SOCIAL CAPITAL AND GROUP–BASED MICROFINANCE PROGRAM: SOME LESSONS FROM ACORD–DIRE DAWA, EASTERN ETHIOPIA

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Abstract: *Group–based Microfinance, extending small loans for income generating activities to the poor in predominantly developing countries, has become one of the most talked-about developmental tools to appear in the last few years. In this paper we explore the four dimensions of social capital: Social Integration, Linkages, Synergy and Organizational Integrity and their relevance to Group–based microfinance program. The concepts of Social Integration and Linkages are defined as bottom–up forms of social capital at the community level, while Synergy and Organizational Integrity are treated as top–down forms of social capital. This paper argues that ACORD's approach to providing microfinance to the poor through socially sustainable community–based organizations (CBOs) is entirely consistent with economic sociological theory of development, and offers one model that the familiar goal of 'sustainability' be rethought to incorporate a social dimension.*

Theoretical Framework

Social capital is comprised of a complex of obligations, expectations, norms, and trust embedded in the relations between members of a community (Coleman, 1990). Whereas *physical capital* can be thought of as the tools and machinery, and *human capital* as the training that enhances individual productivity. *Social capital* refers to the "features of social organization such as networks, norms, and social trust that facilitate

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coordination and cooperation for mutual benefit" (Putnam, 1995, p. 67). Methods for developing social capital may vary according to culture. But once formed, the central components of social capital–norms, networks, and trust–are transferable from one setting in a community to another setting in the same community (Putnam, 1993). A community endowed with social capital may be free from crime or evidence the kind of trust that enables individuals to "go to the market with only their faces, their name, and their honor for money" (Bourdieu, 1986, p. 185). Social capital is an especially powerful asset because it is a public good which benefits all members of a community–those who contribute to it and those who do not (Coleman, 1990).

Regular, public association of members of a community has been credited with mobilizing a community's social capital (Hirschmann, 1984; Putanm, 1993). Repeated interaction enables personal trust to transform into social trust and allows individual norms to transform into shared norms. According to Putnam (1993), social ties formed through regular gatherings mobilize social capital because they "facilitate gossip and other valuable ways of cultivating reputation–an essential foundation for trust within a complex society" (p. 37). Such community interaction encourages participants' transition from the "'I' to the 'we'", while enhancing "participants' 'taste' for collective benefits" (Putnam, 1995, p. 67). Networks formed through regular interaction give each participant a vision of herself as a member of a larger community (Putnam, 1993).

The above discussion suggests that while the emerging interest in "investing in social capital" formation is a potentially useful component of social theory and development policy, it is nonetheless problematic. This is because it masks classical sociological concerns that (a) the nature and extent of social relationships varies within and between different institutional sectors, (b) the tasks performed by these relationships necessarily changes as economic exchange becomes more sophisticated, and (c) that both 'too little' and 'too much' social capital at any given institutional level can impede development performance. Accordingly, it must be not only a resource that helps groups overcome essentially static dilemmas of collective action (important as these might be); it must also encompass a range of social dimensions and display certain key attributes that can be called upon in the course of resolving dynamic organizational dilemmas, where the very success of collective action itself influences the various types of social relations coordinating that success in the future (Woolcock, 1998).

In order to explore these different levels, dimensions and combinations of social capital it is necessary to give more precise labels to the term social capital as it manifests itself at the micro and macro levels. At the micro level, intra–community ties are referred to as Integration, and extra–community networks as Linkages. At the macro level NGO–community relations here will be referred to as Synergy, while autonomy i.e. institutional coherence, competence, and capacity will be identified as Organizational Integrity.[1]

Research methodology

Our research on social capital primarily focused on the microfinance program undertaken by ACORD, as an institution that employed alternative approaches in managing social relationships for poverty alleviation program, in Dire Dawa administrative council in Eastern Ethiopia. We organized a research team, comprising one research assistant and two other data collectors and conducted a case study in ten selected Urban Kebeles[2]. A one–week training and research guide was given to familiarize the research team with the study.

The study tries to explore the hypothesis derived from the literature of economic sociology that specific types and combination of social relationships are crucial in shaping institutional performance.

In view of the goals of the study, the particular question it addresses, and the many constrains under which it was conducted, the most appropriate research methodology was a qualitative one.

Fieldwork took place over six months, from April 2002 to September 2002. We employed in-depth interviews and focus–group discussion. More specifically, data were collected at three levels: communities, members of the microfinance group and ACORD staff.

1) Focus group discussion with community leaders/representatives: - At the community level, in-depth discussion was held with focus groups of

community leaders including community leaders, local government officials, and religious leaders where the program is undertaken.

2) Individual questionnaires for members of the microfinance groups: - In consultation with ACORD staff, 12 groups out of 36 groups were selected. These included best performing and poorly performing groups. From these twelve groups 36 members were randomly selected, three from each group and the in-depth interview was conducted with the selected individuals.

3) Interview with ACORD staff: - in order to get factual information on the microfinance program and the organization, in-depth interview was conducted with the few remaining staff of ACORD in Dire Dawa. In addition, the study used a variety of data sources including socio–economic surveys, study reports, project documents, and progress and evaluation reports of the program under study.

ACORD's background

ACORD, Agency for Co-operation, Research, and Development is an international Non-governmental Organization engaged in research and development in developing countries. ACORD's involvement in Ethiopia started in the mid-eighties when support was provided to the Ethiopian refugees in Sudan. The rationale for ACORD's involvement in implementing long–term development programs in Ethiopia include, among

others, a) the fact that Ethiopia is one of the poorest countries in the world, the size of the impoverished population is great and there was a scarcity of development assistance as opposed to aid; b) ACORD was in a position to become involved, with its rich experience, in both rural and urban development in other countries in Africa; and c) the change in government in 1991 and its new policies towards rehabilitation and development programs opened a conducive environment for the kind of program ACORD is mandated to support (ACORD, 1994).

ACORD's consultation with the Ethiopian Government, donor agencies, local and international NGOs, revealed that the plight of the urban poor and the growing phenomena of urban poverty was central to issues of long–term development. Dire Dawa, in Eastern Ethiopia, was mentioned among one of several urban centers and the ideal programming area in terms of combining both need and potential. Consequently, ACORD officially started its urban poverty alleviation program in 1994 in Dire Dawa Administrative Council. The microfinance program which is the subject of this study is the core of its program and one of its objectives is direct financial support to the different microfinance groups that have been established from community–based organizations (CBOs). The program beneficiaries in the microfinance groups are mainly women.

The Social Processes Underlying Group–based Microfinance Program
As an institution seeking to integrate 'bottom–up' capacities with 'top–down' resources, group–based microfinance program (GBMP) is eminently

suitable for analysis along the four dimensions of social capital outlined above. The four dimensions to this framework are Social Integration and Linkages, at the micro level, and Organizational Integrity and Synergy, at the macro level. How does group–based microfinance program (GBMP) mobilize and maintain each of these dimensions? Let us take each of these aspects in turn.

1. *'Social Integration': The Formation and Maintenance of Credit Groups*

Community life in most developing countries is accurately portrayed as an environment in which social relationships both define and constrain members' identity and actions. Similar occupations and religion, a shared history, and clear boundaries separating members from non–members combine to produce high levels of what we have called Social Integration. At the heart of group–based microfinance program is the idea that this type of social relationship in poor communities constitutes an untapped resource and that with suitable intervention it can be mobilized and leveraged to lower the costs of extending loans. Lacking material possessions (physical capital), the poor draw instead on their community's stock of social integration (social capital) to form small groups of similarly–placed members, bound together by a requirement to assume unlimited liability for one another's loans. In effect, members pledge their 'social collateral' (Besley and Coate, 1995) as a substitute for physical collateral. What form does this Social Integration take in Eastern Ethiopia? How is it mobilized and coordinated into social collateral by ACORD?

The primary unit of production and decision–making in Ethiopia is the family household. Neighboring family households, both in rural and urban areas, organize themselves and develop their own institutions, Community–based Organizations (CBOs), some social, some religious, and others financial, to get together and address their needs. Membership in the CBOs like *Edirs*,[3] *Ekubs*,[4] and *Mahbers*[5] were common in the communities surveyed. Almost all of the respondents reported their belonging to *Edirs* in their respective localities, either on a gender–differentiated basis or otherwise. Other than these traditional community associations, community organizations like self–help groups were not very common in the sites surveyed. Thus, cooperation, mutual support, and the sharing of information occurs within narrowly circumscribed familial and community limits (high integration), while the opposite characterizes relations across these lines (few linkages).

Given that GBMF institutions have as their *raison d'etre* the goal of increasing borrowers' incomes, retaining those funds within the community, and providing some measure of insurance, one might anticipate that a system that is able to build on the positive aspects of Social Integration might encounter resistance in the long–term, as successful members begin to seek opportunities outside the community, absolving themselves of its claims and obligations. If so, how might these problems best be anticipated and prepared for?

To answer this question, we need to examine some of the features and sources of group solidarity in the group–based microfinance program undertaken by ACORD in Eastern Ethiopia. For economists such as Varian (1990) and Devereux and Fishe (1993), credit groups can be explained simply as the rational union of individuals who clearly stand to gain from the lower interest rates available to them in such schemes, of individuals whose opportunity cost of time and income forgone in attending group meetings is outweighed by the benefits accruing to them from membership. If this is so, however, why are outside agents, in our case an NGO, needed to form the groups in the first place? No particularly sophisticated technology is required. Why do not community members, or moneylenders for that matter, take it upon themselves to form groups and reap the rewards? Rather than deny that poor community members have real and rational interests at stake, which they clearly do, an alternative answer would be that even if they wanted to form groups of their own accord, community members struggle to engage in collective action of any sort because they do not have the organizational skills to do so, have a short radius of trust, and are so poor that they can not afford to take any risk (i.e. they prefer strategies that defend what little they have over higher–risk ventures that might increase their income).[6]Under the conditions of dire poverty, the primacy and immediacy of satisfying basic human needs, the constant reinforcement (or what Coleman [1987] calls 'closure') of norms of distrust and non–cooperation, and the perceived legitimacy of a highly inequitable distribution of economic rewards, combine to undermine 'spontaneous' act of collective action beyond basic social necessities such

as burial services. An external agent is therefore needed to instill these skills, and to provide the necessary support, in order that the program can be self–sustained.

At the initial stage of ACORD's microfinance program, there was a hesitation to join the microfinance groups and this hesitation varied by religion. The respondents who are predominantly Muslims reported that at the beginning there was a huge hesitation and suspicion that this type of loan money is *Haram*[7] as it involves interest rate transaction, which is undertaken in the banks. Later, ACORD invited the local Islamic scholars and made it clear that it is not in violation of any Islamic laws. While those respondents predominantly Orthodox Christians replied that there was a huge hesitation to participate in the program reportedly that ACORD's loan money is disdainfully expressing as a '666' money.[8] There had also been a lingering suspicion from the previous communist military regime that the government organizes people in groups in order to confiscate their belongings. In some cases people did not like to join the groups for fear that they would be in debt. When asked as to the formation of their groups the respondents explained their cases 'those of us who are convinced of the good–intention of the program recruited members from our *Edirs* and formed the group.' The size of the group varies from eight members to sixty. In order to investigate whether "mutual support" or "solidarity" played a part in group membership selection, we asked respondents what criteria would make a candidate eligible for the group. They reported that a candidate who is member of the same *Edir* would automatically qualify for

group membership. Almost all of them know each other very well, lead similar living conditions in the same locality[9], and were very close to each other. A rational response as shaped by the types and combinations of social relations in which the poor live would thus appear to provide a more comprehensive explanation for why credit groups are both necessary and possible, emerge 'spontaneously' in some circumstances (as *Equibs*) and not others, and why outside agents are needed to initiate their formation, but not directly recruiting members for the groups.

Forming groups is not enough, however, they must also endure overtime. ACORD has accomplished this by the following strategies. First, group members are dependent on one another for their own access to loans. Any group member cannot receive a loan until the other members have repaid their loans. Similarly, if members want access to subsequent loans, they need to ensure that their current repayment schedule is adhered to. Asked how they deal with default on the payment of loan, group members responded that if they default on payment, they would face expulsion from *Edir*. It means that in times of difficulties such as death of a family member and other catastrophes, no body would come to assist them. The respondents equate this scenario as 'being dead while alive'. Even some community members preferred not to take loans rather than face expulsion from their *Edirs* in cases of defaults. Consequently, rate of repayment in this program was more than 95%. This represents an effective social control mechanism (Coleman, 1990).

Second, group members commit themselves to a system of behavioral standards, the group's internal rules, which provide a common set of expectations and guidelines for all members. The rules stipulate all the rights and obligations of members in the group. They are also one way of introducing members to the formal structures of large organizations. Third, all meetings and transactions are conducted in public, enabling everyone to have confidence that the same standards and procedures are required of everyone.

When we asked the group members what differences they have observed in their community after joining the group, most of the members' responses were unanimous in that, their cooperation and group solidarity has substantially increased with the frequent interaction on their periodical meetings, the various trainings and workshops given to members by outside agents. Since the formation of their groups, they have spent much more time associating with other people outside their family. Many of them have started their own small businesses using the loan money, usually petty trades which enabled them to interact with other community members almost on regularly basis. They have not seen any serious dispute among members since the formation of their group. The little disputes that they had, all were resolved through the traditional mechanism, i.e., through mediation by elders. When asked if they were having difficulties making their loan payments, and who they would turn to first for assistance, most responded they would turn to their group members, only few responded that

they would turn to their family members. Similarly, their responses were all positive for a request made by other group members in time of difficulties.

According to respondents the group meetings have also provided an avenue for exchanging information about social and economic issues or other events going on in or near the community. Members proclaim that they get up-to-date information from other members at their meetings where they get cheaper consumer materials, days of vaccination programs and other information. And this information was vital for the wellbeing of their family. Before membership, they could not get such information since their interaction was limited only to times of difficulties such as the death of their Idirs' family members. Asked whether they prefer to take a group or an individual loan if they had the choice for their next loan, all responded that they would prefer group loans. The common response for this question was a question by the respondents themselves, 'can one hand clap?' to show the importance of the group. Many considered taking the loan in-group as a security to help each other in a variety of ways.

The respondents also reported that they have been able to construct various types of social services such as cooperative shops, entertainment facilities, and grinding mills that cater essential services for the community. This fact was further strengthened from our group discussion with community leaders, local government officials, and elderly people in the community. Since the formation of their groups, their awareness about education, family planning, and the AIDS epidemic has dramatically increased. A significant

number of the respondents reported an improvement in their income, however the claim needs an econometric study by itself. This has enabled them to send their children to schools and to fulfill a broad spectrum of social obligations. "We are no longer invisible", was a popular response to our inquiry regarding social obligations. All the respondents agreed that they had received more invitations to social obligations because of the deepening of friendship than they had before membership in the group. In those groups with larger membership, some of the members have established their own traditional credit groups, *Equib*. Other than the contributions they make to the common fund, they also make small contributions for some tea party in their meetings.

Box 1. ACCORD's Group–Based Microfinance Member: Tsehay's Story

Tsehai is a 35 year old woman who has four children. She lives in Kebele[10] 02 in Dire Dawa City. Her husband is a mason. Before joining the credit group Tsehai considered life as bad. They didn't have permanent income. He worked only when there is something to do. Whatever little money her husband got, they spent it on food and on their children's education. Tsehai did not work. The children were too small to work. So, they all depended on her husband. They were therefore running here and there to secure the means of survival. They ate when they had the means, and went to bed with an empty stomach when they did not. Tsehay expressed 'our life was between life and death. Life was bad when we got stuck or when it was

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insecure. It was bad when it felt like dying on our feet, or begging from benevolent persons or agencies'.

Tsehai joined the microfinance group through her *Yeguada Idir*.[11] Tsehai joined, and became an eager and committed group member. Membership in the credit group seemed to offer one way out of her misery. She is now engaged in petty trading using the loans she got from ACORD. Tsehay took 800 Birr[12] loans three times and repaid all. Tsehai has now constructed two mud brick houses and earns monthly income of 100 Birr from the rent. The monthly income of Tsehai's family has almost tripled and they are now leading a decent life. Tsehai stresses the change in her role in the community after joining the group. Before joining the group, she knew only her *Idir* members. Now, she knows many people because of her petty trade which liberated her from confinement as a housewife. Her friendship with the *Idir* members has also deepened because of their frequent interaction on their periodical meetings and the workshops and training they attend. She is the secretary of her group and quite busy organizing trainings with NGOs and government agencies and attending meetings with the local government officials.

Tsehai is a member of Goro Kidst Mariam Saving and Credit Association organized by ACORD. Interview was conducted on August 2, 2002.

The only sources of credit before joining the credit group for most respondents were family and in some instances local money-lenders. They

never had any access to formal lending program or institution such as banks. As mentioned above this ACORD's credit relieved them of all the troubles they had for initiating small business ventures, constructing their own houses, and for purchasing house utensils. Some even reported that the local money lenders do not hesitate to lend them money now because of the security they have in the membership of the microfinance group.

The members have reported that they have acquired some knowledge on democratic principles and management practices. Every decision in the meetings is reached with an overall consensus of members. This enabled them to listen to each other very well and tolerate differences. The management committee periodically revolves among members and this helped them to acquire group management skills.

ACORD asserts that they have modeled their programs after the Bangladesh Grameen Bank. But, there is one clearly observable difference between the Grameen Bank and ACORD's microfinance program in Eastern Ethiopia, i.e., a complete absence of rituals in the case of the microfinance programs in Eastern Ethiopia.

2. *'Linkages': Forging and Marinating Social Relations across Community Lines*

The second and most difficult type of social relations to explore is one that extends to others outside one's community. We identify such ties as Linkages, arguing that access to them was crucial for those seeking to

escape from poverty. Writing on microfinance, Bornstein (1996: 27) correctly notes that those "who wish to be self–employed require training, technical assistance, and, perhaps most important, access to business networks along with credit." To what extent does the microfinance program address this aspect? To what extent does it help or hinder access to the people that might provide or constrain opportunities for income to rise?

Providing definitive answers to these particular questions requires work of an anthropological intensity, scale, and duration clearly beyond the scope of the present study. Nevertheless, there is some evidence to suggest that ACORD's microfinance program has achieved its initial goals and objectives, but a number of other interesting and relevant points are worth considering.

When asked have they been able to forge some kind of linkages outside their communities since the formation of their groups, most of the credit group members responded that they able to interact with other groups in the community.

ACORD has formed all the microfinance groups from *Idirs*. This emanates partly from the policy of ACORD. ACORD's goal when it begins work in a community is to leave after five years (even though it had extended for some more years), having established umbrella organizations, Board of Microfinance Groups (BMGs), an area–wide organization comprised of two representatives from each microfinance group in each locality where the

program is being undertaken. The ultimate task of the umbrella organization is to assume all the training duties and management functions originally performed by ACORD: if certain group is having difficulty, for example, then it will be up to the BMGs to send experienced members from other microfinance groups to help sort things out. If there is an outbreak of disease in the community, then the BMG will approach the government regarding eradication measures; if a bank employee is proving uncooperative, the Board takes up the matter with its superiors. Like the microfinance groups, the BMG has formal administrative positions which are rotated on a periodical basis.

As outlined above the long–term goal is for the umbrella organization to take ACORD's place as arbiter and coordinator, so that after five years, when ACORD leaves, there are institutions in place to continue what has begun. For ACORD, this is 'socially sustainable development', or what Klitgaard (1990) in different circumstances referred to as 'beneficent autonomy'; i.e., using the skills and resources of external agencies to establish institutions that can remain fully functional if and/or when those who initiated them depart.

Now, ACORD has almost left and the institutions are functioning without ACORD's oversight. Importantly, these groups have also become role models for others in neighboring communities, with many groups being formed without any assistance from external agencies. In many diverse ways ACORD has thus achieved its goal of going "beyond banking with the

poor towards banking with institutions established and controlled by the poor" (Fernandez, 1994: 2). Gradually, overtime, members are acquiring the financial resources and the organizational skills that enable them to participate confidently and capably in more heterogeneous and complex organizations such as cooperatives and commercial banks. All the microfinance groups are now in the process of becoming autonomous entities; among the best groups, some make this transition in few years time.

Eight years is still a relatively short time frame within which to judge the effects of a development initiative, but it is hard not to be impressed by what ACORD has achieved. As the evidence we get from the field indicates, all the groups have formed their umbrella organizations, BMGs, and members interact across community lines. This collectivity has empowered them to act together. For instance, some microfinance groups have collectively asked and received some social services from government agencies such as water services. They have established some service–rendering institutions and are catering basic services for the community.

As mentioned earlier, the mere fact that the microfinance programs have enabled most members to engage in some kind of pity trade activities made them interact with far larger number of people outside their communities. To operate a small shop, for example, the owner must have a range of reliable suppliers, and skills in contract negotiation, and basic marketing. This requires access to more diverse social networks, and in the process the owner instills the skills to advance them further.

This fact was further corroborated through the information we got from the focus group discussions. According to the community leaders, the various trainings associated with the microfinance program and the success of some of the program beneficiaries have encouraged other community members as well to initiate their own business ventures and be self–employed. It has prevailed on the youngsters love and respect to work. It has created some kind of linkages among the various groups in the community. In the words of one of the elderly in the focus group discussion 'it is exciting to see members of microfinance groups' actively participating in every socio–economic activities of the community who were "invisible" before.' Related with this, the local government officials reported that before the operation of the microfinance program, it was only men that participated in the meetings they called. But now, an equal number of women show up in the public meetings they call.

However, there are also some instances where the microfinance group members have used the loan money for furnishing their houses, for consumption and in very rare cases the money was simply misused. In those instances, ACORD has either failed to get the neediest beneficiaries or has failed to give the necessary support for those beneficiaries. There are important lessons here for those with grand visions of rapidly replicating and expanding microfinance programs around the world.

Box 2. A Story of Sheik Ahmado *Jammata*[13], a Women's *Idir* in Legehare, Dire Dawa city

Sheik Ahmado Jamata, a women's *Idir,* was established 37 years ago, with the objective of providing mutual support and social services to its members and their families. Specifically, the *Jammata* provides assistance to its members in social events such as mourning and funeral, wedding, serious illness, etc. It also provides a sort of assurance policy when someone dies. The income of the group is mainly generated from periodic members' contributions, fund raising, donation, etc. In addition, the members contribute extra money in emergencies.

At present, the *Jammata* has a membership of 137 women, with a committee of six, chaired by the founder Fatie, aged 60, who has been the group leader since the beginning. Fatie has a strong character, few members oppose her ideas, and her decisions are not questioned, even if they are considered to be wrong. However, she is also popular among the group in coordinating fund raising activities for her group and other community projects. During the focus group discussion with my research team, the members of the group seemed to enjoy the organizational analysis exercise, particularly, the part on the process of decision making in the Jammata.

Most of the members, together with Fatie, have managed to stay in the *Jammata* till now, and the social ties among the group seem to be firm. As they narrate their story, some years back all the members were illiterate,

and thus there was no formal record keeping, financial or otherwise. The size of the membership was recorded by keeping an equivalent number of stones in a safely kept tin by the leader. If one member leaves or dies, one stone will be taken out of the tin or vice versa when a new member joins the group.

The *Jammata* has currently established various income generation schemes and are assisting the neediest members of the group. For these projects the group has secured funds from ACORD, from the members themselves, and rich people in the community. During the interview, Fatie commented "the *Jammata* has immensely benefited not only from the funds but also from the various trainings it received from ACORD, other NGOs and government agencies".

A focus group discussion was held with the community representatives and the management committee of the Sheik Ahmado Jammata group, on July 9, 2002.

3. *'Synergy': Building and Maintaining Relationships between NGOs Staff and the Community*

The mere presence of an external agency offering financial services on superior terms and conditions does not automatically mean that potential clients will accept them open–handedly. Where these terms and conditions happen to make considerable claims on community's time and resources, like requiring borrowers to commit themselves to memberships of a small

group, to assume unlimited liability for fellow group members' loans, to adhere to complex rules and training schedules set by outsiders–it can not be assumed that borrowers will simply accept them because it is 'rational' to do so. Community members can make any such 'rational' decision only when they are fully convinced of the merits of the proposal, when they trust those people who claim to be able to help them implement it. NGOs and their staff arriving in a certain locality for the first time lack external cues that the local community would recognize as measures of their competence and trustworthiness, and poor community members are inherently distrustful of strangers (especially those in more powerful positions). NGOs and their staff and community members alike must both enter into an extended period of building the social relationships in and through which mutual confidence can be established. It takes time and effort to learn their particular concerns and earn their respect.

There are several obstacles that need to be overcome in order for this trust to be established, and it is instructive to examine what some of these are and how they are resolved. First of all, NGOs face, especially at the beginning of their operation, the challenge of getting the indispensable legal backing from the government. As per the 1994/95 Disaster Prevention and Preparedness Guideline, any NGO seeking to operate in Ethiopia has to pass through two stages. First, it has to be registered in the Ministry of Justice at the Federal level; second it has to sign a project agreement with the concerned regional government organ for each project it desires to undertake. Because of lack of capacity, transparency, and other bureaucratic

bottlenecks on the part of the government, the process of getting the proper legal recognition for NGOs to operate in a certain locality, in the first place, is a painstaking one (Taye, 2002).

On the part of the community, there is the common fear that NGOs are a front for Protestant Christian Missionary, that program beneficiaries will be required to convert from Orthodox Christianity and Islam as the price they receive for receiving credit[14]. As has been shown above, both the Orthodox Christian and Muslim beneficiaries were reluctant to join the microfinance program because for the Christians they assumed it was 'Satan' ('666') money and for the Muslims they considered the transaction of the money with some kind of interest rate was contrary to the Holy Koran. Since the focus of the program was on women, there was also a resistance from some groups that it was neither important nor necessary to provide credit for women because they are unable to pay loans on time, they can not take risks, are likely to 'misuse' loans for household consumptions. It took a lot of concerted work by ACORD staff to overcome these apprehensions and develop trusting relation with the community and other stakeholders in the area they operate.

For ACORD, the challenge at the initial stage of the program in 1994 was heavy. As the ACORD staff described in our interview, since the objective of the program was urban poverty alleviation using participatory technique, changing the attitude of people in the development process was a daunting task as the approach was a recent phenomenon in the country. Dire Dawa

had only been exposed to relief projects and Eastern Ethiopia more generally was known for numerous relief oriented NGOs assisting in tackling the various natural and man–made disasters, such as successive droughts and crop failures, mass displacement and refugees due to numerous in–land or external conflicts, skirmishes, war, and the like. ACORD's role initially was conceived by the officials and the community as one of a relief organization probably with some mix of development approach (i.e. like food for work programs for building roads). In view of such a program background, it was difficult for many to see the real contribution of ACORD to the community. It took ACORD a lot of effort in terms of conducting informal and formal discussions with the community and government officials to explain the situation (ACORD, 1995).

ACORD managed to avoid the temptation of only banking upon and responding to the community pressure by rushing the process towards implementation. The study situation was maintained, and discussions with all stakeholders were carried out. Implementation of the program was delayed to 1995 due to funding constraints and the delay in signing the country agreement and afterwards the project agreement with the regional government officials. The latter was especially difficult to achieve and it was not signed until the end of August 1994, though the program operation was supposed to start by January 1994. It was not clear until late in that year which office was supposed to sign the agreement with ACORD. The Dire Dawa RRB (Relief and Rehabilitation Bureau), now DPPC (Disaster Prevention and Preparedness Bureau), the Office of Economic Planning, the

Dire Dawa Administration, as well as the Oromia Administration were all claiming the right to sign the agreement. After repeated appeal to the then Federal Relief and Rehabilitation Commission in Addis, the right bureau delegated to sign the agreement was identified and subsequently the signing of the program document took place by the end of August with the Dire Dawa Administration Office and Relief and Rehabilitation Bureau. The process took eight months. In the subsequent years, Dire Dawa witnessed a lot of changes at the level of Senior Officials within the Administration and the line Ministries due to perhaps the sensitivity of the region and the transition period the country was in. The constant replacement of officials necessitated repeated updating of the officials about ACORD Dire Dawa's Program objectives and activities. Foreign NGOs were locally considered as relief agents rather than development oriented partners. The prevalence of insecurity at the time in the surrounding rural areas of Dire Dawa, had to some extent diverted the attention of most of the senior officials towards emphasizing the need for relief items for the displaced rather than to poverty alleviation program.

The challenge was met and overcome by ACORD by employing flexible approaches and creative means on the spot to make appropriate contact with the local people especially in the study of CBOs, poverty, coping strategy and gender in the Dire Dawa context.

The sensitivity of people to issues such as ethnic and religious questions presented another challenge. The challenge, which was more severe for

ethnic rather than religious issues, was serious as it had the potential of creating wrong impressions about ACORD in the minds of the people. Dire Dawa had experienced ethnic clashes in the past. The potential for another could not be ruled out considering the sensitivity of people and politicians in the area over ethnic questions. The insecurity in surrounding areas and in Somalia across the border was another source of instability for the region (ACORD, 1994).

The ACORD staff tried to convince the people about the program by directly going to the community and explaining program objectives, working methods, benefits, etc. through meetings and discussions. As a result, the community groups who were reluctant even to come to meetings later started to register and provide the necessary information required for the implementation of the program voluntarily. The program performed its activities through informal means for a much longer period than was anticipated and kept on gathering all data that were necessary at a much slower pace than it needed them.

Another obstacle to maintaining synergy is that the fears played upon by skeptics and money - lenders are sometimes real. The very fact that trust is an important component of group–based credit systems means that this trust can be violated, and so it is perhaps not surprising to learn that some unscrupulous individuals exploit this system for their own benefit. In one of the study sites, our research team has come across separate instances of community members being encouraged to form savings and credit groups

by apparently reputable individuals who disappeared, and never came back to the community, with all the poor community's hard–won savings. ACORD staff faced stiff resistance when they arrived sometime later, innocently suggesting that their approach to poverty alleviation involved the formation of small credit and saving groups from CBOs.

No matter what the opposition to their work, ACORD staff worked tirelessly with their members to establish groups from CBOs that can withstand multiple external threats, to ensure that the "system" takes root and endures. In short, the existence of credit groups cannot be explained simply as a rational response to a 'need' or a 'latent demand' for credit: they are a socially constructed entity, highly dependent on the skillful mobilization and assemblage of particular types of social relationships.

Synergy between the community and the NGO's staff is established not only from overcoming adversity together[15], but from participating in modest training programs designed to facilitate the acquisition of basic organizational skills and productivity– enhancing behaviors[16]. The internal rules are a component of this, but in a formal training session members learn various life skills, receive instruction in rules and procedures, and how to resolve conflicts. These meetings provide members with an opportunity to reflect upon their successes and failures thus far, to learn from one another's experience, and to receive additional instructions regarding public health, hygiene, AIDS epidemics, the negative impact of harmful traditional practices, the importance of education, and banking procedures. One of the

agenda, of course, is an endorsement of the importance of the group's internal rules and the maintenance of 'discipline' in ensuring ongoing access to credit. Attendees review the rules, policies, and procedures for obtaining loans. The focus group discussions that were held with the community leaders attest the fact that a significant portion of gains in incomes of the credit group members might be attributed to non–credit inputs such as these trainings.

The initiation and maintenance of 'synergy' between NGO's staff and the community, then, is a crucial important aspect of ACORD's success in building a financial system for the poor community. Above all, it is a socially negotiated and maintained relationship between two otherwise very different parties; it is a relationship that requires constant attention and commitment, especially by staff, to retain its capacity to be an effective conduit for the extension of financial services in particular, and community development in general.

4. *'Organizational Integrity: Social Relations among the NGOs' Staff*

Successful micro or 'bottom–up' development projects initiated by an external 'top–down' agency requires the agency itself to be, among other things, a competent, cohesive, and trustworthy organization. It must be capable of maintaining its coherence and credibility in the face of multiple pressures on staff members (and in some cases the entire organization) to engage in inefficient or illegal activities, ranging from harmless acts such as lateness, through to graft, clientelism, and outright 'predatory' behavior.

Equally, it must be able to coordinate and direct the individual talents and energies of staff towards common goals and objectives. The capacity to establish and maintain Organizational Integrity is thus a highly problematic social accomplishment, especially in settings such as Africa, where corporate corruption is widespread. The extent to which Integrity is attained, I have argued, is a function firstly of an organization's willingness and ability to require, recognize, recruit, reward and retain competent staff, and secondly to ensure that these talents are directed unilaterally towards the attainment of the organization's goals. Let us examine ACORD's approach to addressing each of these aspects.

Among the first tasks any organization needs to accomplish is the recruitment, training, and retainment of its workforce. At the start of the program, the difficulty of recruiting experienced senior staff locally forced ACORD to recruit staff from Addis Ababa, the capital city. However, at that time the image created by the press of Eastern Ethiopia as an insecure zone in the country, has resulted in the return of some of those staff to Addis Ababa, due to family pressure. Thus the organization had to face with a high turnover in a short period of time. This presented a challenge for the rest of the staff in that they were excessively overburdened.

ACORD's recruitment and training procedures ensure employees have the technical and social skills they will need to do their job. The possession of such skills, however, is insufficient to build a coherent, cohesive organization and, importantly, to project these qualities to would-be

constituents. The attainment of such qualities turns on the willingness and ability to establish an organizational environment in which high–quality work is required, recognized, and rewarded at all levels, and in which the energies of all staff are directed towards the attainment of common objectives. Talented individuals recruited to work for an organization that is unable to establish adequate measure of internal coherence and external credibility will not see their skills put to their most productive use. Such measures are all the more important in the case of group–based microfinance programs, where potential clients are inherently skeptical of any outside organization's means and motives for lifting them out of poverty.

The situation was further complicated in ACORD's case with the heat of the political environment. In order to strike a right balance to the atmosphere, during the recruitment process guidelines were discussed and set with regards to gender and ethnic balance, in an explicit attempt to ensure that staff composition reflected all the major ethnic groups of the Dire Dawa region, and a gender balance.

Maintaining internal coherence and external credibility is a constant challenge for ACORD (indeed all GBMFPs) for a number of reasons. First potential community member beneficiaries are likely to have had bitter previous experiences with organizations claiming to assist them in financial matters. Second, while training poor community members and assisting them in their quest for greater economic independence, it is still the case

that staff have considerable leverage in the lives of the communities, with the power to deem their performance inadequate or their request for loans inappropriate.

ACORD employs a number of strategies to overcome and where possible prevent these concerns from arising. Among other things, it has adopted policies of (i) holding evaluation meetings with all stakeholders, including community, government, and other NGOs; (ii) monitoring closely the performance of the staff; making its operating procedures and institutional performance readily accessible to outsiders; (v) recognizing that while achieving stated objectives in a timely and prudent manner is essential, close attention must also be paid to the means or processes by which these objectives will be accomplished. Periodical staff meetings are an important time not only for monitoring everyone's performance but also for building and maintaining *espirit de corps*.

CONCLUSION

ACORD's work in establishing groups from CBOs among the poor that are linked to formal institutions and, in the long–term capable of operating in the absence of ACORD, is both a remarkable institutional achievement in its own right and a source of important lessons for social theory and development policy. To the extent that one of the major impediments to economic advancement in poor communities is a lack of access to and sustained participation in key developmental institutions that transcend

community lines, ACORD's work in demonstrating that such access can be not only forged but sustained in their absence is an accomplishment worthy of close attention.

At the institutional level, ACORD has a high level of Organizational Integrity, a feature borne of a commitment to requiring and recognizing competent performance at all levels. ACORD's reputation as a credible and honest organization gives it legitimacy in the eyes of the communities. It is able to project these qualities to clients, to work with them when setbacks come, to overcome resistance from momey-lenders and other factors, and to enforce repayment agreements, because it is actively engaged in the lives of the communities. It is an organization that 'has gone to people'; ACORD's staffs again have high levels of synergy with the communities they work because they take the time and effort to build and maintain it.

When ACORD organized the poor from CBOs into smaller and homogenous units, however, a socially integrated group facilitated a higher level of collective action. The very vulnerability of the poor, however, and their lack of experience with participating in formal institutions needed a day–to–day interaction to overcome constraints.

In fact, ACORD's own understanding of poverty, as reflected in its objectives, from the beginning is that the absence of Linkages is a primary cause and consequence of poverty. Lacking the resources and connections to participate in a broad range of social, economic, and political institutions,

ACORD has sought explicitly to forge these linkages by (a) requiring the poor to assume greater levels of responsibility for their groups organizational affairs, (b) connecting these groups from the outset to formal institutions such as banks, and government agencies, and (c) building an area–wide organizational infrastructure (Board of Microfinance Groups) to assume ACORD's role when it departs. It is beyond the scope of this study to document that this is irrefutably a superior strategy for poverty alleviation, but it is entirely consistent with economic sociological theory of development, and suggests strongly that the familiar goal of 'sustainability' be rethought to incorporate a social dimension. Precisely because there are costs and benefits associated with each of these four types of social capital, the specific combinations each of required to produce lasting economic advantages overtime. ACORD's approach to providing microfinance to the poor through socially sustainable community–based organizations offers one model for how these costs and benefits might be mitigated.

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Endnote

[1] Michael Woolcock has developed these terminologies in his seminal work, "Social capital and economic development: Toward a theoretical synthesis" Theory and Society. pp. 151-208. See also World Development Report 2000/01, Chapters 7 and 8, pp. 117-159.

[2] Kebele is the smallest administrative unit in Ethiopia.

[3] *Idir* is the most common informal institution in Ethiopia. It is a burial society, but provides other supports to its members. Membership is very often by residence, and members pay a small monthly fee.

[4] Ikub is a traditional saving and credit association. Each member collects the pool of money contributed weekly or monthly.

[5] Mahiber is a religion based informal association common among the Orthodox Christians of Ethiopia. Members meet every month for food and drink. Members also support each other in times of difficulty.

[6] In a different context, see Briggs' (1997) useful discussion of the preference of the very poor for strategies helping them to "get by" over that might help them to "get ahead".

[7] *Haram* means those actions which are forbidden according to Islamic laws.

[8] According to them '*666*' money' is a prophesy in the bible that in the future there will come one powerful force that can rule the world single-handedly, and there will be one currency all over the world.

[9] ACORD's group members share much in common with each other. Most of the respondents in Dire Dawa suburban are illegal settlers. They have constructed their own 'Chereka' houses (houses of the moon, which means that the construction was undertaken when dark falls to hide from governmental authorities), without getting any formal permit from the government authority for the plot for various reasons. Because of the illegal nature of their settlements, they have been denied of any basic utilities including, water, electricity, roads, telephone, etc. Most of them are down-trodden, being the poorest of the poor, and they claim that these situations bind them together as one community.

[10] *Kebele* is the smallest administrative unit, a local government structure.

[11] *Yeguada Idir* is a women's *Idir* that spring from the main *Idir* that includes both men and women.

[12] Birr is the Ethiopian currency. Currently US1$ is equivalent to 8.58 Birr.

[13] *Jemmata* is an Oromifa (a local language) term for *Idir* (Amharic language), a burial association which is a neighborhood-based structure. Also known as *Jama* (in Somali language), and *Affocha* (in Harari language).

[14] The two dominant religions in Ethiopia are Orthodox Christianity and Islam.

[15] Portes and Sensenbrenner (1993), drawing on Marx, refer to this aspect as "emergent solidarity".

[16] There is a department in ACORD entrusted with the responsibility of training community members.

Acknowledgements