



**Seeds of Life**  
**Fini ba Moris**



## Study Report



# Drivers and Determinants of Sustainability and Development of Savings and Loans Groups

Ministry of Agriculture and Fisheries  
Seeds of Life / Fini ba Moris

October 2013



# Seeds of Life --- Fini ba Moris



## Study Report

# Drivers and Determinants of Sustainability and Development of Savings and Loans Groups

Ministry of Agriculture and Fisheries  
Seeds of Life / Fini ba Moris

Dili, October 2013

Seeds of Life (Fini ba Moris) is a program within the Timor-Leste (East Timor) Ministry of Agriculture and Fisheries (MAF). The Governments of Timor-Leste and Australia collaboratively fund the program. Australian funding is through Australian Aid plus the Australian Centre for International Agricultural Research (ACIAR) and is managed by ACIAR. The Centre for Legumes in Mediterranean Agriculture (CLIMA) within The University of Western Australia (UWA) coordinates the Australian funded activities.

This study was prepared by Ms. Laura Silva Solano as part of a 2013 Summer Student Placement of the Master of Public Administration in Development Practice program, at the School of International and Public Affairs, at Columbia University, New York, USA.

Ms. Silva Solano was assisted in this work by Mrs. Léonie Venroij, as the Case Studies Facilitator.

Suggested citation:

Seeds of Life. 2013. *Drivers and Determinants of Sustainability and Development of Savings and Loans Groups*. Study for the Seeds of Life program, Ministry of Agriculture and Fisheries, Dili, Timor-Leste

# Table of Contents

|  |     |
|--|-----|
| Abbreviations and Acronyms .....   | iii |
| Executive Summary .....  | iv  |
| 1 Background / Rationale.....  | 1   |
| 2 Research Methodology .....   | 2   |
| 2.1 Methodology and Instruments of Research .....  | 2   |
| 2.2 Limitations of the methodology.....  | 4   |
| 3 Findings.....  | 6   |
| 3.1 The S&L Groups within the Holistic Approach Program .....                                  | 6   |
| 3.2 How it Works .....   | 8   |
| 3.3 Socioeconomic Characteristics .....  | 12  |
| 3.4 Social Capital and Managerial Capacity.....  | 16  |
| 3.5 Financial Performance.....   | 19  |
| 3.6 Effects of the Program .....   | 24  |
| 3.7 Linkages between S&L Groups and Agriculture and other<br>Income Generating Activities..... | 27  |
| 3.8 The Role of Support .....  | 28  |
| 4 Additional Information / Observations.....   | 29  |
| 5 Discussion – Implications for SoL.....   | 31  |
| References .....   | 37  |

## List of Figures

|  |    |
|--|----|
| Figure 1: Members of savings and loans groups in Oecussi participating in two of the focus group discussions held for the case study ..... | 5  |
| Figure 2: Structures of small and big community fora.....  | 7  |
| Figure 3: Example of a monthly balance sheet of a S&L group .....  | 10 |
| Figure 4: House types in Oecussi .....   | 13 |
| Figure 4: Distribution of monthly household expenses.....  | 15 |

## List of Tables

|  |    |
|--|----|
| Table 1: Instruments of research.....  | 2  |
| Table 2: Composition of Savings and Loans Groups in Oecussi district, Timor-Leste. | 11 |
| Table 3: Educational attainment of members and non-members surveyed .....          | 13 |
| Table 4: Housing conditions.....   | 14 |
| Table 5: Cumulative financial performance .....                                    | 20 |
| Table 6: Average member investment .....   | 21 |
| Table 7: Comparison average loan size disbursed .....                              | 22 |
| Table 8: Membership growth rate.....   | 23 |
| Table 8: Purposes of the savings and the loans .....                               | 25 |

## Abbreviations and Acronyms

|         |  |
|---------|--|
| CSPG    | Community Seed Production Group                                  |
| MAF     | Ministry of Agriculture and Fisheries                            |
| MAF-SoL | Ministry of Agriculture and Fisheries' Seeds of Life III Program |
| NGO     | Non-Governmental Organisation                                    |
| S&L     | Savings and Loans group  |
| SoL     | Seeds of Life  |

## Executive Summary

The overall purpose of this case study is to have a better understanding about current experiences of Savings and Loan (S&L) groups in Timor Leste, in order to characterize the foundations to increase access to financial services for rural communities and mobilize resources to strengthen the market for agricultural inputs, including seeds. The case study aims to identify the strengths and weaknesses of the groups, the lessons learned regarding the drivers of development and the determinants of their sustainability, as well as the interaction between the agriculture activities of the members and their savings and loans transactions. The case of S&L groups in Oecussi district is the main focus of this study, since it is one of the most developed experiences of community-led microfinance in the country.

The main determinants of sustainability of the S&L groups found throughout this study are:

- Structured and transparent management system led by skilled and committed people from the same group. The most important criteria that members expect from the management body are: leadership, literacy skills, managerial and financial skills, trustworthiness, commitment to the group and reliability.
- Capacity of the group to mobilize their own social capital and social control. Unity, respect, solidarity, transparency, commitment and trust are the main principles driving the relationship among the members. In addition, having a sense of communality, sharing the same ideas and vision about the group, and exercising social control and peer pressure among the members enhance these principles, strengthen their social capital and enables them to hold everybody accountable to each other.
- Decision-making process is democratic and there is balance of power and accountability. All the issues pertaining to the S&L group are discussed together. Ideas and opinions of each of the members are listened and considered, and the decisions taken reflect the position of the majority of the members. Thus, although the role of the management body is critical, all the members share responsibility for the well functioning of the entire group and hold the management body accountable to them.
- Members' ownership of the group. Members do all activities related to the S&L groups by themselves, so the group really is community managed. In addition, all the money that is mobilized within the group comes from and goes back to the members, therefore, members are the only beneficiaries of the saving and loans system. Neither outsiders nor organizations receive any benefit or make any profit out of it. This incentivizes the members to increase their savings and keep up with their loan repayments, in order to multiply the financial leverage of the group and gain a higher dividend from it.
- Financial sustainability of the group is directly related to the financial sustainability at the household level. When people are involved in income generating activities, including farming, or are employed and earning a salary it is easier for them to save



and repay the loans. Otherwise, being a member of the S&L group might decrease the households' wealth and increase their vulnerability. In addition, having a family budget/household plan helps members to plan for their monthly expenses, which include repaying the loans and savings.

- Women's participation and empowerment in the S&L groups and in the household. Female members play a significant role in first, keeping the finances of the S&L group and the household, second, mediating in conflict among the members and third, holding the members accountable to each other. Besides, they are the ones that use to engage in other income generating activities, which improves the financial sustainability of the household, and therefore the group. Moreover, the benefits that the household obtain from participating in the S&L groups are catalysed through women, who tend to invest more in the household and children needs. Finally, the savings and loans system allow women to become breadwinners, improving their participation in the decision-making process at the household.
- Regular support from NGOs, extension workers and local leaders. Groups that have received regular support for a longer period of time are performing better, although it is important to shift from providing technical assistance to mentoring and empowering the members to run the S&L group by themselves. The quality of the assistance that organizations offer to the communities depends on their internal capacity resources and leadership, as well as the knowledge, experience and commitment of the staff.

However, the linkages between S&L groups and agriculture activities are weak. The straightest relation is that the latter, as other income generating activities, allow the members to save money and repay for the loans. But, members hardly ever use the money from the dividends or take loans to buy seeds or any other agricultural inputs, and few of them use it for additional income generating activities. Besides, farmers receive agricultural inputs free of charge from MAF/government, cooperation agencies and NGOs, or from their own Community Seed Production Group. As a result, there is no clear economic incentive for the small farmers to buy seeds and to use the money from the S&L groups for that purpose. Thus, the drivers for developing rural financial services to serve agricultural purposes are fragile since the current market conditions do not provide enough incentives to increase the demand of that kind of services.

In Timor Leste there are other local and international experiences that show a clearer and stronger role of S&L groups in fostering agricultural activities, including seeds commercialization. Their stories of success are associated to both, strengthening the markets and at the same time promoting collective use of financing resources and trade. The former implies boosting both the demand and supply side, generating economies of scale, promoting collective trade and creating linkages to local and other markets. On the other hand, the latter involves developing a more complex system of savings and loan that would offer more specialized financial services. However, establishing sustainable S&L groups is the stepping-stone to promote collective savings and loans. It would be easier to manage a new and more intricate system once members have been able to manage their own S&L groups. In other words, having sustainable S&L groups is a prerequisite for the sustainability of a collective scheme of rural finance led by the communities.



# 1 Background / Rationale

The overall objective of the third phase of Seeds of Life is “to establish the foundations of a national seed system, providing a high level of access to seed of improved varieties to farmers throughout the country” (SoL, 2010: vii), which comprises of, among other components, the formal and informal production, processing and distribution of seeds, under the leadership of MAF.

The project’s design identifies the need to develop a national market for seeds that would support the country to move toward a market economy. Disseminating improved seeds would increase the yield of the crops and therefore the possibility for smallholder farmers of making profits. Thus, by promoting a more productive food system the national economy would shift from a subsistence to a market system, while at the same time, higher outputs would improve the food security of the Timorese households.

It is with this purpose that providing rural financial services to smallholder farmers in Timor-Leste gains importance. Improving access to finance would leverage the shift towards a market-based seed exchange, by funding start-up and working capital needed by farmers to make investments in a high-yielding agricultural production. “This will require the mobilization of rural savings through various means (e.g. group saving/loans schemes); establishment of savings deposit facilities; development of improved outreach for rural finance institutions; and development of appropriate loan products and collateral arrangements” (SoL, 2010: 15).

The present case study was envisioned with the purpose of investigating current initiatives that would identify the foundations to increase access to finance for rural communities and mobilize resources to strengthen the market for agricultural inputs, including seeds. As a result, the case of the Savings and Loan (S&L) Groups in Oecussi district was found and became the central focus of this research. The program in Oecussi is one of the most mature and well-recognized more well-known experiences of community-led saving and loan models in the rural areas of Timor Leste, and several organizations are replicating the model.

By identifying the drivers of sustainability of these S&L groups and the possible linkages to agricultural activities and market strengthening, this case study would provide insight for SoL to “trial, evaluate and if successful replicate a number of initiatives designed to improve market-based transfer of seed” (SoL, 2010: 19).

## 2 Research Methodology

### 2.1 Methodology and Instruments of Research

The overall purpose of this case study is to have a better understanding about the experience of S&L groups that communities have been implementing during the past six years in *aldeias* of the four districts of Oecussi, Timor Leste's enclave in West Timor (Indonesia). The case study aims to identify the strengths and weaknesses of the groups, the lessons learned regarding the drivers of development and the determinants of their sustainability, as well as the interaction between the agriculture activities of the members and their savings and loans transactions.

Due to the exploratory nature of the case study, the methodology of research was based on the generation and use of five qualitative instruments that enable the triangulation of information gathered from different sources. The following table describes the instruments applied and the type of information each of them were asking for.

Table 1: Instruments of research

| Instrument                                      | Number | Description   |                    |            | Topics  |
|---|--------|---|--------------------|------------|---|
| Focus Groups with S&L groups                    | 7      | Name  | Aldeia             | NGO        | <ul style="list-style-type: none"> <li>History and creation of the group</li> <li>Training in Savings and Loans and support from local NGOs</li> <li>Selection process of the MGT body</li> <li>Decision-making process and conflict resolution</li> <li>Challenges and problems experienced</li> <li>Changes in the relationship within the members and with non-members</li> <li>Effect of the S&amp;L at the household level: gender roles, changes in decision-making process, uses of S&amp;L based on gender, benefits of the S&amp;L, negative consequences of the S&amp;L.</li> <li>Linkage between S&amp;L and agriculture</li> <li>Recommendations for the creation of other S&amp;L groups</li> <li>Reasons of success of the S&amp;L group</li> </ul> |
|   |        | Hit' An Rasik   | Buqui              | BIFANO     |   |
|   |        | New Stard   | Sifin              | BIFANO     |   |
|   |        | Necaf Mese  | Noetoco            | BIFANO     |   |
|   |        | Binoni Saben  | Saben              | BIFANO     |   |
|   |        | Sambia Poasbot  | Poasbot            | AHCAE      |   |
|   |        | Taskektit bi fini balan   | Netenoke           | FFSO       |   |
|   |        | KOKIL   | Ilimano (Manatuto) | USC Canada |   |
| Interviews with Management bodies of S&L groups | 8      | Hit' An Rasik<br>New Star<br>Necaf Mese<br>Binoni Saben<br>Sambia Poasbot<br>Taskektit bi fini balan<br>Moris Hamutuk<br>KOKIL (Manatuto) |                    |            | <ul style="list-style-type: none"> <li>Management aspects of the group: membership (how to become a member and how to leave the group), decision-making based on cash flow, fines, social fund, trainings, capital injection or other kind of support.</li> <li>Financial aspects: cycle of the group, principal saving/membership, compulsory saving, minimum and maximum amount of the loans and length of repayment, interest rate, flexibility for saving and repaying the loans.</li> </ul>  |

| Instrument                                   | Number | Description   | Topics  |
|--|--------|---|---|
| Interviews with NGOs implementing S&L groups | 4      | BIFANO<br>FPWO: supports women-only groups.<br>Caritas<br>USC Canada  | <ul style="list-style-type: none"> <li>History and creation of the NGO</li> <li>Areas of implementation</li> <li>Partnerships and coordination with other NGOs</li> <li>Working with World Neighbors and getting to know the S&amp;L methodology</li> <li>Implementation of the S&amp;L groups: their methodology and support to the S&amp;L groups</li> <li>Strengths and weaknesses of the S&amp;L groups</li> <li>Aspects that could threaten the S&amp;L groups</li> <li>Link between agriculture and S&amp;L groups</li> </ul>   |
| Interviews with key informants               | 6      | 2 MAF extension workers supporting S&L groups in Netenoke and Poasbot.<br><br>Oxfam's program manager in Oecussi<br><br>Moris Rasik's regional manager (including Oecussi)<br><br>Director of Credit Union Federation in Timor-Leste<br><br>Credit Union Federation Australia<br>CUFA's country director<br><br>2 current SoL Advisors previously involved with the program of World Neighbors in Oecussi | <ul style="list-style-type: none"> <li>Description of their activities/areas of work</li> <li>Description of support they provide to S&amp;L groups or Farmers Groups</li> <li>Strengths and weaknesses of S&amp;L groups</li> <li>Comparison between members and non-members of S&amp;L groups</li> </ul>  |
| Household survey                             | 19     | 14 with current members of S&L groups (12 in Oecussi, 2 in Manatuto)<br><br>5 with non-members (Oecussi)  | <ul style="list-style-type: none"> <li>Socioeconomic conditions of the household</li> <li>Monthly expenses</li> </ul> <p>For members of S&amp;L groups only:</p> <ul style="list-style-type: none"> <li>Membership;</li> <li>Savings profile: Savings, Dividend, Uses, Decision-making, History and relation with other sources;</li> <li>Loans profile: History and relation with other sources, Loans taken with S&amp;L group, Uses, Decision-making;</li> <li>Impact of the S&amp;L on self-esteem, status in the community and the family, diet, health conditions, income generating activities.</li> </ul> <p>For non-members of S&amp;L groups only:</p> <ul style="list-style-type: none"> <li>Reasons for not joining a S&amp;L group</li> <li>Savings and loans with other sources, Uses and Decision-making.</li> </ul> |

Source: Author

## 2.2 Limitations of the methodology

Several aspects of the implementation of the methodology could add some bias to the analysis and constraint the findings of the study.

- *Sampling of the focus groups.* In Oecussi the S&L groups chosen to participate in the focus group discussions were not randomly selected. Four of them were chosen based on specific characteristics such as: age, size and composition, location, level of support from local NGOs, gender composition and women leadership, level of success (based on information from key informants). Since this is an exploratory study, the methodology deliberately looked for diversity in order to understand what characteristics make a S&L group successful, why some groups have struggled and what are the lessons learned. In addition, four groups were selected as comparison; two of them have faced more financial and managerial difficulties; the third one is a women-only S&L group which members' main occupation is to weave *tais*; finally, the last group visited is based in the district of Manatuto and was selected to get a deeper understanding of the relation between the savings and loans model and income generating activities.
- *Sampling of the household survey and accuracy of the information.* The short survey is not statistically representative of the population of interest (farmers that are or could be members of S&L groups). It was applied to men and women that were not randomly selected. All the members of S&L groups interviewed were suggested by from the participants of the focus groups by the facilitator, including some of the non-members interviewed, who went to the meeting because they were interested in becoming new members. In addition, due to time and logistic constraints, it was also difficult to survey a greater number of people. On the other hand, the survey was asked during breaks of the focus groups or after the activity had finished as it was difficult to perform them in a more appropriate or private place. Hence, other people tended to be surrounding the person interviewed, which had a pro and con side. who at times provided additional information but also could made this person uncomfortable, limiting the information shared, especially with questions relative to sensitive topics involving money and decision-making at the household level.
- *Translation.* None of the researchers speak Baikeno, the local language in Oecussi, and only one of them speak Tetun. This limitation implied the need to find a person to facilitate the focus groups. The director of one of the local NGOs took the role as the facilitator of the discussions and interviews and translated the comments of the participants from Baikeno to Tetun. Another person from the same NGO translated the information from Baikeno to English, however her level of English was poor. As a result, information might have been was lost in translation, which also limited the capacity to make inferences from the discussions and interactions among the participants in each of the questions. In addition, the fact that the facilitators and translators have a high stake in the program and their own interests on it could add bias to the information translated to the researchers; some of this bias was identified and control by the researchers through cross-checking and triangulating the information received and asking key informants for additional clarification when needed. Thirdly, when researches and the facilitator were translating the questions

it was necessary at times to provide further explanation or examples to make them easy to understand for the participants, which could also bias the answers provided.

- *Generalization.* Since the case study is focused on Oecussi's experience with S&L groups, and the historical, political and socioeconomic conditions of the district varies with the ones in other districts of Timor Leste, some of the findings cannot be extrapolated to the entire country and lessons learned should be carefully analyzed in each case.



Figure 1: Members of savings and loans groups in Oecussi participating in two of the focus group discussions held for the case study

## 3 Findings

### 3.1 The S&L Groups within the Holistic Approach Program

Back in 2005 the American NGO World Neighbors ([www.wn.org](http://www.wn.org)) started the program “From Hunger Toward Hope: Strengthening Community Capacity and Resilience for Food Security in Oecussi, Timor Leste” in partnership with the local NGOs AHCAE, BIFANO, CECEO and FFSO. The focus of this program has been increasing food security in order to improve the livelihoods of the farming communities living in the highlands. However it was conceived from a comprehensive approach that makes it a community development program. From the agricultural side, the groups members have received training and support in modern farming techniques, agroforestry, animal husbandry, and post harvest processing, among others. On the other hand, these activities have been performed along with a process of empowering the communities to comprehend their own socioeconomic conditions, to identify their needs and to build a community development plan in order to address and achieved the common vision they created for themselves. (Utami, 2011).

The establishment of Savings & Loan groups was not an isolated initiative; it was circumscribed into this community plan following the holistic approach of the program. It was also motivated by past unsuccessful experiences that people from these communities had with former moneylenders. They considered that the scheme the latter was offering was not convenient for them: loans at too high interest rates (20% per month, 50% in six months, or 100% in a year) with a weekly installment period that was too short for the community people’s capacity. At the end, the community felt the only one benefiting from these services was the moneylender and that they needed a more flexible financial scheme.

A couple of years after creating the farmers groups the S&L groups were created. The first group was created in January 2008 and the newest group in November 2012. The tipping point to establish them was when the communities started to perceive the benefits of the program and the increase in their income from selling their crops; then the savings and the loans responded to it, as a way to further expand their livelihoods and satisfy their consumption needs. Both savings and loans have mainly allowed people to buy more food, pay for school fees and uniforms, make house improvements, buy motorbikes or invest in their own business.

Along with the support in agriculture and the creation of the S&L groups, the local NGOs have also promoted other activities in partnership with international NGOs such as Caritas Australia and Oxfam. The activities have included trainings in WASH (water, sanitation and hygiene), domestic violence and monthly family income and expenses analysis.

As part of the process communities organized themselves in *Aldeia Level Community Forums*. Each forum is an association of farmer groups. The creation of groups and forums was a process of discovering better and more efficient ways to work together and organize themselves in order to address their common problems, mostly in natural



Although all the forums have a Savings and Loan group not necessarily all the members of the farmer groups are members of the S&L group. However, the members of the latter are more prone to participate in the other activities and trainings performed in the forum, which improves their knowledge and capacity as well as reinforces the relationship among the members of the S&L group. Nonetheless, this might occur because non-members have less access to information about the programs that are being implemented by NGOs and the government. These organizations usually meet with the community at the annual meeting of the S&L group, hence, the probability of participating in and benefiting from new activities is higher for members than for non-members.

### Small community forum

Figure 2: Structures of small and big community for a



### 3.2 How it Works

Savings and Loan (S&L) Groups in Oecussi provide easier access to financial services for poor communities living in the rural areas, especially in the uplands, where other financial services are either limited or deliver services targeting less economically vulnerable villagers with higher and more stable sources of income. The groups are owned, governed and managed by self-selected members of the community. This enable the group to give their members flexible terms on the financial services they offer that match their economic capacity to save and repay the loans.

Moreover, unlike microfinance institutions that usually focus on providing credit to finance income-generating activities, which makes the loan size bigger than the amount borrowed from S&L groups, the latter expand the uses of the loans to satisfy consumption and other household needs. Likewise, since S&L groups have very low overhead costs, they are able to offer more attractive interest rates on loans. The monthly interest rate charged on the loans varies across groups from 2% to 5%. The interest is applied to the balance of the loan and must be paid in a monthly basis.

The money managed by the groups comes and stays within the members. Members do monthly savings and the money goes to a fund from which members can borrow. The scheme thus emphasizes on the savings rather than on the loans and encourages the members to increase their savings in order to provide more and bigger loans and receive higher returns. There are three types of savings: basic, compulsory and optional. Basic saving is an amount (the same for all the members) defined by the group that is paid once when the members register themselves. Each member is required to save a minimum monthly compulsory saving amount, which varies between \$1 and \$3 across groups but is the same for all the members within a group. Through voluntary savings members with the willingness and ability to save additional money can increase their shares if they wants to. Loan size and length of repayment varies across S&L groups depending on their capital:

- The minimum size fluctuates between \$5 and \$50, while the maximum amount ranges from \$50 to \$1,500 (rarely).
- Depending on the size of the loan, the minimum period to repay is one month, while the maximum ranges from three to twelve months. The length of repayment is agreed when the loan is taken, but the borrower may repay early; in this case, the person does not have to pay further interest. Since the amount of interest need to be paid is based on the balance of the loan, the faster members repay their loan, the less interest they have to pay.

Each S&L group has a management body made up of a Chairperson, the Secretary, the Treasurer, and a Board of advisers. Although there are some minor differences across groups, the most common roles of each of these representatives are:

- Chairperson (male): overlooks the management of the S&L group; counts the money with the treasurer and controls the money going in and out of the safe; motivates the members to keep saving and borrowing and attending the meetings; leads the discussions in the group and mediates in conflict resolution; manages the relation of the group with NGOs, the government and other organizations.

- Secretary (male): Is in charge of the communications; writes up the internal and external documents; manages the archive; ensures that the documents and archive are kept in a secure place; helps to write the transactions of each member in the individual booklets.
- Treasurer (female): is the one responsible for the bookkeeping of the entire group; writes down the transactions of each member in the individual booklets; generates a report with monthly statistics; counts the money along with the Chairperson; checks that the numbers in the book match the cash in the safe; receives and hands in the money from the savings and loans.
- Board of advisers (male): consisting of two men of the community who provide support to the S&L group especially for conflict resolution.

In addition, each group develops its own set of rules that provides first, a framework for governance and conflict resolution, and second, the conditions and terms for saving and lending money. Rules include fines charged for late repayment or saving and for not attendance to monthly meetings. Fines, which vary between \$0.50 and \$3 across groups, must be paid in addition to the savings and repayment obligations of the member. In addition, when a borrower is lagging behind on loan payments, the S&L group will ask the person to sell some of his/her assets (commonly livestock).

S&L groups take different measures in order to ensure the transparency of the transactions.

- First of all, members meet together on a regular basis. Every month all the members meet during one up to three days (depending on group size) to perform all the financial transactions in front of the group. At the end of each saving and lending cycle, usually one year, members meet together again in an annual meeting in which the management body presents to the members a financial report of the S&L group, all the members make a balance on the performance of management body and discuss issues that should be improved, and each of the members receive a dividend in proportion to the shares the person saved throughout the cycle. The overall dividend is calculated from the accumulated savings and earnings from the service charge.
- Secondly, bookkeeping is registered twice. The treasurer keeps a book with all the transactions of the S&L group, while each member has his/her own booklet with all the individual records. The chairperson ensures that the information in both systems matches. In addition, the monthly report with the balance sheet that the treasurer creates is displayed and available to all the members.
- Thirdly, between meetings cash and documents are kept in a safe box<sup>1</sup> that is administered by the management body. In order to open and close the safe, all the members of the management body must be present. The safe is kept in the house of one of the management body, but somebody else is in charge of the keys while another person knows the code to open it. Some groups allow the members to save extra money between the meetings in addition to the monthly meeting, but this

---

<sup>1</sup> In 2011 World Neighbors supported each S&L group with a safe; 50% of the cost came from World Neighbors and the remaining half was taken from S&L groups' petty cash.

means that the entire management body must be present at the moment of the transaction.

Membership to the S&L groups in Oecussi is open to men and women, and some groups also allow children and youth to join. Members of the S&L groups are self-selected. The most important criteria to form the group and to admit new members are that the person and his/her family should be “good people”, trustworthy and mainly good understanding with the rest of the community. These characteristics are easy to identify by the members by the fact that the majority of them are relatives and neighbors constantly working and meeting together in the same farmer group and forum. The members of the communities also tend to concur to the same communal activities and spaces, such as the market, the church and the school.

**LAPORAN KEUANGAN DAN STATISTIK BULANAN**

Kedudukan pada akhir bulan ini : 30/11/2013

Nama UBSP : S. K. M. N. S. D. B. M.

Alamat : S. K. B. P. V.

| NERACA                |                     | PENDAPATAN DAN BIAYA    |                  |
|-----------------------|---------------------|-------------------------|------------------|
| <b>AKTIVA</b>         |                     | <b>PENDAPATAN</b>       |                  |
| 1. Kas                | \$ 1.726,80         | 6. Bunga Pinjaman       | \$ 828,40        |
| 2. Bank               | \$ -                | 7. Jasa / Fee           | \$ -             |
| 3. Pinjaman           | \$ 62.70,00         | 8. Denda                | \$ 11,00         |
| 4. Inventaris         | \$ -                | 9. Uang pangkat         | \$ 102,90        |
| 5. ...                | \$ -                | 10. Lain - lain         | \$ -             |
| <b>Jumlah</b>         | <b>\$ 64.428,80</b> | <b>Jumlah</b>           | <b>\$ 942,30</b> |
| <b>PASIVA</b>         |                     | <b>BIAYA - BIAYA</b>    |                  |
| 11. Simpanan pokok    | \$ 205,00           | Biaya administrasi Umum | \$ 2,00          |
| 12. Simpanan wajib    | \$ 2.000,00         | Biaya Transportasi      | \$ 5,00          |
| 13. Simpanan sukarela | \$ 62.70,00         | Biaya Pendidikan        | \$ -             |
| 14. Simpanan khusus   | \$ -                | Biaya pertemuan         | \$ -             |
| 15. Dana Sumbangan    | \$ -                | Beli buku Sacc Anggota  | \$ -             |
| 16. SHU / Tak terbagi | \$ 1,00             | Lain - lain             | \$ 1,00          |
| 17. Rugi/laba         | \$ 233,80           |                         | \$ -             |
| <b>Jumlah</b>         | <b>\$ 64.428,80</b> | <b>Jumlah</b>           | <b>\$ 8,00</b>   |

| DATA                         |                | STATISTIK                   |           |
|------------------------------|----------------|-----------------------------|-----------|
| Tanggal Pembentukan          | 11/10/12       | Pendidikan Bulan ini        | 1 kali    |
| Daerah Kerja                 | S. K. B. P. V. | pemeriksaan Bulan ini       | 1 kali    |
| Jumlah Anggota Bulan ini     | 16 Orang       | Jumlah simpanan Bulan ini   | \$ 283,90 |
| Laki-Laki                    | 22 Orang       | Jumlah Pinjaman bulan ini   | \$ -      |
| Perempuan                    | 18 Orang       | Jumlah yang pernah dipinjam | \$ 150,00 |
| Jumlah peminjam bulan ini    | 1 Orang        | Jumlah Modal s/d bulan ini  | \$ 756,34 |
| Jumlah Peminjam sejak bentuk | 11 Orang       |                             |           |

01/11/2013

Ketua UBSP : S. K. M. N. S. D. B. M.

Bendahara UBSP : S. K. B. P. V.

Diperiksa oleh : S. K. B. P. V.

Figure 3: Example of a monthly balance sheet of a S&L group

In order for a person to become a new member, he/she is interviewed by the management body, which explains the scheme and the rules and obligations of the members. Also, and based on the group's rules, the person has to pay between \$5 and \$10 of basic savings and between \$1.50 and \$2.50 of administration fee, in addition to the savings of the first month. However, new members may only apply for their first loan after three to four months. Most of the groups receive new members any time

during the cycle, although others prefer to provide the membership at the annual meeting only. In addition, some groups allow their members to participate in other groups providing also access to finance, such as S&L groups from other *aldeias*, cooperatives and microfinance institution. On the other hand, if a member wants or needs to leave the group, the person has to wait until the annual meeting to get his/her accumulated savings and dividend back, although the person is allowed to freeze his/her savings.

Table 2: Composition of Savings and Loans Groups in Oecussi district, Timor-Leste

| No                      | Name of Group           | Aldeia              | Sub-district   | Date established | # of Members from Farmer Groups |            |            | # of Members from Non-Farmer Groups |           |           | Total # of Members |
|-------------------------|-------------------------|---------------------|----------------|------------------|---------------------------------|------------|------------|-------------------------------------|-----------|-----------|--------------------|
|                         |                         |                     |                |                  | M                               | F          | Total      | M                                   | F         | Total     |                    |
| 1                       | Haburas                 | Sanane/Nunbei       | Pante Makassar | 5-Jan-09         | 18                              | 6          | 24         | 0                                   | 0         | 0         | 24                 |
| 2                       | Tamasan Billo           | Mahata              | Nitibe         | 11-Jan-09        | 31                              | 2          | 33         | 0                                   | 0         | 0         | 33                 |
| 3                       | Quisan Kal Bikase       | Quat Enes           | Nitibe         | 13-Feb-09        | 17                              | 8          | 25         | 0                                   | 0         | 0         | 25                 |
| 4                       | Moris Foun Bitulu       | Oelfab, Bebu        | Nitibe         | 6-Jun-09         | 27                              | 8          | 35         | 0                                   | 0         | 0         | 35                 |
| 5                       | Sambia Poasbot          | Poasbot             | Nitibe         | 15-Jan-10        | 7                               | 1          | 8          | 0                                   | 0         | 0         | 8                  |
| 6                       | Tamasan Lil Ana Bibolo  | Hauboni             | Nitibe         | 15-Mar-11        | 10                              | 3          | 13         | 0                                   | 0         | 0         | 13                 |
| 7                       | Naim Mnasi Bicolo       | Quantua             | Nitibe         | 25-Mar-11        | 14                              | 2          | 16         | 0                                   | 0         | 0         | 16                 |
| <b>Sub Total AHCAE</b>  |                         |                     |                |                  | <b>124</b>                      | <b>30</b>  | <b>154</b> | <b>0</b>                            | <b>0</b>  | <b>0</b>  | <b>154</b>         |
| 8                       | Tabuab Nekaf Tabei      | Nun'Atais, Haemnanu | Pasabe         | 12-Oct-10        | 24                              | 13         | 37         | 0                                   | 0         | 0         | 37                 |
| 9                       | Nakobahit               | Malelat             | Pasabe         | 15-Jan-11        | 30                              | 12         | 42         | 0                                   | 0         | 0         | 42                 |
| 10                      | Anmanat Tomac           | Tono, Haemnanu      | Pasabe         | 18-Jan-11        | 14                              | 6          | 20         | 0                                   | 0         | 0         | 20                 |
| 11                      | Mafut Nekaf Bibesi      | Bibesi, Nibin       | Pasabe         | 28-Feb-11        | 29                              | 14         | 43         | 0                                   | 0         | 0         | 43                 |
| 12                      | Halinat na Nobe Passabe | Pasabe              | Pasabe         | 10-Mar-11        | 34                              | 23         | 57         | 5                                   | 3         | 8         | 65                 |
| 13                      | Hafora Metac            | Metac, Pasabe       | Pasabe         | 14-Apr-11        |                                 |            |            |                                     |           |           |                    |
| 14                      | Moris Foun Bimeny       | Noahaque            | Pasabe         | 15-Nov-11        | 34                              | 16         | 50         | 0                                   | 0         | 0         | 50                 |
| 15                      | Bipulu Cussi            | Hautefu, Ban'afi    | Pasabe         | 20-Dec-11        | 13                              | 1          | 14         | 0                                   | 0         | 0         | 14                 |
| 16                      | Colot'Non               | Naituna             | Pasabe         | 16-Jun-12        | 9                               | 3          | 12         | 0                                   | 0         | 0         | 12                 |
| <b>Sub Total CECEO</b>  |                         |                     |                |                  | <b>187</b>                      | <b>88</b>  | <b>275</b> | <b>5</b>                            | <b>3</b>  | <b>8</b>  | <b>283</b>         |
| 17                      | Hita An Rasik           | Buqui               | Oesilo         | 8-Jan-08         | 63                              | 49         | 112        | 2                                   | 2         | 4         | 116                |
| 18                      | Haluta Moris            | Pune                | Oesilo         | 8-Jan-08         | 32                              | 10         | 42         | 18                                  | 7         | 25        | 67                 |
| 19                      | Nekaf Mese              | Noetoco             | Oesilo         | 30-May-08        | 63                              | 31         | 94         | 0                                   | 0         | 0         | 94                 |
| 20                      | Binoni Saben            | Saben               | Oesilo         | 11-Jun-08        | 22                              | 18         | 40         | 0                                   | 0         | 0         | 40                 |
| 21                      | New Stard               | Sifin               | Oesilo         | 14-Jun-08        | 33                              | 29         | 62         | 0                                   | 0         | 0         | 62                 |
| 22                      | Moris Foun              | Nianapu             | Oesilo         | 17-Nov-08        | 15                              | 15         | 30         | 0                                   | 0         | 0         | 30                 |
| 23                      | BI - ENO                | Maunaben            | Oesilo         | 28-Nov-10        | 24                              | 10         | 34         | 0                                   | 0         | 0         | 34                 |
| 24                      | BI ONI FIF NA           | Tumin               | Oesilo         | 4-Feb-11         | 16                              | 7          | 23         | 0                                   | 0         | 0         | 23                 |
| 25                      | MADFUT                  | Sonamnasi           | Oesilo         | 27-Nov-12        | 11                              | 11         | 22         | 0                                   | 0         | 0         | 22                 |
| <b>Sub Total BIFANO</b> |                         |                     |                |                  | <b>279</b>                      | <b>180</b> | <b>459</b> | <b>20</b>                           | <b>9</b>  | <b>29</b> | <b>488</b>         |
| 26                      | Moris Hamutuk           | Sonamnasi           | Pante Makassar | 16-Dec-09        |                                 |            |            |                                     |           |           |                    |
| 27                      | Taskektit bi fini balan | Netenoke            | Pante Makassar | 10-Feb-10        |                                 |            |            |                                     |           |           |                    |
| 28                      | Bioetuan                | Quinat              | Pante Makassar | 18-Aug-10        |                                 |            |            |                                     |           |           |                    |
| 29                      | Mafut nekaf Oefoko      | Oefoko              | Pante Makassar | 22-Sep-10        |                                 |            |            |                                     |           |           |                    |
| 30                      | Buiana Nefobai          | Nefobai             | Pante Makassar | 26-Sep-10        |                                 |            |            |                                     |           |           |                    |
| 31                      | Tafnekan Lacufoan       | Lacufoan            | Pante Makassar | 30-Sep-10        |                                 |            |            |                                     |           |           |                    |
| 32                      | Hadomimalu              | Bihala              | Pante Makassar | 23-Feb-11        |                                 |            |            |                                     |           |           |                    |
| <b>Sub Total FFSO</b>   |                         |                     |                |                  |                                 |            |            |                                     |           |           |                    |
| <b>TOTAL GENERAL</b>    |                         |                     |                |                  | <b>590</b>                      | <b>298</b> | <b>888</b> | <b>25</b>                           | <b>12</b> | <b>37</b> | <b>925</b>         |

Source: Author based on information provided by Wayan Tambun, former World Neighbors' Program Coordinator in Timor Leste

As of March 2013, there were 32 S&L groups established in Oecussi with presence in each of the four districts: Nitibe, Pasabe, Oesilo and Pante Makassar. Overall there are over 925 members<sup>2</sup>, 615 men and 310 women (see Table 2). On average, there are 38.5 members per group; the smallest group has 8 and the largest 116, which is significantly higher than the average of 25 members that is usually found on international experiences of Savings and Loan Groups. Although all the groups are mixed, on average there are two male members for every woman. This sex ratio shows a significant difference with other initiatives aiming to increase access to microfinance, including international examples of microfinance institutions as well as savings and loan associations, which have traditionally targeted women as their most important beneficiaries. Despite there is no baseline to determine if this number represents an improvement in the economic empowerment of women, it does reveal that there is still room for increasing women's access to finance.

Lastly, it is common to read in international experiences of S&L groups at the village level that the groups also hold a social fund that provides grants to members in case of emergencies, distress or special events (for newborns, funerals or other ceremonies). The money for this fund usually comes from reserving a portion of the service charge for it. However, groups in Oecussi are not offering this service for their members. Nonetheless, it is tradition in the culture of the communities living in this district to voluntarily provide economic support among each other in case one of their neighbors is in such circumstances.

### 3.3 Socioeconomic Characteristics

In terms of the socioeconomic and living conditions of members and non-members, the household survey did not find major differences between the respondents. However, a representative survey could provide a more accurate picture of the differences and similarities. By living in the same vicinity, members of the forums share the same kind of external conditions or challenges, such as access (or lack of it) to public services and markets. These circumstances also make the members of the forums highly homogeneous among them in terms of socioeconomic conditions, occupation and income.

Overall, the average size of the surveyed households is 5.8 members and the majority (15 out of 17) identified themselves as headed by men. In addition, all of the school-age children and youth are currently enrolled at school. The respondents of the small survey were the head of the household or his/her spouse. The educational attainment most recurrent among them is no schooling (7 out of 17). The rest of the people interviewed attained primary (non-completed and completed) or secondary level of education (see Table 3).

---

<sup>2</sup> The last records do not include data from the S&L groups that are under the supervision of the local NGO FFSO; 7 in total based in Pante Makassar sub-district. Neither staff from local NGO FFSO (there is no more staff of FFSO working in the field) nor Suco Extension Officers were able to gather the data.

Table 3: Educational attainment of members and non-members surveyed

| Gender       | No schooling | Pre-school | Primary, class 1 | Primary, class 2-5 | 6 to pre-secondary, class 2 | Pre - secondary class or higher | University |
|--------------|--------------|------------|------------------|--------------------|-----------------------------|---------------------------------|------------|
| Male         | 3            | 0          | 2                | 1                  | 0                           | 2                               | 1          |
| Female       | 4            | 0          | 1                | 2                  | 0                           | 1                               | 0          |
| <b>Total</b> | <b>7</b>     | <b>0</b>   | <b>3</b>         | <b>3</b>           | <b>0</b>                    | <b>3</b>                        | <b>1</b>   |

Source: Author.

Regarding their housing conditions (see Table 4 on the next page), the most common material used on the external walls is sago palm (*bebak*), followed by cement or a combination of both (half *bebak* and half cement). Roofs are generally made of palm leaves or corrugated iron, while floors are primarily made of soil, followed by cement. Although the survey is not representative of the population that could be involved in S&L groups, the numbers show that these households are progressively doing house improvements by moving from the traditional house structure into using more modern and resistant materials. It is also known that access to electricity is limited to 12 hours per day at night only in the main town and the surrounding areas. This means that nearly all of the communities involved in S&L groups, which live in the highlands, do not have any access to it. This issue affects in particular S&L groups with large number of members, especially when they are trying to do and write in the dark all the money transactions for each of the members during the monthly meeting. Access to water is also limited and found in wells, while the principal fuel used for cooking is firewood.



Traditional house



Bebak house



Modern house

Figure 4: House types in Oecussi

Table 4: Housing conditions

|                                   | Total | Members | Non-members |
|-----------------------------------|-------|---------|-------------|
| <b>Material of external walls</b> |       |         |             |
| Palm leaves (bebak)               | 8     | 6       | 2           |
| Concrete/cement/brick             | 4     | 3       | 1           |
| Half bebak/Half cement            | 3     | 2       | 1           |
| Bamboo                            | 1     | 1       | 0           |
| Corrugated iron/zinc              | 1     | 0       | 1           |
| <b>Material of roof</b>           |       |         |             |
| Palm leaves/grass                 | 8     | 5       | 3           |
| Corrugated iron/zinc              | 8     | 7       | 1           |
| Concrete/cement                   | 1     | 0       | 1           |
| <b>Material of floor</b>          |       |         |             |
| Soil/clay/mud                     | 11    | 9       | 2           |
| Concrete/cement                   | 5     | 3       | 2           |
| Tile/stone                        | 1     | 0       | 1           |

Source: Author.

The majority (96%) of the members of the S&L groups are farmers, however, some of the groups have admitted other people from the community as members, such as teachers, though their participation within the groups remains low. The exception is the group Haluta Moris in Pune (Oesilo), which is made up of 42 farmers and 25 non-farmers. However, although most of the surveyed people, men and women, identified themselves as farmers, some of them described being involved in other activities related to micro and small businesses, such as carpentry, preparing food and selling it in the market, owning a kiosk, selling in the local market petrol and other goods bought in the border with West Timor.

Members of the S&L groups identify themselves as poor people and state that the savings and the loans are for the poorest in the community or for those families facing great economic needs, as the members perceive it. However, in some cases both, members and non-members consider the amount of the monthly compulsory savings, to be too high for other people from the community to join the S&L group and therefore excluding the poorest neighbors and leaving outside some of the farmers members that are members of the forum but not of the S&L group. This issue raises the question whether the program is benefiting or not the poorest of the poor, since it is the target population the S&L groups aim to support.

The survey also asked for the monthly expenses of the households in order to see their distribution as well as any differences between members and non-members of the S&L groups. Despite the limitation of the study to extrapolate the results, there is a clear difference between the surveyed members and non-members when it comes to expenses. Members spend more of their cash income in food, education and savings, while non-members spend in food, *adat* and other expenses. This can suggest that the



S&L groups indeed increases access to financial services and belonging to one multiplies the probability of saving. However, half of the surveyed members used to save money at home or with other organizations before joining the S&L group, so they had a previous culture of saving money. A representative survey could confirm or dismiss these preliminary findings.

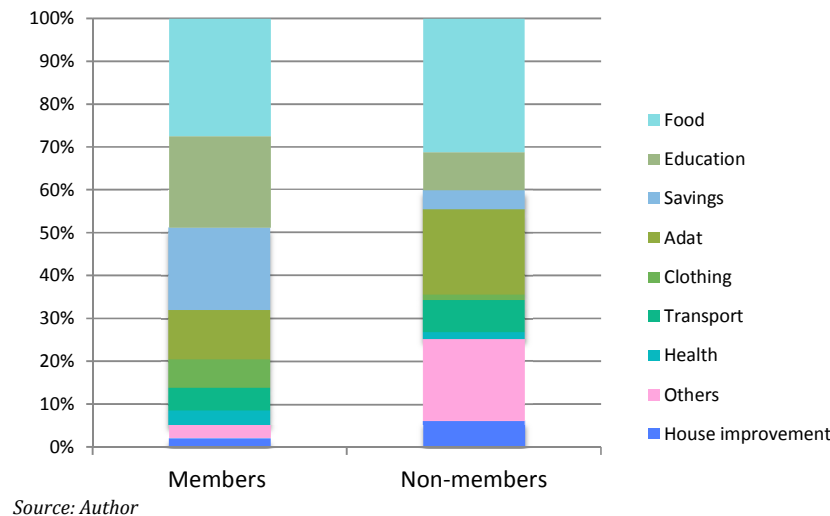


Figure 5: Distribution of monthly household expenses

The gender roles at households of members of the S&L groups are clearly defined, as it was a unified answer across different focus groups. Women are responsible for managing the money for the family expenses and doing the “easy work”, as they described: looking after the children, doing the housework (cooking, cleaning, washing, etc.), going out to collect firewood, planting and selling vegetables in the market along with other products (e.g. cakes prepared by them), and raising small livestock (pigs and chickens). Men, on the other hand, are in charge of the “hard work”: making the terraces and preparing the land, irrigating, raising cattle, and climbing the palms to obtain wine. However, planting and harvesting staple crops are tasks that both of them perform together.

Regarding the decision-making process at the household level with topics related to the savings and loans, for both members and non-members of S&L groups, both husband and wife make it together when it comes to decide what members of the family will join the group and what are the purposes of the savings and the loans taken. In terms of which person at the household takes responsibility for repaying the loans, it depends on the purpose of the loan. When the loan is taken for the borrower’s own business or needs (e.g. weaving and selling *tais* or buying a motorbike) then the responsibility lies on that person, however, in such cases in which the purposes of the loan are directly related to the needs of the household (such as education, *adat* or food), then both husband and wife are responsible for repaying it.

### 3.4 Social Capital and Managerial Capacity

Having a good management system led by capable and committed people is one of the characteristics that people identified as key for the success of the S&L group. All the members select the management body based on the candidates' leadership skills, literacy skills, managerial and financial skills, trustworthiness, commitment to the group and reliability. This means that the management body must know how to write and read but also have a clear understanding of the S&L scheme. Not having these characteristics undermines the well functioning of the group and provides the conditions for conflict to arise.

The lack of education is a limitation for understanding and implementing the scheme of the S&L group, which can undermine the dynamic of the group. However, this constrain is usually offset with trust and solidarity. Some members that are literate or staff from the local NGOs provide support to the management body in writing the transactions in each member's booklet. This also helps to hold the management body accountable for the financial balance of the group. However, if the level of education of the management body is too low, it weakens their capacity to manage the financial aspects and puts the sustainability of the group at risk.

In addition, management problems and conflict among members also arise when leaders seek to satisfy their own personal interests instead of working for the wellbeing of the S&L group. Problems have been related with political differences among the leaders and mismanagement of the money. The latter has occurred when leaders lend money to outsiders that ran away with the money and did not pay back, or when money from the group is missing and the bookkeeping is not clear. Nonetheless, it is worth mentioning that groups that has succeed, those that have strong savings and loan systems and are still running, have faced this kind of problems in the past and taken corrective measures to prevent these incidents. This learning experience has been part of the process of developing and consolidating the S&L groups that has taken several years for each of the group.

As a result, in order to hold the management body accountable to the members, every annual meeting the entire group evaluates the performance of the management body and decides on whether to keep the current structure or to change some of its members. The experience has been that once the management body has proven their capacity to the members, the latter will reelect them and turnover will become rarely. Overall, in addition to present financial report for the current fiscal year and share the profit to all members, the annual meeting is very important to the group because it is the space to discuss important issues, take decisions and solve problems together with the participation of all the members, thus, it strengthens transparency and promotes a culture that avoids conflict among members.

Furthermore, having a safe box considerably increases transparency of all the transactions performed within the S&L group, and improves the security and the reliability of the members on the management body. Moreover, members of the management bodies have adopted shared responsibilities and supervise each other's tasks in order to make them hold accountable to each other. For example, at least two of

them participate in the tasks they have to perform (e.g. opening the safe, taking the money in and out of it, counting the money, writing the transactions in the books, etc.).

Having a capable management of the S&L group is not enough for its success. The ability of the management body is intrinsically related to the capacity of the group to mobilize their own social capital and to take decisions in a democratic manner. Whenever these characteristics become weaker, the sustainability of the S&L group is threatened. Unity, respect, solidarity, transparency, commitment and trust are the main principles driving the relationship among the members of the Aldeia Level Community Forums. These characteristics are constantly reinforced by a sense of communality obtained by working together in the field and for the members' wellbeing, by attending the trainings and applying their knowledge in the group and at home, by sharing the same ideas and vision about the group, and by conducting collective actions to address commons problems and interests.

Male members also recognized that the participation of women in the S&L groups is important to maintain those principles within the group, despite their participation remains relatively low compared to men. In all of the groups women have been assigned as the treasurers, as people consider that they have better financial skills and are more responsible in managing the money at both, the household level and the group level. Additionally, women perform an important role as mediators when conflict among the members arises, and help to keep a good relationship within the group.

Solidarity has also been promoted not only within the group members but also among different S&L groups and Community Forums. Part of the capacity building strategy of World Neighbors was to provide representatives of the local NGOs and the communities the opportunity to involve on learning visits in Bali, Kefa and Flores directly from other communities that were also implementing this program in those places<sup>3</sup>. After coming back from those trips people socialize their experience and lesson learned with their own communities. This kind of cross-visits was later replicated among *aldeias* in Oecussi. Members of the S&L group share their experiences and knowledge with other *aldeias* and then the members analyze what type of changes or improvements they want to implement in their own groups. The groups that had access to trainings outside Timor-Leste and have been doing higher number of cross-visits are performing better. These activities enhance the knowledge of the members and the relationship within and between groups. Moreover, the more established groups have been passing along their lessons learned to newer groups during the learning cross-visits between the groups, which facilitates the consolidation of the younger groups.

As important as working together is taking decisions together. Although each S&L group has a management body, a sense of balance of power is crucial. This sense varies across groups: in some of them the management body is more involved in solving problems and having the final word than in other groups. But, the chairperson of the S&L group takes his decisions based on information from and discussed with the members. Besides, overall, what matters to the members is that all the issues pertaining to the group are discussed together, that their ideas and opinions are listened to and taking

---

<sup>3</sup> World Neighbors calls this strategy as "peer-to-peer learning process".

into account, and the decisions taken reflect the position of the majority of the members. Moreover, participating in the decision-making process implies sharing responsibility for the well functioning of the group. Therefore, there is a strong social control among the members to hold everybody accountable to each other.

The rules and fines regulating the activities and transactions within the group are examples of this social control. Each S&L group created its own norms and regulations with the participation of all the members. However, the degree of formalization varies across groups. Those groups that have experienced and solved managerial problems tend to have more formal procedures, for example, they have written statutes and use them for problem solving, or ask the members to sign them as a way of having a binding contract. Nonetheless, this does not necessarily mean that those groups without more formal procedures are not performing well. At the end it is about having the capacity (by using informal and formal means) to exercise peer pressure in order to keep the members' commitment with the group.

Social dynamics and ties among the members of the community also facilitate exercising peer pressure. All the members of the group are relatives and/or neighbors. They work together and frequent the same places, such as the market and the church, and they care for each other, so it is relatively easy for the people to know about each other's life. In some cases, this also means having control on people's resources. For example, in the monthly meeting when deciding what members have their loans approved, the decision is taken based not only on the amount required by the borrower and the amount available to lend, but also on the perception of the rest of the members about the purpose of the loan and the borrower's standing with the community and capacity to repay. The most extreme case happens when borrowers are lagging behind in repaying their debts. In this situation, the members talk with the borrower about the reasons for the delay and try to agree on a solution. However, if the situation persists, the group compels the borrower to sell some assets (mainly livestock) or takes over them, based on the amount owed.

Lastly, gaining support from other community leaders is another important figure for the success not only of the S&L group but also of the Forum. In some cases these leaders are members of the S&L groups, in others they are not. But, even if they are not members, having their support allows the Community Forum to increase the level of engagement of the members with the group and the scope of the implementation of the program. For example, in those cases where the chairperson of the community's economy (savings and loans) is different from the chairperson of the forum, the latter provides support to the group and participates in the meetings. Moreover, by working closely with the chiefs of *bairos*, *aldeias* and *sucos*, the local NGOs have been able to increase the leaders' awareness about local traditions, such as *adat*, that put a great burden on households' income. Like in the case of *aldeia* Sifin, where the community has taken measures to change the tradition and reduce the household's contribution for *adat*. Involving the chiefs has also improved the relationship of the groups with external sources of support, such as NGOs and the government.

### 3.5 Financial Performance

As of March 2013, all the S&L groups have raised a total capital of over \$178,000<sup>4</sup> and disbursed more than six times this amount through loans to their members since the creation of the groups, which shows that overall there is great financial leverage (see Table 5). However, these figures vary among groups depending on their maturity, size, and capacity to raise capital, which is also subject to the income level of the members and the managerial performance of the group. The cumulative capital and amount of loans disbursed are greater for those groups that have been active for a longer period of time. Nonetheless, there are some cases, such as Sambia Poasbot, in which the group, despite it has been active for more than three years, have faced managerial and financial problems that have hindered the development of the group.

Furthermore, each group needs to find its own balance between the amounts to save and borrow and the number of members of the group, in order to be able to maintain the transparency of the transactions and a good management of the S&L group. Greater compulsory savings and number of members makes it possible to offer more and greater loans, which in turn enables people to see larger benefits from the system. However, asking for greater savings may first, exclude poorer neighbors and second, make it difficult to manage the group in case there are too many members and the group does not have the capacity to control all of them. Each group must also find their own balance between providing enough flexibility to the members without losing transparency of the transactions made. The system of savings and loans at the village level is characterized for offering more flexible terms and conditions on the savings and the loans, which attracts more members to the groups. However, it is important to hold everybody accountable in order to be able to keep those conditions and preserve the financial sustainability of the group.

As a result, it is common for the S&L groups to have too many members asking for loans but not enough cash in the safe box to satisfy all the requests. This situation has been twofold handled: firstly, at the group level, the members and the management body all together discuss to which prospect borrowers assign the loans, based on the purpose and size of the loan and the member's standing with the group; secondly, some members have promoted an alternative source for borrowing, they are lending each other money outside the regulation of the S&L group and define themselves the terms of the loan. This practice is implemented individually or collectively. The former means that a member lends money to another member or a non-member. The latter implies a more intricate relationship in which a group of members borrow money from the S&L group with the purpose of on lending it to another member. This practice is common when the person needs a greater amount of money than the quantity that is permitted to borrow by a single member from the S&L group, such as for projects of house improvement. Each of the persons in this sub-group arranges the installments directly with the main borrower, but they do not charge him/her any extra interest for the favor. However, since borrower and lender do not have the safety net provided by the S&L

---

<sup>4</sup> These numbers are expected to be larger since there is no data from the groups that used to be supported by the NGO FFSO.

group with its rules and regulations, this practice involves a higher risk for the moneylender.

Table 5: Cumulative financial performance

| Name of Group           | Sub-district   | Aldeia              | Date Established | Total # members | Total Capital       | Total Loans Disbursed |
|-------------------------|----------------|---------------------|------------------|-----------------|---------------------|-----------------------|
| Tamasan Lil Ana Bibolo  | Nitibe         | Hauboni             | 15-Mar-11        | 13              | \$655.75            | \$1,280.00            |
| Sambia Poasbot          | Nitibe         | Poasbot             | 15-Jan-10        | 8               | \$857.00            | \$3,475.00            |
| Colot'Non               | Pasabe         | Naituna             | 16-Jun-12        | 12              | \$879.00            | \$7,785.00            |
| Naim Mnasi Bicolo       | Nitibe         | Quantua             | 25-Mar-11        | 16              | \$879.25            | \$2,360.00            |
| Bipilu Cussi            | Pasabe         | Hautefu, Ban'afi    | 20-Dec-11        | 14              | \$988.00            | \$7,843.50            |
| MADFUT                  | Oesilo         | Sonamnasi           | 27-Nov-12        | 22              | \$1,300.00          | \$1,300.00            |
| Nakobahit               | Pasabe         | Malelat             | 15-Jan-11        | 42              | \$2,361.00          | \$25,351.00           |
| Anmanat Tomac           | Pasabe         | Tono, Haemnanu      | 18-Jan-11        | 20              | \$2,467.00          | \$46,351.00           |
| BI ONI FIF NA           | Oesilo         | Tumin               | 4-Feb-11         | 23              | \$2,521.00          | \$9,300.00            |
| Tamasan Bililo          | Nitibe         | Mahata              | 11-Jan-09        | 33              | \$2,715.40          | \$8,945.00            |
| Quisan Kal Bikase       | Nitibe         | Quat Enes           | 13-Feb-09        | 25              | \$3,359.95          | \$7,775.00            |
| Moris Foun Bitulu       | Nitibe         | Oelfab, Bebu        | 6-Jun-09         | 35              | \$3,438.43          | \$16,125.00           |
| Tabuab Nekaf Tabei      | Pasabe         | Nun'Atais, Haemnanu | 12-Oct-10        | 37              | \$4,809.00          | \$63,621.00           |
| Mafut Nekaf Bibesi      | Pasabe         | Bibesi, Nibin       | 28-Feb-11        | 43              | \$5,750.00          | \$12,218.00           |
| Binoni Saben            | Oesilo         | Saben               | 11-Jun-08        | 40              | \$6,387.00          | \$36,241.00           |
| BI - ENO                | Oesilo         | Maunaben            | 28-Nov-10        | 34              | \$6,546.00          | \$18,870.00           |
| Moris Foun Bimeny       | Pasabe         | Noahaque            | 15-Nov-11        | 50              | \$7,797.00          | \$129,083.00          |
| Haburas                 | Puente Makasar | Sanane/Nunbei       | 5-Jan-09         | 24              | \$9,228.00          | \$55,006.00           |
| Halinat na Nobe Passabe | Pasabe         | Pasabe              | 10-Mar-11        | 65              | \$10,518.00         | \$136,455.00          |
| New Stard               | Oesilo         | Sifin               | 14-Jun-08        | 62              | \$10,580.00         | \$66,482.00           |
| Moris Foun              | Oesilo         | Nianapu             | 17-Nov-08        | 30              | \$11,149.00         | \$48,693.00           |
| Haluta Moris            | Oesilo         | Pune                | 8-Jan-08         | 67              | \$20,616.00         | \$100,714.00          |
| Hita An Rasik           | Oesilo         | Buqui               | 8-Jan-08         | 116             | \$30,645.00         | \$152,163.00          |
| Nekaf Mese              | Oesilo         | Noetoco             | 30-May-08        | 94              | \$32,145.00         | \$197,350.00          |
| Haforsa Metac           | Pasabe         | Metac, Pasabe       | 14-Apr-11        |                 |                     |                       |
| Moris Hamutuk           | Pante Makasar  | Sonamnasi           | 16-Dec-09        |                 |                     |                       |
| Taskektit bi fini balan | Pante Makasar  | Netenoke            | 10-Feb-10        |                 |                     |                       |
| Bioetuan                | Pante Makasar  | Quinat              | 18-Aug-10        |                 |                     |                       |
| Mafut nekaf Oefoko      | Pante Makasar  | Oefoko              | 22-Sep-10        |                 |                     |                       |
| Buiana Nefobai          | Pante Makasar  | Nefobai             | 26-Sep-10        |                 |                     |                       |
| Tafnekan Lacufoan       | Pante Makasar  | Lacufuan            | 30-Sep-10        |                 |                     |                       |
| Hadomimalu              | Pante Makasar  | Bihala              | 23-Feb-11        |                 |                     |                       |
| <b>TOTAL</b>            |                |                     |                  | <b>925</b>      | <b>\$178,591.78</b> | <b>\$1,154,786.50</b> |

Source: Author based on information provided by Wayan Tambun, former World Neighbors' Program Coordinator in Timor Leste

Nonetheless, this situation is evidence of the healthy financial performance of most of the S&L groups. Table 6 shows the evolution of the average member investment throughout the years of implementation of the program, which basically measures the equity per member in each of the groups (SEEP, n.d.). In the majority of the cases, there

is a considerably increasing level of member investment, which is of great importance for the financial sustainability of a S&L group given the fact that it depends on these investments to offer loans to its members.

Table 6: Average member investment

| Name of Group           | Sub-district  | NGO    | 2009     | 2010     | 2011     | 2013     |
|-------------------------|---------------|--------|----------|----------|----------|----------|
| Tamasan Lil Ana Bibolo  | Nitibe        | AHCAE  |          |          |          | \$50.44  |
| Sambia Poasbot          | Nitibe        | AHCAE  | \$22.00  | \$56.56  | \$129.44 | \$107.13 |
| Naim Mnasi Bicolo       | Nitibe        | AHCAE  |          |          |          | \$54.95  |
| Tamasan Bililo          | Nitibe        | AHCAE  | \$18.17  | \$41.23  | \$57.65  | \$82.28  |
| Quisan Kal Bikase       | Nitibe        | AHCAE  | \$25.89  |          |          | \$134.40 |
| Moris Foun Bitulu       | Nitibe        | AHCAE  | \$15.89  | \$54.30  | \$71.66  | \$98.24  |
| Haburas                 | Pante Makasar | AHCAE  |          |          |          | \$384.50 |
| MADFUT                  | Oesilo        | BIFANO |          |          |          | \$59.09  |
| BI ONI FIF NA           | Oesilo        | BIFANO |          |          | \$57.92  | \$109.61 |
| Binoni Saben            | Oesilo        | BIFANO | \$58.54  | \$63.83  |          | \$159.68 |
| BI - ENO                | Oesilo        | BIFANO |          | \$12.54  | \$101.19 | \$192.53 |
| New Stard               | Oesilo        | BIFANO | \$35.61  | \$96.74  | \$126.57 | \$170.65 |
| Moris Foun              | Oesilo        | BIFANO | \$49.36  | \$139.64 | \$185.13 | \$371.63 |
| Haluta Moris            | Oesilo        | BIFANO | \$151.36 | \$179.63 | \$219.04 | \$307.70 |
| Hita An Rasik           | Oesilo        | BIFANO | \$92.70  | \$157.04 | \$197.45 | \$264.18 |
| Nekaf Mese              | Oesilo        | BIFANO | \$59.71  | \$96.74  | \$146.05 | \$341.97 |
| Colot'Non               | Pasabe        | CECEO  |          |          |          | \$73.25  |
| Bipilu Cussi            | Pasabe        | CECEO  |          |          |          | \$70.57  |
| Nakobahit               | Pasabe        | CECEO  |          |          | \$25.46  | \$56.21  |
| Anmanat Tomac           | Pasabe        | CECEO  |          |          | \$47.56  | \$123.35 |
| Tabuab Nekaf Tabei      | Pasabe        | CECEO  | \$39.48  | \$24.42  | \$68.00  | \$129.97 |
| Mafut Nekaf Bibesi      | Pasabe        | CECEO  |          |          | \$44.71  | \$133.72 |
| Moris Foun Bimeny       | Pasabe        | CECEO  |          | \$37.72  | \$86.65  | \$155.94 |
| Halinat na Nobe Passabe | Pasabe        | CECEO  | \$66.44  | \$251.81 | \$73.45  | \$161.82 |
| Haforsa Metac           | Pasabe        | CECEO  |          |          | \$24.57  |          |
| Moris Hamutuk           | Pante Makasar | FFSO   |          | \$73.38  | \$124.06 |          |
| Taskektit bi fini balan | Pante Makasar | FFSO   |          | \$27.92  | \$69.31  |          |
| Bioetuan                | Pante Makasar | FFSO   |          | \$23.93  | \$0.00   |          |
| Mafut nekaf Oefoko      | Pante Makasar | FFSO   | \$9.20   | \$19.36  | \$57.07  |          |
| Buiana Nefobai          | Pante Makasar | FFSO   | \$99.85  | \$26.70  | \$0.00   |          |
| Tafnekan Lacufoan       | Pante Makasar | FFSO   |          | \$21.96  | \$75.82  |          |
| Hadomimalu              | Pante Makasar | FFSO   | \$70.00  |          | \$0.00   |          |

Source: Author based on information provided by Wayan Tambun

Moreover, the overall average loan size disbursed during the first cycle of the S&L groups was \$69.52, while during the last cycle it was \$176.28 (see Table 7). This not only corroborates that the groups have been financially strengthening as they gain experience, but also shows that as members become used to the system and rely on it their confidence on the group increases and along with it the amount of money that they



borrow from it. Additionally, most of the members that participated in the focus groups and were interviewed sustained that after they joined the S&L groups, they started to save and take loans exclusively in the group. “Within the first cycle, many group members are apprehensive about saving and borrowing as they are unsure of the potential of their SILC. Once they experience their first share-out however and begin saving again, there is usually an increase in the amount they are willing to contribute to the savings pool and more lending begins to take place.” (Vanmeenen, 2010: 24).

Table 7: Comparison average loan size disbursed

| Name of Group          | Sub-district  | NGO    | Average loan size disbursed first cycle | Average loan size disbursed last cycle |
|------------------------|---------------|--------|---|--|
| Tamasan Lil Ana Bibolo | Nitibe        | AHCAE  |   | \$30.97                                |
| Sambia Poasbot         | Nitibe        | AHCAE  | \$15.89                                 | \$32.22                                |
| Naim Mnasi Bicolo      | Nitibe        | AHCAE  |   | \$83.95                                |
| Tamasan Bililo         | Nitibe        | AHCAE  | \$20.00                                 | \$30.00                                |
| Quisan Kal Bikase      | Nitibe        | AHCAE  |   | \$56.99                                |
| Moris Foun Bitulu      | Nitibe        | AHCAE  |   |  |
| Haburas                | Pante Makasar | AHCAE  | \$43.42                                 | \$53.50                                |
| MADFUT                 | Oesilo        | BIFANO | \$92.38                                 | \$153.58                               |
| BI ONI FIF NA          | Oesilo        | BIFANO | \$65.43                                 | \$116.50                               |
| Binoni Saben           | Oesilo        | BIFANO | \$21.61                                 | \$126.07                               |
| BI - ENO               | Oesilo        | BIFANO | \$12.27                                 | \$139.89                               |
| New Stard              | Oesilo        | BIFANO | \$30.62                                 | \$107.33                               |
| Moris Foun             | Oesilo        | BIFANO | \$84.75                                 | \$157.99                               |
| Haluta Moris           | Oesilo        | BIFANO |   |  |
| Hita An Rasik          | Oesilo        | BIFANO | \$80.50                                 | \$119.09                               |
| Nekaf Mese             | Oesilo        | BIFANO | \$89.86                                 | \$197.68                               |
| Colot'Non              | Pasabe        | CECEO  | \$100.40                                | \$190.67                               |
| Bipilu Cussi           | Pasabe        | CECEO  | \$303.13                                | \$810.38                               |
| Nakobahit              | Pasabe        | CECEO  | \$120.41                                | \$204.68                               |
| Anmanat Tomac          | Pasabe        | CECEO  | \$22.55                                 | \$35.26                                |
| Tabuab Nekaf Tabei     | Pasabe        | CECEO  | \$49.02                                 | \$434.45                               |
| Mafut Nekaf Bibesi     | Pasabe        | CECEO  | \$63.47                                 | \$258.69                               |
| Moris Foun Bimeny      | Pasabe        | CECEO  | \$35.70                                 | \$362.05                               |

Source: Author based on information provided by Wayan Tambun

Another indicator that reflects members' satisfaction with the S&L groups and the system, their services and performance, is the membership growth rate (SEEP, n.d.). As shown in Table 8, most of the groups have been able not only to retain but also attract new members since the groups were established, which at the same time shows the commitment of the members toward the group. However, this rate should tend to plummet since the groups cannot increase the number of members beyond their managerial capacity.

One of the advantages of the savings and loans at the village level is that the system enhances a low rate of delinquency. Members are the owners of the group and the only beneficiaries that make a profit out of it; it is capitalized with the members' own funds and then the money goes back to the members in form of a dividend. Hence, each of the members has a strong incentive to paying back the loans and contributing with the

monthly savings. “When members feel they can get their funds out of the GSL [S&L group] predictably, according to rules that are reliably followed - then savings deposits, the loans funded by them, and the household impact that results from access to safe, flexible savings, will be maximized.” (FSD Kenya, 2010: v). In fact, conflict and mistrust among the members arise when borrowers start lagging behind in their installments, undermining the dynamics of the S&L group. At the same time, some groups have faced situations of mismanagement of money, in which money were lend to some people, member or non-members, who did not pay back and runaway. In some of these cases, it has hampered the financial stability of the S&L group.

Table 8: Membership growth rate

| Name of Group           | Sub-district  | NGO    | Date Established | Membership growth rate |
|-------------------------|---------------|--------|------------------|------------------------|
| Tamasan Lil Ana Bibolo  | Nitibe        | AHCAE  | 15-Mar-11        |                        |
| Sambia Poasbot          | Nitibe        | AHCAE  | 15-Jan-10        | 0.00%                  |
| Naim Mnasi Bicolo       | Nitibe        | AHCAE  | 16-Jun-12        |                        |
| Tamasan Bililo          | Nitibe        | AHCAE  | 25-Mar-11        |                        |
| Quisan Kal Bikase       | Nitibe        | AHCAE  | 20-Dec-11        |                        |
| Moris Foun Bitulu       | Nitibe        | AHCAE  | 27-Nov-12        |                        |
| Haburas                 | Pante Makasar | AHCAE  | 15-Jan-11        | 2.44%                  |
| MADFUT                  | Oesilo        | BIFANO | 18-Jan-11        | 11.11%                 |
| BI ONI FIF NA           | Oesilo        | BIFANO | 4-Feb-11         | 76.92%                 |
| Binoni Saben            | Oesilo        | BIFANO | 11-Jan-09        | 175.00%                |
| BI - ENO                | Oesilo        | BIFANO | 13-Feb-09        | 177.78%                |
| New Stard               | Oesilo        | BIFANO | 6-Jun-09         | 29.63%                 |
| Moris Foun              | Oesilo        | BIFANO | 12-Oct-10        | 54.17%                 |
| Haluta Moris            | Oesilo        | BIFANO | 28-Feb-11        | 104.76%                |
| Hita An Rasik           | Oesilo        | BIFANO | 11-Jun-08        | -2.44%                 |
| Nekaf Mese              | Oesilo        | BIFANO | 28-Nov-10        | 30.77%                 |
| Colot'Non               | Pasabe        | CECEO  | 15-Nov-11        | 117.39%                |
| Bipilu Cussi            | Pasabe        | CECEO  | 5-Jan-09         |                        |
| Nakobahit               | Pasabe        | CECEO  | 10-Mar-11        | 170.83%                |
| Anmanat Tomac           | Pasabe        | CECEO  | 14-Jun-08        | 10.71%                 |
| Tabuab Nekaf Tabei      | Pasabe        | CECEO  | 17-Nov-08        | 20.00%                 |
| Mafut Nekaf Bibesi      | Pasabe        | CECEO  | 8-Jan-08         | 42.55%                 |
| Moris Foun Bimeny       | Pasabe        | CECEO  | 8-Jan-08         | 38.10%                 |
| Halinat na Nobe Passabe | Pasabe        | CECEO  | 30-May-08        | -10.48%                |
| Haforsa Metac           | Pasabe        | CECEO  | 14-Apr-11        |                        |
| Moris Hamutuk           | Pante Makasar | FFSO   | 16-Dec-09        |                        |
| Taskektit bi fini balan | Pante Makasar | FFSO   | 10-Feb-10        |                        |
| Bioetuan                | Pante Makasar | FFSO   | 18-Aug-10        |                        |
| Mafut nekaf Oefoko      | Pante Makasar | FFSO   | 22-Sep-10        | 170.00%                |
| Buiana Nefobai          | Pante Makasar | FFSO   | 26-Sep-10        | 80.00%                 |
| Tafnekan Lacufoan       | Pante Makasar | FFSO   | 30-Sep-10        |                        |
| Hadomimalu              | Pante Makasar | FFSO   | 23-Feb-11        | 157.14%                |

Source: Author based on information provided by Wayan Tambun

When people are involved in income generating activities, including farming, or are employed and earning a salary (such as teachers), it is easier for them to save and repay the loans. This is also the case when members take loans for business purposes and are able to make profit out of it. For some people then, being a member of a S&L group allows them to keep their livestock (traditionally used as a backup in case of emergency) and therefore preserve and increase their wealth. However, when income at home decreases and loans are taken to supply needs that do not generate any income (education, food, house improvements, adat), it gets more difficult to repay the loans. In this case, being a member of the S&L group increases the vulnerability of the household. The person experiencing difficulties in repaying the loan might have to sell livestock, plant and quickly sell vegetables, or work as agricultural laborer. “Many farmers struggle to fully reap the benefits of a successful production cycle due to demands within their own households. Selling of immature crops is often a result of desperation during lean seasons” (Vanmeenen, 2010: 25).

As a result, since the money for the loans come from the members’ savings and payment of interests, the financial sustainability of the group is directly related to the financial sustainability at the household level. Those groups that have received training in family income and expenses planning claimed that it has helped them to plan for their regular monthly expenses, repayment of loans and savings. Some members argued that it has also increased the transparency of the household’s bookkeeping between husband and wife, while others commented that it has enable them to independently managed their personal money. Therefore, trainings in financial literacy and management at the household level should be promoted when implementing a program of savings and loans in order to support the sustainability of the system.

Nonetheless, some S&L groups still need to improve their financial literacy so they can obtain more benefits out of it. Many members, including those in the management body, do not know how to calculate percentages, which impede them to calculate interest rates, thus, they work with lump sums, which can limit the possibilities and the amount borrowed from the group.

### 3.6 Effects of the Program

First if all, it is worth mentioning that it is difficult to separate the effects of the S&L groups from the effects of the overall program that World Neighbors initiated and the activities that the community forum is implementing with the support of the local NGOs. When asked about the benefits and negative consequences of a S&L group, members were not able to make a clear distinction and talk interchangeably about being a member of the S&L group, the farmer group and the forum.

The most important benefit of being a member of a S&L group is the possibility of having a safety net for the household that allow the families to cope at critical times. For example, members use the dividends paid at the end of the cycle and also borrow money to buy food especially during the hungry season, from December to March. Thus, the savings serve as an insurance that provides relief and support to the members to avoid increasing their food insecurity during this period, although the extent of the effect is unknown. Besides, members also stated that they have been able to diversify

the diet, although it seems that they have increased more the consumption of luxury food such as coffee and sugar, than food with higher nutritional value, such as vegetables and meat.

Members of the S&L groups also tend to reinvest the dividends received during the current cycle in the next one, since they know that it would allow the group to offer more loans and therefore allocate higher returns to the members with greater shares. On the other hand, one of the most common purposes that members give to the loans is paying for schools expenses, including uniforms and learning materials. Other uses of the savings and the loans that members mentioned include making house improvements, such as changing the traditional materials of the roof, walls or floor for more permanent ones, as well as buying goods for the household or personal items, such as clothes for the members of the family. Borrowing money to pay for *adat* or other traditional ceremonies was also mentioned during the focus groups.

Table 9: Purposes of the savings and the loans

| Uses of the payout   | Total (out of 12) |
|--|-------------------|
| 1. Buying Food   | 8                 |
| 2. Savings   | 7                 |
| 3. Buying household asset or making house improvements             | 4                 |
| 4. Buying clothes, shoes or other personal items                   | 4                 |
| 5. Productive investment/starting a business                       | 3                 |
| 6. Educational expenses: School fees, uniforms, learning materials | 2                 |
| Purposes of the loans  | Total (out of 12) |
| 1. Educational expenses: School fees, uniforms, learning materials | 7                 |
| 2. Buying Food   | 5                 |
| 3. Buying clothes, shoes or other personal items                   | 4                 |
| 4. Productive investment/starting a business                       | 3                 |
| 5. Buying household asset or making house improvements             | 3                 |
| 6. Family celebration/ceremony                                     | 1                 |

Source: Author.

The members also described gender differences in the purposes men and women give to the money each of them handles. On the one hand, women tend to use the money obtained from the S&L group to supply the needs of education and food of the household. In addition, some women have been able to use the dividends or loans to create their own business, such as weaving *tais* or selling cakes, petrol, cigarettes, or livestock in *kiosks* or in the market. On the other hand, men tend to buy motorbikes and livestock for their own business (cross-border trading) and food for the whole household.

Moreover, both men and women affirmed that their self-confidence has improved since they became members of the group, because, by participating in it, they have been able to increase their income and thus supply the household's needs. This is of particular

importance for women, since they were not used to either be the breadwinners or to bring any amount of money home. With the implementation of the program, which has deliberately intended to involve women in it, women have been able to provide a significant amount of money to the household's finance, which in turn has given them voice and vote and allowed them to increase their participation in the decision-making process at the household. Some of the women even mentioned that this situation has also contributed to improve the relationship and communication between husband and wife, to help each other as a couple, to peacefully discuss and solve their conflicts and differences, and to decrease violence against women. Local NGOs have given trainings to the communities about domestic violence, which might be related to those outcomes.

Regarding the relationship with other members of the S&L groups, members stated that it has improved; they feel that with the implementation of the program they share more time together which has allowed them to get to know and care better about each other, share their experience, and make collective planning to address common needs or challenges. The program has strengthened their sense of community; people feel that they belong to a group that shares their same interests and work together to accomplish that vision. This has also promoted a better coordination among the members to define and perform tasks within the group. Overall, members sustained that after several years of implementation, they feel more united as a group, which has also contributed to promote peaceful options for conflict resolution and a less conflictive and a trustworthier attitude of each of the members towards the rest of the group.

Staff from the local NGOs and extension workers also recognized these characteristics and affirmed that members of the S&L groups are more transparent and united than non-members. However, this does not affect the relationship between members and non-members, which is in general terms defined as in good terms. The main reason is that the bonds between each other extend further from the S&L group, since they have been living in the same community for a longer period of time and many of them are not only neighbors but also relatives.

Regarding other effects of the program on the household, members declared that the trainings provided by the local NGOs in water, sanitation and hygiene have improved their health conditions, especially by reducing the incidence of diarrhea in the children. Other members, especially but not only those that are part of the management body, stated that they have been able to improve their agricultural techniques and skills and their financial literacy thanks to participating in the program.

Overall, the S&L groups in Oecussi are helping the members to alleviate their poverty conditions by mainly giving them the possibility to finance the consumption of basic (and not so basic) household's needs, such as food, education, clothing and housing. However, the only negative consequence identified by the members is that, when a borrower is facing difficulties to repay the loan, belonging to the S&L group may actually increase the vulnerability of the household and deteriorate the living conditions of the family.

### 3.7 Linkages between S&L Groups and Agriculture and other Income Generating Activities

Although most of the members of the S&L groups are farmers and work the land together, the linkages between the financial transactions in the group and their agricultural activities are weak. Members hardly ever use the money from the dividends or take loans to buy seeds or any other agricultural inputs. At times they use it to buy vegetable seeds and machetes, but the main purposes, as shown before, are education and food, especially during the rainy season. What was found instead is an indirect relationship between agriculture and the savings and loans, in which growing and selling their crops, as other income generating activities, allow the members to earn some income, generate money and accumulate some capital that they can save in the S&L group or use to repay for the loans.

As a result, the agricultural activities allow farmers to become members of the S&L groups and by using the services offered by the latter, members are able to satisfy their consumption needs. Though it has not been widespread, some members have borrowed money to start a business or as working capital to buy inputs for other income generating activities (weaving *tais*, raising livestock, setting a *kiosk*, etc.). However, the low use of the dividends and loans to finance income-generating activities is related to fragile market conditions. Farmers have access to agricultural inputs free of charge through the government and the NGOs that are supporting them. Thus, smallholder farmers have no need or incentive to buy any of these products. At the same time, although in Oecussi the border with West Timor facilitates access to products from Indonesia, the demand is low and the local markets remain small and disconnected. In general, trade in the district is limited because of lack of storage, lack of transportation and infrastructure to go to the markets, and competition among the same members since they all try to sell individually the same kind of products.

So far, as farmers groups, they have been working the land and harvesting together. However, they do not perform any kind of collective trade. Nonetheless, the most experienced groups are starting to talk about creating cooperatives to trade collectively, although it is not clear yet how it will function. The most immediate need that the farmers are facing is transporting their crops to the markets, thus the cooperative would take the crops of the groups and trade them. In addition, since all the farmers tend to produce the same crops, they need to become more creative and diversify their crops or find a new market for the current production. In Timor Leste, the Secretary of Rural Development and Cooperatives is starting to create some cooperatives in Oecussi, although the communities stated that they prefer to create their own cooperatives under their own rules. Caritas Australia is also introducing the cooperatives in three of their own groups. This new initiative from the Timorese government, however, can threaten the sustainability of the forums and S&L groups if the actions are not coordinated with the efforts done so far by the farmers.

### 3.8 The Role of Support

As it is explained in detail in the book “Nothing is Impossible” (Utami, 2011), World Neighbors did an extensive work in training and building the capacity of the local smallholder farmers and the NGOs during the implementation of its food security program in Oecussi. World Neighbors and partner NGOs supported the S&L groups in capacity building on administration, bookkeeping, and management. There has been some capital injection provided by Caritas Australia with total amount US \$4,000 to five S&L groups within BIFANO’s program areas in Sub-district Oesilo in three times<sup>5</sup>. The program has continued to be implemented through the four local NGOs that started it, and other organizations, such as FPWO, Caritas Australia and Oxfam, have been replicating their experience and working in tandem to avoid overlapping and support each other’s work.

Nonetheless, in the field, some differences in the performance of the groups are palpable between the local NGOs. Some of the latter are more skilled in agricultural techniques, while others in capacity building and financial literacy. The extension workers from MAF are also focused on the former. However, those forums that receive a more comprehensive support tend to perform better and be more developed because this kind of approach suits the mission and vision of the forum. The groups are more transparent, united, have stronger finances; the structure of the forum is bigger and/or more exhaustive; members also tend to participate more in a broader range of activities.

At the same time, some NGOs have provided a more persistent and consistent support to the communities throughout the years. The type of assistance provided varies according to the degree of development of the group. For those S&L groups, and Community Forums in general, that are doing better and have more experience, the current support is not longer about helping the members with technical assistance on activities that the members have already learned (such as the management of the S&L group), but instead about guiding the groups on the next steps of their community development plan and providing trainings in new topics.

The managerial capacity, financial sustainability and the leadership of the organizations determine the quality of the support provided by the local NGOs to the communities, which at the same time defines the capacity of their human resources and reduces the rate of turnover among the staff, which is one of the most common limitations of local organizations in the field. S&L groups that have being able to develop and strengthen have received support from more knowledgeable, committed and experienced staff. However, other external aspects might restrain the role of the field workers with the communities, such as lack of infrastructure and means of transportation. Hence, it is easier for the staff to reach the communities that live near to their own homes, and therefore, those groups that are located in the more remote areas of Oecussi face limited support, especially during the rainy season, when different *aldeias* are cut off by the rising levels of the river.

---

<sup>5</sup> In 2008 US \$500 for two S&L groups (Hit’An Rasik in Buqui and Haluta Moris in Pune), in 2009 US \$1,500 for four S&L groups (Hit’An Rasik in Buqui, Haluta Moris in Pune, New Star in Sifin, and Necaf Mese in Quanobe) and in 2010 US \$2,000 for five S&L groups (Hit’An Rasik in Buqui, Haluta Moris in Pune, New Star in Sifin, Nekaf Mese in Noetoco, and Moris Foun in Nianapu).



## 4 Additional Information / Observations

Since the experience from Oecussi district showed that the members of the S&L groups were primarily using the money to satisfy consumption needs, it was decided to find and study other cases in which the purposes of the savings and the loans were more directly related to productive activities. Hence, one additional visit to a S&L group supported by the NGO USC Canada was held in the *aldeia* Ilimano in the district of Manatuto. A total of 49 people, 25 men and 24 women, from three farmers' groups, are members of this group. The group started to receive assistance from USC Canada in 2000 but it was only until 2011 that the idea of creating a S&L group was brought up. Up to that moment, the international NGO had given technical support in and inputs for agriculture and livestock, as well as financial resources to build a community learning center and a water supply system for irrigation and human consumption.

In year 2011, the current president (including the current vice and a member of the audit team) of the group went to Bali to learning visit in the savings and loan system that had being implemented there by USC. Once he came back, he shared his experience with the other members and decided to establish the S&L group. USC Canada also gave training in the S&L model and an initial capital injection of \$250. The group started its first cycle in January 2012 with 16 members and \$570 start-up capital, including \$320 from the membership fee, and after only one and a half years it has multiplied by three its membership and raised a total capital of \$5,490.

In general, the implementation of the system of savings and loans is similar to the one in Oecussi, although there are few differences. First of all, the statutes and procedures of the S&L group in Manatuto are more formal. The group has been registered in the Ministry of Justice (still in process); process that requires having all the transactions and rules properly written down. For example, in order to borrow money the member has to fill in and sign a format with a proposal and a collateral (which is usually livestock), and in case the loan is approved, the management body gives written notification of the terms and conditions, which also has to be agreed and signed. In addition, according to the statutes, members can only borrow money for income generating activities. Men usually take the loans to buy boats or fishing nets, or to raise livestock. Women, on the other hand, process and sell the fish caught by men and sell them in stalls next to the road, or set up kiosks.

Regarding the financial aspects of the group, the amount of the monthly compulsory saving is \$5, which is considerably greater and suggests that the community has a higher socioeconomic status being close to the road. The size of the loans ranges from \$50 to \$250, which has to be repaid between three to five months with a monthly interest rate of 2% to 3.3%. In case a borrower is lagging behind in repaying the loan, he/she has to pay a fine of 1%, and after three months of default, the management body will take the collateral and sell it to settle the loan.

The management body of the S&L group in Manatuto consists of: one male president; one male vice president; two secretaries (one male, one female); one female treasurer; two male auditors supervising that members and management body follow the rules;

and two men responsible for the process of providing the loans. Although it seems that this structure (along with the responsibilities of its members) has been defined in a clearer and more formal way than in the experience from Oecussi, overall, this S&L group has adopted a more top-down approach than a participatory one. In terms of management, decision-making process and conflict resolution, the management body, and predominantly the president of the S&L group, is the one taking most of the decisions concerning the group. Besides, the model they are implementing is an accurate replication of the one from Bali and there was not a process of adaptation to meet their specific needs in a Timorese context. Despite there was a process of internal discussion, the members did not change either the roles or responsibility of the management body, or the terms and conditions of the savings and loans and the rules and regulations for the members. Likewise, it was perceived that the capacity of the group is weak and the audit team, not the members, is the one holding the president accountable. Furthermore, despite the high number of female members, their levels of participation, self-confidence and empowerment are low.

Overall, members perceive that their living conditions have improved since they joined the S&L group. Borrowing money from it enables them to invest in productive activities that increase their income. Thus, they can use that additional money to pay for educational expenses, buy more food, make house improvements and meet other consumption needs. Although the end-use of the money is the same, the main difference between the cases from Manatuto and Oecussi is that, by taking loans for a productive activity, members of the former are able to not only smooth their consumption and make those household expenses, but also to, at the same time, improve their livelihood and increase their income. Three main factors facilitate this achievement:

- First, the significant technical assistance and economic support from USC Canada to the S&L group and farmers groups. After more than ten years, the international NGO continues backing the local community and provides free-of-charge, among other things, agricultural inputs, including seeds from SoL. This support allows the local households to smooth their consumption.
- Second, and also thanks to this support, these local farmers are already producing staple crops, vegetables and livestock. Therefore, without need of quitting these farming activities, setting up kiosks and selling fish are additional economic activities of higher value that allow them to generate some surplus, “[...] and as these activities generate a more significant proportion of their total income, their need for specialized financial tools may increase” (Peck Christen & Anderson, 2013: 5).
- Third, villagers living in *aldeia* Ilimano have access to better market conditions. These households live next to the national road that connects the capital city to the east part of the country. The travelers that go up and down daily (on this main road between Dili and Baucau – two big cities in Timor Leste) are potential clients for cooked fish and other goods sold at food stalls and kiosks located along the road.

## 5 Discussion – Implications for SoL

The purpose of this case study was twofold: first, to have a better understanding of the drivers and determinants that make Savings and Loan (S&L) groups in Oecussi district sustainable, and second, to identify any linkages between having access to finance through these groups and agriculture that could show a potential use of the savings and the loans to enhance seed commercialization.

Any attempt to replicate this kind of community-led microfinance initiatives in Timor Leste should take into consideration the main determinants of sustainability found throughout this research:

- Structured and transparent management system led by skilled and committed people from the same group. The most important criteria that members expect from the management body are: leadership, literacy skills, managerial and financial skills, trustworthiness, commitment to the group and reliability.
- Capacity of the group to mobilize their own social capital and social control. Unity, respect, solidarity, transparency, commitment and trust are the main principles driving the relationship among the members. In addition, having a sense of communality, sharing the same ideas and vision about the group, and exercising social control and peer pressure among the members enhance these principles, strengthen their social capital and enables them to hold everybody accountable to each other.
- Decision-making process is democratic and there is balance of power and accountability. All the issues pertaining to the S&L group are discussed together. Ideas and opinions of each of the members are listened and considered, and the decisions taken reflect the position of the majority of the members. Thus, although the role of the management body is critical, all the members share responsibility for the well functioning of the entire group and hold the management body accountable to them.
- Members' ownership of the group. All the money that is mobilized within the group comes from and goes back to the members, therefore, members are the only beneficiaries of the saving and credit system. Neither outsiders nor organizations receive any benefit or make any profit out of it. This incentivizes the members to increase their savings and keep up with their loan repayments, in order to multiply the financial leverage of the group and gain a higher dividend from it.
- Financial sustainability of the group is directly related to the financial sustainability at the household level. When people are involved in income generating activities, including farming, or are employed and earning a salary it is easier for them to save and repay the loans. Otherwise, being a member of the S&L group might decrease the households' wealth and increase their vulnerability. In addition, having a family budget helps members to plan for their monthly expenses, repay the loans and save.
- Women's participation and empowerment in the S&L groups and in the household. Female members play a significant role in first, keeping the finances of the S&L group and the household, second, promoting dialogue among the members and

third, holding the members accountable to each other. Besides, they are the ones that use to engage in other income generating activities, which improves the financial sustainability of the household, and therefore the group. Moreover, the benefits that the household obtain from participating in the S&L groups are catalysed through women, who tend to invest more in the household and children needs. Finally, the savings and loans system allow women to become breadwinners, improving their participation in the decision-making process at the household.

- Regular support from NGOs, extension workers and local leaders. Groups that have received regular support for a longer period of time are performing better, although it is important to shift from providing technical assistance to mentoring and empowering the members to run the S&L group by themselves. The quality of the assistance that organizations offer to the communities depends on their internal capacity resources and leadership, as well as the knowledge, experience and commitment of the staff.

However, in some aldeias of Oecussi it seems that the S&L groups are not reaching the poorest of the poor, which is supposed to be their target population. This is observed especially in those aldeias where the S&L groups are bigger, have raised greater capital and are asking for higher monthly compulsory savings to their members. S&L groups are generally promoted around the world to reach those who don't have a stable or regular income that would allow them to access a microfinance institution. However, members of the S&L groups recognize that if they do not make enough income, such as when the sales of their agricultural products have been low, it gets very difficult for them to save any money and repay the loans. Thus, as a coping strategy some of them will have to sell livestock and therefore reduce a portion of their wealth, do some quick sales of vegetables or harvest before season, which at the end increases the vulnerability and food insecurity of the household at times when they are more exposed to shocks.

On the other hand, members of the S&L groups in Oecussi tend to primarily use the money obtained through the group to buy food, pay for educational expenses, re-invest in the S&L group, make house improvements, buy personal items (e.g. clothes) and finance ceremonies. Therefore, based on these uses, for those members that have enough income and an adequate management of the household's finance, the savings and the loans have served as a way to satisfy basic needs (and some luxury consumption) and therefore alleviate their poverty conditions.

It is suggested to perform a poverty analysis based on a quantitative research that would allow making statistical inferences. Nonetheless, if these findings are confirmed, many questions arise from the analysis, among them: How can access to finance for the poorest of the poor be improved? Should they have access to finance at all through a system like this even if they don't have first a regular source of income? Should these microfinance opportunities be used to cover for basic needs or for income generating activities? If the answer is the latter, how do we establish a break-even point that can ensure the financial sustainability of the poorest households?

Regarding the linkages between S&L groups and agriculture in Oecussi, it was found that these are weak. The most straight relation is that the agriculture activities of the members, as other income generating activities, allow them to save money and repay

for the loans. As it has been mentioned, members hardly ever use the money from the dividends or take loans to buy seeds or any other agricultural inputs, and few of them use it for extra income generating activities. Besides, in Timor Leste farmers expect to receive the inputs for free because that has been the norm since the government, cooperation agencies and NGOs started to implement that policy during the crisis and continue to apply it. Oecussi is not the exception. When members were asked about this issue, they mentioned that they currently receive seeds from MAF and other inputs from the NGOs, and that in the future they will receive the seeds free-of-charge from the Community Seed Production Group they are establishing with support from the local NGOs. As a result, there is no clear economic incentive for the small farmers to buy seeds and to use the money from the S&L groups for that purpose.

The experience from the S&L group in Manatuto shows that by providing loans for income generating activities exclusively the members are able to improve their livelihood and increase their income and at the same time satisfy basic consumption needs, which makes more sustainable the household's and therefore the group's finances. Nonetheless, not only members from this group seem to have better living conditions than the ones in Oecussi, but also there are some external factors significantly contributing to create the right incentives and conditions to work on additional productive and more profitable activities.

On the other hand, Oecussi represents an advantage and a disadvantage for the local farmers. On the one hand, the border with West Timor allows its inhabitants to trade products, even if it is by smuggling. Locals from Oecussi sell mainly livestock and buy any kind of goods (clothes, petrol, cigarettes, processed food, cleaning products, appliances, etc.). In this case, the S&L groups allow their members to access these goods. On the other hand, the weak conditions of the local markets constraint trade within the district. There are only two local markets open per week and the lack of roads and infrastructure limits the possibility of actually going to these markets to sell any crops produced or goods previously bought at the border. However, those farmers who are able to go (those that live closer to the markets and/or have money to pay for middlemen or to go by themselves) face the fierce competition of their own neighbors offering the same products to buyers. As a result, prices and therefore profits go down. There is need for diversification and differentiation to develop the markets, by creating competitive advantages. However, that also means strengthening the end users to increase the demand for new and value-added products.

Yet, it is difficult to state that the market in Oecussi is oversaturated. In terms of food security and nutrition, Oecussi is the second district with higher levels of stunting and wasting in children under five years old, 69% and 19% respectively (Fanzo, et. al., 2013: 5). These conditions are exacerbated during the rainy season, but despite that the evidence shows the S&L groups allow the members to cope with it by buying food, these figures suggest that the food supply is not enough to meet the caloric intake requirements of the population in Oecussi. In addition, communities living in the farthest aldeias deal with more difficult living conditions and lack access to the markets. Besides, these aldeias are usually isolated during the rainy season because the rising levels of the river cut them off. The purchasing power of the poorest households is not enough to buy sufficient food, or any other products, which at the same time abates the demand and limits the size of the local markets.

Moreover, as mentioned before, farmers work together within the farmer group in their own lands but, so far there has not been an effort to generate economies of scale, trade collectively and create linkages to local and other markets. There are some international experiences that show a clearer and stronger role of S&L groups in fostering agricultural activities, including seeds commercialization. Their stories of success are associated to both, strengthening the markets and at the same time promoting collective use of financing resources and trade.

In Kenya (FSD Kenya, 2010) and Bangladesh (McIvor & Hussain, n.d.) most of the members of S&L groups make investments in their own business, which involve mainly trading livestock, buying agricultural inputs, or renting land for cultivation. The experience of CARE USA in Africa with S&L groups shows that once the program provided trainings in entrepreneurship, business development and management, marketing and profit generation and calculation, the members started to invest more in income generating activities than in consumption needs (CARE USA, 2012: 38-39).

CARE International implemented a program in Zimbabwe (Fowler & Panetta, 2011) in which the S&L groups were created to enhance the capacity of the smallholder farmers to purchase agricultural inputs while at the same time promoted agro dealers that facilitate access and purchase of agricultural inputs as well as access to output markets, mainly by reducing transportation costs and improving access to seed varieties at appropriate times. Besides, these dealers would also require additional conditions for their business: first, since the market for inputs is seasonal, dealers would also sell other consumption products for their survival, and second, they also need access to loans in order to be able to stock higher quantities of inputs for longer periods of time. "ISAL group members use the capital that they have saved or borrowed to purchase from the agro dealers, while the agro dealers use the ISAL groups as a marketing platform, given their improved purchasing power". (Fowler & Panetta, 2011: 21). In addition, at times the S&L groups make collective purchases of agricultural inputs from the agro dealers in order to buy larger quantities at a more attractive price, and in some cases the latter will give the input on loans using the S&L group as an informal guarantor.

Moreover, "there are also indications that the use of agro dealers as distribution points for subsidized or free agricultural inputs by developmental institutions creates negative effects, particularly if not accompanied by market development approaches.[...] Moreover, most CARE observers concur that it is preferable for subsidized inputs to be distributed via agro dealers than to be provided directly to farmers, given that the relationship between the two is maintained and the agro dealer does not suffer a complete loss of income. However [...], the uncertainty of free or subsidized input programmes increased the risk of loss and consequently reduced the willingness of wholesalers to serve rural areas." (Fowler & Panetta, 2011: 32).

In the case of Catholic Relief Services (Vanmeenen, 2010), farmers that are members of their S&L groups program in several countries in Africa, use the dividend and the loans for input purchases but in a progressively manner; during the first cycles of the S&L group farmers' investment is low, but as soon as they gain confidence in the system and their capital increases, investment in production activities increases. Moreover, as the

system develops, several S&L groups get together for the selling season and create S&L associations for collective savings and trading of high quality inputs and outputs, and after the season ends the associations disband themselves and reunite again next season. Nonetheless, according to Fowler and Panetta (2011: 39) “producer groups that are focused only around periodic activities (e.g., crop marketing once per year) tend to be less sustainable and face higher likelihood of dissolution than those that engage in regular savings activities”.

In Tanzania, for example, the S&L associations offer three main services to the S&L groups, in addition to collective marketing: seed multiplication, loan funds and loan insurance. The associations serve as dealers of the joint crops produced by the groups in the output markets. Furthermore, the associations produce high quality seeds and loan them to the groups, which then repay two to three times the quantity of seed borrowed. Moreover, they also provide loans to groups that want to on lend to their individual members. Lastly, the associations also provide insurance to the groups to cover losses in cases of loans from individual members written off. (Fowler & Nelson, 2011: 17).

The case of Uganda (Bank of Uganda, 2011: 73-75) shows the importance of providing access to finance for seed producers in order to develop a strong seed system and ensure quality standards. Thus, seed producers need start-up capital and working capital through rural financing for:

- Purchasing inputs (foundation seed, fertilizer);
- Acquiring production equipment, particularly tractors;
- Hiring labour for good crop management and harvesting;
- Acquiring post-harvest equipment and constructing on-farm seed storage.

However, these local producers require financial services that are flexible, especially considering their seasonal needs. But, Ugandan seed producers that borrow from savings and loans cooperatives face different challenges. On the one hand, the length of repayment should be extended to allow repaying after the period of crop gestation. The cooperatives should offer the possibility of restructuring loans or insurance at low cost in case of crop failure, especially when it is caused by extreme weather events.

For SoL, these examples and the experiences from Oecussi and Manatuto suggest that S&L groups can play a role in seeds commercialization but it requires not only expanding the capacity of these groups but also strengthening the market for seeds. This would imply several conditions that must be addressed in a coordinated way:

- It is necessary to create a stronger demand for seeds and provide the right incentives to do it. At least in the case of Oecussi, farmers perceive that creating a community seed production group (CSPG) with the Forum will ensure access to seeds for free. Thus, farmers do not see yet the possibility of trading seeds because they would have access through their own group or directly from the government. Moreover, it should be taking into account that it might not be straightforward to dismantle the scheme of subsidized seeds because the smallholder farmers believe it is their right to have them free of charge.
- S&L groups can provide access to finance for seed producers. However, at the moment there is no clear incentive for the producers to approach these groups in search of funding for their production activities since SoL provides trainings,



foundation seeds, production and processing inputs to the community groups, to help establishing the CSPGs. Although they have different responsibilities but might overlap in their membership, S&L groups can support the production groups to be more sustainable and independent from external aid, and can offer them finance for purchasing inputs and equipment and constructing seed storage. This would mean that the members of CSPG are acting collectively, would borrow money as a group and the funds would go to the group and not for the individual members.

- Market for seeds is interdependent with the output markets. If the small farmers cannot perceive a benefit from selling crops obtained from higher-valued seeds, then the demand for improved seeds would decrease. From the supply side, this might imply creating economies of scale and value-added products, and trading collectively, while linking them and developing their capacity to maintain commercial relationships with private sector and more developed markets, so the local farmers can gain profits from their competitive advantage. From the project implementation side, this exercise demands great amount of time and support from the organization to build the linkages between CSPGs and farmers and between farmers and output markets, and to guarantee quantity and quality standards for the buyers. In some cases, building those linkages mean promoting the generation of dealers of cooperatives, in some others, it means establishing a direct communication between the two parties. In addition, it would also require providing trainings in entrepreneurship, marketing and other business development services to both, the CSPGs as well as the local farmers.
- S&L groups can also provide finance services not only for CSPGs but also for the smallholder farmers to help them develop this production and trading capacity. In order to create economies of scale, it will also imply for the farmers to trade, save and borrow collectively. In the case of Oecussi, this collective action can be done at the farmer group level or at the Forum level.
- If individual members have different requirements of seeds, each farmer can borrow from his/her S&L group to purchase the amount of seed and other inputs needed. For collective production or trading, as in the case of CSPGs or collective trading in output markets, a second-tier organization can provide finance to groups. Current S&L groups could play that role and provide finance to farmers groups, when all the members are engaged in the same activities and are members of the S&L group. In other cases, it would require the creation of a new entity (e.g. association or cooperative) clustering a number of S&L groups. Either case, establishing sustainable S&L groups is the stepping-stone to promote collective savings and loans. Because of the complexity of the system, it would be easier to manage it after members have been able to manage their own S&L groups. In other words, the new system would not be sustainable if each of the S&L groups that form the second tier is not sustainable first.
- Finally, CSPGs are more oriented to subsistence production in order to support smallholders in satisfying their own consumption needs and ensuring their food security. Therefore, S&L groups could be more suitable to provide rural financial services for Farmer Associations rather than CSPGs, since the former are more commercially oriented and could be more willing and able to invest the capital raised through the S&L group in accessing quality agricultural inputs.

## References

Allen, Hugh and Staehle, Mark (2007, November). Village Savings and Loan Associations (VSLAs). Programme Guide Field Operations Manual Version 3.1. VSL Associates.

Anyango, Ezra et. al. (n.d.). Village Savings and Loan Associations in Zanzibar. Decentralized Financial Services DFS.

Bank of Uganda (2011). Agricultural Finance Yearbook 2011. Agricultural Finance: Coping with Economic Realities. Bank of Uganda and the Plan for Modernisation of Agriculture Secretariat, Uganda.

Brannen, Conner and Sheehan-Connor, Damien (2012, November). Evaluation of the Impact of Village Savings and Loan Associations Using a Novel Survey Instrument. Wesleyan Economic Working Papers No. 2012-003. Wesleyan University. Middletown, CT.

CARE USA (2012, May). Impact of a Village Savings and Loan intervention. Evidence from Rwanda Sustainable Access to Financial Services of Investment project. Impact Evaluation Report. CARE USA, Access Africa Program.

CGAP (2003, September). Definitions of Selected Financial Terms, Ratios, and Adjustments for Microfinance. CGAP/The World Bank Group, Washington DC.

CGAP (2009). Financial Analysis For Microfinance Institutions. Consultative Group to Assist the Poor/The World Bank, Washington DC.

Chen, Greg; Rasmussen, Stephen and Reille, Xavier (2010, February). Growth and Vulnerabilities in Microfinance. Focus Note No. 61, CGAP, Washington DC.

Fanzo, Jessica (2013, March). A Nutrition Sensitive Agriculture Strategy For the Ministry of Agriculture, Forestry and Fisheries of Timor-Leste and for Fini ba Moris (Seeds of Life).

Financial Sector Deepening - FSD Kenya (2010, December). Group Savings And Loans Associations. Impact Study. FSD Kenya, Nairobi, Kenya.

Fowler, Ben and Nelson, Candace (2011, April). Beyond Financial Services. Combining Savings Groups with Agricultural Marketing in Tanzania. AGA KHAN Foundation.

Fowler, Ben and Panetta, David (2011, April). Beyond Financial Services. Improving Access to Basic Financial Services and Agricultural Input and Output Markets by Smallholder Farmers in Zimbabwe. AGA KHAN Foundation.

Gardeva, Anita and Rhyne, Elisabeth (2011, July). Opportunities and Obstacles to Financial Inclusion Survey Report. Center for Financial Inclusion at Accion International.

Kaaber Pors, Kristine (2011, November). Savings and Loan Associations. Combining short term benefits with long term structural change. A guide for practitioners. Danish Forum for Microfinance, Danish Mission Council Development Department.

Karlan, Dean and Udry, Chris (2012, March). Impact Of Village Savings And Loan Associations. Findings From Ghana. Savings Conference, University of Ghana. Innovations for Poverty Actions IPA.

Larson Odell, Marcia and Rippey, Paul (2011, April). Beyond Financial Services. The Permanence and Value of Savings Groups in CARE Kenya's COSAMO Programme. AGA KHAN Foundation.

Ledgerwood, Joanna (ed.) (2013). The New Microfinance Handbook. A Financial Market System Perspective. The World Bank, Washington DC.

McIvor, Nicola and Hussain, Arshad (n.d.). A Study to Assess the Sustainability and Quality of Village Savings and Loans Groups (VSLGs). Chars Livelihoods Programme.

Peck Christen, Robert, and Anderson, Jamie (2013, April). Segmentation of Smallholder Households: Meeting the Range of Financial Needs in Agricultural Families. Focus Note No. 85, CGAP, Washington DC.

SoL (2010, September). Seeds Of Life Phase III (SoL III). "Towards a sustainable national seed system for Timor-Leste". Program Design Document, Volume 1, Main Report.

The SEEP Network Savings-led Financial Services Working Group – SEEP (n.d.). Financial Ratio Analysis of Community-managed Micro-finance Institutions. Ratios sub-group, SEEP.

Tulchin, Drew; Sassman, Reid and Wolkomir, Elizabeth (2009, December). New Financial Ratios for Microfinance Reporting. Microbanking Bulletin, Issue 19. Social Enterprise Associates, for the MFI Reporting Standards Initiative of the SEEP Network.

Utami, Farida Budi (2011, June). Nothing is Impossible. A Strategy and Approach Toward Improvement of Food Security and Environment in the District of Oecussi, Timor Leste. World Neighbors.

Vanmeenen, Guy (2010, October). Savings and Internal Lending Communities – SILC. Voices from Africa. The benefits of integrating SILC into development programming. Catholic Relief Services CRS, East Africa Regional Office.

VSL Associates Consulting Group (2006, May). Village Savings and Loan Associations and the Chars Livelihood Project, Bangladesh. Report on the feasibility of introducing community-based microfinance into the Chars Livelihood Project. VSLA.