

Lund University

Lund University Master of International Development and Management

May 2009

**REVISITING SOCIAL CAPITAL IN DEVELOPMENT:
CAN GROUP-BASED MICROFINANCE REPRODUCE SOCIAL CAPITAL?**
A Case Study in Rural Cambodia

Author: Jenny Ngaichan Iao Jørgensen

Supervisor: Ellen Hillbom

Total Word Count: 15,034

Acknowledgements

I would like to express my gratitude to all those who gave me the possibility to realize this research project. I wish to thank Oxfam America and CEDAC for giving me the permission to study their project and for their valuable input and logistics assistance. I am indebted to the key informants of NGOs interviewed, CEDAC's project staff and trainees in Svay Rieng and Kampong Cham as well as the members of the two savings groups and the villagers for their time and incredible hospitality. Special thanks are due to my interpreter for her professional service, and for being a wonderful companion, a cultural guide and an occasional motorbike driver during the field study.

I would like to thank the teaching and management staff of the Lund University's Master program in International Development and Management (LUMID), especially my thesis supervisor, Dr Ellen Hillbom, for her stimulating guidance and encouragement during the entire course of writing this thesis. I am also obliged to my fellow LUMIDers from my thesis group and from the team in Phnom Penh for their moral support, and to a friend, Ayako, for her down-to-earth advice on conducting research in rural Cambodia.

I would also like to thank the Swedish International Development Cooperation Agency (Sida) for the scholarship to finance this study.

Last, but not least, I want to thank my husband, Johan. Without his understanding and support, I would not have been able to complete this thesis while doing a full-time job.

Abstract

Group-based microfinance programmes, based on trust and solidarity among members, currently dominate development policy and practice as the approach compensates for individual poor's lack of material resources and market imperfections. Despite strong evidence of its social and economic impact, few researches take an in-depth, empirical look at how the group models manifest and create social capital. Applying social capital theory, this paper seeks to contribute to a better understanding of the social capital building aspect of group-based microfinance by analyzing empirical data from a CEDAC supported village saving project in rural Cambodia. The study asserts that group-based microfinance scheme can indeed bring positive changes to social and gender relations beyond individual loans and savings. These changes are largely influenced by the type of social capital (norms, networks and trust) promoted by microfinance project's social intermediation processes. The study reveals that group homogeneity and elite avoidance may not matter at all. The study further identifies that the social capital build up, especially where structural and institutional exclusion is addressed to harness all bonding, bridging and linking social capital, has the potential of enabling the poor and marginalized to participate and organize themselves in the community development and society transformation processes.

Key words: social capital, microfinance, community saving, village saving, social network, social relations, community development, empowerment, collective action, Svay Rieng, Cambodia

Contents

ACKNOWLEDGEMENTS	2
ABSTRACT.....	3
LIST OF TABLES AND FIGURES.....	5
LIST OF ACRONYMS AND ABBREVIATIONS	5
1. INTRODUCTION	6
1.1. RESEARCH PROBLEM	6
1.2. PURPOSE AND RESEARCH QUESTIONS.....	9
1.3. DISPOSITION	11
2. BACKGROUND ON CAMBODIA.....	11
2.1 POVERTY	11
2.2 MICROFINANCE.....	13
2.3 SOCIAL CAPITAL.....	14
3. THEORY	16
3.1 RESEARCH FRONTIER.....	16
3.1.1. <i>Social Capital: An Emerging Conceptual Framework?</i>	16
3.1.2. <i>Social intermediation: does it matter?</i>	18
3.1.3. <i>Wider social impact: inclusive or exclusive?</i>	21
3.2 ANALYTICAL FRAMEWORK	24
4. METHODOLOGY	26
4.1 META-SCIENCE POSITION, TYPOLOGY AND NATURE OF RESEARCH	26
4.2 METHODS	27
4.2.1. <i>Interviews</i>	27
4.2.2. <i>Observation</i>	28
4.2.3. <i>Group Discussion</i>	28
4.2.4. <i>Documents Review</i>	28
4.3 SELECTION OF THE CASES.....	29
4.4 RELIABILITY AND VALIDITY	30
5. CASE STUDY	31
5.1 GENERAL DESCRIPTION OF THE PROJECT AND THE CASES.....	31
5.1.1. <i>CEDAC Saving for Self-Reliance Project</i>	31
5.1.2. <i>The two cases</i>	32
5.2 CHANGES TO SOCIAL RELATIONS	34
5.3 SOCIAL INTERMEDIATION	40
5.4 ORGANIZATIONAL CAPACITY FOR COMMUNITY DEVELOPMENT.....	47
6. CONCLUDING REMARKS	50
REFERENCES.....	52
APPENDIX I – GROUP-BASED ORGANIZATION MODELS	59
APPENDIX II – LIST OF INTERVIEWEES AND FOCUS GROUP MEETINGS	60
APPENDIX III – INTERVIEW AND GROUP DISCUSSIONS GUIDE	61
APPENDIX IV – KEY FACTS AND FIGURES ABOUT CEDAC’S SAVINGS FOR SELF RELIANCE PROJECT.....	62
APPENDIX V – THE RULES OF RIENG GROUP	63

List of Tables and Figures

Table 1. Definitions of bonding, bridging and linking social capital	18
Table 2. Three Schools of Thought About Micro-Finance	22
Table 3. Overview of the employment of Research Methods	31
Table 4. Basic facts and figures about the two cases.....	34
Table 5. The main purposes of CEDAC's Saving for Self-Reliance Project	40
Figure 1. Analytical Model for the Case Study	25
Figure 2. Provincial Map of Cambodia indicating the research sites	30
Figure 3. Seasonal Calendar and major events in Rieng Village.....	33

List of Acronyms and Abbreviations

AMK	Angkor Mikroheranhvatho (Kampuchea) Co. Ltd (a subsidiary of Concern Worldwide)
BRAC	Bangladesh Rural Advancement Committee
CBO	Community-Based Organizations
CDD	Community-Driven Development
CDRI	Cambodia Development Resource Institute
CEDAC	Centre d'Etude et de Développement Agricole Cambodgien (Cambodian Center for Study and Development in Agriculture)
CGAP	Consultative Group to Assist the Poor
CIA	Central Intelligence Agency
GBMF	Group-based microfinance
MDGs	Millennium Development Goals
MFI or MFO	Microfinance Institution Organization
MoP	Ministry of Planning
MOWA	Ministry of Women's Affairs
NGO	Non-Governmental Organization
PADEK	Partnership for Development in Kampuchea, a national NGO in Cambodia
RDB	Rural Development Bank
RGC	Royal Government of Cambodia
SfR	Saving for Self Reliance
SHMG	Self-Help Microfinance Group
SIDA	Swedish International Development Cooperation Agency
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme

1. INTRODUCTION

1.1. Research Problem

With eradicating poverty as the most daunting challenge today facing the global community, the impact of microfinance¹ on Millennium Development Goals (MDG) has in the last decades caught the attention of development policy-makers and practitioners. There is strong evidence of positive microfinance impact on achieving the MDGs, especially in relation to income, education, health and women's empowerment according to Consultative Group to Assist the Poor (CGAP) website. Many non-governmental organizations (NGOs) have developed innovative programs to provide financial services to millions of poor people in the world². Poor people rarely own assets to use as collateral to raise productive capital and, with subsistence-level production and survival consumption needs, they often find themselves in a vicious circle of poverty. To date, unfortunately, nearly three billion poor people in developing countries still lack access to the basic financial services needed to help them break this circle (CGAP 2007). In this context, microfinance, which provides small loans and other financial services to people living in poverty for self-employment and other income-generating projects, is seen as one of the most viable tools to alleviate poverty and foster socio-economic development for developing countries.

Among innovative approaches, group-based credit and savings programs have multiplied rapidly because of their proven capacity to reach out to large numbers of poor. From Grameen Bank's solidarity or self-help microfinance groups (SHMG) in Bangladesh, *tontines*³ in West Africa to FINCA's⁴ village banking model in Latin America, group-based microfinance⁵ has become increasingly popular in development policy and practice. This group methodology taps into pre-existing social capital – one

¹ The term *microfinance* has come to replace *microcredit* in the last decade as financial services broadened to include other products than just credit, such as savings and insurance. This paper uses microfinance and microcredit interchangeably.

² There are about 5 million households being served by microcredit schemes worldwide (see Abbin et al 2006)

³ Informal saving circles.

⁴ Foundation for International Community Assistance.

⁵ For details about the characteristics of various group-based organization models, please refer to Appendix 1.

of the few resources poor people have – which is transpired in personal relationships and networks, to enhance poor's access to small, short-term loans. Social capital is regarded as substitutes for physical collateral to serve as guarantee for small loans. This collective liability lending systems depend on relationships among borrowers to transfer the responsibility of selecting borrowers, monitoring their loan use and enforcing repayment from lenders of microfinance institution organization (MFI or MFO) to groups (Stiglitz 1990; Varian 1990; van Bastelaer 1999; Karlan 2001; Besley and Guinnane 1994; Ghatak and Guinnane 1999). While income generation remains the focus of this approach, there is a growing belief among development institutions, such as the World Bank, and practitioners that group-based microfinance can also create social capital. They argue that the approach has the prospect of promoting group solidarity and trust among group members and form social horizontal and vertical networks of the SHMG members (Eghcom and Barton 1999; Szabo 1999; Kanak and Iiguni 2007).

However, as Falk and Kilpatrick (1999) indicate, *social capital* as a concept itself is still evolving, much debated and critiqued. Viewed as the missing link in development (Grootaert 1997), social capital is often referred to as the norms and networks that facilitate collective action for mutual benefit. Portes (1998:7) argues that whereas economic capital is in people's savings and human capital is in their heads, social capital inheres in the structure of their relationships. Social networks, whether horizontal or vertical, also operate along gender lines and they reflect the gendered nature of power relations between men and women (Bantilan and Padmaja 2008). Social capital has therefore multi-faceted dimensions (Dasgupta and Serageld 2001).

Recent studies have noted the apparent capacity of group-based microfinance to empower the most vulnerable, especially women; its capacity to motivate the less economically active by enhancing their skills and access to valuable social and market information; and to establish community-based structures that build mutual support and trust which give promises for community-driven development. (Eghcom and Barton 1999; Szabo 1999; Krishna and Uphoff 1999; Kanak and Iiguni 2007). The social interaction element is thus seen as central to group-based microfinance practice. Some

even equates this with the exchange of finance. Labeled *social intermediation*⁶ to reflect a parallel concept to financial intermediation, group-based approach that mediate financial and social services to participants is regarded an essential part of the microfinance process targeting the poor. By creating social capital that compensates for the poor's lack of material assets and market imperfections, social intermediation promises to remove physical, economic, and social barriers for the poor (Eghcom and Barton 1999; Ito 2004). Social capital's potential of becoming a strong force to enable economic processes for the world's poor and disadvantaged cannot and should not be undermined.

As with other development innovations, group-based microfinance models are not without critics. While some researchers have raised questions about the depth of outreach, the limits of repayment enforcement, and the intensity of empowerment effects, others have acknowledged both the administrative and time burdens placed on the poor and on the microfinance institutions as well (Eghcom and Barton 1999). Researches seeking answers to these questions have increased in recent years (van Bastelaer 1999; Karlan 2001; Mayoux 2000). As literature on social capital grows, more attention has also been turned to the social capital building aspects of microfinance.

However, apart from the World Bank's Sustainable Banking for the Poor project, there are significant research gaps in understanding the relationship between social capital and microfinance, especially in explaining how group-based microfinance creates social capital. Eghcom and Barton (1998) in their literature review of the social intermediation and microfinance programs note that a majority of the documentation focuses on institutional and financial sustainability, program operations and outreach. The discussion on social intermediation is only implicit if at all mentioned. Few researches take an in-depth, empirical look at crucial aspects such as how peer pressure functions; the nature of self-selection in groups; and the actual costs incurred (including subsidies) of building effective social organizations (*ibid*). Mayoux (2001) adds that many of the studies adopt a narrow understanding of social capital and ignore its

⁶ Social intermediation has been defined as a process in which investments are made in the development of both human resources and institutional capital, with the aim of increasing the self-reliance of marginalized groups, preparing them to engage in formal financial intermediation (Eghcomb and Barton 1999).

downside. Portes (1998) and Woolcock (1998) point out that, just as human capital, different forms of social capital, can be used for purposes that hinder rather than enhance an individual's welfare. For example, when group membership norms confer obligations to share rather than accumulate wealth, social networks can exclude new entrants, and communities with a lot of social capital, particularly if organized along ethnic or religious lines, can be harmful to each other and to society as a whole. Falk and Kilpatrick (1999) have identified *externality* as crucial for developing positive interactions to feed the common good. Grootaert *et al* (2005) also suggest that without proper control and accountability linking social capital can quickly become a mechanism for insider-trading and political favoritism.

Attention thus needs to be paid to the sort of norms, networks and associations beyond horizontal networks that group-based microfinance initiatives are promoting or intermediating. (Mayoux 2005) Do they truly create positive social capital among the poor over and above those of an individual loan or saving? What are the characteristics of these interactive and intermediation processes that include or exclude the poorest and most disadvantaged? Can these processes live up to the *development from below* rhetoric that surrounds microfinance or are their importance overstated? These are serious questions calling for more in-depth empirical investigations, which have motivated this study.

1.2. Purpose and research questions

This study is a response to the call for more empirical research on how group-based microfinance schemes create social capital. It is also an attempt to give a voice to the poor and disadvantaged, especially women, to speak for themselves if and how intermediation processes of microfinance schemes steer collective actions towards poverty alleviation.

Premised on this broad theoretical and contextual backdrop, this study seeks to explore how pre-existing social capital is manifested, to investigate the rationale, characteristics of and approaches to the social intermediation processes, as well as to examine their effects in achieving the wider social development goals microfinance promises. Using a qualitative case study in Cambodia, the study specifically attempts to tackle the following questions:

- *Are there any changes to the social relations within and outside the group since the formation of the savings groups?*
- *How are these changes caused by the social intermediation processes used by the group-based microfinance scheme?*
- *What implications does this new social capital build-up have for the poor and disadvantaged to organize for wider community development⁷?*

Social capital theory entailed in both the financial and social paradigms of microfinance will set the analytical framework of the research, which in turn will guide the research design and data analysis for answering the research questions. While acknowledging the importance of macro- or institutional conditions on the creation of social capital, the study will focus on, though not be limited to, the micro- and meso-levels of social capital characterized by Grootaert and van Bastelaer (2001). Case study approach will set the primary methodological framework for this qualitative research. Through triangulating a combination of qualitative and participatory methods and techniques, the study have drawn on the experience of two savings group and their communities in a rural livelihood improvement project supported by CEDAC⁸. The field activities of the research were conducted between November and December 2008 in Svay Rieng and Kampong Cham provinces in Cambodia. The group in Svay Rieng, regarded by the livelihood project as *successful*, will serve as the critical case. The second group in Kampong Cham, established for a similar length of time yet regarded as *poorly performed*, will serve to supplement the analysis of the critical case by providing a richer context.

The study will hopefully fill in the currently limited empirical research in Cambodia and elsewhere on how group-based microfinance creates social capital as well as to encourage dialogue between researchers, policymakers, practitioners and among the poor themselves to explore possibilities for self-sustained community development initiatives.

⁷ Wider community development is understood here as benefits made beyond individual household or group level.

⁸ Centre d'Etude et de Développement Agricole Cambodgien (Cambodian Center for Study and Development in Agriculture).

1.3. Disposition

This chapter has so far introduced the research problem, defined the study purpose and questions and presented briefly the research methodology, theoretical framework and the cases. The organization of the rest of the paper will be as follows. Chapter 2 gives background information about Cambodia's poverty, its microfinance sector and a brief account of its post-conflict social capital. Chapter 3 deals with theoretical framework, starting with past and present research on the topic, followed by an explanation of the analytical framework to be used for data collection and analysis. Chapter 4 discusses the methodology employed in the research, choices of methods, and data reliability and validity. Chapter 5 starts with an introduction to the cases, followed by analyses of the empirical data. Chapter 6 presents some concluding remarks, linking research findings with the broader research purpose.

2. BACKGROUND ON CAMBODIA

This chapter aims to provide a better understanding of Cambodia's contextual setting in which the study was conducted. This begins with a brief account of Cambodia's poverty profile and development challenges in Section 2.1 and continues with an overview of the microfinance sector in Section 2.2. Subsequently, section 2.3 discusses Cambodia's social capital at the village level in the aftermath of Khmer Rouge's systematic destruction of social relations and structures.

2.1 Poverty

Cambodians are relatively homogeneous people with approximately 90% of the population ethnic Khmer and 95% Buddhist (Central Intelligence Agency 2009)⁹. Despite remarkable progress on economic, social and political fronts since the end of decades of civil unrest, Cambodia remains one of the poorest countries in the world and

⁹ CIA World Factbook is the only reference available with this information. Figures on Cambodia's ethnic make-up are somewhat difficult to determine as the latest population census of 1998 (2008 census results have not been released at the point of writing this thesis) did not address ethnicity issue, nor is this data available from the World Bank or UN agencies.

relies heavily on foreign aid¹⁰. Poverty in Cambodia is seen as attributed to high population growth, inadequate opportunities, lack of economic security, and exclusion among multiple sectors of the population (CSD 2002).

Rural poor remain the most vulnerable. In 2006, of one third of the country's 14 million people living below poverty line, 90% lived and worked in rural areas, largely on subsistence agriculture. (MoP and UNDP 2007) Although Cambodia is broadly self-sufficient in rice in years of good harvest, this does not translate into food security at the household level. One in five Cambodians lived under the food poverty line (World Bank 2006:35). A typical poor household tends to have higher dependency burden, lack human capital (uneducated, unskilled and unhealthy), secure land tenure, and have limited access to irrigation facilities, roads, markets and basic services. They are particularly vulnerable to external and internal shocks, often forced to resort to distress sale of productive assets (including land) and/or enter long-term debt. A health shock is said to be more serious than a harvest failure. This vulnerability can often be explained by: (i) insufficient savings; (ii) underdeveloped financial markets for saving, borrowing or insurance; (iii) lack of livelihood diversification; (iv) reliance on common property resources for livelihood security, when access to or productivity of these resources is in decline; and (v) weak rule of law¹¹ to guarantee justice in conflicts between the poor and wealthier or powerful actors. (*ibid*)

Poverty in Cambodia also has gender dimensions. Decades of conflict and upheaval have resulted in 20% of households being female-headed – one of the world's highest (CSD 2002). Although women perform 57% of agricultural labor, their access to natural resources, education, credit and extension services remain limited compared with their male counterparts (MOWA 2008). Rural women also carry a disproportionately high share of household work. Domestic violence haunts the lives of women and children. Contemporary attitudes and practices continue to reflect traditional unequal gender relations and power differences. Women's representation in senior political and public decision-making positions remains low (*ibid*).

¹⁰ The country moved up eleven places to 129th out of 177 countries between the 1998 and 2007 UNDP Human Development Reports.

¹¹ Cambodia ranks 166th out of 180 countries in Transparency International's Corruption Perceptions Index for 2008 (Transparency International 2008).

In the above context, microfinance has been promoted in Cambodia as crucial in poverty reduction and rural development, especially for poor and marginalized women.

2.2 Microfinance

Microfinance has a relatively short history in Cambodia. Three decades of internal conflicts have ruined the country's human resources base and financial infrastructure. The Khmer Rouge abolished money and banking during their reign and subsequently the Vietnamese instituted a centrally planned, mono-banking system which eventually failed. Since the Paris Peace Accords in 1992 and the establishment of UN peacekeeping operations, the number of international organizations has grown from just eight in 1980s to hundreds today. The focus was on relief to the most exposed and marginalized but challenges to all types of development were many, including microfinance. The financial system was underdeveloped with low public confidence and limited intermediation (Matthew 2005:1). No policy and legal framework for microfinance existed, and the communist-based frameworks of other related sectors were often incompatible with private enterprise and microfinance (MBP 2001).

When the banking sector was privatized in 1990, farmers and small businesses lost their access to formal financial services and had to rely on informal money lenders. This, together with the international development trends, gave rise to hundreds of NGO-supported microcredit projects and thousands of community-based financial institutions in rural Cambodia. While few of the latter are formally structured as cooperatives, many claim to apply similar values, such as democratic control, self-reliance, community-based development and an open, inclusive membership (Matthews 2005). According to Asia Resource Centre for Microfinance (ARCM), at the end of 2004, the microfinance industry was serving approximately 450,000 borrowers and 150,000 depositors.

Village banking methodology and the use of a self-help microfinance group (SHMG) is very popular among NGOs. Despite rapid growth of the sector, most demand for rural financial services continues to go unmet in Cambodia. There is general consensus that access to safe, liquid savings mechanism for rural households is even more poorly developed than credit services (Chandararot 2002).

As NGOs have been central to developing the sector, the government is stepping up efforts to define its role. The Royal Government of Cambodia's (RGC) Rectangular Strategy for Growth, Employment, Equity and Efficiency has made a strong commitment to rural poverty reduction and enhance gender equality (MoP and UNDP 2007). The government also recognizes microfinance as a vital mechanism to community development in all fields (RDB 2003) and prioritizes microfinance in the Financial Sector Development Plan of 2006-2015 to accelerate Cambodia's development processes.

The 1999 Financial Institution (banking) Law and increasing competition have resulted in fewer players in the sector, reorienting microfinance programs towards financial sustainability and increased reluctance to serve clienteles, especially rural folks, with greater operating costs. Given the existing limitations and unmet demand, new innovations are needed to reach out to rural settings, provide concurrent access to savings and credit, and deliver empowerment services currently lacking in most microfinance programs (Pact 2004)

2.3 Social Capital

Not surprisingly, most of the analyses of social capital in Cambodia account for the impact of decades of conflicts (Pellini and Ayres 2005:9). Bushra and Lopez (1994), for instance, document that years of disruption of communities and families during the Khmer Rouge regime have discouraged the spontaneous formation of local initiatives and groups for joint efforts to improve their status and living conditions. Trust is seen as the missing element in Cambodian society (UNICEF 1996). The following excerpt reflects the deep scars in the national psyche left by the experience:

“In the Khmer Rouge's time, trust was systematically destroyed. A friend would be asked to spy on a friend/.../Even today, people meet and recognize those who betrayed their loved ones. All the respected people in our village were singled out for betrayal” (Meas in Meas 1995:21)

Even the official Poverty Reduction Strategy Paper 2003-2005 (CSD 2002:30) has accounted that social capital in Cambodian society was totally destroyed by the Khmer Rouge and the protracted civil conflict. The paper acknowledges that lack of social capital limits the poor's opportunities to tackle poverty.

Colletta and Cullen (2000:11), while sharing similar assumptions, concluded in their empirical research in Cambodia that post-conflict social capital was not too different from those that existed before the wars. Informal networks along and beyond kinship lines continue to be organized. In addition, associations sponsored by the government, or initiated by village leaders and the pagoda have remained as they were before the conflict. The same was observed with the local associational activities such as rice banks, funeral associations, and water-users' groups (*ibid*).

Pellini and Ayres (2005) also argue that at different social hierarchical levels, bonding links between individuals exist. For example, parents come together to improve a school building. While the action reflects a shared objective and interest, the downside is the possible exclusion of the poorest members of the community, for instance, because of their financial inability to contribute or send their children to attend school. In addition, distance between rural areas and administrative centre has encouraged the development of indigenous coping systems, as self help initiatives and mutual savings groups. However, the mistrust produced by Khmer Rouge's destruction to traditional institutions and values, such as family, religion and association, continue to make it difficult for different groups or associations to link with each other at the local level; individuals remain reluctant to overlap an asset to bridge differences between groups or to pool resources.

According to Sedara (2001), the notion of patronage and the traditional hierarchical structure of the society have continued. Members of local associations are either village leaders or people with literacy skills and who are better off. This hierarchical structure has discouraged active participation of the population in village affairs, unless requested from above (Meas 1999). Patron-client relations persist to play a big part in shaping the way people or groups interact with each other in Cambodian society. This form of social capital is based on the expectation that there is a patron to whom one turns for help. The relationship carries with it mutual obligation which can work in positive and negative ways (Pellini and Ayres 2005). All this reaffirms the multi-faceted and contextual nature of social capital, and maps complex social settings for the implementation and scaling-up of community-driven development initiatives.

3. THEORY

This chapter comprises two parts. First, section 3.1 deals with research frontier which begins with a literature review of previous research to explore different concepts of microfinance and social capital, and their interface. The second part, section 3.2, illustrates the attempt to operationalize the conceptual and theoretical understanding of group-based microfinance and social capital, by modeling an analytical framework to explore the social capital building aspect of microfinance.

3.1 Research Frontier

The literature review in this section is selected based on the key concepts entailed in the three research questions related to the impact of group-based microfinance on social relations, the project's intermediation processes and their outcome on poor's organizational capacity. Previous theoretical and empirical research on these concepts will be discussed to explore the concepts, determine how the concepts will be used, measured and analyzed in this research.

3.1.1. Social Capital: An Emerging Conceptual Framework?

Evidently over the past few years, social capital has emerged as the preferred theoretical framework for understanding and alleviating poverty – and within which group-based microfinance for women has transpired as a favored development model (Fernando 2006:97). The concept of social capital, despite not being in its current term, existed ever since small communities were formed and humans interacted with expectation of reciprocation and trust (Platteau 1994; Woolcock 1998). The concept continues to be widely invoked by sociologists, political scientists and economists. Social capital is concerned with the connections among individuals (Putnam 2000: 19). The World Bank defines it as the institutions, relationships and norms that shape the quality and quantity of a society's social interactions. It is not just the sum of the institutions which underpin a society – it is the glue that holds them together (Szabo 1999).

Early attempts to define social capital focused on the degree to which social capital as a resource should be used for public good (Putnam 1993) or for individual's benefit (Bourdieu 1986; Coleman 1988). Putnam (1993) was primarily concerned with the horizontal associations between people. These horizontal associations consist of social networks and associated norms that affect community productivity and well-being. Social capital facilitates coordination and cooperation at this level (Woolcock 1998; Narayan 1999; Krishna 2000).

Coleman (1988) recognizes both vertical and horizontal associations between people but argues that horizontal ties are needed to give communities a sense of identity and common goal. Without *bridging* ties to transcend various social divides (e.g. religion, ethnicity, gender, socio-economic status), horizontal ties alone risk promoting narrow interests¹², and restrict community's access to information and material resources such as credit (Krishna 2000). The outcomes of social capital may not be all positive because it resides in the structure of relations and not in individual actors.

North (1990) and Olsen (1982) broaden the concept to include the entire socio-political environment and the institutional framework of a society such as government, the political regime, the rule of law and civil entities. This view not only accounts for the importance of forging ties within and across communities, but recognizes that the capacity of various social groups to act in their interest depends crucially on the support (or lack thereof) that they receive from the state and the private sector (Pellini and Ayres 2005).

Serageldin and Grootaert (2000:49), however, discount differences between these definitions, stating that they are largely artificial and unnecessary in operationalizing the concept for international development. They argue that what matters is the effect of social capital on development outcomes. Group-based microfinance schemes are their favourite example of illustrating positive development outcomes that social capital has brought. By tapping into the information that group members have about each other, explain Serageldin and Grootaert (2000), these schemes rely on social capital to overcome information deficiencies and the associated risks to prospective lenders. New

¹² World Bank Social Capital Website <http://go.worldbank.org/COQTRW4QF0>

microfinance initiatives are thus encouraged to employ similar institutional mechanisms to use pre-existing social capital or help create it.

It is apparently not easy to examine the effects of something not clearly defined and theoretical conceptual debates are likely to continue for a long time (Szreter and Woolcock 2004). This study acknowledges that there is no single entity called social capital. However, for the purpose of the study, the following three connecting strands of social capital adapted from those developed by Woolcock (1998) will be used:

Table 1. Definitions of bonding, bridging and linking social capital

Bonding social capital (close horizontal networks)	Strong ties among members of families and ethnic groups, close friends and associates sharing similar demographic characteristics.
Bridging social capital (extended horizontal networks)	Weaker ties between people from different ethnic, geographical and occupational background but with similar economic status and political influence.
Linking social capital (vertical networks)	Ties between poor people and those in the position of influence in formal institutions such as banks, agricultural extension officers, schools, local authorities, etc). Linking social capital is related to the capacity of individuals and communities to leverage resources, ideas, and information from formal institutions beyond the immediate community radius.

Adapted from Woolcock (1998)

In this context, Woolcock (1998) argues that poor people presumably have *plenty* of bonding social capital, *some* bridging social capital, but *next to no* linking social capital. It is widely believed among researchers and practitioners that by mobilizing pre-existing bonding social capital of the participants, bridging and linking social capital will gradually increase as participants become actively involved in microfinance activities. The following section will shed some lights into this argument.

3.1.2. Social intermediation: does it matter?

MFO, by their own definition and in their own rights, are mandated to provide financial services and to facilitate social interaction of their target population. The poor face different kinds of barrier to access productive capital. The basic notion or economics of microfinance is simple: if poor people are given access to financial services, including credit, they may very well be able to pursue self-employment or income-generating

activities that will allow them to break the vicious circle. Financial services are usually catered for marginalized target groups (women, poor, rural, landless, deprived, etc). Decades of microfinance experience have shown that financial intermediation alone is not enough to ensure meaningful participation and development outcome. Group-based models have evolved as the favored microfinance innovation because of their proven outreach capacity to large numbers of poor. They achieve this by tapping into social capital, bonding social particular in particular, and create mechanisms to bridge the gaps created by poverty, illiteracy, gender inequality and remoteness. Researchers and policymakers generally recognize that by creating social capital that compensates for the poor's lack of material assets and market imperfections, social intermediation promises to remove physical, economic and social barriers for the poor (Eghcom and Barton 1999; Ito 2004).

However, as previously mentioned, a majority of the microfinance literature focuses on institutional and financial sustainability, program operations and outreach. Social intermediation is only implicitly discussed and in-depth, empirical research are lacking especially with regards to how peer pressure functions; the nature of self-selection in groups; and the actual costs incurred (including subsidies) of building effective social organizations (Eghcomb and Barton 1999). Studies on community organizations have often shown an association between social capital and sustainability of these organizations, though the studies are limited to the bonding level (Garforth and Munro 1995) while bridging and linking social capital as well as the causality between social capital and organizational sustainability are often not in focus.

Within the existing microfinance literature on the concept of social intermediation, Bennett and her colleagues in the World Bank's Sustainable Banking with the Poor project possibly have made the most extensive conceptualization of social intermediation. They define social intermediation as a process in which human resources and institutional capital of the marginalized are developed to increase their self-reliance and access effectively and productively the financial services of the formal sector. The process thus entails attempts to create systems and products for people who do not normally interact with formal institutions or even with each other due to illiteracy, lack of assets, gender or ethnic background. The process also seeks to create new systems and institutions to change self-perceptions, build self-reliance and

confidence, and enhance empowerment and social cohesion (Bennett *et al* 1994; Bennett 1996)

Built largely on Bennet's work and other researchers, Eghcomb and Barton (1999) summarize social intermediation as a process which involves the building of bonding and or bridging social capital in the form of groups that can generate an information asset for their members, allowing peer lending and borrowing relationship. The process also transforms *beneficiaries* into *clients* by developing and enforcing contracts between lender and borrower, and by supporting the poorest to gain ownership and control over resources. This component of social intermediation leads to the establishment of systems and structures in which one or more institutional players create a sustainable process that links poor borrowers to sources of capital and financial services, both credit and savings, presumably creating linking social capital (*ibid*).

Indeed, among the limited empirical studies, Kanak and Iguni (2007) conclude from their study of a group-based microfinance program of BRAC¹³ in rural Bangladesh that a microfinance program does not necessarily create effective social capital unless enforced by the MFO. They argue that social capital formation depends largely on well-designed social intermediation strategy and its actual implementation at the community level. In short, social capital is not a natural outcome of microfinance.

According to Eghcomb and Barton (1999), much of its social intermediation outcome (positive or negative) depends on the vision of the program's social intermediation, the way it operates, how it promotes these groups and establishes and enforces ground rules. And this can be largely explained and steered by the choice and balance of microfinance schemes along their financial and social justifications. This is where Mayoux's (2000) three well known and inter-related microfinance paradigms come into play in many microfinance analyses and debates. The following section will discuss the impact of these paradigms on social intermediation processes and their causal relations between these processes and wider social impact, specially relating to the formation of social capital widely assumed by group-based microfinance programs.

¹³ Bangladesh Rural Advancement Committee, an international non-government organization based in Bangladesh.

3.1.3. Wider social impact: inclusive or exclusive?

As above highlighted, most microfinance schemes have emerged to compensate for a particular form of institutional exclusion - a social understanding of poverty, such as the exclusion of the poorer sections of a population from formal financial institutions, and among the very poor from informal financial markets as well (Kabeer and Murthy 1996). The causes of this exclusion and hence the models of financial and social intermediation service delivery vary considerably.

Mayoux's (2000) three inter-related paradigms are broadly used to underpin the financial and social intermediation justifications of microfinance programs. These are Financial Self-Sustainability, Poverty Alleviation, and Empowerment¹⁴ (see Table 2). Within Financial Self-Sustainability paradigm, participation of marginalized people in groups is promoted as a crucial means of strengthening financial sustainability and poverty targeting through drawing on social capital for collective activities (Mayoux 2001). This paradigm plays a big part in the intermediation approaches of MFOs. The Poverty Alleviation paradigm aims for communitarian self-organized development, which is central to the potential of group-based microfinance on poor's capacity to organize themselves and exercise their agency individually and collectively. The Empowerment paradigm argues that women or disadvantaged people need to organize themselves in order to escape their double oppression, in the patriarchal gender order and within the working class (Mayoux 1998, 2000)

Mobilizing pre-existing social capital through group-based microfinance is assumed to have the ability to impact social as well as gender relations. Gender relations refer essentially to the power relations between men and women. They form part of the broader understanding of social relations which is the subject of primary concern to this research.

¹⁴ Empowerment has been much debated and analyzed as a concept itself. Mayoux's original definition of Empowerment entails specifically a feminist perspective. For the purpose of more focused discussions, empowerment is understood here as agency (the ability to define one's goals and act upon them), awareness of gendered power structures, self-esteem and self-confidence (Kabeer 2001).

Table 2: Three Schools of Thought About Micro-Finance

	Financial Sustainability	Poverty Alleviation	Empowerment
Underlying development paradigm (Thomas et al 2001)	Neo-liberal market growth	Poverty alleviation and community development	(Feminist) critique of capitalism
Target group	Entrepreneurial poor	Poorest of the poor	Typically poor women (but here expanded to include marginalized people)
Reason for targeting	Efficiency, high female repayment rate, increasing economic activity of women	High levels of female poverty, women's responsibility for household well-being	Equality, human rights and social justice
Definition of empowerment	Economic, expansion of individual choice and capacity for self-reliance	Community development, well-being and self-sufficiency	Transformation of power relations in society
Role of participation	Consultation and group formation to decrease costs of service delivery and increase commitment and innovation	Development of self-owned and self-managed peoples' organizations for community development	Empowerment to articulate their collective interests and organize for change in social (and gender) relations

Adapted from Box 1. Edward and Olsen 2006

Mayoux (1998) argues that group-based programs are assumed to build or reproduce social capital through developing economic and social networks of marginalized people. This is then assumed to further empower the marginalized through enhancing their ability to increase incomes, negotiate change in the household and participate in collective social and political activities (Sebstad *et al* 1995). Social capital is thus viewed as automatically contributing to financial sustainability, poverty targeting and empowerment (Mayoux 2005). Hulme and Mosley (1996) support the view that the Financial Self-Sustainability and Poverty Alleviation paradigms can be generally conflated as increased economic activity of the poor evidently contributes to increased community well-being. One could also include empowerment paradigm in the conflation by arguing that the economic success of SHMG not only increased members' participation in community development but also transforms their relations in their community and households (Edward and Olsen 2006).

Recent research, however, has questioned the extent to which reliance on pre-existing social capital necessarily enhances financial self-sustainability, empowerment and poverty targeting – here can be understood as proxy indicators of wider social impact.

The financial imperatives for sustainability often lead microfinance programs to only engage the collective in reducing administrative costs and motivating repayment, at the expense of the more time-consuming processes of consciousness-raising and empowerment (Rankin 2001). Some research shows that women, for example, are only used as unpaid debt collectors mediating between development agencies and male family members, increasing their dependency on men and/or conflicts between women to fulfill repayment targets (Goetz and Sen Gupta 1996; Rahman 1999; Mayoux 2001). Others concern about the pressures on groups to exclude the poorest (Hulme and Mosley 1996; Montgomery 1996), challenging the Poverty Alleviation paradigm and risking to increase inequalities within communities and within groups. Indeed, previous development experience revealed unintended outcome of *elite capture* or *elite control* over community-driven development (CDD)¹⁵. Mostly as a result of skipping the empowerment phase, power relations in rural communities were subjected to abuse by better-educated and well-connected elites through promoting perverse mechanism of peer-selection and election of leadership (Esman and Uphoff 1984; Agrawal 1999). Interestingly in the literature of recent years, the concern of *elite capture* or *control* over CDD has taken a different perspective. For example, in analyzing a CDD project in Indonesia, Dasgupta and Beard (2007) discovered that in cases where the project was controlled by elites, benefits continued to be delivered to the poor, and where power was the most evenly distributed, resource allocation to the poor was restricted. This empirical evidence has challenged the discourse on the importance of homogeneity in implementing SHMG models and the possible counter-productiveness of excluding or avoiding local elites or better off community members in participatory development initiatives. The opportunity to strengthen bridging and linking social capital for achieving wider development project deliverables could be missed. As Brinkerhoff and Goldsmith (2000) suggest, participatory processes may also result in policy stalemates and unrealistic expectations on the part of those involved.

Mayoux's (2001:458) empirical study of microfinance programs in Cameroon revealed that the assumption underlying the financial paradigm that social capital can be used by programs without external intervention to build or increase it reflects a narrow understanding of social capital. This understanding focuses mainly on the bonding and

¹⁵ The World Bank and international donor agencies use this term mostly as an approach to development that supports participatory decision making, local capacity building, and community control of resources.

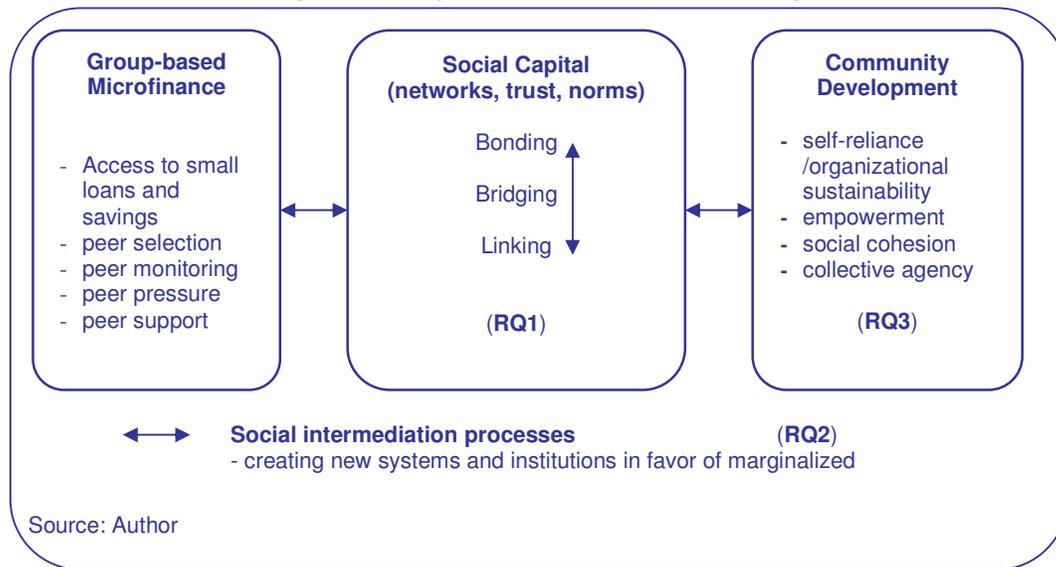
bridging social capital, and ignores the vertical linkages, unequal power relations and the macro-level environment. In this case, reliance on pre-existing social capital as a mechanism for reducing program costs may undermine program aims not only of empowerment but also of financial sustainability and poverty targeting. Mayoux argues that existing microfinance literature rarely discuss how different types of social capital can operate to the disbenefit of disadvantaged and marginalized, especially women (*ibid*). Edward and Olsen (2006) added that the complementarity of interests of individual, community and the marginalized people should not be oversimplified and automatically assumed. In order for social capital to build up for more sustainable social changes and wider communitarian development purposes, Mayoux (2001) argues that microfinance schemes need to address the sophistication of inequalities in resources, power and rights between different segments of the society and between women and men at all levels.

3.2 Analytical framework

Despite ongoing debate about the definition and how it should be measured, social capital or its characteristics seem to surface for any researchers exploring what attributes to the success or failure of microfinance programs (Szabo 1999; Ito 2003), as well as for development agencies such as the World Bank seeking viable solutions through participatory grass-roots development approaches. While letting debates about the concept of social capital continue elsewhere, for the purpose of discussion, this thesis adopts the working definition of social capital as the norms and networks that enable collective action (Woolcock and Narayan 2000: 226). The literature review has so far supported the notion that there is a relationship between group-based microfinance schemes and social capital. It has also affirmed the important role externality or social intermediation processes play in the success or failure in social capital formation.

This study aims to build on the broader understanding of social capital to fill in the gap of empirical studies in explaining how group-based microfinance schemes manipulate and create social capital; and how the sort of norms, networks and associations promoted can influence individuals, especially poor and marginalized, in mobilizing themselves for collective action and broader community development.

Figure 1. Analytical Model for the Case Study



An analytical model (see Figure 1) will be used for the discussion of the empirical data from the case study. The model builds around the concepts of *bonding*, *bridging* and *linking* social capital and the associated dimensions of networks, trust and norms used by the World Bank. Through studying a successful case from a group-based microfinance model, the research will first seek evidence of social capital build up since the formation of the savings group (research question one). Based on this evidence, the research will examine the social intermediation processes and identify the causal relationship between these processes and the social capital formation (research question two). Lastly, the study will explore what implications this social capital build-up and the associated social intermediation processes realistically have on the capacity of the poor and marginalized to organize themselves for wider community-driven development (research question three).

The analytical model will be used to ensure theoretical consistency across both the *what* and the *how* dimension currently lacking in existing social capital literature (Falk and Kilpatrick 1999). The intersection of *what* theory with *how* theory offers a means of triangulating the conceptual, theoretical and analytic integrity (*ibid*). This approach to theoretical consistency has to a large degree informed the choice of a combination of research methods in this case study.

4. METHODOLOGY

The chapter first presents the case study's methodological point of departure, typology and nature of the research in Section 4.1. A discussion of the methods employed in the data collection follows in Section 4.2. The chapter ends with an account of the different measures purposely taken to safeguard the reliability and validity of the data collected.

4.1 Meta-Science Position, Typology and Nature of Research

This research takes on some form of critical theory (Mikkelsen 2005:136) which bridges interpretivism and critical realism (Bryman 2001:502-504) as the study is particularly interested in social capital and how it is manifested and reproduced by the group members for improving their living conditions and to identify power structures within and outside the group in order to counteract inequalities and injustices. The research design has thus both deductive and inductive aims. This point of departure has directed the research strategy, research focus and approaches to data collection and analysis (Bryman 2004).

Qualitative methods are chosen since they are less time-consuming, best understood as data enhancer (Ragin 1994), and can provide better understanding of complex realities and processes for micro-level case studies, giving a voice to society's most vulnerable and marginalized (Mayoux in Desai and Potter 2006:116-117; Bryman 2004).

Measuring social capital is not an easy task as the concept is often vested in entities as trust, community, peer pressure, role models, networks and other social interactions involving subjective processes (Quibria 2003). It is therefore only natural that social capital studies rely on qualitative approaches. This view is confirmed by experience from recent research on social capital (Dudwick *et al* 2006:iv) which point to qualitative and participatory methods as the preferred approach to understand the causes and nuances of relationships and the contexts within which they exist.

As the study aims to unfold contextual conditions pertinent to the use of social capital as a development instrument, case study sets the primary methodological framework for this qualitative research. Creswell (2007:245) explains that, case study,

characterized as in-depth data collection from multiple sources of information, focuses on one issue and provides insight into that issue.

4.2 Methods

Participatory methods and techniques within qualitative approach were used to collect data from multiple dimensions of social capital and power structures at individual, household and community levels. Data was collected between November and December 2008 in two villages, one in Svay Rieng province and the other in Kampong Cham province using semi-structured interviews, observation, group discussions and documents review. A total of 32 semi-structured interviews and three group discussions were conducted with project staff, members and non-members in the two villages. For the purpose of confidentiality, pseudonyms are given to the villages, the savings groups and individual interviewees. (See Appendix II for a complete list of interviews and group discussions). The interviewees from the Rieng Village will be distinguished with an R and from Champ Village with a C. Also an M for group member and H for the husband or household member.

4.2.1 Interviews

Semi-structured interview is chosen because the method encourages respondents to elaborate on their own experiences and allows insights to how different stakeholders of group-based microfinance perceive each other and how they see it impact their living conditions (Kvale 1996:104). Seven key informant interviews were conducted with practitioners from organizations implementing various group-based microfinance models. The interviews were useful in two ways: in testing the perceptions from preliminary literature review of group-based microfinance and in gaining broader and deeper insights to social and economic impact of group-based microfinance in rural areas and in a post-conflict context. The interviews followed an interview guide (see Appendix III) based on the key concepts drawn out of the research questions.

The second round of interviews was conducted in the communities of the two savings groups. Twenty six semi-structured interviews were conducted with 12 group members, 4 family members, 10 non-members) individually to address the sensitivity entailed in the social and gender relational dimensions of the research topic.

4.2.2. Observation

Observation during a study provides valuable information on persistence and change (Mikkelsen, 2005:88). Non-participant observation¹⁶ was used through staying for a short period with the group leader, walking around the village and attending CEDAC's training and women networking activities at the field level. Behaviors, norms and values of the villagers and project officers were observed. The method allowed recording and analyzing everyday situation of individuals, the group and the institution in a natural setting (Dewalt 2002:2) and through their own voice and action (Ragin 1994:44). This provided valuable information on the dynamics of intra- and extra-group relations and CEDAC's institutional messages and services.

4.2.3. Group Discussion

Group discussion method was used considering that women in rural Asia are not used to being asked their opinions from outsiders (Desai and Potter 2006:45). Group discussions can provide retrospective introspection to reflect: 1) on group views, beliefs and reasons for collective action, 2) on sensitive topics, 3) clarification of a range of perceptions and opinions found in the group, 4) from people with low literacy (*ibid*:155). A formal group discussion was conducted with each of the two savings groups following their monthly meeting with a focus on their perceptions of the social and gender changes since they joined the savings group and how they see the social intermediation processes of the microfinance scheme as well as their capacity to address common community problems (Mikkelsen 2007:59). An informal group discussion was held with community members in the village of the critical case as they gathered around research activities.

4.2.4. Documents Review

Microfinance and social intermediation strategies of CEDAC were reviewed as documented in their project reports and documents and compared those to actual implementation approaches on the ground. Savings and borrowing records of group members were also reviewed to triangulate findings of the in-depth interviews and group discussions.

¹⁶ Non-participant, or direct, observation is where data are collected by the researcher without taking an active part in the situation under scrutiny. (Marshall 1998)

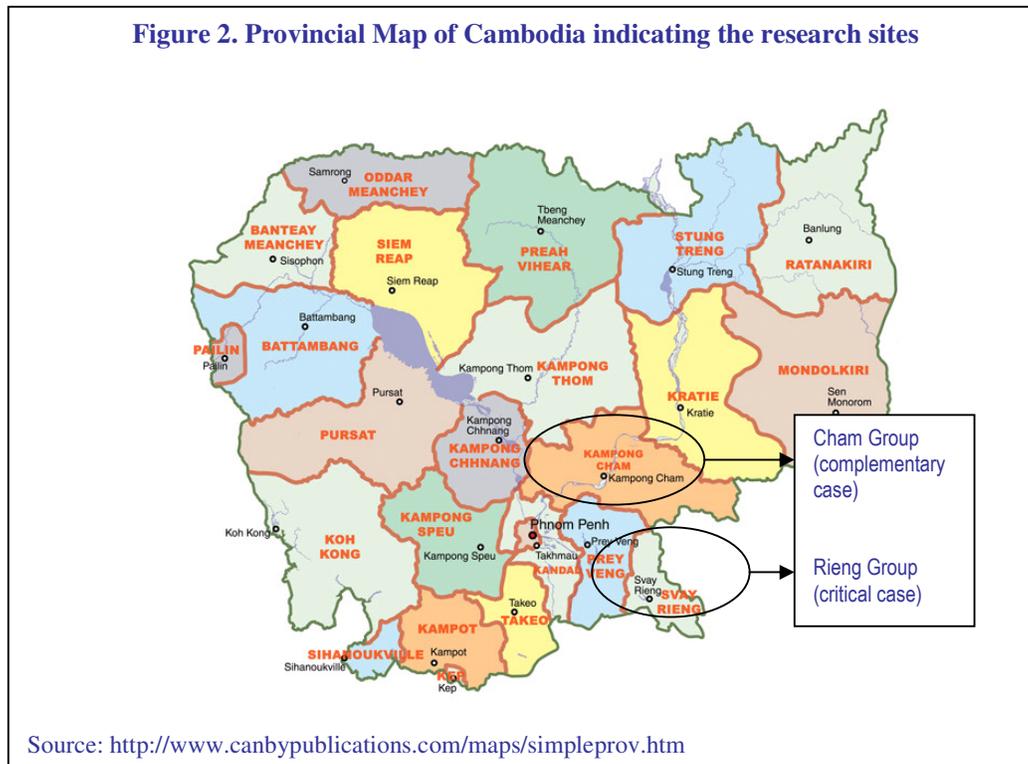
4.3 Selection of the Cases

The unit of analysis in this research is savings group. As case study approach focuses on the context of both the case and unit of analysis (Yin 2003:24), identifying one or two suitable savings group, representative of the Cambodian context and a group-based microfinance model as well as relevant to the research questions, were prioritized from the onset. Performance ranking (groups with relative different performance) and wealth ranking (groups with relative different income or social indicators) were used to identify groups with MFI. Ideally, the savings groups should be in rural areas with socio-economically diverse settings within and outside the group, established for 5-10 years, and supported by an NGO with poor targeting objective. Five savings groups¹⁷ were identified through several NGOs and visited during their monthly meetings in three different provinces.

The initial selection criteria were proven a challenge. First, most of the NGO's microfinance projects centered Khmer-dominated areas and they were only slowly emerging in ethnic minority areas (Informant 2, 4). Secondly, most of the groups were established for less than five years. With the selection criteria adjusted to these realities, two savings groups supported by CEDAC were selected for the case study to show different perspective of the same issue (Creswell 2007:62). They are in two of the country's poorest and most populated provinces - Svay Rieng and Kampong Cham (see Figure 2 for the map of the research sites). Both the groups have been established since 2004. The Rieng group in Svay Rieng, which will be the critical case of the research, was characterized by CEDAC staff as *successful* whereas the Cham Group in Kampong Cham, considered *poorly performed*, will be used to complement the analysis.

¹⁷ Supported by three different NGOs (Pact, CEDAC and Farmers Credit Union)

Figure 2. Provincial Map of Cambodia indicating the research sites



Stratified or purposive sampling was used to ensure interviews include diverse characteristics (age, education, gender, economic and marital status) of group members, family members and community members to allow different perspectives for the research question and to avoid reaching prematurely saturation point (Ragin 1994:84-85). The sampling was supported by a social mapping (Mikkelsen 2005:194) developed with the village chief.

4.4 Reliability and Validity

A number of measures have been taken to attain the quality standards of reliability and validity (Kvale 1996). These included expert opinion to confirm the validity of the research topic, justified methodological choices, and a combination of qualitative methods and sources to triangulate data collected. Stratified sampling of individual interviewees from different segments of the group and community members was used to take account of representative and diverse perspectives. This sampling method can also prevent premature saturation of information. The translator was well briefed to ensure the full account of what was said by respondents. Moreover, pre-translated interview questions into Khmer, audio-recording of formal interviews and end-day

discussion with the interpreter of field notes allowed cross-referencing for accuracy. (Desai and Potter 2006:ch18).

The methodological discussions in this chapter can be summarized by the following table (Table 3). The table illustrates how different methods have been selected and employed to explore the three research questions within the analytical framework presented in Figure 1.

Table 3. Overview of the employment of Research Methods

Research questions	Focus	Sources	Methods
1. How have social relations within and outside the group changed since the formation of the savings group?	Bonding, bridging and linking social capital: before and after MF	Project staff Group leadership & members Non-members Husbands/family members	Semi-structured interviews Observation Group discussions Documents review
2. How does the project's social intermediation processes result in these changes?	MF paradigms: the sort of norms, networks and trust pursued	Project staff Group leadership & members Non-members	Semi-structured interviews Observation Group discussions Documents review
3. What implications do the outcomes of these social intermediation processes have for the capacity of the poor and disadvantaged to organize for wider community development?	Outlook: fostering social capital for development from below	Project staff Group leadership & members Non-members	Key informant interviews Semi-structured interviews Observation Group discussions Documents review

Source: Author

5. CASE STUDY

This chapter is divided into two parts. Section 5.1 gives a general description of CEDAC's Saving for Self-Reliance Project and the two selected cases. Section 5.2 presents the findings and analyses of the collected empirical data.

5.1 General Description of the Project and the Cases

5.1.1 CEDAC Saving for Self-Reliance Project

CEDAC was set up in August 1997 as a national NGO, to promote family-based ecological agriculture and participatory rural development in Cambodia as the country

moved towards national reconstruction. Originally, CEDAC's development activities focused on improving the living conditions of small farmers through the development and dissemination of technical innovations in ecological agriculture. However, CEDAC realized that technical innovations alone were not enough and that farmers could benefit from accessing financial services, such as savings and credit, to help them diversify their livelihood activities. Hence, they started organizing their farmers' groups into savings groups. (CEDAC 2007) In April 2005, CEDAC was interested in improving its work with savings groups by adopting Oxfam America's training curriculum and accessing their technical support. Before that, CEDAC was already working with approximately 700 savings groups with 9,500 members. A new methodology not wholly consistent with the initial savings group principles was promoted to form new groups and to retain existing ones. The new approach, under the project called Saving for Self Reliance (SfR) Project¹⁸, focused on: a simplified and transparent record keeping system; a participatory approach to building group rules; and a clearly delineated set of roles and responsibilities for members and management committee (Parmeshwar and Koma 2009) Further facts and figures of the project can be found in Appendix IV.

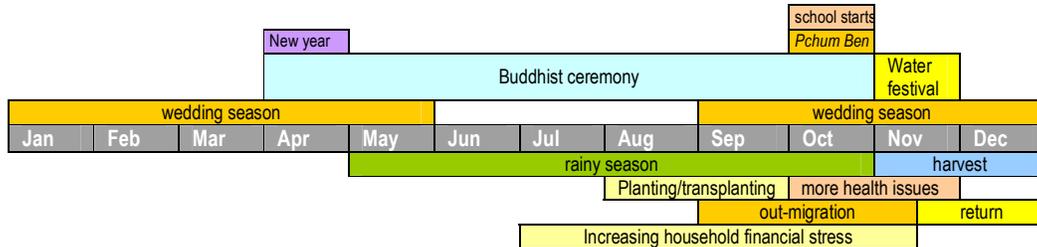
5.1.2. *The two cases*

The Rieng Group, which forms the basis of the case study here, was formed in 2004 in a village called Rieng in Svay Rieng province which borders Vietnam in southeastern part of the country. The village is about 122 to 187 km away from the capital city of Phnom Penh. A total of 155 households (nearly 600 people) live in mud-and-thatch houses spread across three divisions of the village. The village is representative of many farming villages in the country. As in most part of Cambodia, the village is connected to the administrative structure of the province through the village chief who was politically appointed and has been in his role since 1979 (Davenport *et al* 1995). The provincial town is about 40 km away. Government services in the village are limited except for a health centre and two primary schools. Majority of the households are impoverished small-land holders. Short-duration rice crops are grown for both subsistence and market. But rice diseases are common, resulting in food deficits in past years. About 30% of the households are landless and have no livestock. An average

¹⁸ Oxfam America calls the project Saving for Change in Cambodia.

adult villager has completed primary schooling. As part of livelihood strategies between the planting and harvest seasons, villagers may seek wage work from other farmers while others work in garment factories (mostly women) near the town. The better-connected would seek work at construction sites or run small businesses in Phnom Penh (Informant 6, 8R; observation). A typical seasonal calendar and critical events of the village is illustrated in Figure 3:

Figure 3. Seasonal calendar and major events in Rieng Village



Note: *Pchum Ben* is a Cambodian festival to pay tribute to ancestors and family members who have passed away.

Source: Author

Only a fraction of the households have electricity or sanitation facilities. Villagers collect dry wood for cooking and use water from communal wells or hand pumps built by local NGOs for drinking, cooking and washing. Road access into and out of the village often becomes difficult during the rainy season. Mobile village vendors provide villagers with vegetables and other basic supplies from town. As in other villages in Cambodia, Rieng Village was devastated socially and economically during the Khmer Regime. Villagers were forced out of the village to cultivate farmlands in other parts of the country. Following the fall of the regime, those who survived have returned to the village and started rebuilding their houses, farms and livelihoods (Informant 8R, 12RM; observation).

The Rieng Group was established in 2004 following a village meeting organized by CEDAC introducing the concept of community savings group and encouraging women in the village to form a savings group. The group has 12 women members (between the age of 23 and 51) with one moved out of the village. The members of Rieng Group are rather homogenous: born in the village, farmers, poor and mostly uneducated except for those in leadership roles (Informant 9RM; group record).

The complementary case, Cham Group in Kampong Cham province, was established in February 2004. The group and the village share many similar socio-economic characteristics to those of Rieng Group. However, the Cham village is generally poorer. Few households have land, vehicles, access to clean water and none has access to electricity. The group currently consists of 6 members including one man. Four members have dropped out. Although some members have had some form of education previously, the group leader is the only one in the group who can read and write. (Informant 7, 24C, 25CM; group record; observation)

Both groups hold monthly meetings during which members contribute their savings, request for loans and discuss other common issues. During the first year of group formation, the groups received support from CEDAC project staff in terms of capacity building with regards to group organization and management (Informant 6, 7). Table 4 below illustrates the basic facts and figures of the two groups.

Table 4. Basic facts and figures about the two cases

	Rieng Group	Cham Group
Province	Svay Rieng	Kampong Cham
Year Established	Nov 2004	Feb 2004
No of members	12 (all female)	6 (5 female and 1 male)
Age range	23-66	20-44
Living conditions[#]	Low – High	Low-Medium
Education	3 literate	1 literate
Savings/month	1,000 riel up	1,000 riel
Interest rate on loan	3% member /10% non-member	3%
Loan clients	Member and non-member	Members only

[#] as perceived by the members themselves

Source: Author

5.2 Changes to social relations

This section aims to answer the first research question: *How have social (and gender) relations within and outside the group changed since the formation of the savings groups?*

The interviews with the respondents, discussions and observations in the village of Rieng Group have shown that despite the socio-economic drawback, there existed informal norms, networks and other social interactions in the village even well before the formation of the Rieng Group. There was strong bonding and bridging social

capital. It was not uncommon to see villagers gathering around the same division discussing agricultural matters, chatting away a slow afternoon, sharing food or a popular TV program at a neighbour's house connected with electricity.

“Villagers are supportive of each other. If I'm busy in the field, the older women in the neighboring house can take care of my children and if we don't have enough food during the lean season, others always offer help” (Informant 16R).

It has always been a norm for villagers to attend village planning and monthly meetings and assist each other during festivals and ceremonial events such as weddings and funerals. There have also been collective actions to develop or safeguard the village:

“There were some land disputes in the past but relations between villagers are generally collaborative. Some years ago, with some financial support from a local NGO, villagers also built a new road together, improved irrigation system and in some sections of the village where roads are frequently flooded during the rainy season, there are also collective efforts to repair them” (Informant 8R).

“Around five years ago when the harvest crops were stolen from several households during the night, male villagers organized themselves and established routine foot patrols at night. Since then, there has not been any security incident in the village” (Informant 12RM).

As defined earlier, bonding social capital is the connections between people with similar demographic characteristics and bridging social capital is the extension of the connections. The majority of 155 households in Rieng Village live in mud-and-thatch houses across the three divisions of the village. The villagers are ethnically and culturally Khmer. Most of the households are impoverished small-land holders, with limited assets and livestock. Many of them were also born in the village. And those belong to the same kinship often live in the same division of the village and have stronger bond in their daily social interaction. This socio-economic homogeneity and familiarity about each other are apparent factors behind the strong bonding social capital in the village.

The formation of the Rieng Group has had positive impact on both the horizontal and vertical networks, not only among members but also between members and non-members. For example, before the formation of the group, except for those who are relatives, immediate neighbours or sharing similar social status, members only knew

each other by name. Now members know each other better as the monthly meetings allow them to meet often and discuss livelihood issues. Bonding and bridging social capital is thus strengthened as the group brings together members from various divisions of the village and from different socio-economic status with liked interest to save and to borrow among themselves.

“I knew all the members only by name before. But because I live in wood-and-tin house, many members feel inferior to talk or visit me. Now they come often to my house. I also didn’t know anyone in the neighboring village before but now I have to visit every month other villages across the province to share my experiences with other savings groups” (Informant 12RM).

“I’m one of poorest households in this village with no education and no other relatives in the village. If it is not because of the savings group, I would not have been able to get any loan at all. Although I can’t save much or afford to apply the new skills, I want to continue joining the group even just for moral support. It is good to know that you are not alone and someone is there to listen to you” (Informant 10RM).

For non-members, respondents also expressed improved relations with the group members and their relatives. They can now approach the savings group for loan if there is money left after members get their loans. Before this, villagers saved their money at home or turn to their relatives or those who are better off in the village to borrow money in times of need. “Often this is our last resort and as we generally are all poor, the request for loans to relatives or neighbors can come at a difficult time for them too. It is easier to borrow from the group” (Informant 15R). Although low-interest loan is available from the nearest ACLEDA¹⁹ bank, many respondents claim that they do not trust banks and the transaction costs are too high due to time, travel costs and paperwork needed to access the loan. Villagers rather pay 10% interest rate for private loans in the village or get loan from the group at the same rate (Informant 8R, 11R, 15R). Some non-member respondents (Informant 15R, 16R, 21RMH) mentioned that they have also learnt new skills from members to improve agricultural output, vegetable growing and address domestic violence. The general results of being able to reduce expenses from home-grown vegetables, accumulate savings and transfer new skills to others has seemingly created more bridging social capital in the village. This has also implications on gender relations.

¹⁹ Association of Cambodian Local Economic Development Agencies, a local NGO in Cambodia.

Gender relation is an important aspect of social relations in a patriarchal and hierarchical society. In Cambodia, traditional codes of behavior are more elaborate and stricter for women than men. While women have less access than men to political or economic status, women are traditionally responsible for family expenditures and savings (Ledgerwood 1996). It is widely believed that women's virtuous behavior will bring financial success to the family, resulting in some contradictions. While a woman is expected to be shy, understanding and not to go out alone, a woman is also expected to contribute to family income by engaging in business, which requires going out, taking initiatives and being able to bargain (Klaassen 1995). When asked if much has changed in gender relations at household and community levels after the formation of the Rieng Group, views of the respondents were divided. For most of the group members, they made the decision to join the group after discussion with their husbands, many of whom were rather skeptical in the beginning about putting money into others hand (Informant 12RM, 13RM, 17RM). Most members were skeptical themselves but submitted to the encouragement and trust they have in the group leader who is a well respected figure in the village and cousin to the village chief. Respondents generally feel the participation has given them more financial security and skills to improve their household situation (Informant 9RM, 12RM, 13RM, 18RM, 20RM). For the committee members, the participation has increased their social confidence (more NGOs are consulting them before starting a new project in the village) and reaffirmed their decision-making power and control over resources at household and community level (Informant 9RM, 12RM).

“Before my husband was not supportive of me joining the group. Other male relatives also spoke behind me as I often had to travel out of the village to attend project training and meetings. Although my husband never believes them, he now sees that the skills I brought back are helping the family produce more and save more money. Other relatives have stopped talking against me. I now receive more support from my husband. He shares household responsibilities while I'm busy doing the group's work” (Informant 9RM)

“I don't agree with the old Khmer saying that *women cannot even walk around the cooking stove* or men should not help out in the kitchen. If my wife is capable, she can do anything she wants” (Informant 23RMH)

The group secretary and her husband expressed similar view in that she is now more confident and have more support from the husband to take on group management

responsibility and frequent travel for inter-village training and meetings (Informant 12RM, 22RMH).

The two group leaders are seen by many respondents in the village as role models for other women in the village. They can read and write, have good ideas and contributed a lot to their households and the village. Some years ago, using their newly gained collective power, they successfully initiated to turn a private pond owned by three villagers into a communal pond for fish farming, earning them respect from other villagers and enhancing solidarity and cohesion in the village.

Male respondents view women's networks differently now. "Before, women only gather to gossip. Now they seem to be engaged in more productive activities" (Informant 21RMH, 22RMH). While respondents (especially male villagers) generally indicated support for equal education opportunities for their sons and daughters (Informant 9RM, 13RM, 21RMH, 23RMH), female respondents including group members (many of whom have never left their village), agree to the traditional gender roles and that women should stay at home (Informant 17RM, 18RM, 20RM).

In Cambodia, domestic violence against women is widespread at the village level and women rarely seek legal recourse (ADB 2001). In Rieng Village, it tops the list of complaints in the village brought to the village chief even though the number of incidents has dropped (Informant 8R). Domestic violence is one of the issues Rieng Group discussed at their monthly group meeting and also among men and women in the village at village meetings or at the Women's Network meeting organized by CEDAC. Although the group alone cannot take credit for the improved situation, women in the village said they were more aware of their right and others are more proactive to report domestic violence to the police (Informant 9RM, 12RM, 13RM).

"My husband used to beat me when he needed more money. Although he still does that when he's drunk, I've learnt how to handle his aggression. I actually reported him to the police last time. I did not dare to do that before" (Informant 13RM).

Evidently the formation of the savings group has contributed beyond the financial benefits to strengthened social bonds and bridges in the village among the group

members and between members and non-members. The group has helped create some form of linking social capital with other organizations and the local authority. Indeed, the peer group development has compensated for the conventional collateral requirements among poor villagers seeking microfinance loans. The interaction within the group at and beyond their group meetings have created a greater sense of community, trust and reliance to cope with stressful times, discuss household problems, share social practices and market information. The network has gradually changed perceptions of gender roles and established more social bridges and linkages in and outside the village as well as with other organizations. While the largely homogenous socio-economic status of villagers and existing familiarity about each other in the village can explain the high performance of the group, this cannot be taken for granted.

Capable and well-respected leadership matters. In this case, despite being related to the village chief and having relatives in the group membership, other members do not see that affecting their trust in the group leader as she emphasizes on compliance with group rules (see Appendix V for Rieng Group's rules) and openness of the membership to everyone. The fact that the group membership is voluntary and open to everyone in the village, the higher interest rates for non-members are the incentives for the latest three former loan clients to join the membership. When asked why they remain hesitant to join the group, other villagers said they want to have better control of their own money, no time to join group meetings, cannot afford to save 1,000 Riel a month, and they do not see how their lives can be changed by joining the group.

The supplementary case in Kampong Cham supports the argument that the pre-existing barriers to human, financial and social capital limit the potential of the savings group to reproduce social capital. The amount of group savings, frequency of loan disbursement and thus the total amount of group funds remain stagnant since the formation for the group (group record). The poor performance of the group is demotivating both existing members to actively participate in the group and non-members to consider participation.

In short, the findings from the case study have confirmed that collective activities through group-based microfinance have very high potential to reproduce social bonds and bridges among rural poor and disadvantaged. While the creation of social capital

might not be the primary or explicit goal of group-based microfinance schemes, in the process of mobilizing social networks of mostly poor women to save and lend money and share information with each other, the project has led to positive changes in the lives of the members, as well as those of non-members and in the relations between men and women. This is particularly evident in the case of Rieng Group where solidarity and trust and family support for participation are strong. In the second group where existing social relations and the level of human capital endowment are weak, signs of changes to social relations have been rather limited.

5.3 Social intermediation

The previous section has evidenced the social capital building characteristics of group-based microfinance. With already the strong presence of positive social capital in Rieng Village, how much can we attribute this finding to the social intermediation processes promoted by microfinance schemes? This section attempts to answer the second research question: *How does social intermediation used by the group-based microfinance scheme contribute to these changes?*

Earlier in the paper, the importance of *externality* as a critical factor in developing positive interactions to feed the common good was discussed. Many well-established group-based microfinance schemes combine in one way or another group-based organization and skills training with intermediation of financial services. CEDAC's Savings for Self-Reliance project incorporates all these elements and underpins the three microfinance paradigms of financial self-sustainability, poverty targeting and empowerment. The project has the following purposes:

Table 5. The main purposes of CEDAC's Saving for Self-Reliance Project

- Mobilizing savings from group members, and making these funds available for the provision of loans to group members;
- Providing the group members (the savers) with an additional source of income from interest on their earnings;
- Providing opportunities to group members to learn from each other, especially, about farming and other related enterprises;
- Developing a culture of solidarity and mutual help among members and non-members; and
- Building mechanisms for collective action in community development practice.

Source: CEDAC 2007

The project concept is based on building the capacity of the rural poor community (poverty targeting) by using *development from below* approach (empowerment), encouraging the community to learn and work together to mobilize and effectively use local resources and potentials without, or with minimal reliance on the public sectors, NGOs, or private sectors (financial self-sustainability). The project generally selects villages with few NGO activities (to avoid duplication), individual lending microfinance schemes (to reduce their dependence), and with strong farming practice especially where CEDAC has previously provided agricultural training (to build on established trust and confidence to ensure social acceptance).

The project first orients the group formation process with interested residents following a meeting with all villagers to ensure inclusiveness, a three-month intensive training and two-year support. The basic principles of the SfR groups are that groups are formed, controlled, owned and sustained by its members. The group determines their own regulations on saving, lending and meetings (for example, the minimum saving at the start of the group or monthly saving, and the minimum attendance by group members at group meetings in a year, etc). External entities may only assist groups in terms of awareness-raising, capacity-building with limited management support and advice. For sustainability purpose, no extra financial subsidies are provided to the groups, except for the initial support to cover the cost of training, workshops and exchange visits. According to Berenbach and Guzman (1992), this self-selection-and-screening feature is the impetus for successful SHMGs as it promotes ownership which is a key element in the group's sustainability.

The project seeks to promote open, non-discriminative, and voluntary membership of the savings group to all resident villagers. The project focuses on poor targeting and gender equality instead of female targeting although nearly 60% of its members are women (CEDAC 2007). There was an issue of the initial lack of outreach as the program was built on CEDAC's previous agricultural intervention and by definition, the landless poor were left out as only the farmers' groups were targeted. Those who migrate outside the villages for work were also excluded. CEDAC tried to address this issue by forming groups composed of the poorest people in communities. (Parmeshwar and Koma 2009) Its intent of creating relatively homogenous groups in terms of socio-economic status though not explicit remains prevalent.

It is assumed, however, that just as all other group-based microfinance methodologies, each member will ensure group homogeneity to reduce default risk and to allow the group to function with some degree of confidence. In fact, what may appear homogenous to outsiders can be significantly different at the local level and easily observed by the villagers themselves. In the case of *better performed* Rieng Group, this open, non-discriminative membership approach has helped harness both bonding and bridging social capital. The socio-economic differences between members, as they have perceived, are wider than among the members of the *poorly performed* Cham Group (see Table 4). Members in the Cham Group are all from the lowest income quartile and live in the same division of the village. Only bonding social capital appear to have been promoted for the Cham Group as the project targets only the poorest (Informant 25CM). This approach proved unrealistic for financial sustainability, poverty targeting or empowerment paradigms. The rate of dissolution of these groups was much higher than the organizational average. Parmeshwar and Koma 2009 argue that the poorest tend to be the most vulnerable in terms of their livelihood options, and putting all of them together does not decrease their vulnerability. Groups should have internal socio-economic diversity as in Rieng Group, so that the less vulnerable can support the more vulnerable to increase their average resilience to livelihoods shocks (*ibid*). Mosley (1996) offers evidence from Banco Sol in Bolivia that better-off members will exercise solidarity with poorer members in heterogeneous groups, affirming again homogeneity of groups may not always be a necessary element in effective social intermediation.

While the project emphasizes group ownership, the Cham group leader and group members have perceived otherwise and have only allowed villagers from the same poverty level to join the group. This has created a dilemma for the group's development given their small size (six members) and limited loan fund for sufficient production purpose. Bridging social capital with other divisions of the village could have been promoted with further project support.

The project seeks to establish a network and norm that allows group management and the peer mechanism to function effectively, by recommending a group size of between 7 and 25. In practice, the impact of group size on the success of savings and credit

groups is unclear (Abbint *et al* 2006). From the project's perspective, larger groups certainly imply more outreach and higher cost effectiveness. There also exists the insurance effect of larger groups against repayment defaults. A smaller group can make closer personal relationships and allow frequent contact among members while a larger group can be more efficient for conducting savings/credit transactions, and creating a sense of common identify among members (Hashemi and Schuler 1997). Buckley (1996) however empirically finds that groups of 10 or more members still can work effectively. The effect of group size on the creation of social capital is not clear in the case of the two savings groups as both are well within the proposed limit and want to attract more members to expand the group funds for bigger loans.

The project recommends that each member participates in regular group meetings. Gibbons and Kasim (1994) report that Grameen's experimentation with one-time instead of weekly repayment failed to obtain high repayment performance. Regular meetings and repayment presumably avoid free-riding and contribute to repeated and sustained communication specially important for illiterate members, continued mutual monitoring and personal relationships (van Bastelaer 2000), reinforcing the social capital build-up.

Like other revolving funds, the project recommends members to save what they can and lend their saving at low interest²⁰ to the members of the group. This has the effect of transforming *beneficiaries* into *clients* through developing and enforcing contracts between lender and borrower, and through the support for ownership and control over resources by the poorest (Eghcomb and Barton 1999), promoting empowerment and collective agency. As the interest builds up in the group fund, the groups can also introduce other financial contribution systems, depending on the group's needs. Some groups, including the Rieng Group, have introduced a small institutional fee (around 100-200 Riels) to cover operating expenses for the start-up of the group. This fee may no longer be needed once the group starts to generate income from loan interest. Some saving groups have also introduced mutual help or solidarity funds of similar amount or voluntary contribution from members to cover unexpected, emerging needs of the

²⁰ The interest rate in the saving group is varied from 2-4% per month while the interest rate of money lenders is 10-20% per month. The average interest rate of the MFI is 3.5%, but borrowing is complicated and involves long procedure. Mostly, the poor reported that they have difficulties to access finance.

members, such as serious health problems. In the case of Cham Group, group members even contribute funds to establish a village store as a means to generate collective income with, however, the group leader taking the sole responsibility of managing the store. Although it is naturally easier to do one thing well, the project has been able to respond to diverse *client* needs. As Huppi and Feder (1990) have noted, groups may have a better incentive to repay if other social services are combined with savings or credit to enhance group accountability and solidarity.

Poverty is not just economical. It is multi-dimensional. Not all poor people are ready or have the capacity to establish and maintain a reciprocal contractual relationship around the financial transactions without first receiving some form of capacity-building assistance (Bennett 1996). The project facilitates the group to put in place a participatory management structure, by-laws and regulations. According to Hashemi and Schuler (1994), it is critical to ensure that administrative procedures and bookkeeping systems developed for group management are simple, transparent and within the reach of minimally educated group members. There should also be sufficient controls to ensure that group leaders are accountable to the membership, and that all members are aware of the status of all loan payments, group funds and individual savings. In the two cases of the study, the project has provided record-keeping guidance to ensure that the groups conduct and record financial transactions and meeting attendance; and that this information is publicly shared with group members at the regular group meetings to minimize corruption and suspicion.

Building these management and accountability systems is seen as a critical vehicle through which the poor enhances their capabilities while groups build assets and autonomy (Eghcomb and Barton 1999). The reality is far from simple. Bennett (1996) has introduced *participation continuum* in which group members can play the role of *beneficiaries, clients, investors/shareholders* and *managers* according to the level of risk members are willing to take. In both cases of Rieng Group and Cham Group, it has shown that the poorer the *client* and the lower his/her human capital endowment, the less likely will she/he accept the risk, take loans or devote the time required in group activities. Interviews with the respondents illustrate their varying roles along this continuum. Contrast to the rules and systems that the Rieng Group has proudly adjusted to their situations, the Cham Group has almost accepted entirely the recommendations

from CEDAC project staff. The strong dependence on the leadership for the group's development also shows that financial self-sustainability is almost not possible where group members remain in the passive *beneficiary* instead of active *client* role, as Bennett (1996) has noted. In the case of Cham Group, the patron-client (bridging and linking social capital) style of dependence on CEDAC's project staff for establishing group rules and regulations appears to be undermining the group's asset building, autonomy and empowerment processes.

Generally, the project also recommends that the net income should be allocated to members at the end of the year for collective purposes (e.g. annual party, annual exposure trips to other villages, contributions to community development etc) and to the reserve funds of the group. Both Rieng Group and Cham Group have not been able to do so claiming that the accumulated fund remains small. They will consider it when more new members have joined the group and the volume of group income has increased. The project also recommends that sufficient time is allocated for the group to share information and experiences at each meeting (in farming and other business activities) as well as to discuss other collective actions than saving and credit. Other experienced people could also be invited to attend the meeting and share their good practices in farming and other income-generating activities. For the Rieng Group, the contribution to community development is not just financial. Using the collective identity, the group has successfully initiated the conversion of a privately owned pond in the village into one for communal fish-farming purpose (Informant 9RM, 12RM). The members have learnt to share certain implicit and explicit group values and using the foundation of social norms and mutual trust to achieve common purposes under certain circumstances. Observations reveal that group members do not often share knowledge resources as recommended for groups' monthly meeting. Discussions were limited to financial transactions especially during busy planting seasons. The strengthened social bonds and bridges among members and with community members mean that learning is rather fostered in informal settings.

The project also encourages the savings groups within the village and between villages to form networks, associations or unions. CEDAC assists to ensure that such cooperation does not lead to *elite capture* or *control*. The intra-village cooperation is the formation of a village-based saving groups committee from networks or unions of

groups within the same village. The committee should elect one competent member to be Village-based Saving Groups Animator (VSA). The committee determines the mandate and the role and responsibilities of the VSA. Similarly, all saving groups from one village are supported to cooperate with other neighboring villages. All VSAs will form a working committee at the inter-village or commune level. The VSA will elect the most competent and committed VSA to be the Inter-village saving group animator (ISA) or the Commune-based saving groups animator (CSA). Although this intra and inter-village structure is still at early stage, the project envisions that this will have significant effect in building institutional social links as this local network could promote collective action for mutual learning, sharing and empowerment among villagers and villages. (CEDAC 2008) In the Rieng Group, the group secretary herself is a VSA and is often engaged in inter-village experience sharing and lessons learnt activities, bringing new knowledge resources and bring linking social networks to the group and the village.

CEDAC believes that in the long-run, if well administered and developed by the community, the local network could have the potential to be developed or merged into formal local savings and credit cooperatives and even beyond the commune or inter-village level to district, provincial or national savings and credit unions linked with other saving networks. (CEDAC 2008) This is expected to be able to scale up financial self-sustainability, poverty targeting and empowerment deliverables. The project is focusing on strengthening linking social capital through increasing engagement with local government entities.

In analyzing the CEDAC's project strategies, the study has also revealed that the formation of social capital is not a natural outcome of group-based microfinance. Peer mechanism alone cannot guarantee inclusion of the poorest or poorer members of the community. Well-designed social intermediation strategies play a pivotal role in the creation of positive social capital and effective transformation of *beneficiaries* to *clients*. From initiating group formation, encouraging non-discriminative membership selection, setting group size limits, building skills to ensure accountable and participatory group management practices, and linking intra- and inter-village level networks and norms, CEDAC's social intermediation measures have been designed towards full ownership and sustainability. The case study has shown that social

intermediation processes are necessary to ensure poor targeting. It also shows that homogeneity of the group may not be the necessary element in social capital formation. Using a group of members from different social strata as a platform to share farming techniques, health and family issues has the effect of enhancing linking social capital with local leadership structures, police, the health sector and other NGOs. The thesis has also reviewed that the downside of social capital needs to be tackled, particularly in promoting bonds among only poorest people and patron-client relationship between project staff and the group.

5.4 Organizational capacity for community development

As the previous section explains, a strong argument for social intermediation strategies is that they have the potential of not only creating mechanisms for financial intermediation, but also empowering the more disenfranchised citizens by establishing local institutions that is inclusive, can serve local needs, harness local control and contribute to wider economic and social development of the community. CEDAC's SfR project explicitly aims to build mechanisms for collective action in community development practice. This section is to explore: *What implications do the outcomes of these social intermediation processes have for the capacity of the poor and disadvantaged to organize for wider community development?*

Two critical principles are embedded in any community-driven development (CDD) projects, that is, community-level participation and accountability arrangements. These two principles can help to ensure that the benefits of development flow to the community as a whole and more specifically to the poor (UNCDF 1999). The case study of the Rieng Group has shown that a poor community can generate strong bonding and bridging social capital among themselves with external support and carry out collective actions successfully beyond the benefits of loans and savings in the village. The orientation meeting with all villagers ensures the access to the information of the project is not limited to village elites, and that the membership is open to the poor and disadvantaged. In the presence of *endogenous community imperfections*, as Platteau and Abraham (2002) call it, households whose members are more involved in community activities (better social capital) and have more family support (for women) are more likely to influence the group formation and take on active role in decision-

making. The group leader and secretary of Rieng Group are both better educated and in the upper poor, with the former being niece to the village chief and active in village affairs. The participation of socio-economically heterogeneous members reveals a promising prospect for a sustainable and inclusive community development.

To avoid *elite capture*, project procedures put strong emphasis on broad participation of members in decision making, democratic leadership selection to the group committee that manage the group funds, and transparency of financial transactions to help avoid corruption or fraud. The Rieng Group has evidently taken full ownership of its management and regulations by not simply adopting what CEDAC has recommended. There is a general sense of identity and empowerment among the group members. Not only are there economic benefits to improve living conditions, democratic and participatory management practices have encouraged usually passive members to speak for their right and interest. “We would not have made the group working without our leader or as individuals.” (FGD 1R, 3C)

In addition, the group has accumulated significant funds to give them a stronger status and negotiation power on village matters. The skills training, contingency fund, regular cooperation and information sharing among members have created a strong sense of belonging to a community, solidarity and trust in time of crisis. The success of the group has also slowly influenced the landscape of gender relations in the village. Not only has the group broadened its social bridges with other villagers by offering them loan access and sharing their agricultural skills, the entire village has benefited from their collective action of initiating a communal pond for fish-farming or setting up a store to ease villagers from traveling afar for household supplies. The groups have also become the first point of consultation for other NGO projects in the village.

In fact in the case of Rieng Group, what appears critical is not the *elite capture* but how the elite themselves behave in favor or against the poor or disadvantaged (Mansuri and Rao 2004). The democratic election has resulted in better motivated individual being selected. When asked why spent so much time and energy on the group management, the group leader said, “I want to bring more development to the village and help the poorest and disadvantaged women. I like to learn new things. To ensure the poorer ones benefit, I never take loans myself so others have better chances to access loans in the

group.” (Informant 9RM) “There is still a lot to do to convince other villagers to join the group. When we have more funds in the group, we could loosen the minimum monthly savings and allow poorer members to join,” (Informant 12RM). The heterogeneity in this local context enhances social bonds, bridges and links.

The Rieng Group members also actively participate in another women’s network facilitated by CEDAC which focuses on health education, family planning, women’s rights and domestic violence. The group leader takes an active role in this network and her house has become the meeting centre for both the monthly group meetings and women network meetings. Most of the participants in the network meeting are also Rieng Group members.

Indeed, as Eghcom and Barton (1999) have noted, social intermediation seems to promise the removal of physical, economic and social barriers for the poor and disadvantaged. The downside of social capital, however, cannot be undermined. The minimum amount of monthly savings and distrust in the group continues to hold back poorest or migrant households from joining the groups (Informant 11R, 15R). In Cham Village, as the socio-economic homogeneity of the group (all categorized as poorest households) appears to have limited the group in creating extended horizontal (bridging) and vertical social networks (linking) outside the group. While the membership is only limited to poorest households, the group rules require that any new member has to contribute first the same level of savings as accumulated by older members. When asked if this membership requirement limits group development, the group leader said, “I don’t know. We just follow the advice from CEDAC project staff.” (Informant 25CM)

From focus group discussions and individual interviews, both groups’ members expressed satisfaction with the groups’ leadership, rules and regulations. When asked how the group can develop further, most respondents said they wanted the loan funds to grow but pointed to the responsibility of the group leadership to expand the membership (FGD 1R, 2C). While all shared the financial and social benefits of joining the group, mainly the leadership of Rieng Group expressed a strong sense of empowerment after joining the group and envisioned a role of the group in broader community development when the group’s loan fund grows. Given the short time

horizon of the two groups, it is not surprising to see that most group members remain focused on pursuing individual economic gain before the development of common goods for other poorer and disadvantaged villagers. The belief in *collective agency* as the main force to improve the village conditions was felt among respondents in Rieng Village (FGD 1R, 2R) whereas respondents in Cham Village generally pointed to the initiation of the authorities and NGOs (FGD 3C).

Despite the presence of strong social bonds in Rieng Village, the case study shows that proper social intermediation processes are essential to ensure the manifestation of these social bonds is in support of the poor and disadvantaged. These manifestations, if administered in participatory and transparent manner and linked with other institutions, can influence the type of elite control and allow the poor and disadvantaged especially women to work together and organize themselves for wider community development.

6. CONCLUDING REMARKS

Poverty is widely defined by development researchers and practitioners as the manifestation of exclusion, powerlessness and voicelessness (Kabeer 2003; Mikkelsen 2005:204). With three billion people still lacking access to rural finance in the world, SHMG models represent an innovative bottom-up development approach that offers hope and excitement in the development sphere. The thesis has subjected some of the key dimensions of social capital formation of group-based microfinance models to empirical testing. The case study in Rieng Village has asserted this excitement of bringing about economic and social improvement to a hierarchical, post-conflict context through processes that intermediate the exploitation, intermediation and reproduction of bonding, bridging and linking social capital.

The study has provided evidence to the following argument:

- group-based microfinance scheme can bring positive changes to social and gender relations;

- social intermediation processes have huge influence on the type of social capital (norms, networks and trust) promoted in group-based microfinance schemes to the benefit or disbenefit of the poor and marginalized; and
- the social capital build up, especially where structural and institutional exclusion is addressed to harness all bonding, bridging and linking social capital has the potential of enabling the poor and marginalized to organize themselves for wider community development.

The case study has shown that microfinance is not only about providing low-cost alternative of loan or saving but also about breaking the vicious circle of institutional exclusion, giving a collective voice, a group identity and mutual support to the poor and disadvantaged. Through processes that focus initially on economic enhancement, followed by individual and group empowerment, and leading to collective action in the community, a self-reliant, transparent, participatory and sustainable mechanism can be established to bridge the gaps in the society created by poverty, illiteracy, gender inequality and remoteness. The study has shown that group-based microfinance model can be a viable and powerful tool to empower marginalized people and community, and to foster equal gender power relations from the grass-roots level.

As many researchers have said, microfinance however should be seen as a panacea to development. It does not automatically create positive social capital. Microfinance schemes need to incorporate strategies and measures that not only enhance bonding and bridging social capital, they also have to forge structural, institutional or linking social capital. This requires cautious mobilization, engagement and capacity-building of members across social economic strata. This thesis has provided a better understanding of how these processes influence the type of networks, norms and trust exploited, mediated and harnessed; and the conditions that produce self efficacy and social capital which in turn and in time could empower the poor and the marginalized to participate and organize themselves in the community development and society transformation processes.

The experiences presented in this study are limited to two savings groups in Cambodia, and, though they may not be representative of all savings groups in Cambodia, they

refer to traditional social network, trust and norms that are typical in the country. By providing a rich and contextual data of particular savings groups, it would also be reasonable to say that similar findings can be observed elsewhere where group-based microfinance has been heavily promoted. The analyses in the paper hopefully provide useful information about what constitutes effective and inclusive social intermediation design and strategies. It is also hoped that the study has contributed one way or another to the ongoing research and debate about social capital, and further dialogue between researchers, policymakers, practitioners and among the poor themselves to improve civil society participation in community development.

REFERENCES

- Abbink K., Bernd I. and Renner E. (2006). "Group Size and Social Ties in Microfinance Institutions". *Economic Inquiry*, 44:4, October.
- Agrawal A. (1999). *Decentralization in Nepal: A Comparative Analysis*, Oakland: ICS Press.
- Asia Resource Centre for Microfinance (ARCM) Cambodia Country Profile.
http://www.bwtp.org/arcm/cambodia/I_Country_Profile/cambodia_country_profile.htm
(consulted February 2009)
- Asian Development Bank (2001). *Cambodia Participatory Poverty Assessment*.
- Bantilan M. C. S. and Padmaja R. (2008). "Empowerment through social capital build-up: gender dimensions in technology uptake". *Experimental Agriculture*, 44 (2008):61-80
- Bennett L. (1996). "Social Intermediation: Building Systems and Skills for Sustainable Financial Intermediation With the Poor." Washington, D.C.: The World Bank's Sustainable Banking with the Poor project, Rural Finance Seminar: May 1.
- Bennett L., Goldberg M., and Von Pischke J. D. (1994). "Basing Access on Performance to Create Sustainable Financial Services for the Poor in Nepal." Prepared for Conference on "Financial Services and the Poor" at The Brookings Institution, Washington, D.C., September 28-30.
- Berenbach S. and Guzman D. (1992). *The Solidarity Group Experience Worldwide*. Washington, D.C.: ACCION International.
- Besley T., Coate S., and Loury G. (1993). "The Economics of Rotating Savings and Credit Associations." *American Economic Review* 83: 782-810.
- Brinkerhoff D. and Goldsmith A. (2000). "Participation in Macroeconomic Policy: Experience and Implications for Poverty Reduction Strategies", in Action Learning Program on

Rethinking Social Capital in Development: Can Group-Based Microfinance reproduce Social Capital?
A Case Study in Rural Cambodia

Participatory Processes for Poverty Reduction Strategies. Draft. World Bank. Washington.

- Bryman A. (2004). *Social Research Methods*, Oxford, Oxford University Press
- Bourdieu P. (1986). "Forms of Capital". In: *Handbook of Theory and Research for the Sociology of Education*, J. C. Richards, ed. New York: Greenwood Press.
- Buckley G. (1996). "Micro-finance in Africa: is it either the problem or the solution?" *World Development* 25:1081-1093.
- Bushra E. and Lopez P. (1994). "Development in Conflict: the Gender Dimension". Report of an Oxfam AGRA East workshop held in Pattaya, Thailand, 1-4 February 1993.
- Cambodian Council for Social Development (CSD) (2002). *National Poverty Reduction Strategy 2003-2005*. Kingdom of Cambodia.
- CEDAC (2006). *Baseline Survey of the Saving for Self-Reliance Initiative in Cambodia*. September 2006.
- CEDAC (2007). "Conceptual Orientation and Guiding Principles for the Building the capacity of Saving for Self-Reliance Networks in Cambodia". Internal workshop paper. 8-10 January 2007.
- CEDAC (2008). *CEDAC Saving for Self-Reliance Project Concept Paper*.
- CIA (2009). The World Factbook: Cambodia. <https://www.cia.gov/library/publications/the-world-factbook/geos/cb.html#People> (consulted February 2009)
- Chandararot K. (2002). "The Development of Microfinance in Cambodia". *Cambodia development Review*, 6(3) July-September.
- Colletta N. and Cullen M. (2000). *Violent Conflict and the Transformation of Social Capital: Lessons from Cambodia, Rwanda, Guatemala, and Somalia*, The World Bank, Washington D. C.
- Coleman J. (1988). "Social Capital in the Creation of Human Capital." *American Journal of Sociology*, 94: 95-120.
- Consultative Group to Assist the Poor (CGAP). "What Do We Know about the Impact of Microfinance?" <http://www.cgap.org/p/site/c/template.rc/1.26.1306/> (consulted in February 2009)
- Consultative Group to Assist the Poor (CGAP) (2007). "How Will Technology Expand Access to Finance? Cutting edge experiments in eight countries to seek answers" Feature article. February 15, 2007
- Creswell J. W. (2007). *Qualitative Inquiry and Research Design: Choosing Among Five Approaches*, Thousand Oaks, Sage
- Dasgupta A. and Serageldin I. (2001). *Social Capital: A Multifaceted Perspective*. Washington DC: World Bank.

- Dasgupta A. and Beard A. V. (2007). "Community Driven Development, Collective Action and Elite Capture in Indonesia" *Development and Change*, 38 (2) (March 2007): 229-249.
- Davenport P., Healy J. and Malone K. (1995). *Vulnerable in the Village: a Study of Returnees in Battambang Province, Cambodia, with a Focus on Strategies for the Landless* (Phnom Penh: Lutheran World Service, UNHCR & Japan Sotoshu Relief Committee)
- Desai V. and Potter R. B. (2006). *Doing Development Research*, Sage Publications, London/TRThousand Oaks/New Delhi
- Dewalt B. R. and Dewalt K. M. (2002). *Participant Observation: a guide for fieldworkers*, Walnut Creek: Ca Altamira Press/ Roman and Littlefield Press
- Diamond D. W. (1984). "Financial Intermediation and Delegated Monitoring." *Review of Economic Studies* 51(3): 393-414.
- Dudwick N., Kuehnast K., Jones V. N., and Woolcock M. (2006). *Analyzing Social Capital in Context: A Guide to Using Qualitative Methods and Data*. World Bank Institute. Washington D.C.
- Edgcomb E. and Barton L. (1998). "Social Intermediation and Microfinance Programs: A Literature Review" Micro Enterprise Innovation Project (MIP), USAID.
- Edward P. and Olsen W. (2006). "Paradigms and Reality in Micro-Finance: The Indian Case" *Perspectives on Global Development and Technology*, 5, issue 1-2:31-54
- Esman M. J. and Uphoff N. T. (1984). *Local Organizations: Intermediaries in Rural Development*, Ithaca, New York: Cornell University Press.
- Falk I. and Kilpatrick S. (1999). "What is Social Capital?: A Study of Interaction in a Rural Community." Paper D5/1999 in the CRLRA Discussion Paper Series. June 1999.
- Fernando J. L. (2006). *Microfinance: perils and prospects*. Routledge.
- Garforth C. and Munro M. (1995). *Rural People's Organisations and Agriculture Development in the Upper North Thailand*. AERDD, The University of Reading.
- Ghatak M. and Guinnane T. (1999). "The Economics of Lending with Joint Liability: A Review of Theory and Practice," *Journal of Development Economics* 60, (October 1999): 195-228.
- Gibbons S. D. and Kasim S. (1994) *Banking On The Rural Poor*. Dhaka: Grameen Bank.
- Goetz A. M. and Gupta R. S. (1996). "Who Takes the Credit? Gender, Power, and Control over Loan Use in Rural Credit Programs in Bangladesh". *World Development* 24(1), 45-63
- Grootaert C. (1997). "Social Capital: The Missing Link?" In Expanding the Measure of Wealth: Indicators of Environmentally Sustainable Development. Environmentally Sustainable Development Studies and Monographs Series No. 7. Washington, DC: The World Bank.
- Grootaert C. and van Bastelaer T. (2001). "Understanding and Measuring Social Capital: A Synthesis of Findings and Recommendations from the Social Capital Initiative." Social Capital Initiative Working Paper No. 24. Washington, DC: The World Bank.

- Grootaert C., Narayan D., Jones V. N. and Woolcock M. (2005). "Measuring Social Capital: An Integrated Questionnaire". World Bank Working Paper No. 18. Washington, DC: The World Bank.
- Hashemi S. M. and Schuler S. R. (1997). "Sustainable Banking with the Poor: A Case Study of the Grameen Bank." JSI Working Paper No. 10. Arlington, Virginia: JSI Research and Training Institute, June.
- Hulme D. and Mosley P. (1996). *Finance Against Poverty*. London: Routledge
- Huppi M. and Feder G. (1990). "The Role of Groups and Credit Cooperatives in Rural Lending". *The World Bank Research Observer*, 5 (2), July.
- Ito S. (2003). "Microfinance and Social Capital: Does Social Capital Help Create Good Practice?" *Development in Practice*, 13 (4), August 2003, 322 - 332
- Kabeer N. (2001). "Resources, agency, achievements: reflections on the measurement of women's empowerment", in *Discussing Women's Empowerment – Theory and Practice*, SIDA Studies No. 3.
- Kabeer N. (2003). "Part III: Wider Social Impacts: Assessing the Wider Social Impacts of Microfinance Services: Concepts, Methods, Findings". *IDS Bulletin* 34 (4): 106-114.
- Kabeer N. and Murthy R. K. (1996). "Compensating for institutional exclusion? Lessons from Indian government and non-government credit interventions for the poor," *IDS Discussion Paper* 356. Brighton, UK: Institute of Development Studies, University of Sussex.
- Kalan S. (2001). "Social Capital and Group Banking". MIT Department of Economics. September 18, 2001.
- Kanak S. and Iiguni Y. (2007). "Microfinance Programs and Social Capital Formation: The Present Scenario in a Rural Village of Bangladesh". *The International Journal of Applied Economics and Finance*. 1 (2): 97-104
- Klaassen H. (1995). "Cambodian Women in Socio-Economic Transition". Cambodian Researchers for Development. Cambodia.
- Krishna A. and Uphoff N. (1999). *Mapping and Measuring Social Capital: A Conceptual and Empirical Study of Collective Action for Conserving and Developing Watersheds in Rajasthan, India*. Social Capital Initiative WP Series #13. Washington, D.C.: World Bank.
- Krishna A. (2000). *Organizing in Support of CDD: Information is the Key Resource*. Cornell University. Ithaca. N.Y.
- Kvale S. (1996). *Interviews: An Introduction to Qualitative Research Interviewing*, USA: Sage Publications
- Ledgerwood J. L. (1996). "Politics and Gender: Negotiating Conceptions of the Ideal Women in Present Day Cambodia". *Asia Pacific Viewpoint*, 37 (2), August 1996, 139-152.

- Mansuri G. and Rao V. (2004). Community-based and driven development: A critical review. *The World Bank Research Observer*. 19(1), 1-39.
- Marshall G. (1998). "Non-participant Observation". In *A Dictionary of Sociology*. Oxford University Press 1998.
- Matthews B. (2005). *Towards safety and Self-Reliance: Community Finance and Public Trust in Rural Cambodia*. Working Paper Series 2005/2. Canadian Co-operative Association.
- Mayoux L. (1998). "Women's Empowerment and Micro-finance Programmes: Approaches, Evidence and Ways Forward". DPP Working Paper No 41. Milton Keynes: The Open University.
- Mayoux L. (2000). "Micro-finance and the Empowerment of Women: A Review of the Key Issues". Social Finance Unit Working Paper No 23. Geneva: ILO.
- Mayoux L. (2001). *Learning for Empowerment Action through Participation (LEAP): Inception Report*. New Delhi, PRADAN.
- Mayoux L. (2005). "Tackling the Downside: Social Capital, Women's Empowerment and Micro-Finance in Cameroon". *Development and Change* 32 (2001): 435-464.
- Meas N. (1995). *Toward Restoring Life, Cambodian Villages*, translated and transcribed by Joan Healy. Phnom Penh: Krom Akphiwat Phum.
- Meas, N. (1999). *The Concept of Community*. Conference on the Meaning of Community in Cambodia, Pnom Penh, 7-8 June.
- Microenterprise Best Practices (MBP) (2001). "Developing a Post-Conflict Microfinance Industry: The Case of Cambodia". MBP Microfinance Following Conflict Brief No 2. <http://www.gdrc.org/icm/disasters/Developing.pdf> (consulted February 2009)
- Mikkelsen B. (2005). *Methods for Development Work and Research: A new guide for practitioners*. New Delhi, Sage Publications
- Ministry of Planning (MoP) and United Nations Development Program (UNDP) (2007). *Cambodia Human Development Report 2007: Expanding Choices for Rural People*. Phnom Penh.
- Ministry of Women's Affairs (2008). *A Fair Share Women: Cambodia Gender Assessment*. Phnom Penh. April 2008
- Montgomery R. and Hulme D. (1996). "Credit for the Poor in Bangladesh". In Hulme and Mosley eds 1996. *Finance Against Poverty*. London: Routledge.
- Montgomery R. (1996). "Disciplining or Protecting the Poor? Avoiding the Social Costs of Peer Pressure in Micro-Credit Schemes". *Journal of International Development*, 8 (2), Wiley, U.K.
- Mosley P. (1996). "Metamorphosis From NGO to Commercial Bank: The Case of BancoSol in Bolivia", pp. 1-31 in David Hulme and Paul Mosley (eds) *Finance Against Poverty: Volume II*, London: Routledge.
- Narayan D. (1999). *Bonds and Bridges: Social Capital and poverty*. Poverty Group, PREM World Bank.

- North D. C. (1990). *Institutions, Institutional Change, and Economic Performance*. New York: Cambridge University Press.
- Olsen M. E. (1982). *Participatory pluralism*. Chicago: Nelson-Hall.
- Pact (2004). *Savings Led and Self-Help Microfinance in Cambodia: Lessons Learnt and Best Practices*. August 2004.
- Parmeshwar V. and Koma Y. S. (2009). "Retrofitting an Agricultural Program with Savings-led Microfinance: Oxfam experience in Cambodia". Discussion paper in Microfinance from below: The Power of Savings and Savings Groups in Frontier Economies conference papers and blog. March 26-28 2009. The Fletch School.
http://fletchermicrofinance.org/index.php?option=com_content&task=view&id=28&Itemid=58 (consulted May 2009)
- Pellini A. and Ayres D. (2005). "Social Capital and Village Governance: Experiences with Village Networks". A Discussion Paper for GTZ. November 2005.
- Platteau J. P. and Abraham A. (2002). "Participatory development in the presence of endogenous community imperfections". *Journal of Development Studies*, 39(2), 104-136.
- Portes A. (1998). "Social Capital: Its Origins and Applications in Modern Sociology." *Annual Review of Sociology* 24 (1998):1-24.
- Putnam R. (1993). "The Prosperous Community — Social Capital and Public Life." *American Prospect* (13): 35-42. Ragin C (1994): *Constructing Social Research: the Unity and Diversity of Method*, Thousand Oaks, Pine Forge Press
- Putnam R. D. (2000). "Bowling alone". In *The collapse and revival of American community*. New York, NY: Simon and Schuster.
- Quiria M. G. (2003). "The Puzzle of Social Capital: A Critical Review". *Asian Development Review*. 20 (2): 19-38
- Ragin C. C. (1994). *Constructing social research: the unity and diversity of method*. Thousand Oaks: Pine Forge.
- Rahman A. (1999). "Micro-credit Initiatives for Equitable and Sustainable Development: Who Pays?". *World Development* 27(1): 67-82.
- Rankin K. N. (2002). "Social Capital, Microfinance, and the Politics of Development". *Feminist Economics* 1 March 2002, 8 (1): 1-24.
- Rural Development Bank of Cambodia (RDB) (2003). "Rural Credit in Cambodia".
<http://www.rdb.com.kh/ruralcredit.htm> (consulted February 2009)
- Sebstad J. N., Barnes C. and Chen G. (1995). "Assessing the Impacts of Micro-enterprise Interventions: A Framework for Analysis". Washington, DC: USAID/AIMS.
- Sedara K. (2001). *Reciprocity: Informal Patterns of Social Interaction in a Cambodian Village Near Angkor Park*. Master's Thesis, Department of Anthropology, Northern Illinois University.

- Serageldin I. and Grootaert C. (2000). "Defining social capital: an integrating view". In Dasgupta P and Serageldin I (2001) *Social Capital: A Multifaceted Perspective*. The World Bank Washington DC.
- Stiglitz J. E. (1990). "Peer monitoring and credit markets". *World Bank Economic Review* 4 (3): 351–66.
- Szabo S. (1999). *Social intermediation study: field research guide: exploring the relationship between social capital and microfinance*. The World Bank.
- Szreter S. and Woolcock M. (2004). "Health by association? Social capital, social theory, and the political economy of public health". *International Journal of Epidemiology* 33 (2004): 650–67
- Transparency International (2008). Corruption Perceptions Index for 2008 (http://www.transparency.org/policy_research/surveys_indices/cpi/2008) (consulted April 2009)
- UNCDF (1999). *Taking risks: Background papers*. New York: United Nations Capital Development Fund.
- UNICEF (1996). *Towards a Better Future: An Analysis of the Situation of Children and Women in Cambodia*. Phnom Penh.
- van Bastelaer T. (1999). "Does Social Capital Facilitate the Poor's Access to Credit? A Review of the Microeconomic Literature", Social Capital Initiative Working Paper No. 9, The World Bank.
- van Bastelaer T. (2000). "Imperfect Information, Social Capital and The Poor's Access to Credit". IRIS Center Working Paper No. 234, University of Maryland, Center on Institutional Reform and the Informal Sector (IRIS).
- Varian H. (1990). "Monitoring Agents With Other Agents," *Journal of Institutional and Theoretical Economics* 146(1): 153-74.
- Wilson K. (2002). "The New Microfinance: An Essay on the Self-Help Group Movement in India". *Journal of Microfinance*, 4(2): 217-245.
- Woolcock M. (1998). "Social capital and economic development: Toward a theoretical synthesis and policy framework". *Theory and Society*. 27 (1998): 151-208
- Woolcock M. and Narayan D. (2000). "Social Capital: Implications for Development Theory, Research, and Policy". *World Bank Research Observer*, 2000, 15 (2): 225-49
- World Bank (2006). *Cambodia Halving Poverty by 2015?: Poverty Assessment Report 2006*. Phnom Penh. February 2006.
- Yin R. (2003). *Case Study Research: Design and Methods*, Thousands Oaks, Sage

APPENDIX I – Group-Based Organization Models

TABLE 1
COMPARISON OF GROUP-BASED ORGANIZATIONAL MODELS

	Solidarity Groups	Village Banks	Cooperatives/Credit Unions
Structure	Small groups between 4 and 8; the Grameen Bank insists on 5; Grameen and its replicators also have second tier Center structure which brings together a number of these for the purpose of loan administration and education.	Medium size groups averaging 20 to 50; banks elect officers to lead and manage loan decisions and administration; some village bank programs have incorporated solidarity groups of 5-7 within the bank structure.	Large groups between from 50 to 200+; may be regulated (if credit unions) or unregulated, if self-help groups.
Membership	Varies; in Grameen Bank style programs, usually the poor at or below the poverty line and quite homogenous; in other programs, such as those associated with ACCION membership, may be lower income, but not necessarily the poorest, and groups may be heterogeneous.	Largely targeted to the poor at or below the poverty line.	Some observers report them to be more heterogeneous if they follow the savings and credit cooperative model of open membership; open bond membership covers geographic area rather than poverty level; other observers (Magill) indicate that while not the poorest, they are similar in assets, business size, and income to the micro and small scale business owners found as clients of ACCION affiliated programs.
Lending Process	Program makes one loan to solidarity group on behalf of individual members; initial loan is same size; may vary among group at later stages; group representative is responsible for disbursing the individual loans to its members and collecting it for repayment.	Program makes one loan to village bank which the bank management on-lends to members; initial loan size roughly equivalent to minimum monthly wage for day labor in area; subsequent loans depend on repayment, and size is linked to the amount of savings generated by borrowers during previous loan cycle.	Groups are savings led; members expected to buy initial shares and/or save a set amount before borrowing is allowed; loans made to individuals within the group based on their meeting these requirements and offering some form of collateral.
What Groups Do	Solidarity groups recruit and select their own members, guarantee each others' loans; disburse and collect payments; collect group savings and fees if there are any.	Village banks recruit and select their own members; establish by-laws and operating procedures in consonance with implementing agency guidelines; disburse and collect loan repayments; also collect required savings and manage them as an internal account fund that may be deposited in a bank; or re-lent to members and outsiders; some of these funds may also be used for community purposes.	Self-help groups and cooperatives elect their own management; set interest rates and savings policies; manage lending activities.
Guarantee Mechanisms	Peer guarantee; some models require groups to collect group funds which can also serve to underwrite delinquencies and defaults.	Peer guarantee; internal account funds also serve as collateral against the full loan provided by the implementing agency.	Use savings on deposit as guarantee, as well as two or more co-signors (other group members) to support loan applications; may also accept physical guarantees, although most loans are character based.
Transaction Costs for Borrowers	High for models expecting weekly participation in center meetings; moderate for those models that do not require meetings, and expect member representative to collect and deliver repayments to the organization.	High as weekly or bi-weekly meetings required to make loan and savings payments.	Moderate, depending on the meeting requirements.
Savings Policies	Solidarity group programs are credit-led; may include forced savings requirements in the form of group funds and other insurance schemes.	VBs are credit-led but introduce forced savings as a means to build a group based financial asset that can be used for investment or as a guarantee of repayment of outstanding loans; an individual's access to these savings is usually curtailed until end of cycle or departure from the bank.	These models are savings-led; credit follows a period of savings and certain amount achieved; intention is to build full service financial member organization; initially most only forced savings; now many innovated to offer voluntary savings options as well as credit.
Group Ownership and Control	Solidarity groups are generally borrowing groups; decision making mostly refers to membership selection and willingness to support loan applications.	VBs expected to recruit select members; review and approve loans for both External and Internal loans, build internal capital, make investment decisions with those funds; originally expected to graduate, become independent, now expected to remain affiliated to the sponsoring program with greater ownership because of the capital build up.	SHGs/savings & credit cooperatives may be organized as independent institutions or affiliate as apex structures to provide greater liquidity management/management support. Local group manages own savings/loans, assumes strong fiduciary responsibility for safeguarding members' savings.

Sources: C. Nelson, B. McNelly, K. Stack, and L. Yanovitch, 1996, *Village Banking: the State of the Practice*, New York: SEEP and UNIFEM, pp. 10-30; Maria Otero, 1986, *The Solidarity Group Concept: Its Characteristics and Significance for Urban Informal Sector Activities*, New York: PACT, pp.1-22; Berenbach and Guzman, 1992, pp. 11-19; D. Hulme and P. Mosley, eds., 1996, *Finance Against Poverty*, Volumes 1 and 2, New York: Routledge, pp. 167-174; and J. H. Magill, 1991, "Credit Unions: A Formal Sector Alternative for Financing Microenterprise Development," GEMINI Working Paper No. 22, Bethesda, MD: Development Alternatives, Inc.

Source: Eghcomb and Barton 1998: 10, Table 1

APPENDIX II – List of Interviewees and Focus Group Meetings

	Title	Organization			Date
Informant 1	Program Officer	Oxfam America			10.10.2008
Informant 2	Research Advisor	AMK			4.11.2008
Informant 3	WORTH Program Director	PACT Cambodia			2.11.2008
Informant 4	Saving for Self Reliance project coordinator	CEDAC			2.11.2008 29.11.2008
Informant 5	CFI coordinator	PADEK			2.11.2008
Informant 6	Svay Rieng project staff	CEDAC			23.11.2008
Informant 7	Kampong Cham project staff	CEDAC			1.12.2008
Rieng Interviewees	Identity	Sex	Age	Education	Date
Informant 8R	Village Chief	M	62	G7	24.11.2008
Informant 9RM	Group leader	F	49	G4	25.11.2008
Informant 10RM	Group member	F	66	Nil	25.11.2008
Informant 11R	Non-member, divorced	F	40	n/a	26.11.2008
Informant 12RM	Group secretary	F	40	G7	25.11.2008
Informant 13RM	Group member	F	35	G3	26.11.2008
Informant 14R	Non-member, new to village	M	30s	n/a	26.11.2008
Informant 15R	Non-member, member's neighbour	M	54	G7	26.11.2008
Informant 16R	Non-member, wife to Informant 15R	F	52	Nil	26.11.2008
Informant 17RM	Member	F	40	G1	26.11.2008
Informant 18RM	Member, sister to Informant 17RM	F	23	n/a	26.11.2008
Informant 19RMH	Husband to Informant 13RM	M	49	Nil	27.11.2008
Informant 20RM	Committee member, midwife	F	53	G3	27.11.2008
Informant 21RMH	Husband to Informant 20RM	M	82	G5	27.11.2008
Informant 22RMH	Husband to Informant 12RM	M	43	n/a	27.11.2008
Informant 23RMH	Husband to Informant 9RM	M	52	G1	25.11.2008
Cham Interviewees	Identity	Sex	Age	Education	Date
Informant 24C	Village chief	M	60s	n/a	2.12.2008
Informant 25CM	Group leader	F	29	G3	2.12.2008
Informant 26CM	Member, cousin to Informant 25CM	F	44	G6	19.12.2008
Informant 27CM	Member	F	43	G1	2.12.2008
Informant 28CM	Member	M	28	G5	2.12.2008
Informant 29CM	Member	F	48	Nil	
Informant 30C	Former member of a suspended group	F	57	n/a	3.12.2008
Informant 31C	Former group leader of a suspended group	F	50s	n/a	3.12.2008
Informant 32C	Non-member	F	60s	Nil	3.12.2008
Focus group discussion	Group description	Participants			Date
FGD 1R	Rieng Group	3 members			10.12.2008
FGD 2R	Rieng non-members	5-6 neighbors			27.11.2008
FGD 3C	Cham Group	6 members			3.12.2008

APPENDIX III – Interview and Group Discussions Guide

Key informants Interview Guide (not audio-taped)

- background, achievements and challenges of microfinance sector
- background, achievements and challenges of group models

Focus Discussions Guide (not audio-taped.)

- reasons of joining the group
- satisfaction with group rules and regulations
- satisfaction with leadership
- biggest benefit of joining the group
- influence of CEDAC project activities and guidelines
- vision of the group
- common community problems
- possible solutions
- any changes needed for the group
- who's responsible to bring these changes

Semi-structured Interview Guide (audio-taped)

- demographic information of interviewee, household and livelihood situation
- reasons of joining the group
- decision-making process of participation
- biggest benefit of the group formation: individual, household and community
- changes to livelihood situations
- changes to social and gender relations
- changes to political participation
- influence of CEDAC project activities and guidelines on these changes
- perceptions of the saving group
- any changes needed for self, family and community
- how can these changes happen

APPENDIX IV – Key facts and figures about CEDAC’s Savings for Self Reliance Project

By May 2008, CEDAC’s Self Reliance the project was operating in 14 of Cambodia’s 24 provinces and municipalities. There were more than 2,900 saving groups with 44,000 active members and some 1,300 village saving animators trained, indicating a rapid scale-up in just few years. The total amount of savings was close to one million USD (3,900 million Cambodia Riels) (CEDAC 2008) According to a 2006 baseline survey, 57% members were women, an average group had 16 members with an average loan fund of 130 USD (500,000 Riels), 87% of which was on loan outstanding. An average loan size was about 5 USD and each group on average had one late loan. Group members were from different economic strata with the poorest households owning 300 USD in assets. About 16% of members missed out on saving payment while 12% were late with saving payment, largely due to shortage of income or money. Interestingly, this was more common among the better off members. About 5% of the groups, mostly groups with more educated and better off members, have trained other new groups (CEDAC 2006).

Not only has the success of the project drawn increasing attention and recognition from local authorities but also additional funding from Oxfam America to help expand the project to focus on the poorest and other parts of Cambodia, especially in the ethnic minority areas.

APPENDIX V – The rules of Rieng Group

(Translated from Khmer)

1. All of us join to save lots of money for each of us to take a loan for each family to do business. This group is named "Rieng Group".
2. Persons who can be members are those who are honest and the permanent residents of the village.
3. The saving group should have 5 up to 25 members.
4. Each member of the Saving Group should deposit money once a month.
5. Each member should save a minimum of 1,000 Riel per month.
6. Each member should save a maximum of 100,000 Riel per month.
7. Each member should only save up to 10,000,000 Riel per year and stop after that.
8. Each member's saving should not exceed 30% of total saving.
9. The group charges each member who takes loan 3% interest rate per month.
10. Non-members can take a loan from the group only when there is money left after all members have taken loan. When non-members take loan, they have to sign a different contract from the one for group members.
11. The money that the members borrow should be used for agriculture, trade and other income-generation activities that do not violate any government rules.
12. The members have to organize a meeting once a month during which they focus on saving and other businesses.
13. Each member has to join the monthly meeting, at least 10 times a year.
14. Members that do not attend three monthly meetings in a year has to pay a penalty; for committee member, 5,000 Riel, and for ordinary members, 2,000 Riel.
15. The group has to form a committee to lead the members.
16. The committee has to have 4 members.
17. When one member cannot pay back the loan to the group, or not the full amount, the committee is responsible and the guarantee will be used to pay off the loan. The group has to act on the person who cannot pay back in the given time. It has to be solved according to the borrowing agreement.
18. When the money of the group is lost, the committee has to be responsible. The committee is the one that keeps the money.
19. The committee has to be elected by the members. Those who receive the highest number of votes become the members of the committee. Committee members must meet the following criteria:
 - a. good morality
 - b. permanent residence
 - c. knowledgeable
 - d. honest
 - e. hard working
20. The committee has a five-year mandate.
21. The committee has the authority to manage the members all the time.
22. The committee has a role and duty to work for the members.
23. The committee has to support money for its work.
24. The committee has the right to take 10% from the interest paid by loan takers to support the group work.
25. In case the committee makes a mistake against the rules of the group, the members can take money back.
26. The money that the members save and other group income can be used for agriculture, other multiple benefits, and businesses.
27. When a member wants to quit the group, she has to follow the proper rule to quit her membership.
28. In case a member does not follow the rules of the group, the committee can dismiss the member from participating.
29. Any one interested to join the group has to complete a membership application form.