INTERNAL CONTROL OF COMMUNITY FINANCE INSTITUTIONS IN CAMBODIA

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The working paper offers a conceptual basis for action research on internal controls in community finance institutions (CFIs) in rural Cambodia. A CFI is defined as "an institution that specializes in delivering financial services and is owned and controlled by its members within a local community."

High illiteracy levels are a barrier to the rise of quality democratic institutions and quality financial services (especially savings) among hundreds of millions of the world's poorest people. A related barrier is the reluctance of poor people to assert their rights – a reluctance compounded by functional illiteracy.

The paper works within a shareholder rights framework to building institutions. It makes the case that practitioners must be much more aware of the control needs – and the information management needs -- of shareholders in predominantly oral societies. Given that awareness, it makes the case that REFLECT 'literacy circles' can be adapted effectively to improving the quality of CFIs.

Introduction

This Working Paper is intended to provide the conceptual basis for an action research project on internal controls in community finance institutions (CFIs) in rural Cambodia. A CFI is defined as "an institution that specializes in delivering financial services and is owned and controlled by its members within a local community." Organizations built with the intention that they meet this definition in future are also classified as CFIs here.

The internal control project is part of a family of projects in CCA's Cambodia program called "Community Finance Action Learning". The purpose of these Projects is to trigger a sustainable process of learning and collaboration among local 'community finance' practitioners. This will support the emergence of the leaders and capabilities needed to build a national credit union movement.

Quality

A 'quality' CFI is defined as one which has the capacity and will to accomplish the goals its shareholders set for it. In other words, it is capable of translating ownership by poor people into control by poor people, and reward poor people for their risk-taking by meeting their collective needs.

In February, 2004 an informal working group of domestic and international NGOs involved in building CFIs in rural Cambodia was formed. Their mutual goal was to improve the quality of the CFIs they are building. Together, they represent 28,000 CFI members in 225 villages, mostly in the Mekong flood plains of the south-central region of the country.

The internal control project will address the most obstinate problem practitioners have experienced in building CFIs in Cambodia. High levels of patron-client dependency, combined with very low levels of literacy -- especially among women -- present challenging internal control problems for CFIs. A list of issues identified by the working group is presented in the Box on the next page.

Internal controls are tools, processes and tests that are essential to the sustained, long-term success of all institutions. They are used by shareholders to determine whether the people they have delegated to act for them day to day (such as the executive committee, managers etc.) are carrying out their tasks effectively and honestly. More formally, internal control is the

> "plan of organization and all the methods and measures used by a business to monitor assets, prevent fraud, minimize errors, verify the correctness and reliability of accounting data, promote operational efficiency, and ensure that established managerial policies are followed (Siegel & Shim, 1987)."

This definition is not dependent on cultural context. If those who are risking their money and other resources in an organization can't control its operations, the organization will eventually fail. And every organization in every country requires a structure, assets, operations and managers, and faces very serious risks of error, fraud and inefficiency.

While the problem is universal, the solutions are not. The forms that error, fraud and inefficiency take vary widely depending on local factors like human capacities, organizational culture and attitudes to authority. Solutions also depend on the availability and effectiveness of local dispute resolution mechanisms and the capacities and culture in the national audit system. In short, the types of tests and processes needed to ensure that internal controls are effective can vary widely depending on context.

Effective internal controls must begin with the rights of shareholders. A conceptual framework for shareholder rights is outlined below. Then, the paper addresses specific issues in a Cambodian context.

Selected Quality Issues in Cambodian CFIs
(*From the minutes of the Network workshop, Feb. 5th, 2004.*)

The following quality issues (issues affecting the ability of poor people as shareholders to exercise effective ownership and control of their community finance institutions), were identified by the group:

- lack of auditing systems
- limited reporting systems
- lack of trust among people – a preference by people for using the informal sector to save and to borrow
- weak book-keeping capacity; hard to train people in good book-keeping
- members have low capacity and/or illiterate -- easily manipulated by leaders
- traditional village conflict-resolution doesn't support shareholder rights in CFIs -- safety of deposits, roles of management committees, etc.
- people keep their cash to themselves
- monitoring is inadequate or doesn't happen at all
- lack of clarity in roles and responsibilities of managers and directors of CFIs
- no mechanism for 'micro-governance' surveillance – how to police CFIs locally

A Framework for Protecting Shareholders' Rights

As shareholders, poor rural women have a right to form agreements with each other as members, and with non-members. They have a right to expect those agreements to be kept by all involved ('shareholder rights'). These rights are grounded in the Universal Declaration of Human Rights, for example in articles affirming the right to own property in association with others and the right to freedom of association.

The collective ownership of organizations (for example, MicroSoft) is the foundation of all developed economies. The co-operative approach integrates social justice and democratic practice into this form of ownership. It plays a vital role in the economic and social development of poor and isolated communities, and supports the transformation of desperate, marginalized people into empowered and secure citizens. It is the socially responsible face of capitalism. In the co-operative movement, members and shareholders are the same people.

The rights of shareholders begin with their contributions of resources to their collective enterprises. By pooling resources, shareholders expose themselves to the risk of loss – and also to the opportunity for gain (for example, through reduced vulnerability or improved livelihoods). To protect their resources, and their rights to a fair share in the benefits of the enterprise, shareholders form two types of agreements. These can be formal or informal, written or simply understood.

First, shareholders make *agreements of association*, covering matters like shared goals, rules for decision-making and ways of selecting and replacing leaders. Then, to help them achieve their goals, shareholders make *operating agreements* that cover matters like issuing a loan, using a member's buffalo or arranging the safe-keeping of cash.

Shareholders risk their resources and their livelihoods on the strength of these agreements. A wise group will ensure that someone they trust is responsible for managing these agreements since they capture the essence of shareholders' rights. Shareholders have a right to accountability from these managers. That is, shareholder protection starts with a problem of accountability.

At the centre of the practice of accountability is the practice of accounting: the management, sharing and storage of information about group activities and performance in reaching goals. To enhance confidence in common agreements and in managers, an accounting system must support full participation and full *control* by illiterate women.

Table 1 presents a framework for protecting shareholders' rights. The alertness and initiative of shareholders is the first and most important line of defense. However, for shareholders to effectively practice self-defense, they must learn personal roles and interpersonal skills that can be unfamiliar and challenging. Much of the learning must take place outside of formal training, because it involves applying taught principles to a wide range of real situations. But once the learning is complete, the CFI gains a vital intangible asset – experience – which can mean the difference between failure and success.

Table 1. Protecting Shareholders' Rights

Elements of a Protection Strategy	Key Conditions for … Shareholder Agreements	Key Conditions for … Operating Agreements
Shareholders are aware of their rights	Financial literacy Participation Record-keeping	Financial literacy Participation Record-keeping
Shareholders assert their rights	Choice of each other Choice of manager Speaking up	Choice of contractors/agents Speaking up Active management
External actors enable the efforts of shareholders	Training in rights, literacy Micro-auditors/standards Network operating procedures Quality of arbitration	Training in rights, literacy Network products & services Quality of arbitration

Practitioners can enable shareholder effectiveness by helping them to make realistic, workable agreements and to hold their managers accountable. However, shareholder primacy also means giving groups the 'freedom to fail'; essential if they are to learn and succeed later.

Shareholders, the first line of defense

In order to assert their rights, shareholders must fully understand the details of their agreements with each other and with non-members, not only when those agreements are formed but as circumstances change over time. That is, awareness of rights starts with financial literacy and the ability to manage information – both individually and collectively. An even bigger problem among poor women in rural Cambodia is willingness to assert rights. The shareholder rights approach can bring fresh thinking to this issue, including an aspect that is central to the problem of collaboration: patron-client relations.

Internal Control and Patron-Client Relations in Cambodia

There have been few studies of patron-client relations in Cambodia, however it is generally agreed that patronage is important in Cambodian villages. Poor people experience extremely high levels of daily insecurity – in access to food, in property rights, in employment, and even in basic human rights. This leads them to pledge their loyalty to wealthy or powerful local people (patrons). In exchange, patrons use their influence and resources to help clients protect their security. This means that markets for vital village resources like land, labour, livestock and marketing services are not free; transactions are *highly* personalized. In an analysis of "social organization and power structures in rural Cambodia" for the Swedish bilateral agency SIDA, Ovesen et. al. conclude that:

> "... certain political conditions are especially conducive to the existence and promotion of systems of patron-client relations. These conditions are the persistence of marked inequalities of wealth, status

> and power which are afforded a certain legitimacy; the relative absence of effective impersonal guarantees such as public law for physical security, property, and position; and the inability of either kinship units or traditional village community to serve as effective vehicles of personal security or advancement. It is hard to think of a country that fits these conditions as well as Cambodia." (Ovesen, et. al., 1996, p. 71)

Given the high level of insecurity in rural Cambodia, patron-client relations have historically played a useful role. But for CFI members, as well as practitioners attempting to develop the rural financial sector, they mean major internal control problems. The goal of a CFI is to reduce human insecurity by creating an alternative to the traditional system of village resource allocation. Many patrons – at village level and higher -- will see CFIs as competition and resist their development. There are two ways to resist – by killing the CFI, or by disabling it.

1. *Killing the CFI*

The first form of resistance involves attempting to kill the CFI by capturing the resources within it. The following example is from a case study from Prek Trop village (Battambang province) by Simmons and Bottomley.

> "A project committee of 3 people, including one from a very poor family, was initially appointed to manage all transactions but members (or elements within the membership) decided that all cash should be kept

> with the Village Development Committee (VDC). ... To date the activity is said to have generated savings of 1,070,000 riels but the actual amount of savings being held by the VDC has been reduced to only 300,000 riels due to an individual loan (well above the loan limit) for dry season rice production. This member now claims to be unable to pay back this loan because rice destroyed the harvest... " (Simmons & Bottomley, 2001, p. 50).

In this case poor cash management (storage in the village) opened a door for political maneuvering by a village patron who moved the cash to the VDC. The result was subversion of the lending limit agreed to by the group and deeper poverty for some of the members.

Ironically, by weakening trust and willingness to co-operate between villagers in future, this subversion actually strengthens the reliance of the poor on direct personal relations with village patrons in future. Compounding this problem is the very weak court system in Cambodia, which limits the recourse of CFI members to repayment, compensation or justice, even when the facts are clear.

2. *Disabling the CFI*

The second form of resistance involves 'disabling' the CFI. Local patrons accept the existence of the group but bring their considerable resources and influence to bear in order to secure control of its resources. Effectively, the group can then be transformed into a new channel for traditional resource allocation.

A 2001 study of the performance of self-help groups that received subsidized loans in Kampong Thom province found "a domination of the funds by the most powerful, or those whose cash needs are the most visible – in particular the men" (Walter, p. 18). In this case, regular staff visits by the sponsoring NGO keeps the problem manageable. However, should the NGO phase out, this 'domination' can lead to a completely disabled institution.[1]

This form of resistance is insidious and hard to measure. Development practitioners may view the result as a success, taking satisfaction in the financial sustainability and longevity of the group. They may miss the contrary signals: loans allocated against the agreed rules of the group, poor attendance at meetings, failing governance systems, etc.

Token savings accumulation is the wedge issue, clearly demonstrating the fear – or lack of trust – of CFI members in Cambodia. A recently completed field study by the Canadian Co-operative Association in three Cambodian provinces found that rural households keep substantial savings in their homes. Among 301 CFI member households, average savings in their CFIs represented only 10% of total savings. The balance, in the form of cash and jewelry, is saved in secret places and locked boxes in and around the home, or in personal ornamentation (Matthews, forthcoming).

[1] Even the traditional self-help associations sponsored by pagodas, ostensibly intended to help the poor through the loans of cash and rice, can drift away from their mission. A GTZ report found that "in most cases … the clientele comprises relatives and associates of the committee members. And of course the families in question were not poor." (Aschmoneit, 1998, p. 10)

Even if the goal of the practitioner is limited to financial service delivery, it should be clear that Cambodia's CFIs are not providing safe or convenient savings services, and in many cases cannot provide reliable or fair credit services either.

However, the test of success can be widened to include building healthy community-based institutions. These groups can erode the local culture of repayment, stifle democratic leadership, and entrench the prevailing cynicism about collaboration. In short 'impact' – on livelihoods, on the very poor, on citizenship, or on any positive scale -- is unlikely to be achieved.

Institutional Sustainability

To achieve impact on member's livelihoods financial sustainability is not enough. Shareholders must *also* be able to ensure that profit, loans, jobs, offices and other benefits are allocated according to fair, pre-agreed rules. In other words, members must have effective control of their CFI.

Towards Institutional Sustainability in Cambodia

The history of efforts to nurture CFIs in Cambodia leads to the conclusion that, while financial sustainability is necessary for success, it's insufficient by itself. CFIs must be *institutionally sustainable* as well. The institution must be robust enough, after the NGO phases out, to resist efforts by patrons to secure control and re-establish traditional, personalized resource allocation methods. Only then can CFIs achieve real sustainability -- and at a household-level, real impact.

However, evidence from the sector's NGOs indicates that *institutional sustainability is a significantly greater problem than financial sustainability in rural Cambodia*. Many NGOs that have not phased out are hesitating, fearing the CFIs they have built are too weak to achieve sustainable impact.

For the institution to be sustainable, its members must be ready to stand up for its rules and their rights, and correspondingly to hold their managers and directors accountable. In other words, they have to see themselves as the owners of the CFI. However, this self-perception is very weak.

Legacy of Pre-Mature External Capitalization

Throughout the 1990s (and continuing today) international and local NGOs formed hundreds of CFIs and transferred large capital grants to them. Even today, there are almost no CFIs in rural Cambodia funded locally. The few success stories are the exceptions that prove the rule. Initially funded by grants, they have been profitable enough to accumulate some retained earnings and distribute dividends to their members. Because of their external capitalization even they, however, have not yet tried to attract local savings or shares in meaningful amounts.

This policy (and legacy) of external capitalization has three adverse implications for internal control:

- it increases the attractiveness of the group as a target local patrons would like to control,
- it limits the members' need to contribute their own capital, reducing their psychological commitment to the group and to individual savings, and
- it raises genuinely difficult questions about who owns the funds; questions that are most easily resolved by reference to traditional resource allocation systems.

There is probably no greater pressure that can be put on an infant internal control system than a large external grant. External grants create enormous temptations among CFI shareholders to bend or break shareholder agreements, and many ways of doing this have been documented in rural Cambodia.

A view is emerging in Cambodia that subsidized credit, which is unpredictable in size and timing, can actually reduce the ability of a village to look to its own resources to bring about change. In the words of Meas Nee, a respected local practitioner who has devoted much of his career to developing healthy village-level institutions: "… this dependence on outside assistance is a factor retarding recovery. … The restoration of local community in the aftermath of conflict depends largely on the local people themselves" (Meas & Healy 2003, p. 42).

This raises questions about the current mix of donor funds targeting CFI development in Cambodia. A rebalancing away from external credit towards capacity-building activities such as training, technical assistance, and better shareholder facilitation processes is certainly in order.

Awareness of rights and information management

To exercise their rights as shareholders poor people must have access to the information needed to ensure that their agreements are being kept. In practice however, shareholders in Cambodia rarely have access to this information.

The 2001 study cited earlier focused on CFIs promoted by integrated development NGOs in Cambodia. It concluded that:

> "[t]he better-off, the more powerful, the most self-confident and men often enjoy greater benefits than others. … Financial management skills within the groups remain weak, and low literacy levels among members inhibit leadership accountability and rotation, in turn affecting the potential for sustainability …" (Walter, p. 48).

A major contributing factor is the high levels of illiteracy in Cambodia. According to CARE Cambodia 48% of men and 29% of women are functionally literate; lower in the rural areas.

As long as information management requires formal literacy skills, most poor rural women will depend on literate patrons to protect their rights as shareholders. Conflicts of interest between shareholder and family roles are common and managing them is not well understood in traditional Cambodian villages. This situation breeds a high degree of instability and undermines the foundation of internal control. The yawning gap between oral and literate cultures further destabilizes CFI practices of accountability and information management.

Both democratic institutions and financial services present special challenges for primarily oral societies. Model constitutions, savings and loan contracts, policies etc., are primarily lists of time-tested solutions to dynamic human problems. The articles and clauses balance the anticipated needs and rights of many stakeholders – shareholders, directors, staff, borrowers, savers and the wider community. They may seem highly abstract and complex in the rural village, where most CFI members have never experienced similar problems.

This complex information is far removed from the adrenalin-pumping (and memorable) calls to action of epic poetry, political oratory or evangelical preaching. Indeed, the only type of communication further removed may well be the account books and financial statements governing day to day saving and loan operations.

Micro-Credit Institutions (MCIs) and Information Management

Cambodian micro-credit institutions (MCIs) and co-operatives have been very slow to address the challenge of building financial institutions in a predominantly oral setting. The assumption that savings, loans and co-op management and governance are – and must be -- paper-based activities must appear beyond doubt. So practitioners seek out literate villagers to run CFIs, with perverse results. NGOs intending to empower women have handed control to men and other village leaders due to administrative imperatives that heavily favour literacy.

By contrast, the written word is viewed with respect but also some scepticism in oral communities. Walter Ong, a linguist who has studied this phenomenon in many cultures, concludes that in oral cultures "witnesses were *prima facie* more credible than texts because they could be challenged and made to defend their statements, whereas texts could not" (Ong, p. 95). This attitude was usually accompanied by a healthy recognition that documents could be and often were forged or falsified, at the time of their creation or later. [2]

Why must thousands of illiterate borrowers and depositors sign contracts whose terms are vital to their livelihoods, yet are written in opaque phonetic script by MCIs?

MCIs long ago determined how to have the borrower agree to a loan (sign with a fingerprint). Why is it so difficult to have her understand what she is signing?

[2] Ong reports on a dispute between two churches over customs revenues in 12th century England, centuries after the introduction of writing. The disputants chose a jury of trusted, elder men who publicly recalled conversations from their youth, with their ancestors, about how revenues were distributed generations before.

Why is it so difficult to offer her the tools she needs to recall the details of the agreement later, when she really needs to?

As CFIs begin to network to benefit from economies of scale in some services, the failure to address the needs of illiterate borrowers, savers and shareholders can lead to an even wider gap between oral and literate worlds, as the example in the Box below illustrates. In this CFI network, as in most in Cambodia, board members are mostly illiterate.

Procedures for SME Loans in a Cambodian CFI Network

"Procedure #1
Submit loan application forms with *thumbprints* of the Board of Directors indicating their approval including the following documents:

- copy of the by-laws of the CFI
- list of members of the Board of Directors and employees
- Savings and Loan Policy
- Aging report
- financial report and audit report
- list of members waiting for loans
- estimated cost of the project"

Source: Sample SME lending policy of Cambodian CFI network

How do practitioners bridge the gap between model constitutions and loan contracts and the needs of oral societies? In the words of Walter Ong, "the only answer is: *think memorable thoughts*. You have to do your thinking in mnemonic patterns, shaped for ready oral recurrence." (Ong, p. 34; italics mine)

Information Management Tools for CFIs in Oral Societies

A list of information management tools that may be useful in Cambodian villages is presented in Table 2. There are two categories of tools – those depending entirely on human recall, and those that depend partly on physical records/objects, accompanied by commonly agreed rules of use.

An oral culture is one in which many or most people are unable to read or write. However, orality is more than simply an absence of literacy. Just as blind people can have unusually well attuned hearing, oral cultures can accomplish feats of recall that most of us would consider impossible without recourse to written text.[3]

Table 2. Information Management Tools for CFIs in Oral Societies

Methods Based On …	
Recall	**Record-Keeping**
individual memory *collective memory* + agreement *poetic devices* (rhythm, rhyme, alliteration, etc.) *song* *story-telling* and related devices (heroes, conflict, imagery etc) *music* *theatre* and related devices (gesture, action, costumes, sets etc.)	*pictures* *symbols* *PRA/RRA tools* *numbers* (including numerical dates) *physical records* (symbolic objects, coloured boxes, etc.) *scribes* (e.g., high school students)

What shape do memorable thoughts take? In oral societies, transforming uninteresting but important information into a recallable and hence actionable

[3] The Iliad, the Mwindo Epic, the old testament of the Bible and the Vedas are examples of the many book-length works initially composed and handed down orally before later being committed to writing.

form was the job of the poets. Homer, for example was a "tribal encyclopedia." He "provided all the information necessary for life in tribal Greek society. From Homer the listener could learn how to rig a sailing ship, how to dress for battle, and how to behave in court." (Logan, p. 102)

Physical actions like gesture, expression and intonation support poetic techniques and recall for both poet and audience. Much information is handed down in storylines: in Genesis a storyline livens up a lengthy and tedious genealogical list; vital to tribal continuity. Music, song and acting can all support recall, as can settings, costumes and props. Religious recitations use sensory effects like incense, candles and architecture.

Written phonetic script is a highly abstract technology -- the most sophisticated stage in the evolution of physical record-keeping. But oral societies can and often do use more informal methods to keep physical records. These include physical objects[4], pictures, symbols and even numbers and charts made from local materials (as proponents of PRA/RRA techniques can attest).

In general, agreements should not be backed up using opaque methods such as formal writing unless there is a compelling need to do so. However, for certain purposes, scribes have played a useful role in predominantly oral societies. Evidence from Bangladesh suggests that formal record-keeping can be a

[4] In Cambodia rice is measured by physical record, using a small wooden container (*taou*) and bamboo counting sticks (*tiv*). The method supports both market transactions and loans in rice. It is transparent and user-friendly for illiterate people. The materials are easily made, cheap and locally available.

sustainable para-profession, and that high school educated youth may have a valuable role to play in service delivery (Matthews & Ali, 2002, p. 254).

A surprising range of activities can be managed by CFIs with no written records. ROSCAs rely on group decision-making and collective memory to manage savings and loans. CARE is tapping oral recall methods in Niger, where its ASCAs are even holding small sums of cash between meetings (correspondence with Hugh Allen, April, 2003).[5] Cash balances, accumulated profit and other key information are repeated and up-dated at each meeting. Individuals are delegated to remember the names of debtors and amounts outstanding.

Record-keeping will continue to be essential, particularly as the scale and scope of CFI operations expands.[6] Needed now are flexible, contextually sensitive tools to support CFI institution building and financial service delivery. These are analogous to the tools of rapid/participatory rural appraisal, and rely heavily on symbols, relational formatting, group transparency and collective memory.

The CARE Niger program has developed some very simple forms (see Diagram), but they still rely too much on the written word. What they demonstrate very clearly, however, is that the number of concepts that need to be agreed among

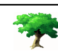
[5] See also Allen, 2002.

[6] In the past decade strong evidence has emerged that the Mesopotamians had a working system of record-keeping, accountability and control *before* they invented writing (see Schmandt-Besserat, 1992, Matthews, 2003).

participants, and reduced to a format that is user-friendly in an oral society, is manageably small.

Diagram 1: Shareholder Agreement, CARE Tanzania.

Single Share Value ***TShs 500***
Cycle Number ***2***

Meeting No	Shares Bought per Meeting		
4			
5			
6			

Starting number of shares	*6*
Total number of shares bought this period	*7*
Total number of shares redeemed during period	*0*
Net shares end period (to be carried forward)	*13*

Source: Adapted from Jozani Savings and Credit Associations (JOSACA) – CARE Tanzania Training Guide, Dec. 2000.

The essential aspects of the agreements of CFIs are not complex. They can be managed in a way that is friendly and transparent to all users through a mix of recall and record-keeping methods. They can be 'guessable' by poor rural women unfamiliar with their meanings. Some may also provide bridges to formal literacy.

Much more work is needed however. Oral methods of mainstreaming rules-based processes such as dispute resolution, the conduct of meetings, selection and accountability of managers, management of relations with shareholders and other stakeholders, loan diversification and allocation, interpreting and changing the rules, etc., are vital to long-term institutional health. Sponsoring NGOs must have staff with the experience and skills to audit these processes effectively ('micro-auditors').

REFLECT: Protecting the rights of illiterate shareholders?

> For many difficult years people needed all of their energy to safeguard the survival of their immediate family. Is it time now for the energy to be redirected to the community?
>
> -- Meas Nee & Joan Healy

REFLECT is an approach to adult education, piloted by the British NGO ActionAid in the early 1990s, which fuses the theory of Paulo Frieire and the practice of Participatory Rural Appraisal (PRA). For an introduction to REFLECT, see the Box.

As noted above, shareholders of CFIs must be aware of their rights and they must be willing and able to assert their rights. (There must also be external enabling actors; this problem is addressed in a separate action research study.) While REFLECT has frequently been used in other sectors, it has rarely been applied to the practice of microfinance. However, it offers promise to address the problem of weak internal controls within CFIs because it:

Background on REFLECT

In October 1993 ACTIONAID began a two year action research project to explore possible uses of Participatory Rural Appraisal (PRA) techniques within adult literacy programmes. This led to the development of the REFLECT approach (Regenerated Freirean Literacy through Empowering Community Techniques) ….

"Graphics" constructed by literacy participants might include maps of households, land use, or land tenancy; calendars of gender workloads, illnesses or income; matrices to analyse local crops, credit sources / uses or participation in local organisations. Initially constructed on the ground, these graphics are transferred to paper (using simple pictures) and are used as the basis for introducing reading and writing in a meaningful context.

By the end of the literacy course, each circle will have produced between 20 or 30 maps, matrices, calendars and diagrams; and each participant will have a copy of these in their books, together with phrases they have written (so they individually produce a real document). The graphics become a permanent record for communities, giving them a basis on which to plan their own development.

As learners construct their own materials, they take ownership of the issues that come up and are more likely to be moved to take local action, change their behaviour or their attitudes.

Source: Archer & Cottingham, ActionAid, undated.

- is rights-based: the motivation to learn is derived from a consciousness of rights and an intention to develop local ways to protect them,
- respects the principal that shareholders must be the first line of defense in protecting their own rights,
- can provide a setting for the emergence and development of effective leadership within the group,
- uses RRA/PRA techniques to consult with CFI members on the problems and opportunities they face related to financial behavior as well as CFI roles, responsibilities, reporting and record-keeping,

- uses situational literacies, combined with other user friendly methods to support the efforts of non-literate CFI shareholders to establish an open-ended, sustainable institutional framework for protecting their rights.

In a post-conflict setting such as Cambodia, poor people often can't imagine the possibility of working together in ways that really change their lives. They respect outsiders and accept credit delivered to their villages. But the war and its aftermath have taught them not to trust those in authority. There is no safe or open, democratic space to discuss the issues holding them back from collective action. So they listen respectfully to high-status NGO staff who tell them they must save together to achieve development and self-reliance. And they do save -- in large amounts -- but only in their own homes. There they lose, on average, about 10% of their savings a year (Matthews, forthcoming).

REFLECT is designed to address just such situations. Effectively facilitated, it can support the efforts of identified groups (such as CFI shareholders) to establish shared, transparent, sustainable ground-rules for managing their shared efforts. As a result, it promises to support the efforts of illiterate shareholders to reinforce their institutional roles, rules and accountabilities, with record-keeping and reporting systems that are friendly to them.

REFLECT has been used with encouraging results to improve governance, record-keeping and accountability in production co-operatives. In 1999 members of a Salvadoran co-operative farmers' co-op used participatory budget analysis to analyse internal processes in their stagnant co-op. As a result they identified corruption and non-transparency as major issues. After a struggle they managed to eject the corrupt leaders and set the co-op on a transparent and financially stable footing (Newman, 2000).

In 2000 a failed multi-purpose co-operative in Lethoso was re-organized. With external help REFLECT and other participatory practices were mainstreamed into governance, book-keeping, distribution of profits and other key elements of shareholder control. Transparency was promoted as a vital guiding principle for all co-operative activities. Structures and processes were talked through and put in place to raise and deal with sensitive issues constructively.

As confidence in the governance grew, the members decided to set up a burial benefit fund to which they contribute monthly. "That this scheme was introduced, indicates that members had thought about ways to support each other in the event of a crisis, and furthermore trusted the structure and each other sufficiently to invest their money in it." (Attwood, 2004)

REFLECT is not viewed here as a panacea for the problems faced by the shareholders of CFIs in Cambodia. CFIs that have already fallen under the control of village and commune level patrons are unlikely to be able to reverse their losses (and if they do, it is likely to be a very difficult and painful process).

However, solidarity within the group, combined with strong leadership, can be essential elements to success in building an alternative resource allocation system in the village. For example, the SEWA movement has overcome similar challenges in building co-operatives in rural Gujurat. SEWA invested heavily in developing strong female leadership, which has helped to consolidate motivation and solidarity over the long term (Rose, 1992, pp. 212-14).

CFIs that have not yet lost control of their affairs, but may be at risk of losing control, are promising candidates. So are new CFIs, and those that have shared control with an incubating NGO, but now face phase-out.

In exploring future prospects for their CFIs, members must assess carefully how higher status patrons are likely to react to the emergence of a sustainable CFI in the village. They must reflect carefully, both individually as a group, on whether their duties to such people can be reconciled with duties to their CFI.

In some villages, the road ahead will be hard, and members must take careful stock of their collective level of commitment in advance. In others, the CFI may not be seen as a fundamental threat to patrons whose hearts seeks the welfare of their villages, and relations can remain cordial. In either case, a careful reflection on options will leave participants with a far clearer understanding of what it will take to build an institution in their village. It will also leave them armed with a more realistic awareness of the personal contribution they can make to a healthy setting for future institutional development in their village.

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