



Savings and loans; drawing lessons from some experiences in Asia

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SUMMARY: *This paper describes the role of community-managed savings and loan schemes in poverty reduction and how these are best supported by external agencies. It draws particularly on the last ten years work of the Thai government's Urban Community Development Office including how the 1997 financial crisis and the difficulties this brought to low-income savers was turned into an opportunity to rethink how to support savings groups. Community savings and loan schemes bring people together, helping them learn how to develop and manage their own resource base. They reduce individual vulnerability by providing an immediate lending facility the poor can access. They strengthen community processes so that other key issues can be addressed – for instance, developing plans for housing and negotiating with external agencies for land and infrastructure. If savings groups are supported to learn from each other (through community exchanges), networks develop, creating stronger, larger groupings of the urban poor with a greater capacity to negotiate with external agencies and develop a common fund. The possibilities for collaboration with government increases greatly as these networks demonstrate cheaper, more effective ways of addressing housing problems. Thus, community savings and loan schemes can reduce the poor's exclusion from formal political and financial systems by providing a bridge between these and the informal systems from which most of the poor draw their living. They can also become the means by which the urban poor obtain good quality, well-located, secure housing with basic services, without the need for large subsidies.*

I. INTRODUCTION

COMMUNITY-MANAGED SAVINGS and loan programmes have emerged as one of the most powerful tools to draw together the many people and disparate groups that exist within poor communities. Because they are controlled and operated by community people themselves, savings and loan programmes build a community's own resource base. People can develop themselves and provide for their own needs, both individually and collectively, through the ongoing process of regular, concrete decisions that are inherent in the collective management of a savings and loan programme.

Of course, savings and loan-related activities cannot solve all of the problems that the poor face. Such difficulties are caused by a multitude of factors, some of them structural. However, the organization around savings and loans can be an important beginning in helping communities

deal with both structural issues and other problems and, little by little, gain financial confidence, knowledge and experience. In the course of determining their own development, they need both strong local organizations and the chance to strengthen their relationships with others. The sections below discuss how savings and loans can be a route to obtaining these necessary capacities and resources to address the priority problems of the poor.

Among the problems faced by the urban poor is that of inadequate access to housing and land with secure tenure. In many cities (especially the larger conurbations), the poor cannot afford to buy land through the formal market systems. Their informal incomes fall well below what is needed for housing to be affordable. There is a clash of formal and informal systems, particularly but not exclusively with regard to housing. For example, it is difficult for the poor to repay housing loans on a regular basis. Even when the formal system is prepared to lend to the poor, monthly repayments are difficult for those on informal incomes. At the same time, there is a lack of well-located and available land. With secure land close to their work, the poor can develop their own land gradually at a pace they can afford. But due to high levels of income inequality and speculative investment, the price of well-located land is very high in many cities. Speculation may mean that land is left vacant, but lack of security means that it is often difficult for squatters to invest in such land. Alternatively, land may be available but it may be in unattractive locations that are either dangerous or a long way from the city. Hence, there is no obvious point at which the formal and informal housing systems can come together. In this context, it is difficult for the poor to identify and hold onto local improvements.

Government programmes have sought to deliver subsidized welfare-based housing to the poor. However, the systems of delivery that are commonly used face many problems. These centralized systems create their own bureaucracies, have too many steps, take too long, cost too much money and often lead to corruption. Too often, due to their lack of insight into the lives of the poor, such systems end up missing the target group and instead deliver housing to groups that are not so poor. Even if they are targeted correctly, many of the poorest cannot afford to stay in welfare-based housing projects where they are isolated from the vital support systems of their original communities that underpin their own survival. As the numbers of the poor and the extent of the problem grow, there is a corresponding increase in the numbers of organizations, agencies and government positions to address the issue. However, few of the growing number of international experts or organizations learn about the solutions that the poor are using and they have little impact on the scale of need.

In this as in other areas, the poor are isolated, fragmented, unorganized and powerless to negotiate or participate in decisions about their lives. As a result of their absence from decision-making, the poor are unable to secure resources or influence policies that affect their lives. Even in cases where they can, and do, organize themselves, there are limitations in their ability to succeed. They may extract concessions from government but they are rarely able to maximize their advantage; improvements are promised but implementation often does not take place. Until people's organizations develop their internal management and experience in community development, it is likely that they will continue to be ignored.

The lack of financial development in many countries means that there are few formal opportunities for savings and loan activities in low-income

settlements. Whilst finance alone may not be an answer, the lack of investment capital compounds many of the problems. In addition to providing a route to strengthening community organizations and addressing basic needs, savings and loan activities may be the beginning of basic financial institutions among urban poor communities. If savings groups are linked to institutions that provide capital, then they can offer an even more powerful route to expanding localized financial activities and can provide low-income communities with the financial liquidity that development requires.

This paper describes how and why savings and loans can support such a transforming process that works for the poorest members of low-income communities. It draws particularly, although not exclusively, on experiences of the Urban Community Development Office in Thailand. Section II discusses savings and loan-related processes in more detail and describes how such activities can channel external resources to the poor and why they are proving to be such a powerful form of development intervention. Section III looks particularly at the use of lending for housing development and how outside development agencies can affect the usefulness of the finance they offer through the adoption of specific lending terms and conditions. Section IV explores the community processes that are stimulated through the targeted use of savings and credit and Section V uses the experience of the financial crisis in Thailand to further explore some of the more critical management processes involved.

II. WHY SAVINGS AND LOANS?

THERE ARE A number of advantages to community-based savings and loan activities. First, they draw people together on a regular and continuous basis. They offer opportunities for members of low-income communities to develop their strengths gradually through making collective decisions about concrete activities that affect the community. Second, the financial mechanisms are grounded in daily activities; saving and lending are quick, simple and related to the real daily needs of the urban poor – as defined by the poor themselves. Third, savings and loan activities provide the urban poor with their own resource base to answer their basic needs. Fourth, as importantly, the process creates an ongoing learning within the community about each other's lives, about how to manage together and how to relate to external systems with greater financial strength in order to achieve more than day-to-day needs. It is a process that every community member can relate to, and which everyone can be involved in controlling. It is a gradual process that provides the community with the capacity and confidence needed for a true and comprehensive self-development process. Consequently, the poor can enjoy the pride that comes of being the owners of a process, not merely recipients waiting for benevolence from the outside.

Savings and loan activities are not simply an end in themselves, rather they are a means to strengthen community processes so that people can work together to achieve their multiple and diverse needs. Once people have been brought together, there is an opportunity to link saving with related issues which need to be addressed. For example, if achieving secure housing is beyond the immediate financial capacity of the community, the whole group needs to understand what is required to secure housing. They need to simultaneously develop other processes, parallel to savings and

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loans, such as searching for land, securing subsidies, negotiating prices, and infrastructure development. In this way, all crucial elements in the struggle for secure housing can be brought together and realized by the people themselves.

Experiences in several Asian countries show that small scattered savings and loan groups that are supported to learn from each other with proper facilitation are likely to link to other groups and form networks as they become more mature. These networks offer opportunities to bring together savings capital in a common capital fund. Networks also provide groups with access to greater financial resources and enhanced legitimacy when negotiating for support from external agencies. As they grow, it may also lead to further collaboration between groups of the urban poor.

This process has profound political implications as it addresses one of the major characteristics of the powerlessness of the urban poor – their isolation. The stronger status of larger networks makes it possible for the poor to deal with the more substantive structural issues that relate to their

Box 1: Urban Community Development Office (UCDO)

UCDO was set up in 1992 in an attempt by the Thai government to take a new approach and develop a new process for addressing urban poverty. The government granted a revolving fund of Baht 1,250 million (about US\$ 32 million) through the National Housing Authority (NHA) to set up a special programme and a new autonomous unit to address urban poverty on a national scale. The programme sought to improve living conditions and increase the organizational capacity of urban poor communities through the promotion of community savings and loan groups and the provision of integrated loans at favourable interest rates as wholesale loans to community organizations. This new Urban Poor Development Fund was to be accessible to all urban poor groups who organized themselves to apply for loans for their development projects.

The organization is governed by a board that is responsible for all UCDO policy decisions. Although UCDO is a special organization under the NHA, the UCDO board has the power to make decisions independently. The crucial point in this regard is the combination of board members, which is as follows: four from government organizations – the Bank of Thailand, the Ministry of Finance, NESDB (the slum upgrading office) and the NHA; four community leaders; one from an NGO; and three from among specialists and the private sector. The NHA governor is the chairman and the UCDO managing director is secretary of the board.

The project provides an “integrated credit system” for integrated community development purposes. This avoids sectoral approaches and absorbs integrated needs from the communities. The types of loan issued range from those for income generation to general revolving funds to housing. So the community can, in fact, organize to have an integrated community development plan or a community development master plan which can be implemented over a certain period of time and to which UCDO can contribute credit. The more UCDO operates, the greater the number of different types of credit which are required for the community’s diverse needs. The organization’s present credit system includes the following:

Type of credit	Interest rate (%)	Maximum term (years)
Revolving fund loan	10	3
Income generation	8	5
Community enterprise	4	7
Housing improvement	10	15
Housing development project	3	15
Network revolving fund loan	4	5
Revival loan	1	5

problems – issues that previously were beyond their capacity. Networks increase the negotiating position of the poor as they can demonstrate workable, self-managing community processes. In the past two to three years, over 100 such networks have been organized in Thailand. They have resulted in expanding activities and roles among urban poor communities and a much broader acceptance of their presence both in their immediate localities and beyond. These networks have begun working with municipalities and other local organizations on issues vitally related to the lives of their members, such as citizen rights, housing, welfare, community enterprises, community environment and health.

If these stronger community processes can link up with good external sources of loan capital, then low-income communities are able to access and manage the financial resources they need to support the people's own development process, as directed by the people. Box 1 describes the Urban Community Development Office in Thailand, that has sought to be such an external source. Savings and loan groups, or other grassroots organizations such as community cooperatives, can help to bridge the formal and informal systems – the formal outside and the informal inside the community – so that financial resources can flow from one to the other with adjusted mechanisms between the two different systems. This bridging function is critical if external capital is to be used by the poor in ways that do not increase their vulnerability. For example, it is difficult for an individual working in the informal sector to make regular monthly repayments but a large group can help individual members to spread their repayment capacity. Community savings can be used to bridge finance in particularly problematic months. Together, the two forces of community savings and lending activities combined with an external source of credit provide a powerful catalyst for development.

Box 1 describes the history of the Urban Community Development Office and Table 1 shows its recent growth. What does not emerge from these figures is that the Office has targeted some of the poorest urban communities, seeking to work with local groups to continuously improve the support it is offering to those with the lowest incomes in the most vulnerable situations.

Table 1: Urban Community Development Office (UCDO) – figures demonstrating recent growth			
	Sept 1996	Sept 1998	June 2000
Number of savings groups	355	484	852
Number of individual members	47,959	65,940	99,015
Total UCDO member savings (million Baht)	317.27	444.28	515.74
Housing development loans	343.33	424.01	470.32
Housing improvement loans	44.84	102.99	110.93
Income generation loans	109.32	163.25	200.86
Revolving fund loans*	45.49	73.80	79.95
Total credit repaid	103.22	225.85	333.67
Total credit outstanding	382.82	498.12	502.34

*Small loans to communities for them to on-lend for a variety of collective activities.

In this way, savings and loan activities can go some way towards addressing the problems that the poor face in securing housing and their other development needs. They can reduce the isolation and powerlessness faced by the poor. They can create stronger, larger groupings of the urban poor who are able to negotiate with state agencies and other external groups. And they can provide a mechanism to enable the poor to benefit from formal processes whilst maintaining their own informal systems which are a result of their livelihood strategies. In addition, they can reduce individual vulnerability through providing an immediate lending facility that is knowledgeable about each family's needs and capacities. More specifically, savings and loan groups and networks provide an alternative system through which much-needed financial resources for development can directly flow to targeted urban poor in the form of loan capital, in ways that can be managed by the people themselves.

III. CREDIT FOR HOUSING

IN REALITY, URBAN poor groups have long been investing in housing, whether legally or illegally, whether temporary or permanent, whether in cash or with informal credit. The urban poor and the informal sector have achieved the largest housing production of any single entity within the Asiatic region through sheer creativity, efficiency, a close match between houses and affordability, and the integration of employment opportunities with the other complex needs of the poor. But because most of these houses are illegal, their occupants are insecure, threatened and victimized by the corrupt underside of the formal system. This is the poor's two-sided habitat reality; immense problems and immense potential existing side by side.

Unfortunately, most conventional centralized housing or welfare organizations tend to disregard this potential in low-income communities. Professional solutions encourage people to become dependent and isolated. They encourage people to take on much bigger financial burdens than those required in conventional housing provision for the poor and, as a result, often the people cannot afford to stay. The major role of credit for habitat is to support the people's own housing process, to further strengthen in an organized way the potential that already exists.

Savings and loan activities can become an integral community process for obtaining decent housing and for meeting other related needs such as income generation, welfare, emergency crisis credit and environmental improvements. As explained in Section II, it does this through a number of strategies, including strengthening local community activities and drawing groups together into networks and federations. If supported properly, savings and loan activities can increase in scale, supported by such networking activities and the supplementary provision of external finance.

With respect to external support for savings and loan activities for housing, various experiences around Asia have led to the following conclusions:

It is necessary that it be a group process. Simple community savings groups bring people together in a process in which they are all involved and which they have to organize themselves. Over time, the group extends loans to its members. Lending for housing is a particularly important inclusive process. When a community needs loans for habitat – to repair or reconstruct a house, or to buy existing or new land and build new houses

– it is possible to develop group capacities. The group is a communal vehicle and a combined process through which each urban poor member can obtain access to financial resources; it helps to absorb or adjust the formal financial system with informal arrangements among community members.

The group has to work together on many difficult steps in a development process to address multiple needs. Housing is one of the most complex steps since it integrates so many other very difficult and different issues – including coordination with state agencies, land sub-division, land development, infrastructure development, housing construction and house registration. The group process itself helps to make construction cheaper, can help make informal and sub-standard systems become more acceptable and may enable coordination assistance and acceptance by political means through collective negotiating power. The savings and loan group becomes a management process for obtaining affordable housing by the people themselves.

There is a need for subsidy in housing loans for the poor. Housing for the poor needs some kind of subsidy in order to make it affordable to the poor. In the case of housing loans, the general practice is to subsidize the interest rates. Most sources of credit for habitat available to the poor in the Asia region offer below-market interest rates. Grameen Bank in Bangladesh provides housing loans at 8 per cent, compared to about 18 per cent for other loans. The Community Mortgage Programme in the Philippines offers loans at 6 per cent, UCDO at 3 per cent and others at between 8-10 per cent. Some government programmes may not lower interest rates but may subsidize housing in other ways – for example, by providing land or infrastructure, or by cross-subsidizing investment or administrative costs. In some cases, different price zones or different plot sizes are introduced within the project or programme for internal cross-subsidy, so that it is affordable by all different income groups. There are various possibilities for linking subsidy with the credit system to be adopted in the financial process for housing the poor. The group and networks themselves become important actors in resolving this issue in the most favourable way.

It is difficult and unaffordable for the poor to pay for both land and housing credit. In the experience of Thailand's UCDO, when subsidized loans were easily available (with the interest rate for housing project loans at 3 per cent per annum to the group), a number of evicted communities applied for loans to both buy new land and build new houses. This is similar to most commercial housing development. In the Thai experience, it was found that if the poor have to pay for both land and housing, fewer than half of the urban poor families in the existing communities can afford the cost. If they want to buy much cheaper land, it has to be so far away from their present location and the city that employment becomes a very serious problem and they are not able to stay on the land. It is therefore crucial that housing loans be related to what the borrowers can afford. A positive step forward would be for government to provide land to community groups who then develop housing with collective loans.

Simple small housing loans for basic construction. The women of Mahila Milan in India went through a long process to develop a very simple and inexpensive house model that is now the core house for all members of the organization. During the community planning processes that led to the development of these house types, the costings, the calculations for all housing construction and discussions on the functions of the

housing plans were all thoroughly undertaken. This is how a community housing process can yield housing designs that come closest to being affordable and appropriate. Being a loan system, there are obvious possibilities for flexible forms of housing, with different members seeking different solutions at different costs. However, it is more desirable and reasonable for the urban poor community members to work together to provide a simple basic housing unit, in order to ensure that loan finance is used only for the essential investment thus enabling the capacity to be spread as widely as possible and in close relation to affordability for the poorest members.

Integrating with other necessary development. When communities first start savings and loan groups, it is an advantage to mobilize a range of lending activities. Communities then learn to link up planning for new houses with other related needs such as income generation, infrastructure development and environmental improvement. The group may be able to obtain assistance or a partial subsidy from outside agencies that can be linked with credit opportunities to address their development needs more completely, albeit on a gradual basis. It is the process of working through these housing-related issues that integrate all related development with housing that helps the poor themselves understand the issues involved and what their options are. It is by working through this process that urban poor organized settlements can be secured by community people themselves.

It is very important that land acquisition and house construction are not considered in isolation, as is often the case in government projects. Rather, ways have to be found to integrate several other social and economic elements for a self-managed and sustainable community process. This is the role that community savings and loan activities can play as an integrated community resource base, and which can be used in conjunction with outside resources to address multiple needs.

Some margin for group expenses. It is necessary to find a mechanism through which community groups can have some margin to cover necessary group expenses which result from managing and developing the process. Housing development requires many difficult steps and much coordination – there are many trips to the local authority, with associated transport costs, there may be plans that need to be drawn up, copies of official documents that need to be obtained. At the same time, some urban poor people face acute family or employment problems if their earnings are interrupted; they and others have little spare cash to subsidize such costs. Therefore, a margin to cover such managerial needs and expenses is essential for the group. This is a simple point that, if neglected, always leads to problems that are difficult to overcome.

In the case of UCDO, housing loans are made to groups at 3 per cent; the groups can then add an extra 3-5 per cent for the kinds of expenses mentioned above, thus charging its members about 6-8 per cent.

IV. THE COMMUNITY PROCESS – TOOLS AND CLUES

USING SUCH PROCESSES, Asian institutions at both the grassroots and the state level have been supporting a range of community-led savings and loan groups.

In the case of the pavement dwellers and their organization, Mahila

Milan, in Bombay, small daily saving for housing activity links people who have a real hope for housing, and initiates the process of working together to secure difficult elements such as land and infrastructure. Daily saving was slow to catch on in Thailand as, at the beginning, there was little recognition of its value. As Box 2 describes, it is now much more widely accepted as the depth of the economic crisis has been felt.

Box 2: Daily saving

The idea of daily saving first came from poor community federations in India and South Africa that embraced daily saving on a national scale. Communities in Thailand were interested but the professionals at UCDO were sceptical. Over the last two years, there has been a gradual shift towards promoting daily saving as a key part of the search for systems that support the poor. The networks are now eager to do daily saving, both to deal with repayment problems and because of what it offers to the wider process. Why does it work?

Daily saving as a means of dealing with the repayment crisis. If people are unable to make monthly loan repayments, it creates difficulties for the individual and for the group. Daily saving and daily loan repayments can help make repayments affordable: people can see their debts shrinking day by day. It also makes sense that people are encouraged to repay when they have money in their pockets. If they earn a daily livelihood, then this means every day.

Daily saving as a means of reaching the poorest. Daily saving attracts the poorest and brings them into the process. For those with no hope of being part of any other financial system, daily saving makes sense and it brings the poorest into the process. It sinks roots into the community due to the continuous financial transactions and also changes the process itself as the better-off lose interest because of the small amounts of money involved and the daily task. For those able to save Baht 500 or 1,000 a month, Baht 5 a day is not worth the trouble.

Daily saving as a simple system that matches life. If the savings process is weekly or monthly, it is hard for the poorest families, who are dependent on informal incomes, to play a part because they live from day to day. The Thai version of daily saving is a compromise. In most groups, people choose to save daily, weekly or monthly depending on their earning pattern; it is not a strict process. In some groups, daily savers form their own sub-groups.

Daily saving as a way of challenging old inequities. Savings schemes can become stagnant because of old leaders. When UCDO started savings schemes there was a hope that the traditional leaders would be challenged and a more democratic leadership would evolve. But the leaders clung tightly to power. Daily saving has helped small groups emerge in a way that does not immediately and directly challenge the leadership. But when the challenge does come, these new groups come together and find that they are strong enough to create a new power structure within communities.

Community development begins with a process of self-survey in the community and continues with the search for vacant public land for housing. The first Mahila Milan group in Byculla (Bombay) had many experiences and learnt much during their very lengthy negotiations for land with concerned agencies before obtaining public land in a desirable location, selected by the group. Groups that are negotiating for land also work on house models to design, trial and then demonstrate what it is that they want to do. All land development requires infrastructure installation and the community groups develop options that include communal toilets and sewage systems. The process and achievement among UCDO groups in Thailand has greatly influenced other urban poor groups into following the same examples. Some of these concrete examples can lead to policy

change if they are seen to be proposing new alternatives that are clearly better, cheaper and more affordable than current practice.

UCDO began lending for housing in 1993, since which time there has been regular consideration of how lending for housing development can assist the poor. In the case of UCDO, after the first three or four years of giving loans for housing, it was found that subsidized interest rates alone were not sufficient to enable the poorest families to be included in the process, as incomes are too low relative to market prices. A community based reflection/evaluation in 1997 provided some interesting insights into how housing for the urban poor by community groups might be better managed.

Community groups who face eviction should not just accept eviction and take loans for relocation projects to buy land and develop houses. They need time to better prepare savings schemes and plan an incremental housing process. At the same time, they should seek to negotiate with landlords to both delay eviction and obtain compensation from the landlord, in order to pay for the new land either fully or partially. If communities work together to negotiate with landlords to slow down eviction, and/or find concerned public agencies willing to help them find alternatives, they will be stronger. Such activities create a better spirit within the group and it is easier to develop the self-determined housing process through managing housing loans.

Regarding finance, housing projects should be made affordable in such a way that all members, even the poorest, can be included in them as much as possible. As noted above, in the new housing process each community member needs to participate in every development step; including the search for land, price negotiation, community planning, infrastructure development, housing construction, and coordination with organizations concerned.

The housing project should be small and simple if it is to be managed successfully by the community. With this in mind, it was suggested that the project area should not exceed four acres (1.6 hectares).

The experiences to date have brought changes to the present UCDO housing process, whereby housing and community networks are now increasing planning in collaboration with other local groups. In this new process, community networks organize community surveys and collaborate with groups in the same district to find ways of planning housing development for all the communities. The networks also bring into these discussions other parties in the district such as local government, and in this way communities can achieve stronger bargaining power with concerned agencies. Networks are proposing packages in which some communities obtain infrastructure improvement, others opt for land-sharing (with communities dividing the land they occupy with the owners in return for secure tenure) and some for relocation within the district. Government land that is available in the district can be identified in order to obtain public land for urban poor housing, and UCDO can offer housing loans to the networks for all housing development projects in the same district. These loans can be managed by the community networks together with the local organizations.

V. THE ASIAN CRISIS AS AN OPPORTUNITY

FOR MANY IN Asia, the financial crash of 1997 was a disaster. For the poor communities in Thailand and for UCDO it became an asset as they used

the crash to learn more about development through savings and loans, refining their systems to make them stronger and better able to meet the needs of the poor. A survey conducted by the community networks of their members (who are among the lowest 10 per cent of income earners) found that 64 per cent of families had seen their incomes fall between 1997 and 1998, with the average decline being 24 per cent of pre-crisis housing income. Fifty-six per cent of the sample had too little income to meet their basic needs.

In the immediate aftermath, UCDO had many problems. The proportion of groups with repayment difficulties rose from 2 per cent in 1997 to 7 per cent in 1999. For a financial institution, this might suggest disaster, but for UCDO staff and the community leaders it was an indicator that the systems involved in the savings and loan processes needed to be strengthened. They believed that the major problem they faced was not the economic impacts of the crisis (although these were real enough) but rather, understanding the groups' internal management problems, such as corruption or poor management, and strengthening the groups to allow them to address these problems. Loan problems, staff told themselves, were a very good indicator of a bad organization or that something was wrong with the organization – not only with the financial management system but also with the political structure inside the community. Poor loan repayments may be an indication of an individual seeking to take power and control over the group, or of differences between two leaders. In some cases, the availability of loans had attracted people to the groups who just wanted the loans but who were not really willing to pay them back. When the crisis hit, these problems became evident. To change the process, it was necessary to gain an understanding and be able to analyze the problems, and then learn new skills and build new capacities.

UCDO staff and the community networks developed a strategy of loan restructuring in order to help groups manage their internal problems and secure their loan repayments. Loan restructuring offered the groups with most loan repayment difficulties the chance of very low interest rates whilst they sorted out their difficulties. This prevented interest charges from increasing their repayment problems. Whilst one objective of loan restructuring was to reduce the cost of loan repayments, more critically, loan restructuring sought to change the way that the group was working. A number of strategies have been used to effect these improvements:

- rebuilding the strength of the group through daily saving and loan repayments;
- supporting the group in analyzing the problem and correcting their practice;
- decreasing monthly repayments to UCDO to give the group time (“breathing space”) without making them feel that they have failed;
- restructuring repayments within the group, allowing some members (who have perhaps overextended themselves) to pay less for a period whilst others continue to repay as before;
- separating loan contracts if some communities have loans for housing, land and income generation. It may be the case that some activities are managed well and others have problems. Separating the contracts helps identify the problems;
- providing small (up to US\$ 2,500) low-interest loans to the group to enable them to rebuild their activities and increase participation;
- offering communities a committee of people from outside the community with experience of correcting loan problems in their own communities;

- dividing the community into those who are paying and those who are not in order to put pressure on the second group and better support the first.

All these activities aimed to strengthen communities and help them address the problems they faced in managing loans successfully and, in so doing, to better manage their opportunities for development. Unlike a traditional bank, UCDO was clear that the solution to bad debt was not to stop lending, which would only further weaken participation in collective activities and increase the number of those without any support for their basic needs. However, if the poor's vulnerability was not to be increased in these circumstances, solutions needed to be developed that strengthened the ability of the group to manage loan repayments for all their members.

The strategies summarized above have not completely solved the problem of non repayment but they have reduced it. In September 1998, 65 out of 484 member groups had problems. By June 2000, this number had fallen to 58 groups whilst the number of membership groups had increased to 852. As importantly, savings continued to grow throughout this period, demonstrating that the poor themselves are continuing to invest in the process.

VI. CONCLUSION

SAVINGS AND LOAN activities can play a critical role in bringing communities together, helping them to address their needs in a very practical way, but also bringing about political change within the community itself. Experiences in many countries, including Thailand, have shown that savings and loan groups tend to come together to pool their resources into larger and more flexible funds, and receive support from others engaging in similar activities, which adds greatly to these activities. These networks open up community processes to checking and cross-referencing and also draw together groups facing similar problems, such as a lack of land tenure, or those working in the same trade.

In order to further these initiatives, it is important to set up some kind of urban poor fund to directly support large-scale improvements in urban poor housing and related development processes. The experiences in Thailand with UCDO in organizing such a fund, through community savings and loan activities on a national scale, have shown that the existence of such a revolving fund is significant and beneficial to urban poor development. The revolving fund also serves to blend the formal economic and financial system with poor people's savings and loan groups so that large-scale community development activities can develop that correspond to the diverse needs and processes of the urban poor groups. The fund provides access to immediate and much-needed credit for community groups. At the same time, it draws together the process and links various community development processes in different ways. It is also important that communities are highly participative at all levels of fund management. In this way, the perspective of the users can influence the terms and conditions of lending, helping to ensure that it is appropriate, deepening the relationships between the fund managers and community members, and increasing the analytical capacities of the leaders themselves.

Over the past two years, savings and loan groups in Thailand have had an opportunity to link with two government economic aid programmes

for the urban poor. Both the Miyazawa Fund and the Social Investment Fund were instituted to help communities overcome the effects of the financial crisis. Both began by using traditional strategies such as asking for applications from those in need. The community savings and loan networks offered them a chance to change this practice. Rather than asking the poor to bid against each other, they agreed (working with UCDO) to identify the poor communities themselves and ask them to put together a plan for how the funds could be used to best effect. In less than a year, 61 networks had made proposals.

The approval processes have been set up in such a way that approval is virtually automatic as long as the planning processes suggested by the networks have been used. These planning processes are designed to provide checks and balances to ensure that the projects are reasonable and efficient. Moreover, by requiring consultation with other networks, they ensure that learning takes place and that links between networks are reinforced. In the case of the Miyazawa Fund alone, the results have been impressive. The savings and loan groups associated with UCDO received just 0.5 per cent of the total funds, Baht 250 million. In just 18 months, support had been given to 141 groups involving 100,689 households. And this support was integrated with existing loan capital, helping groups to come to terms with the problems in their groups, strengthening their local management and savings capacity, addressing debt and loan default and preparing themselves for further development activities.