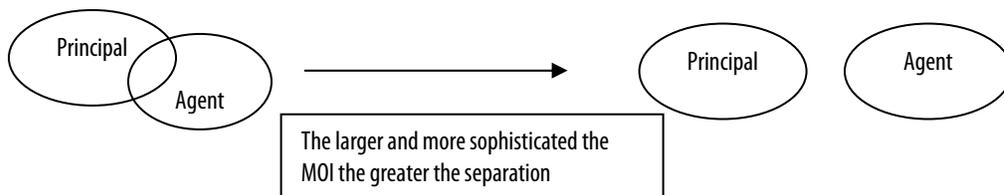
Village-banking models for example, that do not have their own internal fund for on-lending or control, most policies and decision-making would not be considered member-owned. Many MOIs are linked or dependent to non-member based institutions such as government bodies or donor-driven technical bodies. Many are heavily dependent on subsidy. Can MOIs only be considered member-owned when they have graduated from subsidy? Is some level of "smart subsidy" in remote areas a necessary evil for member-owned institutions?

Nagarajan and Meyer (2005), in a broad study on rural finance, identify MOIs as having the greatest potential to reach remote, rural areas provided that governance issues can be resolved. Like all MFIs, MOIs seek appropriate mechanisms for transparency, control and accountability. However, the members of an MOI and not just the Board of Directors, have an opportunity to improve accountability through their contributions and through the decision-making responsibility that is tied to it.

The main challenge with member governance is the principal-agent dilemma. As long as members are directly acting on their own behalf and in protection of their capital, there is some accountability. The challenge is for a member (principal), particularly a member living in a remote area, to supervise someone else, someone who is acting on his or her behalf to perform management functions (i.e. to be an agent). MOI members may not have the capacity, literacy, power or resources to hold their representative decision-makers accountable.

It is instructive to examine how the various types of MOIs deal with the principal-agent dilemma. As the MOI becomes larger and more sophisticated, separation between principal and agent is greater. Correspondingly, mechanisms for good governance and oversight become more complex and costly.

Figure 1:



Good governance occurs when MOIs have been able to adequately address this dilemma and the risks that accompany it. Where there is not adequate oversight there is a risk that some members will dominate the governance process or dominate access to services, or even commit fraud. An MOI

with strong governance is able to establish a fair “playing field” for members through the right mix of ownership incentives, member decision-making and other control mechanisms.

To get a better understanding of what this means across various types of MOIs, this study examined seven institutional case-studies from the perspective of the base-tier associations and their members. Four research questions were used to direct the study:

- What matters in good governance design for MOIs in remote areas?
- What is the role of member participation in good member governance?
- What other control and accountability mechanisms may be necessary?
- What factors affect members’ perception of ownership?

An underlying assumption here is that members can improve accountability within governance if their participation is well-designed. To this end, ‘good governance’ was assessed by studying six elements of good governance: member trust and perception of ownership; the relationship between member capital and MOI outreach performance; the relationship between member participation in decision-making and good governance; internal control mechanisms; evidence and nature of member influence on accountability and risk management.

The Case Studies

Seven case studies were selected based on their potential for remote outreach and their ability to provide others with insight into good governance mechanisms. More detail on these case studies is provided in Appendix A. Quantitative operational and financial data was collected on the base-tier associations, and branches. Key interviews were held with management and second-tiers. Focus groups were conducted with a sample of members in remote areas on issues which included: ownership structure; source and use of funds; member participation in decision-making; accountability mechanisms; effect of member participation in governance (i.e. product design, domination, fraud, non-financial benefits); and value of member ownership. The study also reviewed internal control mechanisms (accounting controls; administrative controls; credit risk controls; signs of warning; and informal forms of internal control for group/association level MOIs. For more details on the specific tools used here to understand governance see Appendix B.

These cases range from small semi-formal associations to registered and regulated cooperatives. Village Savings and Loans Associations (VSLAs) in Niger are small unregistered ROSCAs, largely time-bound. Many are in the process of becoming networked. Self-help groups (SHGs) are accumulating savings and loans associations or ASCAs. One case examines SHGs that linked to cooperative societies; the other considers SHGs that are federated at several levels. Both LPDs and the MC2s are examples of village-based associations. Mixtlan is a SACCO, part of a largely urban-based federation. Jardín Azuayo is a largely rural-based cooperative with rural offices. The following chart illustrates the various governance and ownership structures of the MOIs studied.

Figure 2: Different Structures of MOI Governance

	VSLA Niger	SHGs as linked to PACS, India	SHGs federated into MACS, India	Village-based LPDs, Indonesia	Village-based MC2s, Cameroon	Mixtlan SACCO, Mexico	Jardín Azuayo Rural offices, Ecuador
Ownership stakes	Savings and shares at both association and network level	Savings at group and PACS level. No shares. Each group is a non-voting member of PACs.	Individual members of groups and MACS. Groups are owners of second and third tiers.	Every member of village. LPD owned by customary council which is owned by village. No shares.	Share equity of village elites who have migrated to the city (start-up) as well as individual and group member shares and savings	Member shares and savings (one member-one vote)	Member shares, savings (one member-one vote)
Size of Membership (nationally)	50,000 (formerly 500,000)	615,000 All primary cooperative societies	65,520 Federation	743,000 (estimate)	62,744	355,558 federation 19,155 (rural)	80,378
Population density	10-25 persons per km ²	405 persons per km ²	190 person per km ²	400 persons per km ²	107 persons per km ²	6 persons per km ²	39 persons per km ² (average)
Size & nature of smallest forum of participation for members	21 per group	16 per group	15 per group	AGM = 1020 members	1756 average per MC2 (box available for confidential concerns - monthly)	3,542 at the SACCO level. Rural agent not effective for this role.	25 per parish or neighbourhood council
Size of sample	552 members 25 VSLAs	1,382 members 85 SHGs	1,020 members 68 SHGs	1,020 members	3,512 members	3,452 members	29,260 5 rural offices
Network or linkages	Unlinked, linked and second-tier network for some	SHGs linked to PACS (three tiers)	SHGs base of three-tier network	LPDs loosely linked. No tiers.	MC2s base of two-tier network. Remote collectors	Mixtlan part of UNISAP urban-rural federation. Remote collector.	JA a largely rural cooperative with offices
Financial intermediation at first and second tier	Yes	Yes	Yes	No	No	No	No
Member entitlements and rights	Savings and shares at both levels.	PACS level-access to loans.	Direct voice and share of profit	Vote and community share of profit. Rep. through family head.	Vote, share of profit, representation	Vote and share of profit, representation	Vote and share of profit, representation training.

Data is 2006 unless otherwise indicated

Diverse MOI models were chosen to better understand the particular aspects of good member governance at play in various types of MOI and MOIs of varying size. What differences matter across MOI governance? What broad features emerge across different types of MOIs? Does a VSLA have any lessons to exchange with an SHG? Does a formal cooperative have similar risks and controls as the smaller associations?

What Matters in Good Governance Design for Remote MOIs?

The case studies represent a range of governance models. The cases suggest certain features of good governance that apply across MOI models and others that are unique to certain MOI types:

- In all cases, members’ trust and sense of ownership—key factors in strong governance—were strongly linked to savings and returns
- Different MOI models were marked by different governance approaches and challenges:
 - In autonomous groups, simplified processes enabled members to “bear witness”
 - In groups that were networked and linked, governance was more challenging
 - Community-based models grafted onto local governance structures also were challenging
 - In larger MOIs, decentralization allowed members to “watchdog”
- Tension exists in MOIs between member oversight and the need for standardization for control

In All Cases, Member Trust and Ownership Were Strongly Linked to Savings and Returns

Perceptions of ownership and trust were related to the various ways that members felt that the MOI was theirs, particularly their capital stakes. Common expressions heard from members were: “our money;” “our institution;” “our community.” They also expected ready access to their capital (this was considered to be necessary in rural areas), safety of their funds and reasonable returns or profits for their families or their community.

Figure 3: Member-Identified Sense of Ownership

	VSLA Niger	SHGs as linked to Primary Agricultural coops	SHGs federated in MACS	Village-based LPDs Indonesia	Village-based MC2s Cameroon	Mixtlan SACCO Mexico	Jardín Azuayo Rural offices Ecuador
Member-identified features that influenced member trust and ownership	At VSLA level access to predictable sums; closest service; liquidity; safety.	SHG level: Interest comes back as profit; little paperwork; small amounts as and when they required; safety.	Social movement. They understand that it is theirs. Perception of lower rates, larger loans, and approachable staff for their membership at each level. Safety.	Safety of deposits. Access to money even if office is closed. Trust in managers. “It is our institution.” Profits help the community.	In our village. Local staff. We elect the board and they answer to us. Invests in the community.	Safety of deposits. Knowledge of local staff and management.	Institution’s growth. Assistance in supporting families and enabling children to study. Safety of deposits. Access to products like money transfers. Speed of loan processing. Good treatment.

Across the MOIs that used group models, a pattern emerged from members’ sense of ‘ownership.’ VSLA and SHG members in particular, were aware that the interest charged on loans at the association/group level came back to them later in earnings. They felt less connection to savings held in their second-tier relationships because they did not perceive the savings to be theirs or the returns to be very high. Interestingly, this was true even where associations/groups were federated or networked.

Where there was no clear link between their savings and returns (in the form of interest earning/profit), these groups/associations would form their own linkages with other financial institutions if they could seek better services. In this way, their relationships with upper-tiers were much more contractual. While they associated some level of member-ownership with them, they would not hesitate to go looking for a better deal if one existed. Mixtlan members said that they would access other services if more flexible ones were available. SHGs that were part of the ASP federation and in a more competitive environment, did access services beyond their second-tier. Ownership for ownership sake was not enough. Members expected competitive services and would look elsewhere for complementary services if MOIs did not adequately provide them.

While competitive financial services were important, members' sense of ownership was not limited to the right economic incentives. Members also felt a strong sense of ownership because the institution was situated in the community and benefited the community socially as well. Both Ecuador and Cameroon had strong policies related to reinvesting excess liquidity in the local community rather than siphoning it up to higher levels or investing in urban areas. Members found this significant in terms of their sense of ownership. This was also true for LPDs where profits were used for the community. LPD members, for example, determine together how to spend the 20% of the profits that are dedicated to village development. Due to the remoteness of their localities and the inability of most people to have direct access to market, the MC2s provide their members with fertilizers, chemicals and seeds that are purchased at wholesale prices in the cities. Members purchase these inputs for a price which includes their cost of transaction. MC2 members also said that community investments, such as warehouses, would otherwise not be possible. Jardín Azuayo members mentioned the ability to become educated or to receive training as well as opportunities for their children to study. In Niger, VSLA members mentioned community activities such as grain banks as important network services. Elders noted that the grain banks had improved food security in the area.

Of course, it is important to understand how the MOIs manage to sustain these social/community activities. Source of funds (internal vs. external) can affect both sustainability and governance. Jardín Azuayo Cooperative in Ecuador uses the difference between funds gathered and funds distributed to finance member education—this includes courses on how to participate more effectively in governance. LPDs designate a percentage of profits to be dedicated to and to be decided by the community. In these examples earnings are used to finance community activities. However, in the case of Niger, where these activities are heavily subsidized (subsidies actually comprise the largest source of funds), social activities are in danger of compromising the basis of the association itself.

Figure 4: Member Capital vs. Other Sources of Funds

Source of Funds	VSLA Networks Niger	PACs India (SHGs members)	MACS India	LPDs Indonesia	MC2s Cameroon	Mixtlan SACCO Mexico	Jardín Azuayo Rural offices Ecuador
Share equity as % Total	14%	0%	7%	0%	26%	.5%	6%
Retained profit as% total	n/a	n/a	3%	6%	4%	-1%	3%
Savings as % Total	34%	75%	6%	64%	48%	98%	85%
Voluntary with interest?	Compulsory Interest	Compulsory Interest	Compulsory Interest	Voluntary Interest	Voluntary Interest	Voluntary Interest	Voluntary Interest
External credit % Total ⁵		25%	46%	24%	8%	2%	.4%
Donations as % Total	52% ⁶		33%	1-2%	7%	.5%	6% (was 16% in 2003)
Other % Total			5%	4%	7%		
Total equity and Liabilities	100%	100%	100%	100%	93%	100%	100%

Subsidy is sometimes justified in remote areas particularly to stimulate outreach in areas that would not otherwise be reached. However, external credit and subsidy can affect members by giving them the impression that there is no need to pay back. For example, when asked why there was default, some SHG members linked to cooperatives in India, claimed that the cooperatives could manage without their money. They described the cooperative as having many clients outside of the SHGs (even though they formed 25% of their deposit base). They also described the cooperative loans as government money: “We did not know it was our own money.” Linkage programs present strong potential to expand outreach in rural areas. The trade-off is that these groups are likely to comprise a small percentage of the overall client base. This distance can affect ownership and performance.

In contrast, where internal capital was high relative to external capital or subsidy, trust levels by members were high and governance strong. The type of internal capital seemed less important. In fact, and in discussions with members, most could not distinguish share equity from savings. Share equity actually made up a very small percentage of overall funds. The SHG members in PACs and LPD members contribute no share equity at all, only savings and, overall, member savings were a more important source of funds for MOIs and for members’ sense of ownership and trust.

Members demonstrated their trust by placing and growing savings with the MOI. High mobilization of savings (relative to other sources of funds) and growth of savings is a sign of trust by members. For example, Jardín Azuayo Cooperative in Ecuador, one of the strongest MOIs in terms of governance, showed a 54% growth in total voluntary deposits from 2005 to 2006 and a 77% growth in time deposits. The LPDS were one of the weakest cases in terms of governance with a decrease of voluntary deposits by 95% during the same period. Members of the decentralized SHGs and VSLAs preferred to save at the group level feeling that it is safer to borrow and save there.

⁵ All short-term commercial borrowings except LPD which is a concessional loan from the provincial government and a small long-term commercial loan by an MC2

⁶ high because of the subsidization of cereal banks and other collective activities

The caution is to balance contributions of member capital so that certain members or member groups do not dominate decision-making because of the relative size of their contributions. For example, the MC2s (Cameroon) had difficulties with certain members dominating loan access. This is not surprising given that village elite contribute over 55% of the share equity in the MC2 associations. Tying the amount of shares to loans can also risk this type of domination.

Different MOIs use Different Approaches to Governance

Across the various case studies, a few distinct MOI models were identified that used different approaches to governance:

- a. Autonomous cash-out groups
- b. Groups or associations that were linked to other financial institutions or networked amongst themselves
- c. Community-based models that grafted onto local governance structures
- d. Larger representative MOIs such as cooperatives

The two extremes on the spectrum, small decentralized groups, and larger MOIs, seem to have the strongest forms of governance and accountability. The cash-out model at the group level keeps accountability in the hands of members. Each is its own financial intermediary accountable to a small group of members. The more sophisticated networks or cooperatives, like Mixtlan, MC2s and Jardín Azuayo, are able to effectively combine internal controls with external regulation and supervision including audits. In part they are able to do this because there is a level of standardization across the system. In terms of the “architecture, the spider plant seems to be an apt metaphor. There is some level of member organization and autonomy at the base tier but these need to be consistent with the broader system for control.

The other two models have control challenges to guard against risks as they operate in that murky area between simple, informal norms and more complex institutional rules. This includes newly networked VSLAs, linked SHGs, federated SHGs and village-based systems such as LPDs that are loosely linked or monitored.

Of course, level of sophistication affects both the complexity of governance and costs. As systems and product ranges become more complicated (MC2s, Cameroon; Mixtlan, Mexico; Jardín Azuayo, Ecuador) more professionally-trained management is required. Therefore, member oversight is more challenging and costs are higher. Higher costs generally translate to less outreach. Lower cost associations, such as the cash-out, non-networked, minimalist VSLAs in Niger, SHGs and village-based LPDs (Indonesia) had hundreds of thousands of members at a national level compared to the tens of thousands of clients covered by the more sophisticated and networked systems. Even the linked SHGs are a slightly leaner model than the federated SHGs in terms of salary costs comparing the breadth of outreach.

Figure 5: Control Mechanisms of Various Member-Owned Institutions

	Cash-out groups	Accumulating-fund groups	Small representative MOIs	Medium-sized representative MOIs	Large representative MOIs
Key features affecting governance	Informal norms. Unwritten rules.	Informal norms. Written (largely external) and unwritten rules.	Informal norms. Internal written and unwritten rules.	Size and sophistication. Internal written rules. Internal and external controls.	Size and sophistication. Internal written rules. Internal and external controls.
Case examples	VSLAs	SHGs; accumulating and networked VSLAs	LPDs and MC2s Networked associations	Mexican SACCO Networked associations	Ecuador cooperative
Control mechanisms	Cashing out and member witness at each meeting Memory of balances and bylaws Oral recitation of rules Simplicity	Lock box Member witness Member passbook Frequency of meetings Leadership Simplified Bookkeeping	Elders and leaders in community Meetings with members Customary rules and laws Internal control policies	MIS and Internal control. Members are represented Management may be out-sourced Internal and external audit Regulation	MIS and internal control Members are represented Management may be out-sourced Internal and external audit Regulation
Potential blindspot	Transparency	Domination of more powerful members Over-sophisticated mechanisms	Domination of more powerful members Over-sophisticated mechanisms	Member ability to hold system accountable Technical elite	Member ability to hold system accountable Technical elite

Categories from Hirschland et al, 2007; Chart elaborated by author.

There are two surprises here. Operating expense ratios of both the VSLAs in Niger and Jardín Azuayo are both somewhat surprising. The VSLAs have unusually high costs because of the social/collective activities that have affected the cost structure. In contrast, the Jardín Azuayo, a larger cooperative, had achieved economies of scale even though some depth of outreach has been sacrificed.

Figure 6: Use of Local vs. Professional Staff

	VSLA Niger	SHGs as members of PACS	SHGs federated in MACS	Village-based LPDs Indonesia	Village-based MC2s Cameroon	Mixtlan SACCO Mexico	Jardín Azuayo Rural offices Ecuador
Size of membership (nationally)	50,000 (formerly 500,000)	615,000 PAC level	65,520 Federation	911,272 savings accounts	62,744	355,558 19,155 (rural)	80,378
# members per staff (not incl. board)	75-105*	320	340	255	95	375	1272
Avg. staff salary as % real GNI	.5%	30%	88%	5.5%	1331%	66% 22% remote collector	266%
Avg. savings per member as % per capita GNI	25**	2%	13%	.7%	300%	15%	35%
Avg. Loan balance per member as % per capita GNI	1%	22.1%	21.6%	1.3%	163%	35%	90%
Total operating expenses / avg. total assets	358%	7%	7.9%	4%	13.8%	65.3%	4.35%

*Per village agent; ** Allen, 2007

The fit of a system to its management and governance structure is as important as the cost-outreach trade-off. With the LPDs and MC2s, there seemed to be mismatches where increased operational costs were not necessarily adding value. LPDs and MC2s had strong information systems in place but they were not consistently well-used or understood by staff. LPD systems, for example, were beyond the board's understanding, especially record-keeping - they were difficult for local staff to manage let alone for members to supervise. It is a self-governed, almost self-contained system using low-cost, local staff yet they have a highly complex management information system based on the CAMEL rating which was designed for LPDs with a much larger asset base (>US\$500,000). For the majority, like the case LPD that average \$US 20,000, more simplified systems are needed that use a few key ratios with greater emphasis on understanding savings.

MC2s seem to have the opposite problem. MC2 staff is highly paid relative to their outreach and national GNI but MC2 staff often lack the capacity to analyze financial information and to submit reports regularly. Flexibility in MC2s allows each MC2 to determine locally things like daily reporting (suited to capacity) and collateral requirements (using traditional items). While local control expands the depth of outreach, it means that consistent reporting is not always available and written policies not always followed. The Njiniikom MC2 had a more clearly defined policy for internal control and sanctions as well as stronger staff than Bambalang resulting in marked differences in Portfolio at Risk. The challenge is finding the right balance between flexibility and control. Both the decentralized groups and the more sophisticated, larger MOIs achieved this balance and these examine in more depth below.

In decentralized groups, process was simplified so members could “bear witness”

Members expressed a stronger sense of ownership at the group/association level and a greater ability to influence products and access. Aside from safety, flexibility and liquidity were frequently cited as

important features to rural members. Flexibility in services may compensate for the wider range of services available through networking or linkages. These arrangements required high levels of compulsory savings to guarantee the association loans. For example, in the case of the SHGs linked to primary agricultural cooperatives in India, groups often had to use the entire internal fund for guarantee yet, as nominal (not full) members, had no voting rights.⁷ Even where interest was paid to the associations, they effectively lost the ability to access small amounts of capital as they required. In rural areas, where emergencies are common, liquidity is crucial. Association members were also aware that interest that they charged themselves gave them much higher rates of return for their money.

A sense of ownership is important for member loyalty but a sense of ownership does not ensure that members take the next step to hold each other and the institution, accountable. Having a sense of ownership also does not guarantee that members have the capacity to do so. Accountability mechanisms must be well-designed.

At the small group or association level, accountability rested on keeping the process simplified. In these groups, members were responsible both for management and governance of the MOI (principal and agent). Hugh Allen refers to this process as “members as witness.” Members control through direct witnessing of transactions and cash-out to control balances. Every meeting is essentially an audit (Allen, 2007).

Time-bound associations, like traditional Rotating and Savings Credit Associations (ROSCAs) keep transactions simple and use witness-style governance, local norms for organizing and orality. NABARD guidelines for SHGs indicate that norms may be oral or written. It is not important whether norms are oral or written as long as they exist, members are aware of them and they are implemented. Matthews’ (2007a) finds that practitioners must be much more aware of the control needs, and the information management needs, of shareholders in predominantly oral societies. The orality of many rural communities is key to finding internal control mechanisms that work both for members and for external oversight. Therefore, the solution may be more transparency in simpler, oral systems rather than “complexifying” traditional systems.

One of the added values of technical support by CARE, Oxfam and CRS to the traditional ROSCA was to encourage accumulation through members charging themselves interest. If they continue to cash out, there is still a strong level of control. Accumulation, however, reaches another level of sophistication when the group decides not to cash out. Instead, they re-invest part of their earnings back into the association and may even borrow money to finance the association portfolio. The ROSCA becomes an ASCA requiring a much more sophisticated management of source and use of funds. As associations start to accumulate their internal fund, handle varying savings payments and distribution, internal control mechanisms (governance) need to be more sophisticated.

Where the group or association plays a financial intermediation role and is not just a group for a joint-liability, members can directly design products through flexible access, payments and grace periods. They also must ensure that there is equitable access to resources. Here members not only felt that their deposits were safer, they felt that membership in these groups allowed them to control

⁷ SHGs are nominal members. Full membership would entitle them to voting in decision-making but would limit the size of their loans. It would mean that their loans would be tied to share contributions as with other members. Due to affordability their shares are much smaller.

decision-making about products. The main examples of domination at that level were group leaders dominating discussions or taking decisions without consultation. Rotation of leaders is one mechanism used with SHGs to minimize domination but they were not rotating regularly. They said that leadership qualities and literacy, especially in remote areas, are not found in everyone. There were, in fact, incidents of unilateral decisions by group leaders. However, members felt that leaders can be more closely monitored at the SHG level where they are from the same village. ROSCAs are more of a distribution system for individual members and their households. ASCAs are a mini-financial intermediary that, while simplified, share elements of financial management with more sophisticated MFIs.

In networked or linked systems, governance becomes more challenging

As decisions moved toward representation in higher-tiers or management, member oversight becomes more difficult and member sense of ownership more diffuse. In a recent paper, I argued that member-owned institutions could achieve “the best of both worlds” (relevance and economies of scale) by being localized or decentralized and linked or networked (Lee, 2006). In fact, these cases showed that being local and linked proves quite challenging for governance.

In these scenarios, there are two overlapping governance systems, one at the group or association level and another at the second-tier level. This is difficult for members, particularly where the second-tier collects savings from the groups the financial intermediation role warrants strong oversight. Largely self-regulated systems or weakly supervised systems, as in the case of the federated SHGs or the cooperative societies with group members, do not prove adequate.

Some linkages, as in India, allow groups to maintain a certain amount of governance and ownership at the group level, keeping transactions relatively simple. Once networked however, the groups or associations (through their leaders) must handle complex liquidity arrangements and financial management at different levels. Members complained about the training in book-keeping. “What is the use of that?” one member asked. “We want better services and timely loans. Otherwise our members ask why they are late,” commented another. The apex is pressured by the bank to make sure that reporting is properly done. Increasingly, there is a trend set through the banks, NABARD and financial institutions to have more and clearer reporting from the SHGs. There is even discussion of double-entry accounting for SHGs. The risk is to over-sophisticate the system to a point where members can no longer keep records themselves or supervise others in keeping them.

Fit is perhaps a more important consideration than training. No amount or quality of training will be effective if the system is not well-designed to suit the capacity of members. There is some movement within the VSLAs to simplify bookkeeping and transactions in order to improve member awareness of financial affairs, to reduce complexity and to increase transparency. For example, there is debate among those who promote VSLAs about whether or not to do away with the ledger and to replace it with passbook record-keeping only (Allen, 2007; Hendricks, 2007). While this may be true, getting rid of the ledger may reduce their ability to make linkages if they may want to in the future. The tension is between keeping VSLAs simple, time-bound and member-controlled and allowing or encouraging networking and linkages. There are important tradeoffs for governance and management and hence their long-term sustainability.

The trade-offs in moving from group-level financial intermediation to being networked are important to understand clearly. It is often argued that networking will bring a broader range of services. However, in many of these cases important flexibility and liquidity was lost in networking.

Networks and apexes often faced their own liquidity both due to capacity and shortage of funds. Therefore, they demand the internal funds or savings of the groups, effectively draining their liquidity and making it more difficult for members in remote areas to access funds.

In Niger, Cameroon and India it is envisioned that these member-owned networks will become self-sufficient. In practice, these networks become dependent on subsidy, enjoying an almost monopolistic position of on-lending to their associations. Some sub-district level cooperatives in India have graduated to self-sufficiency and are linked to commercial banks but these are in urban areas where banks can monitor them. In rural areas, though they may be the only option, networks compete for the internal funds/capital of their group/association members. Perhaps the main case to be made for networks lie in the social gains that can be made, such as in regions where Dalit womens' groups are federated. By creating their own organization Dalit women not only have access, where formerly they were marginalized, they have specific opportunities to take on leadership roles within the organization.

Community-based models grafted onto local governance structures also challenging

Group MOI models build on traditional ROSCAs and ASCAs. Community-based models that attempt to have an association per village graft onto local governance structures, with all of the associated gains and challenges. It is considered an important means of ensuring outreach and sustainability, making use of the social capital that exists. This, however, is easier said than done. Financial institutions, particularly in rural areas, are affected by and affect power structures. Institutional accountability and control measures are not “brought to” rural areas, they are laid over a complex web of existing local forms of accountability, control and social capital. In other words, institutional rules may or may not sit well with local rules. This will mean very different things in different contexts.

For example, in LPDs and MC2s, where the financial institution makes strong use of the local governance system, they are dominated by local male leaders and the socio-cultural structures reinforce these power structures. The decision-making divide is exacerbated by policies, as in Bali, where land is used as collateral for larger loans and most women do not own land. In Cameroon, even though decision-making is predominantly male dominated, women can access loans using traditional objects including jewelry and utensils for collateral. Policies, then, can play a mitigating role for access but are unlikely to significantly challenge existing power structures.

Longer-term, more broad-based ownership can help. For example, with the SHGS, federating certainly gave not just access but power to Dalit women, people who were otherwise excluded from most services. As Misra (2008) explains, “The success and scaling of the MACS has seen changes in traditional power structures with lower caste women taking new powerful roles in their communities, regions and states. ASP board members have mostly risen from the ranks of SHGs and they now interact with confidence and negotiate with senior government officials, banks and donors and have a highly qualified management team accountable to them”. More than 90% of the apex members and leaders (SHG and federation) are Dalits and leadership is even higher among Dalits than in the higher caste group. This is an incredible reversal of normal power structures. Even then, members spoke about the “new rural elite” referring to the rise of SHG Dalit leaders through the ranks of their MOIs.

Domination by certain members of the MOI was identified at all levels including groups. Nevertheless, members in all cases expressed a willingness to sacrifice some participation in

decision-making to improve services either because they trusted their leadership or doubted their own capacities. Representation or management was fine if there was trust, even where members or member groups were not necessarily well-taken care of with their services. This is perhaps explained by the Mexican expression, “Better someone old that you know than someone new to know.” This too is part of social capital.

Social capital is the new black box. Social capital refers to the networks and relationships that people use to support themselves. It can be used romantically to speak to group organization, mutual welfare that community and village members show one another and the basis on which microfinance programs are built. But “social capital” has really been limited to group organizing, and usually for liability purposes. There are also crucial elements of local power that could be better understood, local forms of communication that may be oral, and forms control that are not always in line with liberal values or external parameters for good “corporate governance.”

Social control, for example, though much less romantic, is as important as social capital for governance. In both Indonesia and Cameroon, the governance of the MOI is intimately tied to the customary traditions of the local council, the village elders. In Indonesia, the customary council is the actual owner of the LPD. The *awig awig*, an oral customary law or code has been written to determine the code of conduct in financial and cultural matters. The names of those who are late in repayment are posted at the village council. Failure to comply with the code can result in excommunication or loss of the right to be buried in the community. Similar social sanctions exist in Cameroon including withdrawal of land rights. While these may seem harsh by liberal standards, they are accepted and respected by community members and, in fact, are effective mechanisms against credit risk demonstrated by strong repayment. In these cases, “shame is well institutionalized.”

Using local governance structures shows strong ability to control credit risk but the risk of domination or fraud is trickier. Essentially, this means that the local governance structure must hold itself accountable. While customary governance and laws are very effective for credit risk (because the sanctions are so high!), there are no mechanisms, either within the broader membership or externally, to hold the customary council accountable. Because Bali, Indonesia is a highly structured and hierarchical social system, change will not occur quickly or easily there. Other forms of accountability and control may be required as well.

MC2s present an example of how this can be done. Village and urban elites play a significant role in the MC2, from initial mobilization and capitalization through to everyday governance, management and control. Elites currently in the MC2s own more than 55% of the share equity—their capital was crucial for MC2 start-up. On one hand, they have tapped an important source of funds for rural areas. Members report that their ownership and involvement have been essential in loan recovery and to the running and early capitalization of the MOI. On the other hand, the elite also feel ownership with their stakes, and there were incidents of elite dominance and mismanagement in the MC2s. In this case, however, there were mechanisms to address these risks.

The board of elders (comprised of influential people, like the King, chosen by the AGM within the community) plays an important role in the internal control of the MC2s Njinikom and Bambalang. They are involved in ensuring member repayment and employing social sanctions. Particularly, the chief elders and the king act as a counterbalance to other elite mismanagement and have the right to remove a board member if necessary, as they did in Bambalang when they decided to suspend the

former board President. Members said that they respect the power of the king in a village more than the administrative structures because the king acts as supreme judge and works in partnership with management.

So, one body of elite holds another accountable. This would not be found in any manual of good governance and yet, in this context, it works. It is important to respect that. A few mechanisms ensure that these two bodies do not misuse their authority. Bylaws oblige management to pass any major decisions regarding products or new strategy by the membership. Regular twice monthly meetings are an opportunity for challenges or questions. Also, a few bodies work in tension to hold each other in check: board of elders, board of governors, and management. External audit makes the whole system more accountable through detection of red flags. This is contrasted to classic governance structures when tension may exist between an executive/board and management.

Some MC2 members said that they trusted their traditional leaders more than management. At best, corporate governance can complement but is unlikely, especially in remote areas, to replace or challenge traditional systems (at least in the short term). In remote areas, particularly at the village level, where cultural identities are strong, these structures are the default. While MOI programs may claim to make use of social capital, it is more likely that social capital and local leadership is making use of the programs. Local solutions need to be designed based on a tempered understanding of how local and institutional governance structures function without over-estimating what corporate governance or institutional rules can do. How to combine these different governance structures will vary. Governance and good governance is as highly contextual and as messy as the power relations and social systems in which they are embedded.

Larger MOIs decentralized to allow members to “watchdog” and have external oversight

Where members can no longer witness, there must be opportunities for them to watchdog. The general meeting is the most common forum for member accountability. However, particularly in rural areas, it is a cumbersome governance tool. Remote-dwelling members repeatedly identified the time away from work and transport (including eating away from home) involved in attending meetings as costly. The use of remote collectors as in the case of Mixtlan, Ecuador, while a cost-effective outreach mechanism, are not very good in terms of accountability. Financials were posted but issues were rarely raised or discussed. Electronic transfers begun by Jardín Azuayo in Ecuador have the same issue. They increase access but how do members provide oversight?

Governance was strongest where some creative thought was given to the “general meeting.” Incentives, size of the group, nature of the forum and frequency were all factors considered. In Bali, for example, there was a good debate about why larger loans were not available given the number of savers in the community. Management responded within their ability to explain. The limitation related to liquidity shortages at the LPD which was hard for members to understand. Indonesia has quite a strong member turnout as they combine the every-35-day meeting with customary and religious celebrations. Jardín Azuayo cooperative in Ecuador encourages participation by providing service incentives. For example, the length of term for loans is tied to the number of months’ savings. Those members that did not attend the last meeting are required to save an extra month.

While these are clever ways to get members out, they do not guarantee that members can effectively hold management accountable. The MC2 experience showed that meeting more frequently can help. The MC2 members gave the example of how a former manager, very close to the Board president, used this influence on other board members in decision-making. The situation was immediately

denounced by members and an extraordinary meeting of the General Assembly of members was called and sanctions were taken. The Board was entirely replaced and a new Board with more representative members (group leaders) replaced them. The decision to have regular board meetings at least twice a month rather than once a month was adopted to control management team activities. They also tried daily reporting of activities and financials but this has not been functioning well due to capacities of staff. Again, the trade-offs become evident as moves are made to introduce more sophistication.

Figure 7: Decentralized Forums

	VSLA Niger	SHGs as members of PACs	SHGs federated in MACS	Village-based LPDs Indonesia	Village-based MC2s Cameroon	Mixtlan SACCO Mexico	Jardín Azuayo Rural offices Ecuador
Second tier level size (# members)	Network 268 (12 VSLAs)	Cooperative 1746	Sub-district federation 1100	Same	not relevant	Same	Average office 3056
Population density	10-25 persons per km ²	405 persons per km ²	190 person per km ²	400 persons per km ²	107 persons per km ²	6 persons per km ²	39 persons per km ² (average)
Size & nature of forum of participation for members	21 per group	16 per group	15 per group	AGM = 1020 members	1756 average per MC2 (box available for confidential concerns-monthly)	3542 at the SACCO level. Rural agent not effective for this role.	25 per parish or neighbourhood council
Evidence of areas of member influence	Group level processes of interest rates, allocation, profit use	Group level processes of interest rates, allocation, profit use	Group level processes of interest rates, allocation, profit use	Use of profits –reinvested rather than distributed; demand for larger loans	Changed AGM from 1 to 2 a month; extension offices, daily savings, daily reporting, collateral requirements	Expansion into rural areas.	Product interests or adaptations. Use of cell banking. Feed into social planning.
Participation rate in last meeting	Over 90%	SHG- 89% PACs-0%	SHG-93% MACS*	80%	80+% absentees include migrants in cities	40-45%	90%+ local level
Women as % of members	100%	100%	100%	25%	28.4%	49.4%	36%

*All SHG leaders with low representation from Reddy caste vs. Dalits

These cases reinforce Van Bastelaar (2000) who argues that an organization's size does affect participation and involvement. When an organization reaches a certain size alternative means must be employed to keep members involved. Where governance was strongest there were more decentralized forums where members could meet in a more acceptable forum than the general meeting. Associations and groups liked to retain their own level of financial intermediation that was self-selected, met frequently and never exceeded 25 members. In West Bengal, the appropriate size of the group was 16. In rural Niger, it was 21 members. Even in Asia, where population densities were significantly higher, the apparent comfort level for group size was similar. This variation illustrates the importance of ensuring that members determine appropriate group size to keep high levels of trust and make participation accessible.

Mixtlan, LPDs and the MC2s seemed to have greater challenges with governance as evidenced anecdotally from members and through problems with portfolio at risk. It is not surprising that it would be much more challenging for broad-based accountability to occur in structures with from 300 to 3000 members regardless of population density and other localized factors.

The Jardín Azuayo cooperative was one of the strongest cases in terms of member governance. Even though the average rural office size is quite large (3,000+ members), the local assemblies provided opportunities for members from remote areas to meet more frequently in smaller, more manageable forums and strong member education, even mapping of member social networks, was emphasized. Before the local assemblies were instituted participation could be as low as 10%. As soon as they were implemented, participation rose by over 30%. Now rates of meeting attendance exceed 90%.

However, effective forums require more than just finding the magic number. It is also important to determine how, in the local context, members naturally do organize. In the same example, Ecuador JA created a governance structure (Appendix C) parallel to the management structure of the overall cooperative. Neighbourhood and parish councils meet regularly and feed into loan and audit committees at the local office level as well as representation for the general assembly. This type of solution not only created smaller groups. They were more accessible geographically and more accessible in terms of the nature of the discussion such as language or sophistication of terms used.

Of course, local organization is not always equitable as the above chart illustrates. Using womens' groups or associations was an important mechanism for increasing the participation of remote women in India and Niger. Even in the case of MC2s in Cameroon, using womens' associations increased the participation of rural women in predominantly male-focused financial institutions.

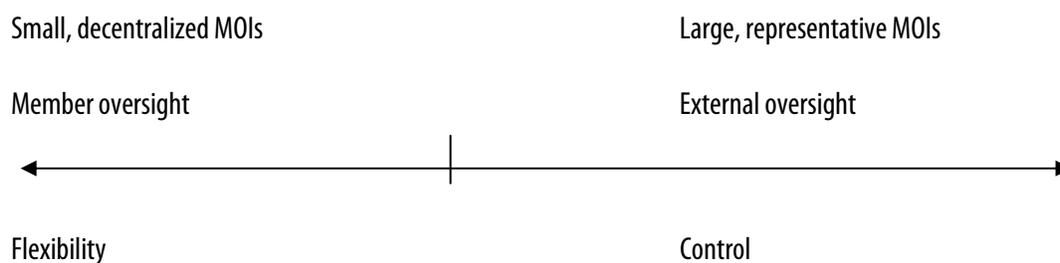
More sophisticated MOI systems such as Jardín Azuayo in Ecuador and Mixtlan in Mexico, and even the MC2s in Cameroon, do not rely only on members. They have information systems sophisticated enough to both detect problems internally and allow external controls to hold the internal systems in check. Both the Latin American MOIs use a PEARLs based system as well as internal and external audits. There is self-regulation by the Federations and the National Banking Security Commission in the case of Mexico and external prudential supervision in the case of Ecuador.

Tension between member oversight and standardization for control

The type of control an MOI requires depends on the level of sophistication. Rural remote areas demand a certain amount of flexibility at the local level as demonstrated by the association's use of traditional forms of collateral and the need for liquidity. However, larger MOIs with a more diverse product range, even networked associations, require a certain amount of standardization in order to permit adequate oversight and control. This is the core tension that is created in finding the right mechanisms and structure for governance: flexibility vs. control.

The question is not what to do with member-based models but how to distinguish among them in order to design controls appropriately.

Figure 8: Flexibility vs. Control for Different MOIs



In designing and determining controls, it is helpful to pay attention to thresholds or triggers.

Accumulation is one of the first triggers to consider. Accumulation reaches another level of sophistication when a group decides not to cash out. Instead, they re-invest part of their earnings back into the association and may even borrow money to finance the association portfolio. The ROSCA becomes an ASCA requiring a much more sophisticated management of source and use of funds. As associations start to accumulate their internal fund, handle varying savings payments and distribution, internal control mechanisms (governance) need to be more sophisticated.

Aggregation or standardization is another trigger. While decentralization may be important for flexibility and tailoring to local needs, some level of standardization is essential for control of risks and for safety. Controls are as important for internal management as they are to be credit-worthy for a linkage or to be able to be regulated or rated by an external agency.

While some standards have been developed, monitoring is mixed. Generally, MOIs monitor financial performance regularly, with the exception of decentralized associations that had poorly-kept information systems, particularly with regard to aggregates (repayment, portfolio at risk, distribution of loans) to be able to detect risks. Re-scheduled loan payments that form part of decentralized flexibility, make credit risk difficult to identify. Reliable information on groups dissolving or continuing is also needed.

The SHGs have developed a fairly elaborate rating system called GRADES with APMAS and MCRIL. CARE is in the process of developing a more standardized management information system across the various VSLA programs but there is very little continuity or consistency in reporting. Even though associations, especially SHG promoters, have fairly comprehensive indicators for self-help group governance in practice, the analysis is more mechanical than strategic. Most focus on the regularity of attendance, numbers of attendees or regularity of savings rather than on shared decision-making (domination), member awareness of rules or evidence of complaints/challenges. These are difficult areas to measure or assess. An external audit helps, at least, to determine if there are bookkeeping or transparency issues and to uncover potential problems that can be explored in more depth.

Figure 9: Aspects of Governance Monitored by MOIs and their Promoters*

	SHGs	VSLAs	LPDs	MC2s	Mexican federations	Cooperatives
Aggregate Financials	Somewhat though not necessary	Not consistently. Only useful for linkages	Yes- CAMEL	Yes	Yes	Yes- PEARLS
Record-keeping accuracy	Yes	Yes	Yes (but less in remote areas)	Yes	Yes	Yes
Source of funds	Regularity of savings		No	Yes	No	Yes
Domination	Yes**	Field officer			Yes	
Separation strategic and operational					Yes	
Rules exist	Yes		Yes	Yes	Yes	Yes
Rules followed	Yes	Yes		Yes	Yes	Yes
Members aware of rules	Yes	Yes				
Member participation	Yes	Yes				
Transparency and auditing	Yes			Yes	Yes	Yes
Supporting organizations	Various; APMAS; NABARD; M-CRIL	CARE	Provincial government; technical support agency	Afriland; AMC2	Mexican financial federated institutions	World Council of Credit Unions

*For a specific list of indicators used in each system see Appendix D

**Described as shared decision-making

Mixtlan SACCO, Mexico has an interesting rating for federations that includes key aspects of governance such as the separation of strategic and operational functions and an examination of domination. Reporting in both Mexico and Ecuador is regular and the quality of the data is generally strong. It is important to contextualize this. In both contexts, there is a national trend and policy support toward integration, standardized and transparent reporting. Mexico has a rating system at the network level that squarely addresses governance and internal control. UNISAP was one of the highest rated federations against this index. In Ecuador, comparative, externally-verified national level data is available for most rural institutions.

The level of sophistication of the Ecuadorian cooperative studied cannot be expected of all MOIs. It has reached an asset base that demands prudential supervision. Nor will all MOIs want the simplicity of time-bound, non-networked VSLAs. There is a vast array of possibilities between these two extremes. Some consensus and consistency in reporting standards across various MOIs would be helpful. When more semi-formal, decentralized associations want to network and/or transform, existing laws and regulation usually restrict them from becoming cooperatives. Some consensus and consistency about which standards are important at each level would facilitate sector-wide tracking that could allow for control, integration or graduation. The following (Figure 10) is a suggested list of indicators for governance:

Figure 10: Some Indicators for Understanding Good Governance

	Member	Local Norms/Rules	Institutional Norms/Rules
Mechanical	Growth of deposits (indication of trust) # loans vs. size of loans (domination) Savings to loans ratio	Local governance structure Local means of group organization (including traditional ROSCA/ASCA) Local leadership/power structures	Bylaws (oral or written) Regularity of meeting and saving Rate of member participation in last meeting Board elections comply with bylaws Member access to financials
Strategic	Relative value of member ownership Analysis of source and use of funds (internal to external funds)	Local forms of communication, control, means of dealing with conflict Power structures including gender roles and the relationship of property rights to collateral	Member awareness of financials and rights Instances of effectiveness of member representation Instance of member accountability and conflict-resolution Transparency and effectiveness of book- keeping (external audit)

Conclusion

So what can be learned from these cases of member-owned institutions? All members expressed more trust and ownership where they perceived that the MOI was their institution using their money. They were more likely to save and increase their savings provided that the MOI provided the necessary flexibility and competitiveness in terms of returns. Returns for members also included non-financial returns such as community or social investments.

The lesson for good governance design seems to be: keep it simple or ramp it up. Going back to the metaphor of the spider plant, MOIs need to be very clear about how the system as a whole is being governed as well as its parts. In some cases, as with some of the MOI networks, the networks or federations compete with their member associations for liquidity.

Therefore, in terms of governance both the simple as well as the more complex MOIs were able to design strong mechanisms for governance. Associations that are allowed to remain quite informal or semi-formal with only minor supports to make the traditional schemes more effective can use cashing out, simple processes and member witness. The more sophisticated networks or cooperatives were able to effectively combine internal controls with external regulation and supervision including audits. Their architecture is like that of the spider plant. There is some level of member organization and autonomy at the base tier but, for control purposes, these tiers need to be consistent with the broader system.

Linkages may not present too many governance challenges provided the gains from the linkage outweigh the costs in terms of lost liquidity, flexibility and oversight. Networking, however, becomes more challenging if the second-tier plays a financial intermediation role. Essentially, there are two overlapping governance structures. The system can sometimes become too sophisticated for members to provide adequate oversight yet it is still not standardized enough for external regulation.

Those MOI models that attempted to have one association per village or community face a unique governance challenge. In grafting onto the local governance structure there is a positive use of social capital and local leadership including cost-effectiveness. However, local governance in its real form may not provide the best mechanisms for all types of risks. Other mechanisms may be required to hold this system in check.

The key triggers to more complex forms of governance are accumulation and aggregation. As MOIs begin to accumulate, their transactions become more complex and member oversight becomes more challenging. As the MOI becomes larger and more sophisticated, creative mechanisms for keeping members engaged are required such as decentralized forums and training. The key is keeping some form of decentralization while ensuring enough standardization for control. The success of the larger systems is information systems and internal control that facilitates external even prudential supervision.

So, either simplify the governance system so that members can manage it or standardize the system so that external regulation and supervision can complement internal controls.

Not surprisingly with something as complex and human as good governance, there cannot so much be a list of features as a careful balancing of precarious tensions: legal structure and perceived ownership; member and external oversight; local and institutional rules; flexibility and control.

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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.

Schreiner, M. (1998). Aspects of outreach: A framework for the discussion of the social benefits of microfinance. *Journal of International Development*, 14(5), 591-603.

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 Perkreditasi 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 Perkreditasi 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 are 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 40 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 km². 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, 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: Governance Tools Used in Study

Worth of Member Ownership Tool

Use

This tool will be used first to gather descriptive information about the nature of member ownership, participation and governance. Specifically, the tool will be used to determine, a) to what extent members participate in the decision-making and governance of their MOI, and b) the value of member ownership to members. Depending on the MOI model, it may be necessary to get additional descriptive information from MOI managers.

The following hypotheses will be tested:

Members' sense of ownership – their sense that the institution belongs to them and that they can influence decisions in ways that will benefit themselves - has inherent worth. Members may also trust the leadership of a member-driven MOI more than they trust the leadership of their other options for financial services: they value this as well. Nevertheless, members will not necessarily value member ownership more than they value the lower cost, higher quality or greater convenience of competitors' services. In short, members value ownership in its own right but this value may not be enough to retain them if the MOI's financial services are not competitive.

Process

Descriptive Information

A. Ownership	Response	Notes
1. Who owns the MOI(s)?		
2. What is the legal basis for ownership?		
3. What does ownership entitle members to?		
4. Are members aware of these entitlements?		
5. Clearly articulated eligibility requirements for membership		
B. Participation in Decision Making		
6. Frequency of general meeting		
7. % of members who attended last AGM		
8. Quorum requirements?	Y N	
9. Participate in loan policies		
10. Participate in profit allocation	Y N	
11. Participate in other decisions	Y N	Specify:
12. What is the nature of voting, if any?		

C. Accountability in Governance		
13. How is the Board elected?		
14. Are there bylaws for the Board?	Y	N
15. Recourse for members to petition for general meeting	Y	N
16. Board responsibilities		
a. Setting, reviewing and modifying policy	Y	N
b. Establishing strategic and financial planning objectives	Y	N
c. Reflecting the interests and concerns of members in the decision making process	Y	N
d. Hiring, monitoring and evaluating management staff	Y	N
17. Members are kept informed on meetings, decisions and financial performance	Y	N
18. Does the government or regulatory body specify model bylaws?		

Discussion on Member Ownership, Governance and Participation

Start the discussion by asking them an open-ended question: Are you able to affect the decisions of the MOI? Why are you part of a member-owned organization? What is the added value of membership?

Probe further --Does participation in governance and decision-making:

- Result in a broader range of products--scope? How?
- Ensure that someone cannot dominate the group in terms of receiving loans? How?
- Ensure that fraud is minimized? How?
- Ensure that products are better suited to their needs--fit? How?
- Provide non-financial benefits? What are they?
- What factors affect your participation in governance and decision-making? Capacity; composition of membership; others?

Appreciative Inquiry: What Makes Strong Groups Work?

Use

Through Appreciative Inquiry, groups or MOIs identify, in their own terms, what makes a strong association or group and are given an opportunity to dream about their future. With this tool, storytelling is the main means of understanding what makes a strong MOI in terms of length and worth.

This tool is another means of testing the hypotheses:

Compared to the services of other financial institutions, MOI services often cost less, are more convenient, and fit better with member demand. Even with small member-driven MOIs that offer only a few limited services, these services often are well-matched with members' needs and may be more flexible than their terms convey.

Members' sense of ownership – their sense that the institution belongs to them and that they can influence decisions in ways that will benefit themselves - also has inherent worth. Members may also trust the leadership of a member-driven MOI more than they trust the leadership of their other options for financial services: they value this as well. Nevertheless, members will not necessarily value member ownership more than they value the lower cost, higher quality or greater convenience of competitors' services. In short, members value ownership in its own right but this value may not be enough to retain them if the MOI's financial services are not competitive.

The case researcher should facilitate and record the dialogue, encouraging participants to explain and elaborate on their responses. This helps researchers to better understand the development of the MOI. The tool may uncover information about community impacts, social intermediation, ownership and governance, issues not covered in other tools.

Process

Use appreciative inquiry with two remote MOIs, one being the MOI of study and the other a poor performing remote MOI in terms of length and worth. Encourage broad participation. Normally, appreciative inquiry includes four stages: discover, dream, design, and do. In this adaptation, you will use only the first two steps. The Discover step will help the group to articulate their strengths. In the Dream step, as the group envisions its future, it will articulate what is important to them.

These tools ask participants to put forward multiple related narratives. Individuals are asked to explain why they think their suggestion is significant. All narratives are recorded and discussed at length. The facilitator should note how individuals present and debate suggestions within the group. During a field testing of the tool, one of the most interesting findings was that the MOI's board of directors was having difficulty building consensus among the members concerning a significant change. This raised questions about member participation and the decision-making process.

Discover

This step is aimed at understanding the group's assets and accomplishments. How did the association come together? Tell me about a time when you were really excited to be part of this group/MOI? Tell me about a time when the group/MOI felt really strong? Tell me about a time that the group/MOI had something to celebrate?

Probe with open questions

As stories are put forward the facilitator follows up with most focused questioning to get at what, who, where, when, and why of the matter. What made it strong? What about members? What conditions?

Have you faced difficult times? How did the group handle those challenges? What were they?

Attempt to pinpoint MOI strengths and the factors that enabled MOI successes. Ask the participant(s) how they were involved. Review – present the results of the discussion to participants for final comments and feedback.

Dream

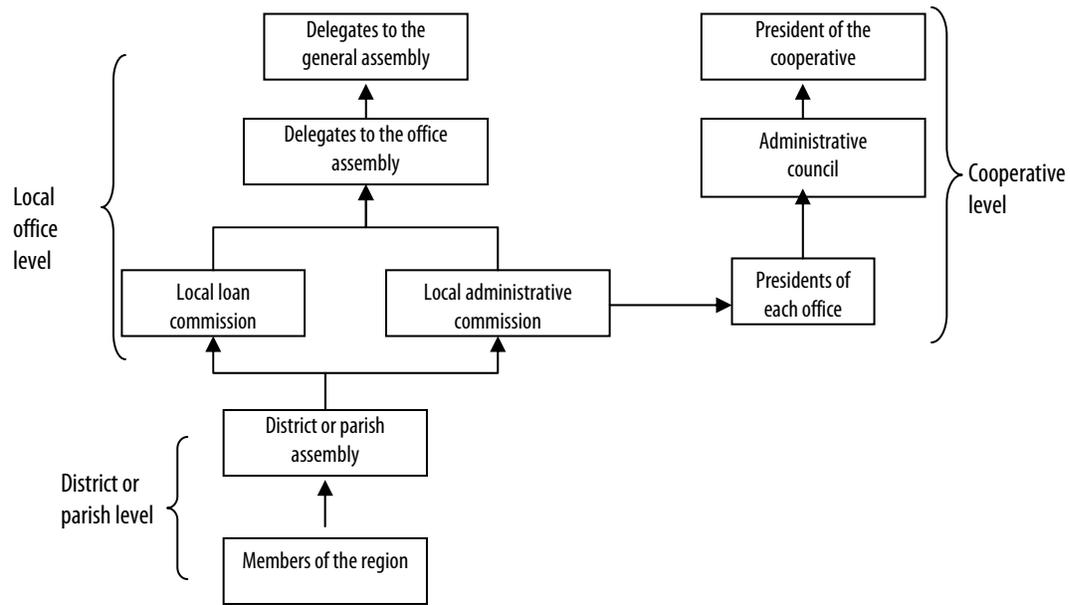
What do they envision for their future as a group or association? What does the association look like? What is different? Ask them to close their eyes, if appropriate, and envision. Probe. Do not lead with questions

Review of Internal Control Mechanisms

Adapted from WOCCU’s Internal Control Guidelines (2002)

Institutional Risks	Operational	Warning Signs
<ul style="list-style-type: none">- Strategic inertia or drift- Domination by individuals in management or board- Domination by local elites- Domination by borrowers	<ul style="list-style-type: none">- Credit- Accounting- Administrative- Security (fraud or theft)	<ul style="list-style-type: none">- little or no internal control in place- lack or weak external audit- record-keeping problems- inadequate segregation of duties- lack of audit trail- poorly trained staff- Note: decentralized groups will use more informal means of control. How do they substitute?

Appendix C: Jardín Azuayo Governance Structure



Appendix D: Monitoring Systems for MOI Governance

	Self-Help Group Networks	SHGs	LPDs	Mixtlan	VSLAs	Cooperatives and Credit Unions
Monitoring of governance	GRADES: Governance, Resources, Asset Quality, Design of systems & Implementation, Efficiency & Profitability, Services to SHGs and SHG performance	Group constitution; regularity of savings and meeting; existence of SHG rules; level of awareness of those rules; responsibility sharing of members; book-keeping; auditing and transparency of operations; literacy of group members	CAMEL: Capital Assets Management Equity Liquidity	"Integration Index"- Rating system for federation level: -economies of scale -standardized financial operations -separation of strategic and operational -avoidance of domination -internal control	No. meetings; problems at meetings; % members attending; punctuality; constitution followed; loan and savings procedures followed; members participate in discussion; accuracy of records; accuracy of financial position; field officer domination	% of external capital savings to loans ratios Ecuador maps relationships of members

Other relevant indicators used in microfinance institution (MFI) social performance monitoring. As part of their social performance rating system, CERISE (2005) rate social and political capital:

- Trust and information sharing (access to financial statements; claim or complaint; percentage growth of savings)
- Client representation (decision-making at client level; decision-making at MFI level; rotation of representative; percentage of women; training of representatives; instances of effectiveness)
- Empowerment (seek to strengthen social capital; opportunities for conflicts/claims/complaints/created space for solutions to non-financial problems)
- Community (improves social cohesion in the community; leadership training; increased power to influence local government; increased power to influence national government)
- Transparency (distinction between principal and interest clear to borrowers; client level of control in decision-making; client impact on decision-making)

Cerise. (2005). *Audit of the social performance of microfinance institutions: The definition of a tool*. (Report No. 2: The Operational Guide to the Questionnaire). Paris, France: Author.

Appendix E: Informal and Formal Systems in Member Governance

Systems	What affects these systems	Rules/Norms	Enforcement
Informal (unwritten; internal)	Local socio-cultural forms of organizing, communicating, pooling resources and controlling. Social capital; Social control; Power structures – gender, leadership	Informal norms/customs Entry; Exit; Size of groups; Allocation of resources; What to do with surplus; Accessing inputs; Accountability	Social control Knowledge of and action on domination, Default or fraud; Shame; Ex-communication; Local leaders, governance
Formal; Internal	Legal status; Priorities of technical support/donor; Good governance standards; Financial norms; Second-tier standards; Regulation; Costs; Literacy; Numeracy	Policies Accounting/book-keeping; Financial reporting; Product policies; Non-payment; Profit allocation; Deposits; Internal control	Controls Meetings; Delegation Internal control staff Audit; Training; Information Consumer education
Formal; External	Regulation and supervision (including self and delegated); Legislation; Costs; Capacity	Regulation Entry-capital adequacy; Exit; Nature of business and membership; Mobilization of deposits; Treatment of non-members	Supervision Audits; On and off-site monitoring; Correction; Sanctions/closure; Capacity and effectiveness of court system

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