CANADIAN
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TOWARDS SAFETY AND SELF-RELIANCE
Community Finance and Public Trust in Rural Cambodia

Written by: Brett Matthews, Microfinance Specialist
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Working Paper – 2005/2

Poor people always pay back their loans. It is us, the designers of institutions and rules, who keep creating trouble for them.
Muhammad Yunus, *Grameen Bank II: Designed to Open New Possibilities* (2002)

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“people, institutions and trust; … without getting those parts right, savings will remain hidden”

In “Towards Safety and Self Reliance” the Canadian Cooperative Association (CCA) states, “Our goal must be to win – and then to keep – the trust of Ms. Sophea and others like her around the country.” Savings mobilization is about trust and confidence. It is about the safety of people’s savings.

To its credit, CCA quickly disposes of the tired questions: “Do community financial institutions (CFIs) need cheap credit?” and “Do the poor save?” As CCA writes, “the last thing communities trying to build healthy safe institutions need is cheap credit”. In country after country, experience has shown that poor people do save.

CCA provides more analysis. The rural survey respondents in Cambodia have clear goals for saving: food security, medical emergencies and education. CCA notes that the rural residents use informal methods of saving, such as savings in real goods or livestock, which are risky and lead to considerable losses. Livestock get sick and die. Real goods are damaged or deteriorate. Food is eaten or spoiled. Gold is lost. Cash is easily spent by oneself or family members.

Herein lies the problem. CCA reports that losses in CFI accounts are just as great as those from informal savings methods. CCA survey respondents are channeling only 2% of their savings, 6% of the cash and near cash savings to CFIs.

CCA focuses upon the key issue that most neo- savings mobilizers only pay lip service to. Attracting rural savings is about much more than simply product design. It is about “people, institutions and trust; … without getting those parts right, savings will remain hidden” … in informal household savings means which “are almost bound to lose some money.”

Our own survey work has shown repeatedly that what savers look for in a savings institution is first and foremost safety of their savings, then secondly convenience of service and access. Return on savings takes a third place behind those.

CCA’s goal is to identify interventions that can correct the problems of distrust at the source by improving CFI management capacity, organizational structure and leadership. Once CCA has identified the simplicity of the problem, savings mobilization requires trust, CCA recognizes the complexity of the answer. Institutional capacity building, management training and capacity building is a necessary but not sufficient response to the problem. Proper stewardship of other people’s savings requires more than management skills. It requires respect for the rules and clear systems of accountability. CCA points to the importance of internal and external control systems that monitor and provide accountability to shareholders.

In “Towards Safety and Self Reliance” the Canadian Cooperative Association (CCA) reminds us that the rewarding work of empowering rural households and reducing poor household vulnerability is a complicated process of building trust in institutions and that this requires not just management training but shareholder information and empowerment as well as external means of monitoring and accountability.

Brian Branch
Chief Operating Officer at the World Council of Credit Unions and
Member of the Executive Committee, Consultative Group to Assist the Poor

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Cover photo: The treasurer of a village bank presents the financial statements to members. Poor rural women are gaining valuable skills in their CFIs, but are not always able or willing to stand up for their rights.

ACKNOWLEDGEMENTS

My deep thanks to the intrepid householders in villages around Battambang, Kampong Chhnang and Prey Veng who participated thoughtfully and co-operatively with our seemingly endless questions. May you and your families experience prosperity and good health.

My thanks to the Canadian Co-operative Association for core funding and the continuing support that brought this project together, as well as to the Cambodian NGOs that facilitated our village visits. May their passion for their work be blessed with greater and greater success.

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For the hard and diligent efforts of all, thank you. Errors and omissions are mine alone.

Brett Matthews, Team Co-Leader

ACRONYMS

CCA	Canadian Co-operative Association
CCSF	Cambodian Community Savings Federation
CDRI	Cambodia Development Resource Institute
CFI	"community finance institution": a locally owned and controlled MFI that delivers financial services based on demand
CGAP	Consultative Group to Assist the Poorest (World Bank)
HH	household
MCI	"micro-credit institution":MFI that specializes in delivering credit
MFI	microfinance institution
RRA	rapid rural assessment
RGC	Royal Government of Cambodia

TECHNICAL NOTES

1 *taou* (of rice) = 12 kilograms
1 US$ = 3,990 *riels* (average for survey period)

INTRODUCTION

> *In the Khmers Rouges time trust was systematically destroyed. A friend would be asked to spy on a friend, and the next day the second of the partnership would be asked to spy on the first. Even today, people meet and recognize those who betrayed their loved ones. All the respected people in our village were singled out for betrayal.*
>
> -- Meas Nee, Towards Restoring Life

Ask almost anyone in Cambodia today to list the factors holding back the development of their country and lack of trust will be near the top of the list. The Khmers Rouges managed to kill nearly a quarter of Cambodians – their own people – during the national nightmare of 1975-79. Endeavouring the turn upside-down the values of a culture where age and experience are revered and education and enterprise valued, they recruited adolescent boys and girls to serve in their army. These children, pumped full of revolutionary ideology and zeal, were rewarded for turning in their uncles and aunts for such "crimes" as a university education, a business or a hidden stock of gold. In the newspeak of the regime, the horrendous work camps that claimed most of its victims were called "co-operatives".

The deep scars in the national psyche left by this experience form the backdrop for the Asian Development Bank's analysis that "the underdeveloped financial system, with low public confidence and limited intermediation, has been a major impediment to private sector development and thus to broad-based economic growth."[1] Today other factors, such as the gradual but relentless monetization of village life and the rapid advance of capitalism ahead of efforts to regulate it effectively, are compounding the legacy of distrust. For every villager there is a story of an NGO, urban bank or other shadowy operator who has collected local savings and later vanished or simply lost the money – leaving them without recourse, poorer and less trusting than ever.

In the rural areas where 80% of Cambodia's people live, the past generation has seen some evidence of financial sector development. It is increasingly likely that Ms. Sophea who farms and trades vegetables can now borrow from either the village moneylender who charges 5-10% + per month for loans, or some kind of village bank, self-help group or micro-credit program where loans cost about 2.5-3.5% a month. (This choice is hers, not her husband's -- women are household money managers in Cambodia.) But, while the new programs make her save about $0.50 a month, about $0.90 in every dollar outstanding comes from external donors and soft loan programs. As this study illustrates, if Ms. Sophea is a program user, she knows the best place for *her* money – at home. While this decision is probably the best she can make in the setting where she struggles daily with poverty, its consequences for her and her family are tragic. And the aggregate consequences of similar

[1] Chun et. al., 2001, p. vii.

decisions have tragic, poverty-perpetuating consequences for all rural women, for their families and communities, and for their whole nation.

In the past two decades thousands of "community finance institutions" have emerged in rural Cambodia. While very few are formally structured as co-operatives, many claim to subscribe to similar values, including democratic control, self-reliance, community-based development and an open, inclusive membership. But whichever one Ms. Sophea is a "member" of, she has no real sense of ownership. And though she may be a talented community leader, she feels excluded from leadership positions by weak literacy skills—a problem that hits women far harder than men.

The local NGOs that have built these programs, and the donors who have funded them, have relied heavily on credit delivery, at the expense of getting serious about institution-building and member rights. Now, donors are tiring of this approach, realizing it has spawned an open-ended dependency between village institutions, local NGOs and themselves. As they pull out, Ms. Sophea and others will thank the elders whose wise counsel suggested she keep her money at home.

Building trust is the backbone of the development process. A century of building effective institutions in a complex, rapidly evolving setting has given Canadian credit unionists the experience and the skills needed to be a key external intermediary in this critical process in Cambodia. But first we must acknowledge our limitations: Cambodia is not Canada, and our goal cannot be replication. Our goal must be to win – and then to keep – the trust of Ms. Sophea and others like her around the country. CCA's study seeks to learn enough from the experience to date to support effective Canadian co-operant activities and other interventions in Cambodia, as well as a dynamic, field-based learning process by our partners there.

EXECUTIVE SUMMARY

Recently a team from the Consultative Group to Assist the Poorest (CGAP) completed a study of Cambodia that focused on the emerging micro-financial markets.[2] They concluded that the biggest gap at the retail level was extremely weak savings mobilization.

The second biggest gap was low institutional capacity.

A third important gap was service delivery in remote areas.

In this study, the Canadian Co-operative Association (CCA) explores the gaps in savings and institutional capacity, with special reference to rural areas.

We make the case that the key gap is institutional capacity. Addressing that one gap will resolve the other two.

What does the institutional gap look like in rural Cambodia? In January and February 2004, CCA sponsored a series of meetings with practitioners involved in developing rural, community-based financial institutions ("community finance institutions" or CFIs). They provided a list of problems, an "institutional capacity gap" (see **Box 1**).

Household money managers in Cambodia are often shrewd and resourceful people, achieving remarkable things under constraints that almost defy belief. This observation is a premise of the study. It is also reinforced in the main findings.

The study uses village-based market research to open a searching consultation with poor rural Cambodians in villages where there are CFIs. The questions are in three main groups and can be broadly summarized as follows:

BOX 1: 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 does not support shareholder rights in CFIs -- safety of deposits, roles of management committees, etc.
- people keep their cash to themselves
- monitoring is inadequate or does not 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

Savings Practices

- why do people save?
- how do people save?
- how much do people save?
- what are the risks people face when they save?

Membership in Community Finance Institutions (CFIs)

- who are CFI members?
- do members use their CFIs to save, and if so, how?
- do members save in the same ways as non-members, or differently?

Trust

- what holds people back from joining CFIs?
- what holds people back from saving more in their CFIs?
- what is the role of a CFI leader?
- what is the role of a CFI member?

Poor people told CCA that they do save, and in large amounts. Furthermore, they have clear goals for saving, beginning with food security, medical emergencies, and education. They have developed informal methods of saving that are geared towards achieving these savings goals. Tragically, these methods are very risky and lead to considerable losses. Gold is the most popular informal savings strategy because it is relatively illiquid and women like to wear it. Unfortunately gold, like other informal strategies, is subject to losses, especially from local oligopolies, from forgeries, and from theft.

In this setting, there is an opening for safe, convenient savings accounts offered by financial institutions, including CFIs. Existing members of CFIs are among the most likely people to want these products. There is even evidence that due to lengthening membership in their CFI, members begin to rely more on cash and near-cash (as opposed to in-kind) forms of savings.

Unfortunately the CCA study also finds that losses in CFI savings accounts are just as great as those from informal savings methods (about 15% a year). As observed above, the household money managers in our survey are bright people, and they talk to each other. CFIs offer some savings services now, but very little cash is flowing into them.

Specifically, respondents are channelling only 2% of their total savings – 6% of their cash and near-cash savings – into CFI savings accounts. The average amount – about 33,000 *riels* or $8 – varies little among households and has nothing to do with the amount they save informally. Only the very poor risk a significant portion of their savings to participate.

CFI members were very specific with the CCA team about what changes they want to see before they will increase their deposits. They want the managers of their CFIs:

- to show more respect for the rules,
- to have more skill, and
- to treat loan applicants more fairly.

These concerns are within the ability of CFI managers and NGOs that nurture them to fix. Earning more interest on their savings is a distant fourth in importance.

Non-members say that before they consider joining they want:

- to get higher interest rates on deposits,
- to be able to deposit more easily, and
- managers to show more respect for the rules.

Ensuring that deposits are safe is vital to both groups. The poorest families are the least likely to be CFI members and often feel excluded by the regular deposit requirement.

Members are saying they would like managers to have more skill; this is a training issue. However, managers must also show more respect for the rules agreed to by the CFIs' shareholders; this is not a training issue and training is useless if it does not happen.

Accountability on the part of managers, and exercising rights on the part of members, are acts of will. Managers and members need knowledge, but knowledge is not sufficient by itself. NGOs and donors must monitor the emergence of will within CFIs, and invest in those in which managers have the will to respect the rules, and members have the will to exercise their rights.

Not About the Money

Some observers argue that there is too much corruption in Cambodia to build institutions that are responsible for protecting deposits. It could even be argued that the attitudes outlined here, and the stories presented here, support that case.

It is well known that a legacy of distrust casts a long shadow over efforts to build institutions in Cambodia. Stories of NGOs, Thai banks and other operators collecting money from villagers and then vanishing with it were common everywhere the CCA team travelled.

Clearly, it is not the fault of savings groups that they face distrust in their villages. But in order to build a successful community finance movement in Cambodia, CFIs must tackle the problem of trust head-on – and so must donors. It is *not* about the money. The last thing communities trying to build healthy, safe institutions need is cheap external credit. *It is about people, institutions and trust.* Without getting those parts right, savings will remain hidden in bamboo poles and tied up in high risk strategies like livestock. The security of rural families, and the chances that their children will go to school will depend on matters like the heath of their chickens and their ability to identify fake gold.

Addressing these issues takes more than the skills of one organization, one methodology or one leader. Community finance can have a bright future if stakeholders draw on their strengths (diversity, experience) to form a common vision focused on shifting from quantity and growth to quality and consolidation. Only by learning from one another can practitioners transform community finance into a movement truly able to reduce family vulnerability and empower communities.

GOALS OF THE STUDY

The primary goal of this study is to advance good practices that meet the savings and trust needs of poor rural households in Cambodia, by supporting:

- more effective community ownership and control
- better financial service delivery strategies, and
- new product development.

CCA's programme goal in Cambodia is to support the emergence of a national credit union movement over the next decade by providing technical assistance and catalyzing a process of learning and institutional growth among Cambodian practitioners.

While there is still much to be done, some of the foundations of a credit union movement are emerging in Cambodia. There is a federation with over 15,000 members in Battambang, plus an urban network starting up in Phnom Penh. And many Cambodian practitioners have been building organizations governed by similar values for years.

Community finance institutions (CFIs) specialize in delivering financial services. They are village-based, democratic institutions that, if incubated well, can humanize markets and develop citizenship around the country. Examples are abundant in Cambodia: village banks, savings banks, "savings & credit associations", many types of self-help groups, *tontiens*, etc.

In February 2004, an informal working group (Cambodian Community Finance Network or CCFIN) of domestic and international NGOs involved in building CFIs in rural Cambodia was formed with the mutual goal of improving the quality of the CFIs they are building. Together, they represent over 28,000 CFI members in over 200 villages, mostly in the Mekong flood plains of the south-central region of the country.

The community finance experience in Cambodia evokes the roots of the global credit union movement. The first network of credit unions, formed in rural Germany in the 1850s, were called "village banks". Credit unions in American typically started generations ago with

- 20 or 30 members,
- leaders who combined entrepreneurialism with a passion for social justice,
- a handbook that was not always understood or followed (at least, initially), and
- a lot of volunteer labour.

The legal framework, federations, capital pool, buildings and operational scale (90 million members and over US$700 billion in assets in North America alone[3]) came later.

[3] World Council of Credit Unions *Statistical Report for 2003.*

Together the working group and other dedicated Cambodians like them can realize the main vision of community finance: to build quality village-based institutions able to deliver financial services to everyone in the country, regardless of their poverty, location or ethnicity. They require skilled and committed leaders and a lot of support, mainly technical assistance. This will help them build the human capacity and economic scale needed to protect deposits and develop quality market-based support services.

At the same time, CFIs in Cambodia are dedicated to meeting the financial service needs of rural households. This particularly means understanding the decisions of household money managers and supporting their efforts to work their way out of poverty through sound money management and careful accumulation of household assets. By consulting widely with household money managers throughout the three provinces of Battambang, Kampong Chhnang, and Prey Veng, the study aims to support practitioners trying to better serve the needs of these hard working and intelligent people, who face so much adversity in their daily lives.

Distinctive aspects of the Cambodian market need to be much better understood to design appropriate savings products. In particular, much better understanding is required of the losses and costs faced by poor people who depend on cash savings and the rural gold markets. Only by understanding the benefits people receive from their existing savings strategies, and what motivates their loyalty to those strategies, will CFIs be able to design products that will truly attract rural savings.

But attracting rural savings is about much more than simply product design. The study paid particular attention to the factors behind the very low trust poor people show in CFIs. The goal is to identify interventions that can correct the problems of distrust at the source by improving CFI organizational structure, leadership and other key variables. To the author's knowledge there is no previous research on this topic in Cambodia, at least not in the public domain.

THE SAMPLE

It's not what you earn that counts – it's what you can keep.
-- Canadian banking proverb

Table 1.1 provides general information about the sample group. Due to the importance of literacy as a variable to ensuring effective management of community finance institutions (CFIs), a simple literacy test was performed on the spot with each respondent. Respondents were asked to help staff with their survey work by reading a simple sentence.

Households were selected randomly, while ensuring half of all respondents were CFI members and more than half were women. Non-CFI members were randomly selected from the same villages, again ensuring that more than half were women.

Because they are neighbours of the CFI members, the non-members are aware of the CFI and speak often with its members. The fact that they are non-members has significance for the survey, because it means that

- they are watching it, but have not yet decided whether or not to join, or
- they have made a clear choice not to join it, or
- they have been excluded from it.

One of the goals of the study is to explore the opinions of those people about the CFI, and what (if anything) might convince them to participate in it in future.

A total of 301 members and 301 non-members were surveyed. Representatives of each group were surveyed in all 37 villages. On most general indicators the two samples shared similar characteristics (average age, percent women, percent female household heads). However, CFI members are much more likely to be literate (55% of all CFI members) than non-members (33% of non-members).

The average CFI member has belonged to her CFI for 3.6 years.

Table 1.1: General Characteristics of the Whole Sample

	Whole Sample	Prey Veng	Kg. Chhnang	Battambang
Respondents	602	199	197	206
Villages	37	12	11	14
Districts	7	2	2	3
Household size (average)[4]	5.1	5.0	4.8	5.4
Age of respondent (average)	44	44	45	45
Women %	88%	83%	94%	86%
Can read a simple sentence %[5]	44%	51%	39%	43%

[4] In the 1998 General Population Census of Cambodia average rural households were found to be 4.8 (Prey Veng), 5.0 (Kg. Chhnang) and 5.3 (Battambang).
[5] A Khmer proverb praising perseverance and patience: "Drop by drop the bucket fills" ("*Tak tak penh, bampuang.*")

Table 1.2: Household Asset Stock, Whole Sample Group

N = 602	Education (0-3)	Housing (0-3)	Land (0-3)	Agricultural (0-3)	Consumer (0-3)		All Assets
All households	1.0	1.0	1.4	1.3	1.3		6.0
Least poor quartile	1.8	1.7	2.0	1.9	2.2		9.6
2nd quartile	1.1	1.2	1.6	1.6	1.7		7.1
3rd quartile	0.7	0.7	1.4	1.1	1.0		4.9
Poorest quartile	0.3	0.4	0.7	0.5	0.4		2.3

The foundation of effective community finance is savings mobilization. Savings support poor people's efforts to get out of poverty by helping them to protect their assets and to accumulate more assets. Asset accumulation is at least as important to overcoming poverty as is income generation. In the old bankers' axiom, "It's not what you earn that counts; it's what you keep."

Table 1.2 presents a summary of the assets of the surveyed households, including the education of adult members (age 18-60), the quality of their housing, the amount of land they own, and the agricultural and consumer assets they own. Because they are central to the study, assets were measured very carefully. See Text Box 2 (next page) for a description of the asset indicator.

The table is divided into quartiles by quantity of household assets. The 1st or "least poor" quartile is at the top and the 4th or poorest quartile is at the bottom of the table.

Interpreting the Asset Table

Using education as an example, it can be seen that in the typical first quartile household, the respondent can probably read a simple sentence, and in addition, either the husband or wife has completed primary school. In the poorest quartile households the respondent typically can not read a simple sentence, and neither the husband nor the wife has completed primary school.

In general, households ranking high in one asset indicator (e.g., consumer) usually rank at a similarly high level on other asset indicators as well. However, there are exceptions. For example, some of the less poor households rely on non-agricultural livelihoods such as teaching, government work, sewing etc., and have very few agricultural assets or land. This is especially true in Battambang.

BOX 2: Note on Method -- Identifying Household Assets

Productive Asset Indicators

Education (0-3 points) husband has completed primary school = 1
wife has completed primary school = 1
respondent (adult household member) can read a simple sentence = 1

Land (0-3 points) homestead land ≥ 0.1 hectares = 1
in addition … cultivable land > 0 and < 2 hectares = 1
cultivable land ≥ 2 hectares = 2

Agricultural Assets 1: Agricultural Equipment (0-1.5 points)

Each of the following count as 1 agricultural equipment asset: ox cart, paddy storage, plough, harrow, sprayer, thresher, well, pumping machine, hand tractor, water tank. In addition, more than 3 other agricultural tools also count as 1 agricultural asset.

(1.5 points) household owns more than 4 agricultural equipment assets
(1.0 points) household owns more than 2 agricultural equipment assets
(0.5 points) household owns more than 0 agricultural equipment assets

Agricultural Assets 2: Agricultural Livestock & Resources (0-1.5 points)

(1.5 points) 3 or more of the following sets of assets:
3 water buffalo, 6 pigs, 8 ducks, 12 chickens, a pond, 8 fruit trees

(1.0 points) 2 or more of the following sets of assets:
2 water buffalo, 4 pigs, 6 ducks, 8 chickens, a pond, 6 fruit trees

(0.5 points) 1 or more of the following sets of assets:
1 water buffalo, 2 pigs, 4 ducks, 6 chickens, a pond, 4 fruit trees

Consumer Asset Indicators
Housing Quality (0-3 points)

Walls		**Roof**		
		Tile	Tin	Thatch or leaf
Brick or concrete		3	2.25	1.5
Wood		2.25	1.5	0.75
Thatch or leaf		1.5	0.75	0

Consumer Assets (0-3 points)

Each of the following count as 1 consumer asset: battery charger, TV, radio, cassette player, sewing machine, motorcycle, bike, cooking stove, rice mill, car/pick-up, cake-making machine. In addition, the following each counted as 1 consumer asset: more than 4 pieces of furniture, more than 4 water jars.

Household owns 8 or more = 3
Household owns 5 or more = 2
Household owns 3 or more = 1

Table 1.3: Household Asset Stock, by CFI Membership

N = 602	Education (0-3)	Housing (0-3)	Land (0-3)	Agricultural (0-3)	Consumer (0-3)	Total Assets -- Indicator (0-15)
All households	1.0	1.0	1.4	1.3	1.3	6.0
CFI members	1.2	1.1	1.6	1.3	1.4	6.6
Non-members	0.8	0.9	1.2	1.2	1.2	5.3

Table 1.3 explores the differences in household assets between CFI members as a group and non-members as a group. CFI members are endowed with significantly more household assets than non-members. An important part of the difference is in education. For example, 55% of CFI members could read the simple sentence shown them by the team, compared to 33% of non-members. CFI members also own significantly more land than non-members and are much less likely to be landless.

As shown in **Table 1.4**, CFI members are significantly less vulnerable than non-members. In particular, they are much less likely to be landless, or highly dependent on rice farming or selling agricultural labour. CFIs appear to have made efforts to include households headed by widows, in keeping with their NGO roots.

Not surprisingly, the least poor households by assets were also the least vulnerable. In this sample the variable most closely associated with vulnerability was landlessness. Of the sample households, 78 (13%) are landless. A large majority of these (72%) fall in the lowest quartile of the sample by total assets.

Two economic factors are often viewed as highly correlated to household vulnerability. The first is very low diversification of livelihood activities (in Cambodia, typically high dependence on rice farming). The second is high household dependency on selling agricultural labour.

Table 1.4: Household Vulnerability by CFI Membership

N = 602	Landless	High dependency on rice farming or sale of agricultural labour	Single widow HH head	Disabled adults (#)	Vulnerability Indicator (0-4)		**Note**: Average Household Size
	# of households						
All households	78	90	136	20	0.54		5.1
CFI Members	19	34	69	10	0.44		5.3
Non-Members	59	56	67	10	0.64		4.9

In this sample, 49% of all poorest quartile households either depend on rice farming for 100% of their income, or depend on selling agricultural labour for more than 30% of their income.

Out of all sample households nearly 23% (136) are headed by widows.

There is also a significant correlation between household assets and household size. The average household in the least poor quartile has 5.7 members, while the average household in the poorest quartile has 4.3 members.

There are no significant differences in vulnerability between the different cohorts of CFI members. This suggests that vulnerability is not generally reduced due to membership.

Table 1.5 summarizes household cash flows for the sample, including information on cash flows by the livelihood activities of the respondents. While cash flow analysis was not central to this study, it provides useful context to interpreting some of the data. See Text Box 3 (next page) for a description of the method of estimating household cash flows.

The average household cash in-flow for the whole sample is 2,082,861 *riels* (US $522). That average household is able to retain 355,540 *riels* (US $89) over the whole year, after expenses. Most households and their members (82%) fall below the Royal Government of Cambodia's (RGC) per capita overall poverty line (OPL).

However, this data masks wide variations at the individual household level. The **median** household (the one at the midpoint between the 301st and 302nd household in order of cash in-flows) has only half the annual cash in-flows of the **average** household (1,077,500 *riels* or US $270).

This means that a small number of households with very high cash flows are skewing the sampling average upward. In addition, the cash left over after household expenses is almost all accruing to these high cash in-flow households. The median household reports only 22,500 *riels* or $6 cash left over after expenses for the year.

Table 1.5: Household Cash Flows Last Year, Whole Sample

N = 602	Cash in	Cash out	Cash left
	000s of riels		
Average	2,082.9	1,727.3	355.5
Median	1,077.5	1,055.0	22.5
Note: 82% of the sample fall below the Royal Government of Cambodia's "Overall Poverty Line".			

BOX 3: Note on Method -- Estimating Household Cash Flows

International experience suggests that only detailed longitudinal surveys, involving many interviews with the same respondents over a period of a year or more, can fully quantify household cash flows. Multiple visits lead to an increase in trust and greater disclosure to interviewers. Perhaps even more important, repeated discussions during different seasons offer household money managers a chance to remember and discuss more and more of many household income streams.

For the purposes of this study it was important to have a robust working estimate of household cash flows based on a single household visit. Of course this will not lead to exact results; the goal was to achieve metrics that

- seem reasonable in view of other available information
- are reasonably consistent with one another, and
- can be used as a baseline for future studies

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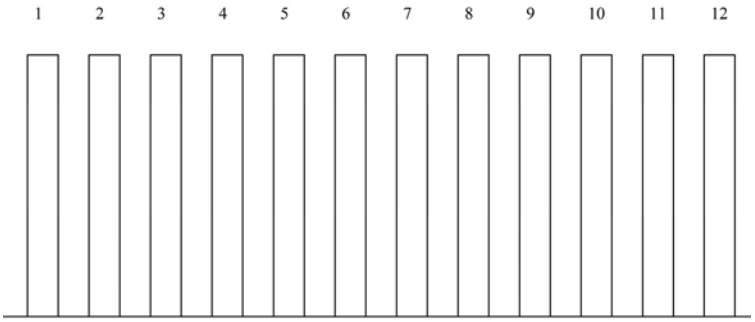
Survey staff collaborated with household respondents to produce a basic estimate of household cash flows by month. Staff then showed respondents a simple mapping of cash "in" flows that could represent the "in" flows of their household, by month.



Survey staff asked respondents to estimate the amount of cash "in" at their household in the best month. Then, they filled the box for the appropriate month to the top and wrote the month and estimate in *riels* in the form below. Next, respondents were asked to quantify the month with the least cash "in". The box for that month was left empty and the estimate in *riels* entered in the form below. Finally, respondents were asked to estimate household cash "in" for the months in between the best month and the most difficult month based on the picture. The same process was repeated with household "out" flows. To avoid currency conversions in the field, other currencies (baht, dong, US$ etc) were included separately and brought together, based on current exchange rates, by the data input team after the interviews.

Average household cash "in" by this method was 2,082,861 *riels* (US$522). Average household cash "out" was 1,727,321 *riels* (US$433).

Cross-check

In the livelihoods section of the interviews, respondents were asked to describe the livelihood activities performed in their household, and how much cash came in from each activity in the past 12 months.

THE TRAGEDY OF SAVING AT HOME

[T]hose with no option but to save in the informal sector are almost bound to lose some money – probably around one quarter of what they save there.
-- Wright & Mutesasira, 2001

Savings are essential to community finance. People with no real money invested their local institutions are far less likely to demonstrate commitment to good governance, especially under difficult circumstances. In Cambodia neither institutional savings nor effective CFI governance arise easily in poor rural communities. Much of the natural growth that would otherwise take place is repressed by a heavy reliance on outside capitalization and highly trained urban managers who deliver financial services within rural communities. Until recently this credit-led paradigm was justified by most local research, but recent research is casting doubt on it.

Do poor people save in rural Cambodia? A study by Pierre Daubert in 1996 found that there was extremely limited demand for saving in cash in rural Cambodia, mainly because people prefer to save in gold and jewellery. Like the Daubert study, a later ADB study by Uniconsult (1999) found gold and jewellery widely used as a form of saving, but also found that 60% of households held some cash in their homes; 8% in more than one location. Uniconsult estimated that rural households have the potential to save $15 in cash annually.

Sokha (EMT, 2002) surveyed 386 households in Kampot, Kandal and Prey Veng. He found that respondents wanted to save and were capable of saving. His report noted the lumpiness of household cash flows. Not only is cash flow from the rice harvest extremely seasonal, but 25% of households also receive remittances from relatives. Remittances are mostly irregular and average $143 a year for affected households. On the expense side 40% of households are affected each year by major irregular costs – primarily medical, ceremonial and equipment related.

Lim (NBC, 2001) surveyed 178 rural households in Kompong Thom and Battambang for the ADB and the National Bank of Cambodia. Lim estimated that:

- potential household demand for cash saving is $45 a year (triple the estimate of Uniconsult)
- average household assets were $1,463, of which 10% ($146) were in cash, loans to others, gold or jewellery
- 30% of rural households would have no access to centralized MFIs even if there were branches in every main district town.

Lim also asked household members whether they "pay themselves first" by setting aside some of their daily income right away (rather than saving anything left over after expenses). More than half said they always try to set aside some of their income right away.

This sample group were asked a similar question about their savings preferences. The results appear in **Table 2.1.**

Table 2.1: Savings Preferences, by Asset Quartile

N = 602		N	How do you prefer to save?		
			planned amount regularly	planned amount when have	save surplus
By Quartile, Household Assets					
	Least poor quartile	150	62%	17%	18%
	2nd quartile	151	60%	15%	25%
	3rd quartile	150	66%	15%	17%
	Poorest quartile	151	61%	10%	24%

It is often said that some people are "too poor to save". What is striking about this table is how little difference there is between attitudes to saving among the very poor and their less poor neighbours. Even in the poorest quartile, 61% of respondents claim to prefer to save a "planned amount regularly", compared to 62% of the least poor quartile.

The appetite for savings expressed by ordinary villagers in Table 2.1 runs deep in the culture of Cambodia and is epitomized by the Khmer proverb "Drop by drop the bucket fills; pouring causes it all to spill". In group consultations villagers repeatedly told the team that when they need money, home savings are the most attractive option because saving at home offers them control over their money. When they need money, they prefer to draw down on savings, sell their labour or even sell off household assets before asking anyone – even friends and relatives – to borrow. There is a strong desire to be seen as self-reliant, and to avoid falling into dependency on others.

Table 2.2 below presents respondents' motives for saving. Respondents were asked to identify the five most important reasons they save, and to rank them from 1-5 in order of importance (5=most important). For example, food security was cited by 70% of respondents as a reason for saving, and the average respondent who cited food security ranked it at 3.9. The right-hand column attributes overall priority of all respondents ("weighted priority" 2.7 = 70% X 3.9).

Observations

- food security ranked significantly above all other motivations for saving for most respondents
- only top quartile households ranked other motives more important (education/training first, emergencies second and food security third)
- food security completely dominated responses by the poorest quartile households.

Overall, households see saving as a key strategy for preparing to deal with misfortunes expected in the future. In some cases it is possible to predict the timing (food security) while in others the timing is unknown (emergencies, medical costs). In every case prudent household money managers realize they will have to face many of these events sooner or later – so they prepare for them by saving.

Table 2.2: Reasons for Saving, Ranked by Importance to Whole Sample

N = 602	% Stating the Reason	Importance to Respondent (max = 5)	Weighted Priority
Food security	70%	3.9	2.7
Emergencies	59%	3.6	2.1
Education/training	58%	3.1	1.8
Unplanned medical	38%	3.4	1.3
Planned medical	36%	3.4	1.2
Buy new assets	32%	3.2	1.0
Housing	13%	3.6	0.5
Motorbike	13%	2.9	0.4
Pump/bicycle	10%	3.0	0.3
Improve existing assets	32%	2.6	0.8
Earn merit	26%	1.7	0.4
Weddings	20%	2.2	0.4
Small business	12%	3.2	0.4
Retirement	13%	2.6	0.3
Support elders	11%	2.6	0.3
Equipment/materials	9%	3.1	0.3
Earn interest	3%	1.9	0.1
Other reasons			
Note: All responses	2,666		

After preparing for misfortunes, the next most important reason cited in Table 2.2 for saving is to build up assets. Households are setting aside funds to educate their children, to improve their housing, to acquire new assets like motorbikes, livestock and agricultural equipment, and to improve existing assets.

This is not the first study to find that savings play a major role in helping households reduce their vulnerability. In a recent study of 1,005 households in 9 villages around Cambodia, Sophal & Acharya examined household responses to crises such as the death of a family member, sickness, crop failure, death of livestock and theft. The two main

responses -- using savings and reducing consumption – were each cited by 68% of households, with 50% of households taking emergency loans. Even among the lowest quintile of households by per capita income, 56% were able to draw on their own savings, while 75% reduced consumption and only 54% accessed loans (Sophal & Acharya, 2002, pp. 85-6).

Table 2.3: Selected Reasons for Savings, by Household Asset Quartiles

N = 301	Top Quartile			Bottom Quartile	
	% Stating Reason	Weighted Priority		% Stating Reason	Weighted Priority
Food security	53%	1.9		88%	3.7
Education/training	66%	2.3		46%	1.4
Earn merit	34%	0.6		17%	0.2
Weddings	37%	0.8		10%	0.2
Improve assets	29%	0.8		37%	1.0
Retirement	13%	0.4		11%	0.3
Earn interest	5%	0.1		1%	0.0

Table 2.3 compares household motives for savings in the poorest quartile with those in the least poor quartile.

Observations

- nearly half of the poorest households manage are saving to pay for education of their children
- the poorest households are *more* likely than wealthier households to save to improve their existing assets
- the strong savings culture in Cambodia is further illustrated by the fact that *even the poorest quartile of households are as likely as top quartile households to say that they are saving for retirement.*

Note that "earning interest" is not viewed as a major motive for saving by the sample as a whole, or by either asset group. "Earning interest" is of very small importance to the top quartile, and not important at all to the poorest quartile. This is a point that will be revisited later in the section on public trust.

Are CFIs actually meeting the savings needs households are identifying? The team asked CFI members about savings withdrawals made last year, and how they had used the money.

The results appear in **Table 2.4**. Out of the whole CFI sample (301 members) 26% or 78 stated they had withdrawn savings in the past year. In some cases, they mentioned more than one purpose.

Observations

- amounts withdrawn are small: very few members have more than 60-80,000 riels in total deposits
- savings withdrawals were evenly distributed across quartiles (poorest, least poor HHs)
- poorer households were more likely to say they were investing in their micro-enterprise or in animal raising

Table 2.4: Withdrawals from CFI Last Year, by Stated Purpose

All stated purposes	88
Micro-enterprise	28%
Animal raising	14%
Fertilizer	11%
Health treatments	11%
Wedding/ceremony	7%
Various farming inputs	7%
Buy rice	6%
Cart or tractor	5%
Cow/buffalo	3%
Improve housing	3%
Other	5%

- less poor HHs were more likely to state they were borrowing to buy cows/buffalos or improve housing; they were also more likely to spend the money on health treatments
- members who have belonged for 2 years or less are much less likely to withdraw savings than members who had belonged for more than 2 years

Members are not usually putting their withdrawn funds to the uses they told us they save for (food security, emergencies, education). Less poor households are sometimes accessing their funds to deal with health emergencies, but poorer households are not. *This suggests that CFIs are not meeting their members primary savings needs.* In some cases members may not be representing the purpose of withdrawal accurately. The NGOs that form CFIs often put strong emphasis on the productive use of funds, and may not release savings unless members state they are for "micro-enterprise", "fertilizer", etc.

CFI member households often use loans for health emergencies. However, as indicated in Table 2.2, they see saving as the best strategy for preparing for this type of emergency. Loans – or at least, those that borrowers seriously intend to repay – increase overall household risk. Household money managers may prefer not to add to their household's vulnerability at a very difficult time by taking on more debt.

Box 2.1: A Savings Account for the Sick?

A common household emergency among CFI members is disease. In a sample of 186 CFI members taken in Battambang, it was found that in the 12 months before the survey, 42% of members had a fever, 17% had typhoid, 8% had dengue, 7% had diarrhoea, 4% had heart attack or stroke, 2% had malaria, and an additional 16% had a variety of diseases ranging in severity from headaches to diabetes. One member had a leg amputated. Not only do these household emergencies lead to increased expenses for medicines, health treatments and so on; they also mean drastic reductions in household income.

CFIs often respond with emergency loans, which can help to address the problem. However, respondents in this survey clearly stated that they save in order to have access to funds during emergencies, especially medical ones. They need a savings facility to help them with medical emergencies.

Table 2.5: Savings Strategies – Cash and Close Substitutes for Cash

000s of riels N = 602	Respondents Using Strategy #	Amounts Saved Last Year	% Share by Strategy
Cash and close substitutes for cash			
Gold	142	86,990	48%
Secret place	307	52,015	28%
Jewellery (ex. gold)	30	18,960	10%
Piggy bank	81	10,261	6%
Locked box	59	9,847	5%
Relation or friend	12	4,670	3%
Total	440	182,742	100%
Memo			
Cash-in last year		1,253,882	
Savings as % of cash-in last year		**14.6%**	

If CFIs are not meeting household savings needs, how are households meeting their savings needs?

The team found out that households are in fact managing a complex portfolio of informal of "at-home" savings strategies. To help clarify the situation, these at-home savings strategies were categorized into two groups:

- *cash and near-cash*, and
- *in-kind and other*.

Information on savings strategies that involve *storing cash, or very close substitutes to cash* like gold and jewellery appears in **Table 2.5**. The team asked households about all types of savings – this includes not just long-term savings that represent part of the household's year-end asset stock, but also short-term sums that were set aside to meet goals throughout the year and have now been spent.

If there was a trusted financial institution available to the respondents, much of this money would have been deposited in it, whether for a short term (a few days or weeks) or a long term (up to and including many years).

Last year, surveyed households set aside 14.6% of all cash in-flows using a mix of these strategies. Of all sampled households, 440 (73%) claimed to be saving using one or more of these strategies. On average, they saved sums worth 415,000 *riels* (US$104) last year.

Following is a summary of opinions expressed by villagers about these savings methods during group consultations with the Team in their villages.

Gold and jewellery: Gold and jewellery are seen as useful because they are difficult to lose and difficult to spend. They are also viewed as decorative and seen to convey status. When asked if they might use a savings account instead of gold, many women said something like this "… I do not think so. I look pretty in gold!"

Gold and jewellery have the advantage of being relatively illiquid compared to cash, but still accessible when really needed. On the other hand, they are also viewed as risky because they are easily faked and easily stolen. Furthermore, villagers frequently complain of taking a loss when they buy after harvest and sell before the next harvest.

Secret place: The most popular saving strategy is a "secret place" somewhere in the home, such as inside a bamboo pole. This strategy is used for long-term goals like buying assets or improving housing. The strategy is popular because it is viewed as safe, confidential and readily accessible. On the other hand, villagers are aware that such savings earn no interest. They are also concerned that such money is easily lost in a fire, can be destroyed by insects or even lost when the person who hid the money dies.

Piggy bank/locked box: Piggy banks and boxes help families save for medical and other emergencies. They are a flexible form of savings that is good for small, frequent deposits. Because this money remains in the home it is seen as safe and easy to access when needed. Piggy banks appeal to children and help parents teach them to save.

However, people also report frequent losses from theft. While these strategies are useful for small amounts and short-term savings goals, they are not seen as useful for large amounts or long-term savings goals.

Relation or friend: While previous studies (e.g., Lim, 2001) have focused on the common practice of lending to others, in this study the concern was with *saving* with others. This strategy was mentioned frequently in group consultations, but rarely cited by individual households; it is not clear why there was such gap. Household money managers who save with others usually choose a parent or other family member; sometimes a very trusted relative or friend. They expect to retain control over *when* the money comes back.

Even in a developed financial system, households store some cash in their homes. In Cambodia, even more than in many other countries, people will continue to hold gold for decorative/status purposes. But if there are strong CFIs in rural communities, much of these sums, including a significant portion of the gold and jewellery and perhaps a larger portion of the cash stored in secret places, should be available for saving and recycling into community loans.

Information on in-kind savings activities of the surveyed households appears in **Table 2.6**. Last year, in-kind savings represented 28.5% of total household cash in-flows. Of all sampled households, 61% claimed to be saving using one or more of these strategies. On average, they had saved sums worth 980,000 *riels* (US$246) last year.

Table 2.6: Savings Strategies – In-Kind and Other

000s of riels N = 602	Respondents Using Strategy #	Amounts Saved Last Year	% Share by Strategy
In-kind and other savings strategies			
Buffaloes and cows	140	188,046	53%
Land	38	76,593	21%
Pigs and chickens	274	69,126	19%
Building materials	21	19,125	5%
Tontien	9	4,062	1%
Labour exchange	18	660	0%
Other	3	115	0%
Total	365	357,727	100%
Memo			
Cash-in last year		1,253,882	
Savings as % of cash-in last year		**28.5%**	

It might be argued that these amounts really do not represent savings at all – they are household assets. This argument is partly valid, but only partly. The team was careful to clarify with households the meaning of

the question – they did not include these amounts unless households were holding them with the specific intention of selling them to meet other expenses in future. If safe convenient CFI savings services were available, some of these amounts would be converted to deposits in savings accounts, where they could meet household goals more safely and exactly, and be recycled into community loans.

In-kind assets have drawbacks as instruments for achieving savings goals. First, there is a risk that value may be lost, jeopardising the ability of the household to achieve its goals. This risk increases the longer the time-frame of the goal. Second, even if the value is not lost, it may be tied up in business activities when it is needed, also jeopardising the ability of the household to achieve its goals. This problem arises more often when the household's savings goals are short-term.

In addition there are problems unique to Cambodia. For example, it is considered unacceptable to use money realized from the death of animals to fund Buddhist activities like ancestral shrines and the acquisition of merit.

Although rice is a major form of in-kind saving in rural households, it has not been included in this survey because there is no prospect that any significant amount of it will ever be monetized, particularly among poorer households.

Livestock: In its various forms, livestock is by far the highest-value form of saving in use in rural Cambodia. It is often used to fund education and weddings or to acquire assets.

Households like the fact that livestock serve a useful purpose (draft, manure, food security etc.), can be sold year-round and can often secure a high price. On the other hand, livestock are subject to disease and theft, and villagers lack technical knowledge and key inputs like vaccines. Furthermore prices are unpredictable and can sometimes be low.

Land: Land is another major form of saving, commonly used to secure retirement for parents and for those who are saving. It helps households earn money from agriculture or business. On the other hand, land is very costly and title is not always secure as land theft is common. It cannot be easily sold when needed. There is still the risk of land mines. These reasons help to explain why so few in the sample say they use it as a form of saving.

Building Materials: Building materials are used to save for both home improvement and new houses. This is a simple, cost effective way to save for housing goals. Respondents report that theft is uncommon. They also say that because it is hard to sell building materials for a good price in the market, there is little temptation to cash in to meet a short term, non-housing related need. On the other hand, materials can be damaged in floods or by insects. The tendency to save in building

materials seems to vary from region to region; our team found it much more common in the areas they surveyed in Prey Veng than in the areas surveyed in Kg. Chhnang or Battambang.

Losses from Informal Savings

In a seminal article in 2001, Wright and Mutesasira reported on their findings from a study of the savings of 1,500 poor people in Uganda. They analyzed the relative risks of saving in the various forms that are available to poor people, and concluded that "those with no option but to save in the informal sector are almost bound to lose some money – probably around one quarter of what they save there."

Box 2.2: The Gold Traders of Kg. Chhnang

In a small village in Kg. Chhnang Ms. Cheng Yeng explains that she uses cash earned from her rice and palm sugar harvests to buy gold, last year at $38.50 per *chi*. In her early 40s and mother of 3 grown children, Ms. Yeng is almost picture-perfect household money manager – bright, articulate, and shrewdly attending the needs of her family. Yet in the months leading up to the harvest she has to sell most of the gold to help get her family through the lean season, even though the price drops sharply in the months before the harvest – last year to less than $31 per *chi*.

For Ms. Yeng last year, the effective yield on this near-cash alternative to a "savings deposit" was about -20% over 8-10 months last year, not counting the risk of theft or loss in her home. So why does she put up with these losses? Because she prefers this cost to the main alternatives she sees – such as keeping cash in her house, where she and her family will spend it, little by little before the lean season comes. As she explains, it's much harder to use up gold on small incidentals, because it has to be sold first. Like most Cambodians, she would like to be disciplined, but needs some help.

About 10 gold traders control the market in her village. In Cambodia, gold traders seem to be playing a similar, highly profitable role on savings to that of the moneylenders on loans.

There has been no study of household losses from savings in Cambodia to date. Sophal and Acharya estimated that 32% of the households in their 9-village sample lost animals through death or theft during the 12 months ended September 2001 (average loss per affected household: 227,000 riels). Another 12% of households lost money through theft, robbery or deception. The average loss per affected household was 306,000 riels (Sophal & Acharya, p. 117).

This study is concerned with a narrower, though closely related question – the losses and costs experienced by households *as a result of their savings practices*. It is these losses that can be avoided in communities where there are safe, convenient sources of savings available, whether through CFIs or other channels. (Other losses may be offset by insurance.)

The losses and costs from savings experienced by the whole sample last year are summarized in **Table 2.7.** Last year, sample households lost 15.2% of the savings in their portfolios of savings strategies.

As with the definition of "savings", the team were very careful to clearly identify to respondents what they meant by "losses and costs". Losses and costs go well beyond obvious examples like theft of cash from a secret place or loss of a chicken to disease.

Table 2.7: Losses and Costs Last Year, By Savings Strategy

N = 602	Respondents Losing Savings #	Amounts Lost Last Year	% Lost
Savings Strategy		*000s of riels*	
Cash and close substitutes			
Gold	124	6,873	7.9%
Secret place	30	6,522	12.5%
Jewellery (ex. Gold)	23	1,936	10.2%
Piggy bank	42	2,167	21.1%
Locked box	5	153	1.5%
Relation or friend	3	11	0.3%
Sub-total: cash & near-cash	**194**	**17,662**	**9.7%**
In-kind and other			
Buffaloes and cows	91	21,714	11.5%
Land	2	198	0.3%
Pigs and chickens	239	41,740	60.4%
Building materials	8	467	2.4%
Tontien	3	90	2.2%
Labour exchange	2	109	16.5%
Sub-total: in-kind and other	**280**	**64,318**	**18.0%**
CFI	33	939	15.1%
Total losses, all strategies	**361**	**82,919**	**15.2%**

An everyday example in rural Cambodia is the cost of buying a new clay pig each time one is smashed and the savings retrieved. This is a small but steady, predictable cost, analogous to bank service charges (though somewhat larger in relative scale). Many households reported losses on the resale of gold during the hungry season.

Of all sampled households, 60% claimed to have lost some savings: on average, sums worth 230,000 *riels* (US$58) last year. Respondents appeared very open to discussing this sensitive matter. Nevertheless, caution in interpreting the results is in order. Respondents may have been reluctant even to admit to themselves that a loss had taken place. Perhaps the gold earrings will show up again – were they just misplaced?

How bad is the water damage to the wood under our house – perhaps it can still be used? There may be particular embarrassment to admit falling victim to trickery like a faked gold scam. And there may also be reluctance to admit a loss in a CFI. Maybe the leadership or community will find the will to reorganize it and/or return some of the savings?

In other words, while the team did its best to secure the most accurate information possible within the constraints it faced, it may still have *under*estimated total losses.

The safest commonly used forms of savings were in the cash and near-cash category: in particular gold and jewellery. Even in these cases, however, losses respondents would admit to were in the range of 8-10% of all amounts set aside in the previous year.

Of all households, 40% lost chickens and pigs. On average, affected households experienced losses worth 175,000 *riels* (US$44). Farmers in the surveyed regions of Kg. Chhnang suffered the greatest losses in livestock which (combined with over 4 million in losses in their secret places) pushed total losses in that province to over 22% of savings. By contrast, in the surveyed regions of Battambang losses from livestock were low, and total losses there were only 7% of household savings.

Of all CFI members, 33 stated that they had lost money in their CFI in the past year, however only 18 were able to quantify their losses. Others simply said they "didn't know" how much they had lost. Absolute losses were small compared to those of other savings strategies (US$13 per affected household). Losses were particularly high (24%) for members of CFIs attached to one international NGO that discontinued operations a few months before the survey was carried out. However, even excluding those losses, other members still lost 601,000 *riels* or 12.3% of their CFI savings.

Losses on gold were also relatively small (US$14 per affected household) but much more widespread. These losses were probably mainly experienced in the market due to forced sales when prices were unfavourable. Losses in secret places (US$54 per affected household) were greater but less frequent.

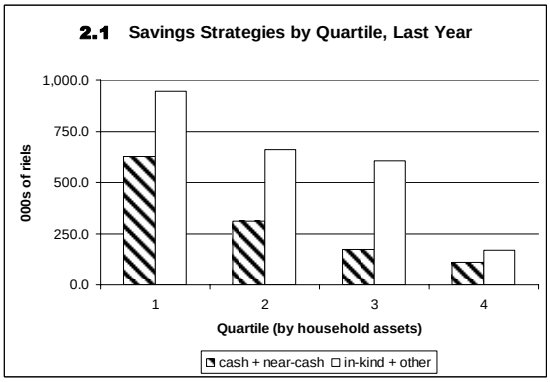
Managing to Save

The strategies available to households trying to save, and the losses they experience in the absence of safe, convenient savings options have now been summarized. How are people currently managing their savings portfolio to limit losses and accomplish their goals?

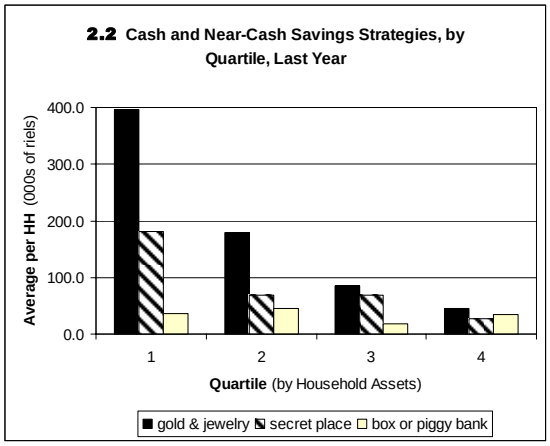
Charts 2.1 and 2.2 summarize savings strategies for sample households by quartile (poorest households = quartile 4, while least poor households = quartile 1).

As evidenced in Chart 2.1, the poorest and the least-poor quartiles hold the largest percent of cash and near-cash savings relative to their total savings.

For the poorest quartile, cash and near-cash are mainly held to ensure the household has some access to quick cash in the event of emergencies. The 3rd and 2nd quartiles retain this quick cash reserve and gradually build it up. However, most of their marginal saving is channelled into in-kind savings strategies that offer profit opportunities and have practical use values.



Moving to the top quartiles the focus of marginal saving is again on cash and near-cash, as households give up profit opportunities out of an increasing desire to reduce the risk of not having cash for the many occasions when it is needed – from children's education to weddings to earning merit, etc. (see Table 2.3).

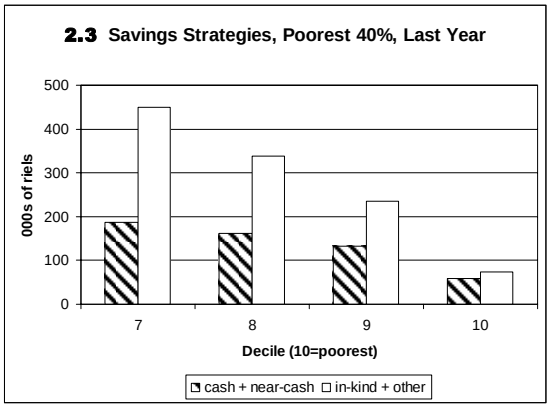


From Chart 2.2, it can be seen that the main strategy for holding household savings is gold and jewellery. All quartiles use this strategy – even the poorest quartile has some gold and jewellery, while this strategy dominates savings holdings in the top two quartiles.

Locked boxes and piggy banks are used by households at every asset level, but do not attract saving in large sums, perhaps due to security concerns. They are most important in relative terms for the poorest quartile, and steadily decline in utility for households with larger volumes of savings to manage.

Charts 2.3 and 2.4 summarize savings strategies for households the poorest 40% of the sample, segmented by deciles. Each decile is composed of 60 households.

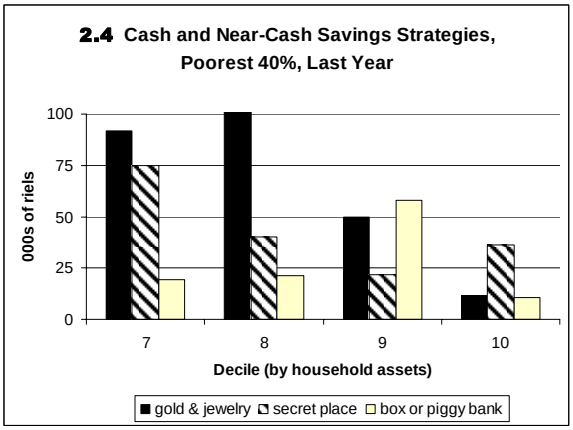
Chart 2.3 is a snapshot of the process of accumulation in the poorer 40% of the whole sample. The overall pattern of accumulation is very similar to the pattern for the whole sample. Interestingly, the poorest decile relies more heavily on cash and near-cash than any of the less poor quartiles. Average savings in the bottom 10% of the survey by household assets were 131,000 *riels* (nearly $33) last year. Of that, about 44% or 58,000 *riels* was saved in cash and near-cash.



Less poor deciles focus on rapidly building in-kind forms of savings, while more slowly building up their cash and near-cash reserves.

In Chart 2.4 it can be seen that accumulating gold and jewellery is clearly a major priority for poorer households; holdings are built up until they dominate cash and near-cash sums. Amounts held in secret places also begin a steady expansion from the 9th decile, as piggy banks and locked boxes show their limitations as a store of larger sums. As assets increase, households diversify their savings strategies to reduce the risk from holding them.

On average even the bottom decile saved about 36,000 *riels* ($9) last year in secret places. The next poorest households are far more likely to have a lock box or piggy bank.



The Tragedy of Saving at Home

Funding education through livestock is one of the most tragic aspects of household dependence on informal savings. It is not difficult to imagine the results if a child's education is being funded by livestock and the livestock die or must be sold at a big loss.

Land and housing remain a significant form of in-kind savings in developed financial markets today. Precisely because of the size and costliness of land transactions, households must have a safe way to save

for them. Because households are constantly bleeding losses from informal savings strategies, it may be particularly hard for poorer households to save enough to buy even small amounts of land. It may be significant that 28% of the in-kind/other savings of the top 2 quartiles were in land, compared to 8% of the comparable savings of the poorest 2 quartiles.

The losses experienced by people as they try to save for the future have no economic benefits, either at the household or community levels. They deprive people of opportunities, reduce their ability to co-operate with each other and increase their vulnerability to risks.

Are these losses important? Eliminating losses on households' savings altogether would only improve their welfare by a little over 1% a month (15% a year). On the other hand, reducing interest rates on loans in a community from 10% a month to 3% a month through delivering micro-credit improves households' welfare by 7% a month. Surely, delivering micro-credit is more important!

Of course, there is a fallacy embedded in the either/or aspect of this argument. Households need fairly priced credit *and* safe savings if they are to have any real hope of working their way out of poverty.

In addition, this argument grossly underplays the *relative significance* of eliminating these losses. A little over 1% a month may not seem like much, but it is a little over 1% of the most important money in any household. Any good household manager will say the money she keeps matters to her far more than the money she spends, and that keeping more of it is a major goal of money management. This extra money helps her avoid debt, and helps her protect her family from risks so she can use debt she does take on productively. To be losing 15% of this extra money a year is not only immensely frustrating, it makes it harder to fight off husbands and children and relatives saying "spend it now – if you do not, you'll just lose it later, anyway."

As noted in Table 2.1, an important reason that households save is to reduce vulnerability – to food shortages, medical crises and other emergencies, both unexpected and unanticipated. In spite of significant losses, households prefer to save mostly at home. Savings also play a vital role for households as they attempt to build up assets – by sending their children to school, by improving their land and housing, by acquiring motorbikes and livestock. Huge losses severely and tragically retard these efforts.

SAVING & CFI MEMBERSHIP

[The "savings"] of financial NGOs are really only compensating balances held by the institution for its borrowers. They are not true savings, although many times the financial NGOs will talk about the savings they mobilize, but in fact, they really are only talking about compensating balances.

-- Robert Peck Christen, CGAP[6]

In the previous sections it was found that CFIs are not meeting the savings needs of their members (Tables 2.2-2.4). However, a stated – and important – goal of all CFIs is to encourage savings.

Savings mobilization requires trust. The composition of CFI membership, and the goals people believe they can reach as a result of membership are vital ingredients of success. But CFI member households are quite different from non-member households. For example, member households have larger asset bases, are more likely to be literate, and are less likely to be landless than non-member households (Tables 1.3-1.4).

The need for safe, convenient savings exists in rural Cambodia and is very strong. Do members join because they believe membership will help them save? Are their savings attitudes and practices different than those of non-members, either before joining or as a result of membership?

Table 3.1 compares the attitude to saving of CFI members with non-members. Members are somewhat more likely to say that they save "a planned amount regularly" than are non-members. CFIs usually require their members to make regular deposits, so it is unlikely that those who do not want to save a planned amount regularly would join. Perhaps less expected is the fact that non-members are more likely to say they prefer to save a "planned amount when they have it" – for example, after the harvest, or after vending in the marketplace. CFIs often do not offer their members any help with this type of saving.

Overall however, there is very little difference between the two groups in terms of their attitude to saving.

[6] From an international seminar on community finance hosted by Développement international Desjardins, Quebec City, Oct 3-4, 2000.

Table 3.1: Attitude to Saving, CFI Members & Non-Members

N = 602	N	How do you prefer to save?		
		planned amount regularly	planned amount when have	save surplus
By Membership				
CFI Members	301	70%	10%	19%
Non-Members	301	55%	18%	24%

Table 3.2: Cash & Near-Cash Savings by Livelihood Type, Last Year

	N	Asset Indicator	% CFI members	Cash-in last year	Cash/near-cash savings	Cash/near-cash savings lost %
				000s of riels		
Whole sample	602	6.0	50%	2,083	303.6	10%
Diversified	64	6.6	64%	2,602	324.7	23%
Services & government	82	7.1	59%	2,325	417.1	11%
Trade & vending	140	5.3	51%	1,424	252.2	15%
Rice farming	207	6.5	47%	2,532	365.0	4%
Labour	85	3.8	34%	1,407	128.2	9%

Information on how households manage their cash and near-cash savings by livelihood type appears in **Table 3.2**. All households were grouped according to the category of livelihood activities from which they drew more than 50% of their annual cash in-flow. For example, 207 out of the whole sample of 602 households reported depending on rice farming for more than 50% of their annual cash in-flow last year. Those that reported that they were not dependent on any one category for 50% of their cash in-flow were classified as "diversified". This means each household belongs to one (and only one) category of livelihood activities. (Out of 602 households, 24 were classified as "other agriculture". Since this sample size was not meaningful, they are not in the table.)

Fifty percent of the total sample are CFI members – but they are concentrated in certain livelihood types. Member households with diversified livelihoods, or participating in the services/government sector, are most likely to be CFI members. Labourers – clearly the poorest livelihood type – are the least likely to belong to a CFI.

Cash flows can vary widely from year to year, but still there is a reasonably close correlation between the size of household cash flows last year and the overall stock of assets held by the household.

Which of these groups would be most likely to be interested in safe, convenient savings services, if they were available?

The two groups most likely to be CFI members – households with diversified and services/government livelihoods – both keep high volumes of cash and near-cash savings, and experience above-average losses of these savings. Probably they would be interested.

Traders and vendors retain a high percentage of their cash in-flows in cash and near-cash form. They also experience above-average losses on these savings. Probably they would be interested.

Table 3.3: Cash & Near-Cash Saving by Household Asset Quartile, Last Year

	N	CFI Members %	Cash-in last year	Cash/near-cash savings	Cash/near-cash savings lost %
			000s of riels		
Whole sample	602	50%	2,083	303.6	10%
Household asset quartiles					
Least poor	150	65%	3,368	627.8	10%
2nd	151	53%	2,339	309.5	10%
3rd	150	47%	1,722	171.0	9%
Poorest	151	36%	909	107.3	5%
Poorest decile	60	20%	690	58.2	8%

Rice farmers say they experience very low losses on cash and near-cash savings. Labourers also experience below average losses, and only save half as much in cash and near-cash as the trader/vendor group, whose cash inflows are very similar. As a result, they might be less interested, at least in the absence of an education campaign.

Table 3.3 summarizes how households manage their cash and near-cash savings by asset quartile. As observed earlier, CFI membership is weighted towards the higher asset quartiles. If there were no correlation between household assets and CFI membership, approximately 50% of each quartile would be members. Instead 65% of the top quartile are members, while only 36% of the bottom quartile are members. Comparative information on the bottom decile by household assets is also included. Only 20% of the bottom decile are CFI members.

Quartiles with strong cash inflows set aside a higher percent of their funds in cash or near-cash savings. Losses as a percent of cash and near-cash savings are highest in the poorest decile and the top two quartiles.

In summary, CFI membership is already weighted towards many of the people who are most likely to be attracted by an offer of safe, convenient savings services. However, it is likely that some groups (particularly traders/vendors and the poorest) are under-represented.

It is worth noting here that Lim (2001) estimated savings potential among households in rural Cambodia at about 180,000 *riels* per year – a far higher estimate than any that had been made previously. Cash and near-cash savings practices offer a window into the potential size of the market. Of course, much gold and jewellery will *never* be monetized. Conversely however, much in-kind savings *would* be monetized if safe, convenient alternatives existed. Based on an average cash and near-cash

saving of 303,000 riels per rural household in the three provinces of this study, Lim's estimate seems quite reasonable.

Table 3.4: Savings Strategies by Membership, Last Year

N = 602		CFI Members			Non-Members	
	N (members) = 301 N (non-members) = 301	% of HH savings	000s of riels per HH		% of HH savings	000s of riels per HH
Cash and near-cash						
	Gold	21.4%			10.9%	
	Secret place	9.1%			9.9%	
	Other	8.8%			7.3%	
Sub-total		39.3%	341.1		28.1%	266.0
In-kind and other						
	Buffaloes and cows	34.1%			34.6%	
	Land	8.1%			19.4%	
	Pigs & chickens	11.8%			13.4%	
	Other	4.3%			4.5%	
Sub-total		58.3%	506.8		71.9%	681.7
CFIs, subtotal		2.4%	20.7		0.0%	0.0
Total		100%	868.6		100%	947.7
Memo: cash in-flows last year			2,080.8			2,085.1

Table 3.4 compares the savings strategies of CFI members with those of non-members, and includes information on CFI member savings. For example, CFI members saved an average of 868,591 *riels* last year in both cash and in-kind forms. Of that amount, 39% was set aside in cash and near-cash forms, including 21% in gold. Like the other savings tables this one refers to flows from last year; some have been spent, while others have been added to households' year-end stocks of savings.

The source of household savings was cash in-flows last year. These were very similar for members and non-members. As observed earlier (Table 1.3) members have significantly greater assets than non-members, even though the two groups are exactly the same age (average of 44).

Observations

- members (averaging 868,591 *riels* per household) saved slightly less -- in both absolute terms and as a percent of their annual cash in-flows -- than non-members (947,701 *riels*) last year

- members relied more heavily on cash and near-cash strategies (39% of all their saving, compared to 28% of all non-member saving), and
- members saved significantly more in gold (21% of all savings) than non-members (11%).

CFIs usually promise members the possibility of withdrawing at least a portion of their savings after a year or two, should they need to access them. It is possible that CFI savings accounts are displacing some member funds that would otherwise be hidden in secret places. However, the evidence here suggests that displacement is clearly not a major factor in the lives of the members. It must be significantly greater to have any meaningful effect on their ability to accumulate or protect household assets.

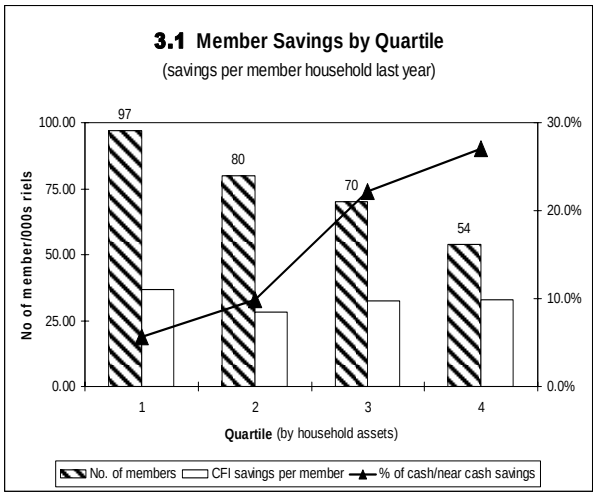
Last year, members deposited only 2.4% of the savings they identified (6% of their cash/near-cash savings) in their CFIs. However, only 63% were able to identify the amount they have deposited with their CFI, which means that the actual amount may be higher.[7] Regardless of this constraint, the total amount members chose to save in their CFIs last year is tiny compared to the amount they saved in other forms.

The average amount saved by those who were able to respond was 33,000 *riels* (about $8.25). The survey team cross-checked many of these responses against the CFI's records for greater accuracy. The problem of why CFI members choose to deposit such a small fraction of their total savings in their CFIs will be discussed in the next section.

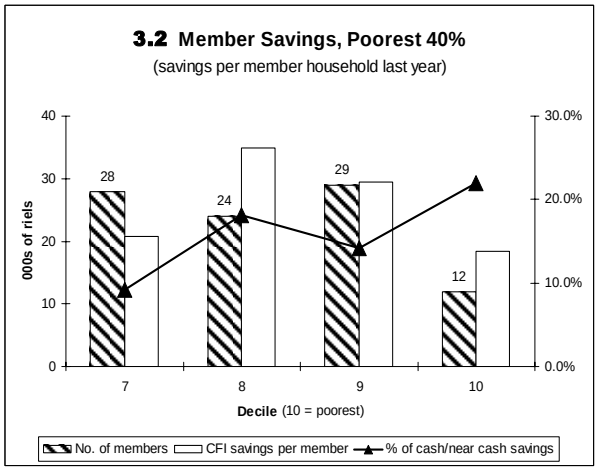
It is possible that participation in a CFI leads members to believe more in the importance of saving in cash and near-cash forms, even if their response is more active use of informal strategies rather than their CFI. This would clearly be a positive impact of CFI interventions. However, the causality could also go the other way, so further study would be required to confirm this observation.

Charts 3.1-3.2 depict savings practices by CFI membership. CFI savings accounts are functionally similar to in-kind savings strategies. However, household cash and near-cash savings are the most likely sums to actually be deposited in a savings account. Poorest quartile households actually deposited 27% of cash and near-cash savings accumulated last year in their CFI. By contrast, the least poor quartile households deposited 5.6% in their CFI during the year. In addition,

[7] The fact that 37% of members could not recall -- and had no records of -- the amount they saved in their CFIs suggests a massive problem with CFI record-keeping and more specifically internal controls; it is symptomatic of the broader issues addressed later in this paper.



- savings in the CFI last year by household do not vary much depending on asset quartile
- higher asset households are more likely to belong to CFIs than lower asset households
- few of the poorest decile of households are members (12 out of 60 in the sample)
- as a % of total household savings, the poorest decile are more active than most higher deciles (22% of total cash and near-cash savings in their CFIs)



The poorest members are in the position of greatest exposure to the risk of failure of their CFIs, because they are staking a higher percent of their total savings there. The least poor members face very limited exposure to risk of losses in their CFIs.

For all quartiles, being able to borrow when needed is worth making regular contributions for, but there is no perceived need to increase contributions as household savings increase. In Cambodian CFIs, savings' accounts are true "compensating balances" (in Christen's term).

An option to borrow from a CFI in rural Cambodia appears to have been worth about 33,000 riels ($8.25) last year, and this varied very little from quartile to quartile.

Table 3.5 compares the savings position and strategies of relatively new members (those who have joined since 2002) with those of more experienced members.

Table 3.5: Summary of Savings Strategies, by Member Cohort

N = 241	Joined recently (2003-04)		Intermediate (2001-02)		Earliest joiners (1990-2000)	
N (recent) = 78 N (intermediate) = 74 N (earliest) = 89	% of HH savings	000s of riels per HH	% of HH savings	000s of riels per HH	% of HH savings	000s of riels per HH
Cash and near-cash						
Gold	12.2%		40.1%		22.4%	
Secret place	6.3%		8.6%		14.3%	
Other	9.6%		5.6%		7.9%	
Sub-total	28.1%	147.4	54.3%	440.2	44.6%	442.3
In-kind and other						
Buffaloes and cows	39.5%		22.1%		35.5%	
Land	11.0%		9.1%		1.6%	
Pigs & chickens	17.7%		9.7%		12.9%	
Other	0.5%		2.1%		2.4%	
Sub-total	68.8%	361.2	42.9%	348.1	52.4%	519.4
CFIs, subtotal	3.2%	16.6	2.7%	22.3	3.0%	29.6
Total	100%	525.2	100%	810.6	100%	991.4
Memo: cash in-flows last year		1,994.1		2,012.7		2,229.2

Observations

- earliest joiners (average membership, 6.4 years, average age 46 years) save a high portion of their cash in-flows, much of it in cash and near-cash (especially gold)
- most recent joiners (average membership, 1.2 years, average age 42 years) save relatively little; their savings distribution (between cash & in-kind) is similar to that of non-members
- the absolute amount saved by households per year rises with length of CFI membership
- the absolute amount saved by members in their CFIs rises with length of membership, but the amounts remain small even for those with the longest membership

Attitudes to saving in a CFI: non-members

In group consultations and focus groups, non-members often told us that they thought CFI members were "stupid" because "they borrow their own money and have to pay interest." Villagers frequently told the team that their money was safer in their pocket than in the pocket of someone else. Many villagers asked our team (somewhat incredulously), "Why would I give my money to someone else?" By implication: "Why would I give *control of* my money to someone else?" This idea is accompanied by a view that those who save in CFIs have to get agreement from other people to get access to their own money, and that members are "in debt" to the group because the group has their money.

There is also a second group of non-member who say they do no t join because they are too poor. The rules of the CFI require payments every month; they have money available some months but not others. They are not comfortable with the CFI because the rules are complicated – for borrowing, for saving, and for meetings.

Only 33% of non-members can read a simple sentence compared with 55% of members. The concern with paperwork, written contracts etc., makes the CFI a more intimidating, less transparent and perhaps, from the viewpoint of an illiterate person, a riskier place.

Many people simply say they do not join because they are too busy to attend CFI meetings, or too lazy to participate. They fear the extra work required to come up with monthly savings deposits. Some CFIs require members to take a loan; this inhibits people who just
want to save, since they feel they may not be able to repay it or their businesses will not support repayment.

Attitudes to savings in a CFI: members

Like non-members, most members agree that saving at home is just intelligent money management. Your money is always available when you need it, you do not have to depend on anyone to get it, you do not have to pay interest to use it, you have the freedom to take it anytime (e.g., night-time), you do not have to ask anyone for it, you do not have to wait for it, you do not have to go to meetings, you do not have to keep records. The idea that money is actually safer when saved at home is referred to much less often – but does come up occasionally. While it is likely that village moneylenders gleefully fuel this type of rumour, both cultural norms and CFI/NGO practice fuel it also.

Why members save money in CFIs

Members save in CFIs mainly so they will be able to borrow later, usually at a much lower interest rate than they would pay a moneylender. They also mention the benefits of earning interest and of the money being stored in a safe. Members of better quality CFIs, like CCSF, cited benefits like the steady increase in their savings over time, and the benefit of receiving a payout on the death of the member.

They see benefits in the group as a way of working together as well. They can go to the group for help with problems, as a group they can force moneylenders to reduce their rates, they can help each other, they can contribute to village infrastructure projects like road building.

Members are usually quite aware that non-members and the wider culture doubt the intelligence of their decision to participate. They respond, predictably, by taking a hard-nosed approach and trying to demonstrate they are misunderstood. They save with the group only the minimum that the group requires them to save. They take as many and as big loans as they can. They point out that the money mostly comes from external NGOs. There is hardly a CFI in rural Cambodia that does not have much more external money than local savings.

An encouragingly large number also point out that they are not "stupid" as perceived by non-members – when money is in their homes it is easy to spend; when money is in the group it is harder to access so they can save in a more disciplined way, and save up more money to buy bigger things when they finally withdraw it. This surprisingly common observation corresponds to many Khmer proverbs (such as that cited above) which clearly indicate that within Khmer culture there is a strong appreciation of the value of saving outside the home and a ready willingness to participate in institutions capable of keeping their promises.

Surplus accumulations of gold and jewellery, as well as similar accumulations in secret places, may offer CFIs an important opportunity to build their market. These sums are often earmarked by household money managers for longer term goals, though households also need to be able to access them quickly and conveniently in emergencies.

Is there a trust issue in rural Cambodia, or is it the case (as some practitioners argue) that rural poor people simply prefer to save at home? As many women said to the team, "It's my money; why would I want to give it to someone else?"

In section 2 it became clear, based on their own words, that rural poor people do save in large amounts. Furthermore, they have clear goals for saving, beginning with food security, medical emergencies, and education. They have developed informal methods of saving that are geared towards achieving these savings goals. Given their extremely limited resources, these methods are high risk and lead to considerable

losses. And while many women do indeed wonder why they would give their money to someone else, at least as many were telling the team that they do not want cash around the house because it is too easily spent. Gold helps to solve that problem, but only partially; gold like other informal strategies is subject to losses, especially from local oligopolies, from forgeries, and from theft.

From section 3 it is clear that while CFIs are offering savings services, very little cash is flowing into them. Members of existing CFIs are also the most likely people to want a good savings account. They are more likely than non-members to say that they "save a planned amount regularly". There is even evidence that as a result of several years of membership in their CFI, they increase their cash and near-cash savings even more than they otherwise might have.

Yet, they are channelling only 2% of their total savings – only 6% of their cash and near-cash savings – into CFI savings accounts. The average amount – about 33,000 *riels* or $8 – varies little with the savings capacity of households and seems to function more as the price of an option to access a loan rather than as true savings.

Many rural poor households – especially those that are currently CFI members – want savings accounts, but members of existing CFIs use the accounts they have only to secure an option to borrow.

While there could be reasons other than trust that are holding members back (product design for example, and convenience) it seems quite clear that the reason for low savings mobilization in rural Cambodia is not that poor people "prefer to save at home". Section 4 looks at the issues holding members back from depositing money in savings accounts, and holding back non-members from joining CFIs, in more detail.

PUBLIC TRUST

> *Instead of creating new microfinance institutions, locally controlled groups are being trained to mobilize their own savings, manage their own accounts, and make loans at interest to their members. Since the issue is defined as group strengthening, not credit delivery, the standard microfinance paradigm has been turned inside out.*
>
> -- Jeffrey Ashe[8]

After a very long period of neglect, the mainstream "microfinance" community is now paying real attention to savings. It finally appears to be clear to everyone that poor people *do* save, and that if true banks for poor people are to be built, they must finance themselves from locally owned and mobilized funds. But two other, equally important points, are often neglected:

- *Poor households need safe, convenient savings services* at least as much as they need credit. These services are invaluable to poor households in managing their vulnerabilities. Informal methods are grossly inadequate and terribly unsafe. The poorer the household, the more useful savings are. Safe, convenient savings services offer poor households greater control over their money and are a necessary foundation for large-scale household asset accumulation.

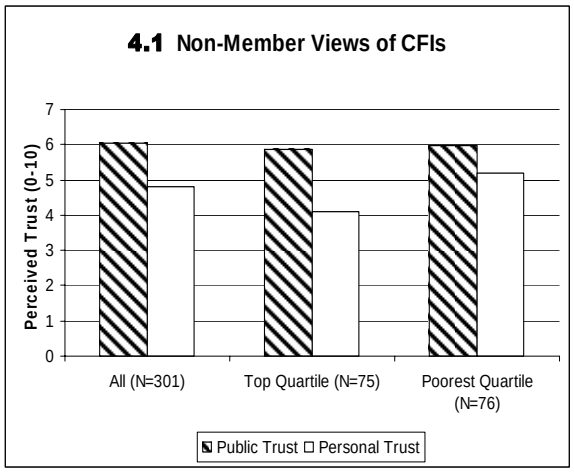
- *Structure follows strategy.* It is possible to develop credit services without earning member trust. It is not possible to develop true savings services that way. Building centralized institutions able to deliver credit addresses a service delivery problem but not the underlying trust problem. Building sustainable, decentralized institutions able to serve member savings needs is good finance and it is also much more. It develops rules-based citizenship, helps develop local leaders and reduce local corruption, and transfers a strategic skill (institution-building) to the villages.

In previous sections it was seen that CFIs are not meeting most of the savings needs of rural Cambodian households. But how can we distinguish the effect of people not trusting the institution or not having access to flexible products from the effect of people simply having a habit to save in their household? Are there really issues of trust at work here, or it all simply centuries of habit?

And if there are trust issues, how can CFIs earn trust in rural Cambodia, so they can sustainably deliver true savings services that meet household needs?

[8] Introduction to Ashe (ed.), 2002.

Non-Member Views



Non-members views of CFIs are summarized in **Chart 4.1**. From a market research perspective, non-member views are important because the fact that someone is not a member of a CFI in their village is itself a statement: they have made a choice not to join (or at a minimum are "waiting to see" what happens before making a choice to join). When non-members are asked how trustworthy *the village as a whole thinks* its CFI is on a scale of 1-10 (10 = most trustworthy), they rate it at 6.0. This ranking is very modest, but also stable, and does not vary much between respondents based on their assets (including separately their level of education), sex, age or family structure.

However, when asked how trustworthy *they personally* think the CFI is on the same scale, they rate it a 4.8. On average in the 37 villages, the top quartile of non-members (by assets) personally rate their local CFI a 4.2. Nineteen percent said that under no circumstance would they consider joining.

Concerns of Non-Members About CFIs

In parallel group consultations with 283 villagers in 11 villages, the team had open discussions with non-members about the concerns that were holding them back from joining. It quickly became evident that non-members were quite familiar with the inner workings of the CFI in their village. This was partly because some were former members, and partly because everyone seemed to know someone who was a member.

Table 4.1 presents the responses of non-members when asked to identify *the top 5 changes* that might convince them to join a CFI. A list of possible changes, based on suggestions raised by non-members in group consultations, was presented to respondents. The responses have been listed in order of the respondent's priority, with the most important first.[9]

[9] One frequent theme in the group consultations was "too busy" (to attend meetings, etc.). This was not included in the questionnaire because in the view of the team, people make time for what is important to them. For example, in

"Need to Earn More Interest"

It is impossible for a CFI to offer people a savings product that will:

- convince them to change their habitual attitude of saving at home,
- give up the convenience of storing their own savings 24 hours a day, *and* will also
- compensate them for average expected losses of 15% per year.

Operationally, this would require interest rates on deposits in the range of 2.0-2.5% a month.

The only way to address this concern is to ensure that members do not lose money, and do not feel they are at risk of losing it. Eliminating that risk takes about 1.25% (15%/12) out of the required deposit rate, moving it to a level of about 1% per month.

Table 4.1: "Changes that would convince me to join a CFI"

	N (all) = 301	Whole Control Group			Control Group Priority
		Agree (%)	Rank (1-5)		Agreement X Rank
	"Earn more interest"	34%	4.1		1.42
	"Easier to deposit extra money when I want"	31%	4.2		1.31
	"Managers show more respect for the rules"	30%	3.4		1.00
	"Easier to withdraw money when I need it"	31%	3.0		0.93
	"Managers have more skill"	30%	2.5		0.75
	"Group's extra cash is kept in a safer place"	20%	2.8		0.56
	"Being treated more fairly when I apply for a loan"	23%	2.2		0.50
	"I know more about what's going on in the group"	14%	2.6		0.36
	"Money is lent out on less risky projects"	15%	2.2		0.33
	"The group makes more profit from its activities"	5%	3.6		0.19
Other					
	"No changes could convince me to join"	18%	5.0		0.88
	"I have no idea"	10%	4.9		0.49

one village consultation the solution identified for this "problem" was, "We can organize the time if we really want to join."

Recall from Table 2.2 that only 3% of the sample identified "earning interest" as an important motive for saving, and on average even these respondents ranked it a "1.9" – near the bottom on their household list of 5 motives for savings. Furthermore, problems with low interest rates on deposits did not come up at all in group consultations about problems with CFIs.

In other words, given the current level of risk faced by CFI members, asking for more interest on deposits is just another way for many villagers to express their doubts about the whole CFI project.

"Easier to Deposit Extra Money When I Want"

In the rainy season most money is spent on food, and there is not enough left to make regular monthly or weekly deposits. Many villagers also fear having no money when they need to make regularly rescheduled loan repayments (they are sometimes required to take loans as a condition of membership).

This problem is most commonly identified by poorer members of the community. For example, households that depend on selling labour for their livelihoods typically experience eight consecutive months of negative household cash flows (March – Oct) before recovering and paying their debts. So while on one level the issue is a relatively straightforward product development question, it is also about whether a CFI and the related NGO are willing to try to meet the needs of poorer members.

Non-members clearly viewed this problem as within the control of the CFI and its management. A typical solution proposed in the group consultations is to "allow depositing based on ability". Others simply said that the group should meet, discuss the problem, and come up with a solution; that with group solidarity the problem could be solved.

"Managers Must Show More Respect for the Rules"

This concern is the major indicator of difficulties with trust. Many villagers simply said they prefer to save at home because they trust themselves more than the group, or because they were afraid that if they saved with the CFI, they might lose money.

Others were more explicit, citing:

- lack of transparency in the operations of the group
- concern about "nepotism" between leader and family/friends
- book-keeper or other committee member diverting group money for personal use
- management committee taking a "cut" from the activities of the group, and
- fear that money in the group had stopped circulating.

Underlying these issues is a concern that CFI operations are too complex. Some villagers just say they are not educated enough to understand the CFI. Others are more explicit, blaming management for not being open and not helping people to understand, and wondering whether management are reaping personal advantages from non-transparent operations.

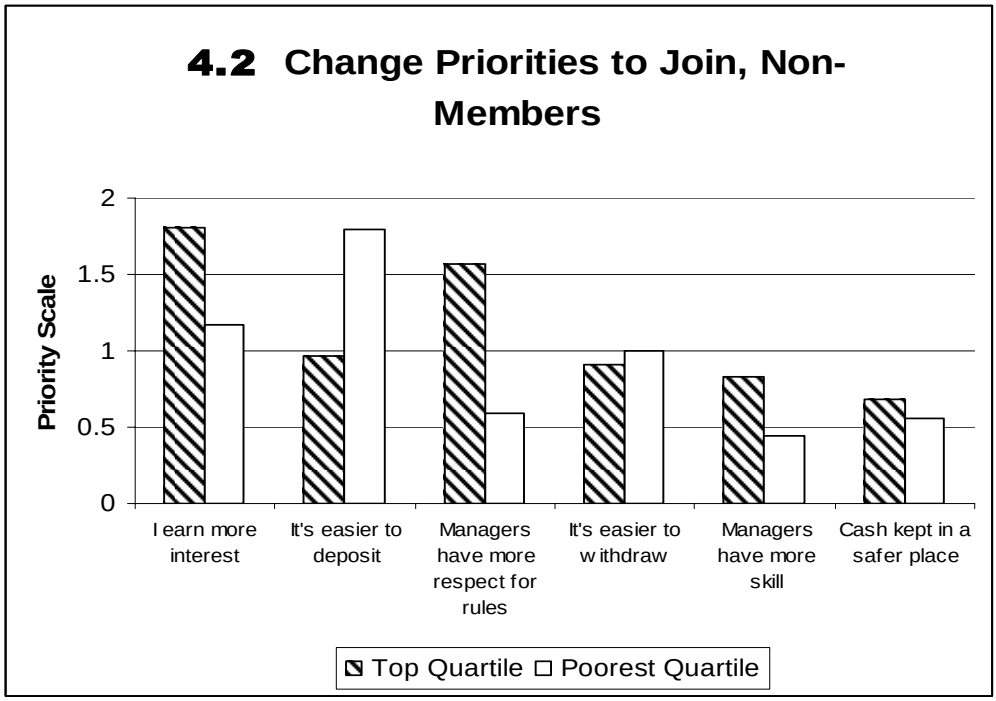
Villagers say selection of a good leader is essential, and that poor leaders must be criticized by the members for their actions. If they do not improve they must be removed. They stress that leaders should report regularly at meetings, share account information and answer questions. If the leaders do not follow the rules, members should not either. This may mean, for example, not attending meetings or not depositing savings. If the problem cannot be solved, members should quit the CFI.

"Easier to Withdraw Money When I Need It:"

Money is often not available when it is needed. To withdraw cash, members may have to wait for a loan repayment to come in. It is impossible to get access to money at night or during emergencies.

At several consultations it was suggested that CFIs should keep a cash float available for emergencies. This is not a normal practice; most CFIs keep very little cash on hand, preferring to have as much money as possible lent out.

Chart 4.2 compares attitudes to the top five priority changes identified in Table 4.1 by household asset quartiles. For the top quartile, earning more interest is the most important of these changes. Being assured that managers will pay more respect to the rules is also a very high priority, ranking second overall for this group. That this concern ranks so high among non-members suggests just how much – and in how much detail – they talk to members, who are the only ones close enough to the CFI to assess this aspect of management.



For the poorest quartile the highest priority is to be able to deposit money when they want. In fact, many in this group appear to feel excluded by the deposit rules, telling the survey team that they had not joined because they were too poor to meet the regular deposit requirements of the CFI. The poorest quartile are also the most averse to risk. It is not surprising, therefore, that they are more likely than their less poor neighbours to reject the offer of high interest rates to offset the high risk of membership.

Member Views

Members have first-hand experience of both the problems and advantages of belonging to a CFI. This gives them knowledge that is not directly available to non-members. Some of this knowledge they will share with non-members. If members distrust the CFI it will not grow or earn public trust. On the other hand, if members trust the CFI and value their membership, public trust will rise and membership will grow.

Trust is usually tested most by situations in which leaders find themselves in a position of conflict of interest – their family's needs on the one side; the interests of the CFI on the other. A typical example, as narrated to the team by a focus group, appears in the box "The Rice Miller of Phum Chay".

To explore their feelings of trust more specifically, members were asked to react to a standard conflict of interest scenario of the sort that plagues many institutions in countries at every level of development (see **Table**

4.2). The consequences of this abuse, if it is allowed to go ahead, will likely be the failure of the CFI and extensive losses of savings by members.

In developed financial systems the risk of these sorts of abuses never goes away entirely. Shareholders/members do not and cannot rely on the honesty of leaders as their main line of defence against these abuses; rather internal and external control systems are set up and made directly accountable to shareholders. By respecting these systems, leaders and managers show that they wish to cultivate an atmosphere of trust. By failing to respect these systems, leaders and managers force shareholders to ask questions – what are our leaders hiding from us, and why?

As is evident from the Table, only 69% of the member sample expressed confidence they could stop the exemplary abuse. Given the sensitivity of the question, some respondents may have avoided expressing their doubts. However, even if *only* 31% feel a genuine lack of confidence that they can stop an abuse of this magnitude, the implications are very serious.

When people lose money in a CFI, it is unlikely they are going to rejoin it, or join another one. Several former members admitted to having left CFIs because they feared that they would lose money. Many current members have stopped contributing because they are concerned about the way the management committee is handling the money

Focus groups with 137 CFI members in 20 villages took place during the survey. These small group discussions with one randomly selected CFI member and a few other members she trusts explored the sensitive question of trust inside the group, and the kind of changes that members would like to see that would help to overcome problems of trust.

Foundations of CFI Trust

Most people felt that trust results if members all live in the same village and had some kind of proper occupation. Long residence in the village is important, as is familiarity: they must be familiar with one another's background. They sometimes cite the need for members to have lands and other property, come from a "good family" or even to be related to one another (it is clear from these discussions that many CFIs are composed mainly of relatives and close friends).

Table 4.2: Scenario: Abuse of Authority, by CFI Members
"If a large loan was offered to a leader's brother for a very risky project against the rules of your CFI/savings group, do you think that the members could stop it?"

N = 301	"Yes"	"Possibly"	"Do not Know"
# of Respondents/Members	209	71	21
% of Respondents/Members	69%	24%	7%

Box 4.1: The Rice Miller of Phum Chay

Several years ago six young friends in Phum Chay, Kg. Svay, attended a meeting by an NGO. The promoter explained to the villagers how to form a village bank. He said that if the village bank was managed carefully, it could bring prosperity to their families and their village. He offered training and seed money to help get the bank started.

After the meeting the friends talked. Mey Oeun was a young man who had just inherited his father's rice mill. He said he thought this NGO scheme was a great opportunity for them. Borrowing to fund their business activities from local moneylenders was expensive, and they all wanted a source of cheap, secure money. They agreed with him: they could use the status of their families in the village to take leadership and book-keeping positions in the village bank. They would then be able to access the money from the NGO.

Almost all the villagers had respect for one or another of the families this small group represented, so when the young men began visiting people to ask them about joining the village bank, a large number readily agreed. At a crowded meeting attended by the village chief and the chair of the local commune council, it was not difficult for the rice miller and two other members of the group to secure election to the key positions of chair, treasurer and book-keeper in the bank. The NGO was delighted to see everything going so well.

The village bank started with 50 members, organized by the NGO into solidarity groups of 5 each. The seed money was immediately lent out through the groups, with every member getting a loan of 7,500 *riels* at 5%/month. NGO staff told the members that by saving 1,000 riels a week each, they could build up a large pool of capital for lending. Meetings were promised twice a year; at them the committee would report on activities and pay interest on savings. The cash would be kept at the book-keeper's house when it wasn't lent out.

Over the next few months, 50,000 riels a week flowed into the village bank. However, this was not enough for Oeun, who approached a large MCI that was anxious to lend to village banks in the district. He negotiated a cheap loan for the bank, using his rice mill and land as collateral. He secretly arranged with the book-keeper and the treasurer to pass the loans on to his friends (including them) through the solidarity groups to fund their businesses. However, his friends turned out to be irresponsible borrowers, spending the money on gambling and women. When they couldn't repay, neither could Mey Oeun. Eventually he left the village, losing his rice mill and land to the MCI.

It was only when the young rice miller vanished that the village bank members found out about the secret loans and realized they would never see their deposits again. None of them ever got their savings back.

The villagers have decided they will never start another group. Their advice to others who may be thinking of starting a village bank:

- do not guarantee other people's loans
- borrowers must be responsible for their own loans and must acknowledge to the group that they have borrowed, and
- a good member is an example to all others.

Based on a focus group with 6 former village bank members and 2 non-members, May 24, 2004. Identities have been changed.

Others emphasize personal qualities: trust will result if members are honest with each other, are not selfish, help each other when they have troubles, have compassion, solidarity or a "good character". Most people felt that for a CFI to be successful, members should be on a similar socio-economic level: poor with poor, middle class with middle class, and so on.

Committee members were expected to have the same characteristics, but also have appropriate knowledge and skills and be a "key person" in the village (or at least, recognized and supported by the village leaders). "We can trust each other if the manager has a good background, is not a drunkard or gambler, never has conflict with others, has a good character and is a generous person."

In some focus groups an additional, more technical aspect was discussed. The managers should have good systems and report regularly to the members.

Making CFIs Stronger

An important theme in this discussion related to institutional strengthening: a "strong management system should be enforced". Members should be informed regularly about the circulation of money between the group and its members. The lending committee should not approve loans simply because it is a member's "turn" and there is money available – there should be some kind of assessment of potential to repay. The CFI should be established by volunteers, not with a profit motive. Solidarity, and various ways to develop solidarity within the group, are frequently emphasized.

Many focus groups emphasized the need for rapid growth, especially in membership. On a more disturbing note, some emphasized rapid growth of capital, quick turnover and loans to non-members – factors that seem more likely to weaken the CFI than strengthen it.

Table 4.3 presents the responses of members when asked to identify *the top 5 changes* that would make them save more in their CFIs. A list of possible changes, based on suggestions raised by members in group consultations, was presented to respondents. The responses have been listed in order of the respondent's priority, with the most important first.

Observations

- top priority change: managers must show more respect for the rules … this change completely dominated responses. It was:
- slightly more important for more educated members – those who had completed primary school and could read (2.74) than for illiterate members (2.37)
- slightly more important for top quartile (2.95) vs. poorest quartile (2.66)

- chosen by 69% of respondents (compared to 52% for the next most important change), and
- On average, those who did choose it ranked it second most important of the 5 changes they recommended and substantially higher than most of the other commonly chosen changes
- There is also a widespread and closely related belief that managers are not skilful enough at their jobs; this was stable by age, education, sex, marital status and assets

Table 4.3: "Changes that would convince me to save more with my CFI"

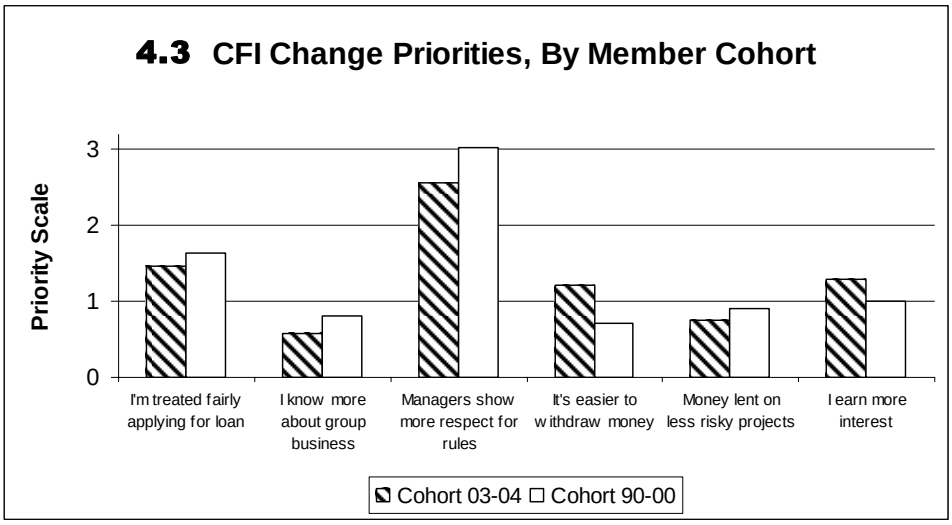
N (all) = 301	All CFI Members			All Members Priority
	Agree (%)	Rank (1-5)		Agreement X Rank
"Managers show more respect for the rules"	69%	3.9		2.70
"Managers have more skill"	52%	3.0		1.58
"Being treated more fairly when I apply for a loan"	41%	3.2		1.32
"Earn more interest"	36%	3.3		1.21
"Group's extra cash is kept in a safer place"	35%	2.6		0.93
"Easier to withdraw money when I need it"	32%	2.8		0.88
"Money is lent out on less risky projects"	32%	2.6		0.84
"I know more about what's going on in the group"	24%	2.9		0.69
"The group makes more profit from its activities"	23%	2.8		0.63
"Easier to deposit extra money when I want"	20%	2.5		0.50
"I have no idea"	8%	5.0		0.40
"Members must save more/more regularly"	6%	4.5		0.28
"CFI must be promoted more"	5%	3.9		0.21
"Managers are more respectful to us"	6%	2.1		0.13
"Group solidarity must be stronger	2%	5.0		0.12
"No changes; just want to quit the group"	2%	5.0		0.12
"Members respect the rules"	3%	3.6		0.10

- this suggests that members are not satisfied, for example, with the way the books are being kept and how meetings are being conducted
- being treated fairly when applying for a loan was the third most important factor … stable across most characteristics, with younger people, more educated people and people with higher assets being slightly more concerned about it than others

- earning more interest was slightly more important to lower asset groups, older members and widows;
- younger members, those who had completed primary school and men were slightly less likely to consider it important
- older members more concerned about cash being lent out on less risky projects, and keeping money in a safer place

Members are interested mainly in matters that ensure their savings are safe and they have access to quality loan and savings services. All the top three matters relate to quality of service and are directly within the control of managers.

Considering its significance in people's calculations, earning more interest scored surprisingly low as a priority. As members gain experience in CFIs, they become increasingly unwilling to bargain away safety for a higher interest rate.



Managers Show More Respect for the Rules

How does experience with the operations of a CFI affect members' opinions about what could persuade them to deposit more savings? **Chart 4.3** shows how the priorities of members change, the longer they belong to a CFI.

With longer membership, respondents are *more* concerned about:

- being treated more fairly when they apply for a loan
- knowing more about what is going on in the group
- managers showing more respect for the rules, and
- the relative risk of CFI loans.

They are *less* concerned about:

- withdrawing money when they need to, and
- earning more interest on their savings.

Box 4.2 Learning from Experience

Ms. Som Nang, a 65 year old widow who lives with her married daughter, lost 40,000 riels in her savings group last year. She had saved the money monthly over the past 5 years. Her household of 3 earn 750,000 riels per year from rice farming. Ms. Nang earns extra income from sewing

When asked what changes might convince her to join another savings group, she offered this as her top priority: *all the records must be proven.* She also identified book-keeping as the most important role for a leader of a CFI.

In her savings group, were loans and savings managed according to rules the group had agreed to? "No" she said. The group "just established the laws but no one implemented them." She advises members of future groups to attend meetings, deposit regularly, always pay back their loans, and to make sure other member pay back, too.

Again, it is apparent that *the priorities that increase in importance based on experience relate to matters under the control of management* – how loans are issued and how risky they are, management transparency and respect for the rules. Assuming they can get these matters fixed, they seem to become more satisfied with the idea that the savings
they do deposit will stay in the CFI for a long time – perhaps even until retirement – and that they will not necessarily make a lot of money on their savings.

How do members feel about the strengths and weaknesses of their CFI? The views of a typical group of members appears in **Box 4**. This group belong to a reasonably stable CFI, without a history of serious abuse by management or by its leaders. However, they are familiar with the experiences of other CFIs through friends and relatives in other communities.

While they believe their funds are currently safe and that loan allocation is fair, these members are haunted by an ever-present fear that in future, they may lose their money. Because there is limited transparency and weak control systems, members describe management as poor and always wonder whether management is trying to cheat them or if managers are trying to take advantage of their privileged positions.

BOX 4.3: Members Envision a "Healthy" Community Finance Institution (*Group consultation in Kg. Sromor village, Battambang*)

What does a healthy CFI look like?

- Money is safe in savings groups
- Low interest rate
- Easy to take a loan
- Have formal record of savings
- Quick loan facility
- Free of nepotism (any member can take a loan – not simply family members of executive committee)

What does an unhealthy CFI look like?

- Afraid that loans will not always be available
- Afraid to lose money
- Internal disputes between members of savings groups
- Poor management
- Not neutral or democratic election
- Does not report to local authority about activities
- Sometimes difficult to access loans/borrow money (granting of loans is often a delayed process)
- Slow interest payments
- Poor promotion of savings group to community

Table 4.4: What is the most appropriate role for the *leaders* of a CFI?

N = 301		All CFI Members	
		No.	%
"Understand needs of all members; make fair and responsive decisions."		116	39%
"Negotiate consensus on the rules; respect the rules and interpret them wisely"		110	37%
"Make the decisions; they should know what's best for all of us."		12	4%
Do not know/no answer		63	21%
Total		301	100%

Tables 4.4 and 4.5 explore the attitudes to authority of current CFI members. This issue is crucial to shareholder-based organizations. It is pointless delivering the responsibilities of share ownership to people who are unprepared to exercise control of their organizations.

The first model in the tables represents the kind of rules-based approach that forms the foundation of democratic institutions including co-operatives/credit unions.

A CFI culture that prioritizes the rules is more likely to be tolerant of questions and dissent when the leaders are not respecting the rules.

Questions and dissent lead to problem solving and to good member service, which attracts more members and strengthens the institution.

The second model represents a "benevolent" form of authoritarianism. The leader must be able to understand the needs of members and make fair and responsive decisions towards them. Because leadership is personal rather than rules-based, it is hard for members to find legitimacy or the social acceptance to stand up to the will of the leader, even when the leader is acting clearly contrary to the needs of the group. On the other hand, this model can be democratic and effective when members also have a strong respect for rules and member rights, offering open space for dissent and debate.

The third model represents a strong form of authoritarianism. Members cannot practice effective ownership and control if they believe that their leaders have unrestricted right to make decisions and to decide what is/is not best for members.

Responses were fairly evenly divided between the rules-based and the personal models of leadership.

The *rules-based* approach was generally more favoured by:

- more educated people (those with 2 or more points on the education indicator favoured the rules-based model by 39% over 32% for the personalized model)
- younger people (< 38) also slightly favour the rules-based model (36% to 34%)
- the small sample of men strongly support this model (34% to 17%)

The *personal leadership* approach was generally more favoured by:

- those with less than 2 points of household education slightly favour this model
- members in middle age (38-48) favour this model (43% to 34%)
- women favoured the personal model (41% to 37%)

Table 4.5: What is the most appropriate role for the *members* of a CFI?

N = 301		All CFI Members	
		No.	%
"Hold leaders accountable for respecting rules and getting fair benefits for all."		113	38%
"Hold leaders accountable for promises; for fair and responsive decisions."		112	38%
"Let leaders lead; with less information, members shouldn't question leaders."		10	3%
Do not know/no answer		66	22%
Total		301	100%

Very few respondents agreed with the third proposition. However, even when democratic space opens up in a society, as it is now doing in Cambodia, it takes a while to fill it.

People may simply not be in the habit of thinking about many issues commonly handled by authoritarian leaders in the past. For example, during one focus group consultation, members were asked what would make their CFI stronger? Their response was that they did not know; it depended on the [executive] committee.

Additional answers were recorded for this question, and the team made note of several additional points that were offered repeatedly by respondents. For example, 27 people said that the most important role of the leader was to keep the books and records, while another 20 people said that the main duty of the leader was to "keep the meeting informed".

However, it is not just the leaders who determine whether the CFI is a success. Members play a vital role, too, as illustrated in Table 4.5. To be successful, both rules-based and personal models of institution-building require members to be aware of their rights and speak up to defend them when they are threatened. Members as a group must recognize their collective interest in defending their rights.

For CFIs to evolve into healthy institutions they must have enough members who are committed to defending the rules to ensure a balance of power between members and leaders. These people tend to be younger, more educated, and to have more assets. They are also the most likely to state that "managers should show more respect for the rules."

What Does it All Mean?

It would be useful to recap key points related to the CFIs at this point:

- people are losing about 15% of all the money they deposit in CFIs
- however, members save a small fraction of their total savings in CFIs: on average members are depositing 6% of their annual savings there
- most people consider it "stupid" to save their money in a CFI – even if they are members

- members do consider it smart, however, to put small amounts of money in the CFI to retain an option to borrow from it, and to access other services it offers
- this amount (about 33,000 *riels* or $8) does not vary much from member to member or with the member's demand for savings
- only among the very poor is this amount significant compared to their overall savings,
  - only the very poor are really at risk in their CFIs
- before increasing their deposits, members want
  - managers to show more respect for the rules
  - to have more skill, and
  - to treat loan applicants more fairly
- these concerns are within the ability of CFI managers and NGOs/donors to fix
- earning more interest on their savings is a distant fourth in importance
- non-members say that before they consider joining they want
  - to get higher interest rates on deposits
  - to be able to deposit more easily whenever they want, and
  - managers to show more respect for the rules
- ensuring that deposits are safe is a major theme for both groups; many non-members are poorer or more dependent on seasonal income and feel excluded by the regular deposit requirement

At the heart of the problem of trust is the related problem of control. Managers must control their impulse to abuse the rules of the CFI, and members must act to control managers when they will not control themselves. Members must control their own actions, channelling their efforts into exercising their rights as shareholders. They must make the effort to understand the rules and the effort to make sure that their leaders do not ignore them.

Members are saying they would like managers to have more skill; this is a training issue. However, managers must also "show more respect for the rules" – that is, they must use their skills in day to day relations of accountability to shareholders. This is not a training issue and the training is useless if it does not happen.

Accountability on the part of managers, and exercising rights on the part of members, are acts of will. Managers and members need knowledge, but knowledge is not sufficient by itself. NGOs and donors must monitor the emergence of will within CFIs, and invest in those in which managers have the will to respect the rules, and members have the will to exercise their rights.

A FRESH APPROACH TO COMMUNITY FINANCE IN RURAL CAMBODIA

"The framework of delivery of microfinance services in Cambodia is through community groups. Funding agencies and the government need to assist these groups to become effective intermediaries and be able to establish linkages with MFIs."
-- RGC/ADB Financial Sector Blueprint, 2001-10

Community Finance: An Alternative Path to Financial Sector Development

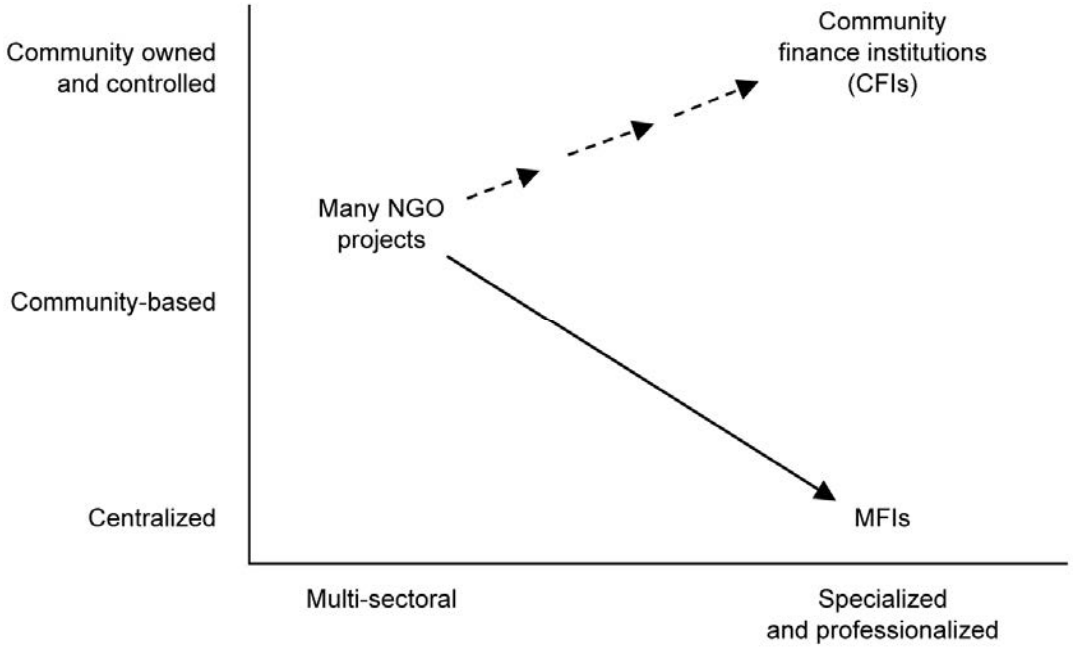
Over the past decade, many local NGOs that began their lives as community-based financial service providers gradually centralized and professionalized their operations. Led by ACLEDA and EMT, these NGOs transformed themselves into microcredit institutions or MCIs. Whatever the merits of this choice, there was an important and unfortunate side-effect. Valuable resources, skill and energy were diverted away from previous efforts to stimulate community development and mobilize rural savings.

However, many NGOs did not go down the path to centralization. To this day, they continue doing community-based development, delivering financial services through village banks, self-help groups and other structures referred to generically here as "community finance institutions" or CFIs.

While the NGOs building CFIs remain committed to rural development, they still face the same problems that MCIs chose to side-step when they transformed. First, they have had little success in mobilizing savings. Second, few village institutions have become strong enough to stand and act on their own, without subsidized external support.

Diagram 2: Strategic context of community finance in rural Cambodia

This study is a contribution to the effort to find a community-based alternative to the MCI path: an alternative leading to healthy CFIs in rural Cambodia.



The vision that inspired this study is summarized in **Diagram 2**. In very general terms, a healthy community finance sector will be one that:

- provides essential services to rural households to help them manage their money (and their risks and opportunities) safely, conveniently and flexibly
- is composed of healthy CFIs – in which members agree on shared goals, and hold their institutions accountable by standing up for their rights
- is financially sustainable, and
- is widely trusted, both by members and non-members.

A Time for Learning and Consolidation

The key results of the study are summarized in **Diagram 3**. The testimony of both members and non-members clearly indicates that *CFIs in rural Cambodia are facing a crisis of confidence caused by their inability to consistently protect deposits*.

Non-members have little respect for CFIs and say they will only join if they are paid very high interest rates to offset the risk of participation. Members -- at risk already -- are not asking for higher interest rates.

Their call reflects their more intimate awareness of the key problem in their CFIs – *managers must show more respect for the rules*.

Outside stakeholders have two contrasting ways of looking at the future of CFIs. **Some advocate rapid growth of CFIs, funded by cheap external credit.** Rapid growth, it is argued, will lead to increased economies of scale and to financial sustainability. In this view, institutional quality is usually considered less important than displacing informal moneylenders as a source of rural credit.

In fact, as evidence elsewhere indicates, this outside capital is not displacing informal moneylenders, whose services continue to be highly valued, even where MFIs and CFIs operate, because of levels of convenience, flexibility and anonymity that few formal actors can match. More importantly, as the results of this study clearly illustrate, the availability of cheap external money in the villages triggers elite capture of infant institutions, followed by member losses of savings, followed by further erosion of village trust, as illustrated in Box 4.1 ("The Rice Miller of Phum Chay").

Growth before consolidation does not generate economies of scale; it just increases the scale of the subsidies required to keep operations afloat. To quote a North American business proverb, "You cannot grow your way out of bankruptcy."

From an operational viewpoint, it is futile to blame elites for their behavior. Canadian and other elites have frequently behaved similarly, given similar temptations. *Operationally, what is vital is to protect CFIs from this type of vulnerability by nurturing the process of growth of living control and governance systems within them, especially in their early years.* Living systems are very different from written policy and procedure manuals, in that they live in the hearts and minds of CFI managers, directors and members.

DIAGRAM 3: SUMMARY RESULTS OF VILLAGE MARKET RESEARCH

MEMBERS of CFIs | **NON-MEMBERS**

Loss/cost expectations

(Actual losses by type of saving last year
% of amount saved; Table 2.7)

Average losses (all savings types)	15.2%
Average losses, cash & near-cash	9.7%
Average losses, in-kind and other	18.0%
Average losses, CFI deposits	15.1%

Why do you use savings methods other than the CFI?

Key household savings goals include
* food security
* emergencies
* education/training

Members save 2.4% of their savings (6% of cash and near-cash savings) in their CFIs (Table 3.4)
Withdrawals are rare and do not address key savings goals (Tables 2.2-2.4)

Public trust of CFIs: their advantages and problems

* non-members ranked the CFI in their village a 4.8/10 for personal trust (Chart 4.1)
* view members as "stupid" to save in village CFIs because they have to "pay interest to borrow their own money."

Priority changes to "save more with your CFI?" (Table 4.3)

1. "managers show more respect for the rules"
2. "managers have more skill"
3. "I'm treated more fairly when I apply for a loan"

Priority changes to "join/ save with a CFI?" (Table 4.1)

1. "I earn more interest"
2. "it's easier to deposit money when I can"
3. "managers have more respect for the rules"

19% will not join under any circumstances.

Rank order of proposed changes to CFIs' products & practices

CFIs face a crisis in trust; need to consolidate their quality based on creating *safe savings*
* savings must be made safe by strengthening internal and external controls and governance
* shareholder and depositor rights must be mainstreamed into programming
* need for effective third party dispute resolution
* more technical training and support for managers, and more rights training and support for members

Bringing manuals and rulebooks to life is a process that cannot be rushed by any amount of training, because it requires people to face life tests in which they must choose between different paths. When an issue emerges in their CFI, what decision will they support: the one outlined in the rulebook? The traditional one? The one that is best for them? Some combination of different options? The process of bringing rulebooks to life typically takes years, and when successful provides villages with a priceless community asset – an immensely empowering form of infrastructure as important as a road or clean water. But before that process is consolidated, the institution and its assets, whether funded externally or through savings, are wide open to capture.

Animating people's capacities to build healthy institutions requires focusing their will and judgement. In the words of Nee & Healy:

> [t]his change in values cannot be learned in the way that skills and strategies can be learned. We are talking here of developing the potential within the person. The belief is that a new way can be created by drawing wisdom from the experience of life, one's own experience and the accumulated experience and wisdom of others. (Nee & Healy, 2003)

A more disturbing undercurrent among practitioners in this school is the argument that they are not mobilizing savings directly: they are just building village institutions that mobilize savings. Of course, CFIs must be held accountable for their own actions, including any failure to protect member deposits. But it is time for community finance stakeholders to develop a list of minimum criteria related to the priorities and capabilities of practitioners who *promote* savings mobilizations.

Other stakeholders advocate abandoning the CFI project and waiting for MCIs to deliver rural credit. In the late 1990s many people hoped that if they invested in a village CFI for a few years, it would eventually develop into an institution capable of energizing the local economy through the long-term, sustainable recycling of credit. Then, donors and practitioners could pack their tools and start over in another village. Few believe that now. Instead, grimly sensitized to corruption and faced with dependency as the only project outcome likely to last, they are abandoning CFI development.

This is not the right response, either. Rural Cambodians are setting aside, from time to time during the year, at least 14% of all the funds flowing into their households as savings in cash and near-cash. They are setting aside over 28% of all funds flowing into their households as savings in other, mostly in-kind forms. Last year, they lost 15% of everything they set aside, including 10% of all cash and near-cash savings set aside.

This combination of extreme commitment to the future, combined with extreme vulnerability, is a tragedy almost beyond comprehension. Most rural households in every village are bleeding cash; the losses are enough

to keep their economies permanently weak, and their communities permanently dependent.

Just as community assets can be built through savings, local economies can be energized through credit delivery, which can take place through CFIs. But in this survey villagers told us clearly that the CFI is a sick plant. Before it can deliver healthy fruit (credit, economic dynamism) we must tend to its health.

Finding Strength in Diversity & Collaboration

High quality CFIs operated by local villagers around the country can transform this situation by delivering financial services that are better attuned to the needs of their villages, at a far lower cost, than MCIs. However, to achieve this goal stakeholders must have a clearer vision of what success looks like. The following words could have easily been written on governance of village institutions rather than on government:

> [c]itzen and enterprise participation and voice are vital in increasing transparency, providing for the necessary external accountability mechanisms and thus for the checks and balances that even the best internal accountability rules and systems within government cannot fulfill completely. Transparency-enhancing mechanisms involving a multitude of stakeholders throughout society can be thought of as creating millions of "auditors." (Kaufmann, 2004)

Stakeholders are invited to embrace a new vision of community finance as a broad-based *movement of economic change*, designed in the long-run to evolve into a financial system or industry. Community finance is not a methodology or the work of a single NGO or leader, no matter how effective. The emergence of financially stable, genuinely community-based institutions depends on:

- a diversity of methodologies and strategies
- a variety of committed leaders with very different styles and approaches
- openness to dialogue and learning
- a deep cross-fertilization of ideas and practices
- close collaboration between stakeholders, and perhaps most important,
- the participation of a wide range of social and economic actors.

An historian makes this generalization from a century and half of credit union history:

> During their early stages credit unions are rarely able exclusively to "pull themselves up by their own bootstraps". They have to utilize networks provided by such institutions and groups as churches, farm organizations, other co-operatives, trade unions and professional associations. (MacPherson, 1999)

In Cambodia, institutions that can play a vital role in developing rural community finance practice include NGOs, pagodas, schools and colleges, economic enterprises, village development committees and more generally any form of community capital that shares common values of self-reliance and community-centred development.

Shareholder Rights: A Foundation for Future Growth

As shareholders, poor rural people have a right to form agreements with each other and external contractors, and 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 inability to reliably exercise these rights is a major impediment to both economic and community development.

CFI members are also CFI shareholders. Their rights as shareholders begin with their contributions of resources to their CFIs. By pooling resources, shareholders expose themselves to the risk of loss – and to the opportunity for gain (for example, through reduced vulnerability or improved livelihoods). To protect their investments, and their rights to a fair share of the benefits, shareholders form two types of agreements, which are intended to capture the essence of their rights. 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. Shareholders have a right to accountability from these managers.

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*.

Within a shareholder rights framework, the alertness and initiative of shareholders is the first and most important line of defence. Building capabilities among poor rural women (especially those who are illiterate) until they can successfully protect themselves and reach their collective goals is a high-impact development practice.

Practitioners can enable success through *direct* programming: by training and by helping shareholders to make realistic, workable agreements with each other and by helping them to hold their managers accountable. Recognizing and building on the will to succeed is essential.

Practitioners can also enable success through catalyzing effective third party dispute resolution mechanisms and market-based support services like micro-audit, record-keeping and wholesale financial intermediation.

RECOMMENDATIONS

> *Current development thinking and rhetoric in Cambodia have a tendency to highlight the negative effects of war on Cambodian society, with assumptions of breakdown of trust and solidarity among people and a poor ability to work cooperatively for development. Such a perspective reinforces fears and doubts among people, making it a self-fulfilling prophecy. The value of self-help is still strong…. Development actors should begin to play a much more dynamic, positive and responsible role in shaping social capital.*
>
> -- Krishnamurthy, 1999

Recommendations for Practitioners

1. *Focus on consolidating CFI quality before planning further growth.*

2. *Learn by working together with practitioners and other stakeholders:* Solving the problems of quality and trust involves a shift of thinking; this can only be achieved by learning together through action research, working groups, workshops, exposure visits, conferences and other methods.

3. *Prioritize savings mobilization against other organizational goals:* Relative to other organizational goals, is savings mobilization important? If not, turn away funds offered in trust – especially those offered by the poor. Seek alliances with specialized organizations to offer this service in project villages.

4. *Hire/develop skilled, specialized staff:* Place the promise to repay members' savings at the centre of field practice and strengthen that promise with specialized staff.

5. *Networking:* Encourage the emergence of regional networks among CFIs, including those with different methodologies. Encourage them to learn together and to grow their membership base so that with scale they can develop sustainable, market-based services like supplies, training, technical assistance, audit and inter-lending.

6. *Internal controls:* Test ways to support members as shareholders and depositors to control their managers, even after phasing out from the village. Test ways to empower shareholders to consistently stand up for their rights. Test ways of keeping records and making decisions that are more friendly to illiterate users (often women).

7. *Explore best practices:* Become familiar with the diverse range of community finance best practices in Cambodia and around the world. Mine them for practical ideas worth testing.

8. *Test the efficacy of action audits*[10]*:* An action audit involves dissolving the institution and returning all funds to its shareholders, depositors and creditors. If the funds are accounted for, trust accrues and a new institution begins. Practitioners should offer shareholders of CFIs the right to request action audits with notice (usually a few months) under pre-agreed conditions.

[10] Stuart Rutherford's term. See The Poor and their Money.

Recommendations for Donors

1. *Develop a strategic framework for the rural community finance sub-sector:* Working with the government, practitioners and other stakeholders, bring community finance projects and programs within a framework that is distinct from, but aligned with the broader frameworks outlined in the Financial Sector Blueprint and the RGC's National Poverty Reduction Strategy.

2. *Co-ordination:* Share information and learning to support improvements in CFI quality, perhaps through a working group or some other kind of forum. Work closely with practitioner groups.

3. *End the practice of subsidized loans to fledgling CFIs:* Stop funding loan portfolios at below-market lending rates; subsidized loans and grants for loan portfolios undermine trust and disable infant institutions.

4. Within three years *build the capacity of one or more network-level institutions to transform into licensed MFIs* owned by their CFI members.

5. *Support national training programs* for CFI managers, members and other stakeholders in audit, accounting, management and shareholder rights.

6. *Cultivate diversity and openness* by listening to the voices from a wide range of social and economic actors, including pagodas, schools, colleges, farmers and fishers associations, etc.

7. *Technical assistance:* Catalyze the emergence of a pool of skilled people and meso-level institutions in all regions of the country with audit, accounting and management skills appropriate to CFIs.

8. *Best practice dissemination:* Expose managers and members to best practices in other villages, including those in which the CFI has been sponsored by a different donor using a different methodology. Focus on best practices in leadership, management accountability and shareholder rights.

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Appendix 1:

Method

This study is based on field research carried out in Prey Veng, Kampong Chhnang and Battambang provinces from May 3rd – 12th June, 2004 (for a detailed schedule of the field research, see Appendix 2). A team of 6 Cambodian field staff led by Vincent Johnson, a survey specialist from England, carried out 602 surveys in 7 districts and 37 villages. Of these, half (301) were conducted with members of community finance institutions (CFIs) while the other half were conducted with a control group of non-members (see **Table M1** for information on the study's sample). An effort was made to ensure that the CFIs selected reflect as closely as practical the basic values of the credit union movement, especially community-based self-reliance and member ownership/control.

To ground the study qualitatively, to test survey questions before launching the survey, and to explore related issues in more depth throughout the survey, a series of 37 group consultations were carried out. Our team was privileged to have the opportunity to work with and learn from Meas Nee, who facilitated 20 of these: focus groups on issues of trust with members of CFIs. The other 17 were "rapid rural assessment" (RRA) type consultations with larger groups in 17 different villages. Of these, 6 were open to all villagers and explored matters of savings practices and risks, while 11 were restricted to non-members and focused on public perceptions of the local village CFI. Field piloting was carried out by the entire survey team, plus Mary Rankin (a graduate student from the University of Guelph's rural development program) in Battambang and Prey Veng from Feb. 16-27, 2004.

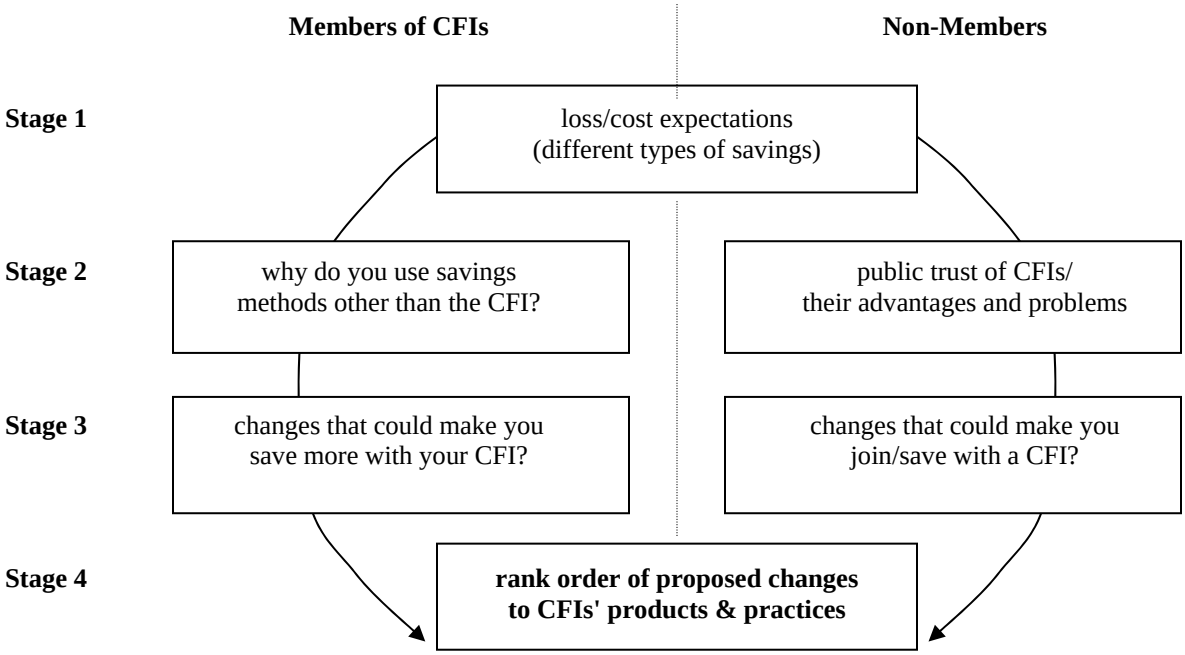
It is well known in the banking sector in the developed world that responses to client questions about money are highly unreliable. A mix of factors is involved: reluctance to discuss household finances, doubts about those asking the questions (or more likely, those they represent), general feelings of vulnerability and genuine feelings of uncertainty resulting from the complexity of the issues households have to sort through to come to their financial decisions. When asking

Table M1: Sampling Universe of Study

Province	Districts	Villages	Members	Women %
Battambang	6	38	12,357	66%
Svay Rieng	5	n/a	7,055	43%
Prey Veng	6	10	6,164	37%
Kampong Speu	5	n/a	4,107	45%
Takeo	7	61	3,883	33%
Kampong Cham	4	51	2,787	44%
Kampong Chhnang	5	65	2,511	45%
Kampong Thom	3	34	6,394	53%
Total	**41**	**259**	**45,258**	**49%**

No. of provinces	3	(Battambang and 2 others)
No. of villages	30	(10 in each province)
No. of participants	600	(200 in each province)

DIAGRAM M1: VILLAGE MARKET RESEARCH METHOD



questions with a longitudinal component (e.g., How much cash came into your household last year?) respondents often do not recall all the details, especially if the survey is confined to one interview. Compounding these problems in rural Cambodia is confusion around conceptual issues like "saving" (see **Box M1**).

To address these issues, care was taken to frame consultations with respondents in a way that was comfortable and non-threatening for them, was highly relevant to their interests, and was very clear and sequential. Pains were taken to ensure that respondents always knew why a particular question was being asked.

The overall line of questioning for the study is presented in **Diagram M1** above. Information was gathered through two types of respondents: current CFI members, and other poor villagers.

The line of questioning around savings and confidence in the savings banks was particularly sensitive and challenging. It was carefully pre-tested in pilot group and individual consultations. The basic structure of the line of questioning was:

1. Ask respondents what major expenses their households face.
2. Have them agree that to prepare for these expenses, they must either borrow, sell assets or save.
3. Ask respondents what strategies they use to save and how much they save using each strategy.
4. This usually leads to an informative description of a variety of strategies, many involving in-kind accumulation and others involving cash.

Box M1: Note on Method -- Reaching a Common Understanding of "Savings"

Some development practitioners and officials, not just in Cambodia but around the world, still maintain that "poor people do not save" or that "some people are too poor to save." Part of the reason this belief has persisted as long as it has, in spite of overwhelming evidence to the contrary, is due to rampant conceptual confusion around the meaning of "savings".

In societies where savings are often not monetized and there are few financial institutions, the concept of "savings" is easily confused with similar concepts like investment or "income generating activities". In addition, villagers may assume that "saving" refers to cash. If they hold little cash, and are reluctant to discuss the cash they hold, they often say that they do not save, or that they are "too poor to save".

A Working Definition of "Savings"

Saving involves setting aside assets now to have useful access to them in the future. By contrast, investing is risking money in the hope of future profit. When people save, they are concerned first with keeping control over the amount and timing of future access to their cash or other assets, and only second with making extra money.

For example, if a rural household buys chickens intending to sell them in September to pay the school fees, it is saving. If the same household buys chickens intending to sell them at the most profitable moment in the market, it is investing. If it buys land so the parents will have a livelihood in old age, it is saving. If it buys land to maximize overall opportunities for profit, it is investing. The distinction may seem fine, but it is important for this type of study: a CFI cannot help people invest, but it can offer them vitally important savings services.

A Common Understanding

In pilot consultations with villagers before the main survey began, the survey team worked out a way to deal with this confusion. For example, in one public consultation the team asked about savings habits and was repeatedly told by villagers that they were "too poor to save". The team then asked the villagers what types of large expenses they had to deal with from time to time? A long list, including expenses for school, medicine, ancestor ceremonies, weddings, and so on followed. A woman who had previously led the group in insisting she was too poor to save explained she is setting aside assets so she can buy a motorbike.

The following approaches were used to ensure that confusion over language did not undermine the results of this survey:

- all staff demonstrated their understanding, in written and oral tests, of key concepts: including the meaning of saving, saving with a relative vs. lending to one, the features of different saving products, and so on
- the questionnaire included a detailed discussion of different expenses faced by survey households, and
- staff worked through the expense list and established a common understanding with all respondents before any questions about use or amount of savings were asked.

5. It is then clear to all, without speaking, that the respondent, even if a CFI member, is not relying entirely on saving in the CFI for cash savings.
6. Ask members what their CFI could do better to encourage them to save more in their savings accounts.

In piloting it quickly became evident that when properly executed, this line of questioning led to a wealth of useful information about informal savings strategies and the problems with existing CFIs. When the line of questions was not followed, the result was usually confusion and the kind of vaguely positive responses that poor people feel safe using when speaking with influential outsiders.

To select a control group of non-members with demographic characteristics similar to those of the CFI members, the Survey Team procured population lists from the village authorities and randomly selected households to interview.

Before the main survey, group consultations were held to refine the questionnaire (e.g., common strategies for informal savings, common problems affecting trust, etc.). During the main survey, group consultations and focus groups continued, adding a wealth of qualitative information to help interpret the data from the questionnaires.

Data was verified by several types of cross-checks. Similar questions – especially those related to household savings and cash flows – were asked in different ways, or to slightly different groups of people, and then the results were correlated for consistency. Asset stocks were checked by survey staff in the field. Literacy was tested using a very simple on-the-spot test.

The principal constraint faced by the survey team was the fact that it had one opportunity to collect information from each household and from each village. Based on experiences with similar surveys in Cambodia and elsewhere, this almost certainly means that some key metrics (such as household cash flows, savings and losses) were understated by respondents who simply could not recall all the details of their financial affairs stretching over the past year in the course of one discussion.

Of course this matter could have been addressed, at considerable additional expense in both money and time, by visiting each household several times over a period of few years. However, the conclusions of this study do not depend on achieving a high level of precision with these numbers. Instead, the point was to capture a clear working picture of household financial activities and the relationships between them. It is hoped that interested stakeholders will continue to add more to our understanding of these vital livelihood management questions in the years to come.

Appendix 2:

Field Research Schedule

	date	Village	Commune	District	Province
1	3rd May	Prek Ta khob	Chi Poch	Mesang	Prey Veng
2	4th May	Sro Mor			
3	5th May	Thmor Sor			
4	6th May	Mesang	Prey Rom Deng		
5	7th may	Prey Rum Deng			
6	8th May	Prey Cheyk			
7	10th May	Khyork Chhoeung	Po Peus	Prey Veng	
8	11th May	Khyork Kandal			
9	12th May	Thnal chey			
10	13th May	Chea Klang	Chea Klang		
11	14th May	Chkaey Khon			
12	15th May	Chey Seima			
13	17th May	Spouk Reach	Andong Snay	Rolea Beah	Kam Pong Chhnang
14	18th May	Tronom Pich	Kok Bantreay		
15	19th May	Kok banteay			
16	20th May	Popeal Puok			
17	21st May	Meanchey			
18	22nd May	Cheu Trach			
19	24th May	Andong Snay	Andong Snay		
20	25th May	Krang Tamun	Tang Krosang	Teuk Phos	
21	26th May	Sbeing Puos			
22	27th May	Chom Bork Antrean			
23	28th May	Phum Chas			
24	31st May	Ang	Orchar	Battambang	Battambang
25	1st June	Koun Sech			
26	2nd June	Tapruoch	Kdal Don Teav		
27	3rd June	Bapou	OuDom Bong	Sangker	
28	4th June	OuDom Bong			
29	5th June	Ou Khcheay	Wat Tamim		
30	7th June	Slov Kram			
31	8th June	Oumuny 1	Anlongville		
32	9th June	Oumuny 2			
33	10th June	Khnach Romeas	Khnach Romeas	Bavel	
34	11th June	Roung Ampil			
35	12th June	Buo			
36	14th June	Balang Meanchey	Khnach Romeas		
37	15th June	Prey Songha			

Appendix 3:

Baseline Indicators for Future Programming

Indicator	Base Data at May, 2004	Target
Outreach		
Illiterate as % of control group (CFI neighbours)	67%	
Illiterate as % of all CFI members	45%	↑
Landless households as % of control group (CFI neighbours)	20%	
Landless households, as % of CFI member households	6%	↑
Composition of CFI membership by asset quartile		

Quartile	*Range (asset indicator)*	*% of CFI members*	
Q1	8.25 +	32.2%	↓
Q2	6.0-8.25	26.6%	
Q3	3.75-6.0	23.3%	
Q4	0-3.75	17.9%	↑

Savings		
Savings in cash and near-cash (last year) as % of *all* household cash in-flows (last year)	14.6%	
Savings as % of *cash and near-cash* amounts saved by member households (last year)		
In their target CFI	5.7%	↑
In gold	54.5%	
Savings in secret places	23.2%	
Losses in CFIs as a % of member savings balances in CFIs (last year)	15.1%	↓

Indicator	Base Data at May, 2004	Target
Trust		
Among Non-Member Neighbours		
Public trust of CFIs	6.0	↑
Personal trust of CFIs	4.8	↑
Change priorities to join CFI –"easier to deposit" – poorest quartile	1.8	↓
Among Members		
Change priorities to save more with CFI –"more respect for rules" – all members	2.7	↓
Change priorities to save more with CFI –"more respect for rules" – senior cohort	3.0	↓
Change priorities to save more with CFI –"treated more fairly to borrow" – senior cohort	1.6	↓

Appendix 4:

Instructions for Participatory Group Consultation Tool

prepared by Mary Rankin, CCA Co-operant, March 04

Group Consultation Tool #1 (Preference Ranking)

Objective: To discuss the various reasons why people save their money, identify different methods of savings and to assess the relative risks and benefits associated with each of these saving strategies.

1. Introduce the purpose and the process of the session
   - Explain that we want to gather information about the different ways in which people save money and also about the reasons why they save money
   - Explain that we want to hear from everyone who has something to share and that it is important for people to not all talk at once
   - Explain time commitment involved and inform people that they can leave at any time, if they so desire

2. Introduce the topic of SAVINGS and initiate a discussion
   - "What is saving?"
   - "What does saving mean to you?"

3. Discuss PURPOSES for saving
   - May have to frame the question in a few different ways:
   - "For what purpose do you save?"
   - "Are there problems in your life that you have now or that you anticipate having for which you must save money?"
   - "Are there events in your life that you plan ahead for by saving money now?"
   - As people identify various reasons for saving, show the related picture and discuss so that everyone has a common understanding
   - When finished, put these pictures aside for later use

4. Discuss STRATEGIES for saving
   - May have to frame the question in a few different ways:
   - "How do you save money?"
   - "Where do you put money to keep it safe?" (i.e. clay pig, wooden box, savings group)
   - "What kinds of things do you invest in to save money or plan for the future?" (e.g., buy livestock, buy gold, buy rice, buy building materials or house stock)

NOTE: Here it is particularly important to clarify each point that is made because there may be some confusion between income-generating methods and savings

methods. Therefore, always be sure to ask villagers what they mean and also to elaborate on each point they have made.

- As various savings methods are identified, show the related pictures and discuss so that everyone has a common understanding.

NOTE: Because this tool is designed for both members and non-members, the picture of the savings group MUST be included as one of the savings strategies. If participants do not identify this strategy themselves, the facilitator must identify it and then discuss it to ensure that everyone understands the concept and the picture.

5. Assess which saving strategies are most commonly used
   - Place pictures of the various savings strategies next to jars on the ground
   - Provide each participant with three stones
   - Ask participants to place these stones in the jars that represent the three different savings methods they use most often.
   - Count the stones – strategies which have the greatest number of stones will be considered most common or most important

6. Assess risks and benefits associated with each saving strategy
   - Return to the pictures and ask participants to identify what is good and bad about saving money in each of these ways.
   - May have to ask a series of related questions:
   - "Why do you like to save money this way?"
   - "What is good/bad about saving your money this way?"
   - "Have you ever lost money by saving in this way?"

7. Rank the importance of reasons why people save
   - Return to the pictures of saving purposes and clarify meaning of each picture if necessary
   - Place these pictures on the ground next to the jars
   - Give each villager 3 stones
   - Instruct the villagers to place these stones in the jars that represent their top three most important reasons for saving money
   - Count the stones – savings purposes which have the greatest number of stones will be considered as most important

8. Assess which savings strategies are used for each purpose
   - On the ground set up a grid with saving strategies along the top and saving purposes down the side
   - Give each villager a handful of stones
   - Instruct the villagers to place a stone under the picture of the savings strategy that they use for each particular purpose
   - Count the number of stones in each cell

9. Second ranking of savings strategies

- Ask the villagers to discuss which of these savings methods is the “best” or “most safe”
- Give each person one stone and ask them to place the stone in the jar that represents the “most safe” method of saving
- Count the stones. Remove the savings strategy that has the most number of stones associated with it. This is the “most safe” method.
- Repeat this process again. The savings strategy that has the most stones this time is the “second most safe” method.
- Repeat until you have gone through all of the savings strategies. The last one remaining will be the “least safe” method.

Group Consultation Tool #2

Objective: To compare use of informal savings methods with CFIs and investigate the reasons why non-members have chosen not to join community savings groups.

1. Introduce purpose and process of the session
   - Want to talk about saving money and the different ways you try to save your money
   - Also want to know about the savings groups in your village and the reasons why you have chosen not to join

2. Introduce concept of saving
   - Do you know about savings?
   - Point to house and ask "how did you get this house?"
   - Use step by step questions to make sure everyone in the group has an understanding of "saving"

3. Introduce strategies for saving
   - "How do you save your money for the things you need to buy?"
   - "What are some of the ways you keep your money safe?"
   - As various savings strategies are identified, show related picture and discuss so that everyone has a common understanding.
   - Last picture should be a picture of a savings group
   - "Do you know about savings groups in your community?" – because this tool is intended for non-members, you will have to explain that savings groups are another way to save money, but some people still choose not to save their money in this way.

4. Assess use of informal savings strategies as compared to savings groups
   - For each of the earlier identified savings strategies, compare it to saving in a savings group and ask, "If you had a choice, which method of saving would you use?"
   - Each participant is given a stone and must place the stone next to his/her choice of method for each comparison of methods
   - After each comparison is done, ask people to discuss why they prefer to save money in that way

5. Role Play (Facilitator and Note Taker)
   - Act out the story of Sam Bath
   - Ask villagers to explain what they have seen in this role play
   - "Why do you think Sam Bath does not want to join the savings group?" – Discuss

6. Investigate the various reasons people have for not joining
   - As villagers identify various reasons for not joining, show the related pictures and discuss

- Eventually ask, "What are some of the reasons why you have chosen not to join your community savings group?"
- Again, as people identify various reasons for not joining, show pictures to illustrate these reasons. Encourage people to share their stories.
- If people are reluctant to share their stories, facilitator can show one picture and explain it to attempt to start a discussion.

7. Review people's reasons for not joining
    - Go through the pictures one more time and make sure everyone understands
    - Explain that we want to know the *most important* reasons people have for not joining.
    - Give each participant 3 stones.
    - Place the pictures next to jars and ask people to put a stone in the three jars that represent the three biggest factors in their decision not to join the savings group.
    - Note takers record the number of stones in each jar and rank problems accordingly.
    - Reveal to the villagers the three jars that have the most stones. These are the three biggest reasons that they have chosen not to join their community savings group.

8. Discuss possible changes/improvements to savings groups
    - "If these problems were eliminated would you then join the savings group?" If the common response is "no" then ask why – this may lead to additional reasons why people choose not to join. Note takers should then record this information.
    - Go through the various reasons/problems one by one and ask how each problem could possibly be solved.
    - "Can you make suggestions for how the savings group could be improved in order to encourage more people to join?"

Appendix 5:

Questionnaire Used for Structured Surveys

PUBLIC TRUST AND COMMUNITY FINANCE IN RURAL CAMBODIA

Primary goals:

- To identify ways to greatly strengthen practices related to savings and ownership/control by poor Cambodians
- To position CCA with baseline data to manage and raise funds for program work in Cambodia

Interview Number		Date	
Name Interviewer			
Village		Commune	
District		Province	BTB PV KC

Demographics

1. Name (OFFICIAL)		HH Head?	
2. Marital stats		3. age	
4. Gender	M F	5. Spouse Name	

6. Family profile (enter numbers)	Male	Female	Disabled	Widow	Orphan		
1-6 years							
6-12 years							
12-18 years							
18-60 years							

>60 years							

7. Are you a long-term commune resident? Yes No

If you are a Long term commune resident (4) go to question 13

8. If not long term resident how many years and months have you lived here?	yrs mths
9. Within last 5 years how many times moved?	Times
10. Last address/ penultimate address:	

11. Are you a member of a CFI (savings group)? Yes No

12. Family education - # years

family member	Spouse		Other Adults		Children			
Level	Husband	Wife	1	2	1	2	3	4
Primary								
Secondary								
Tertiary								
Non-formal (pagoda/ NGO)								

13. Levels of literacy: PLEASE CAN YOU READ THE FOLLOWING:

TAK TAK PENH, BAM PONG

14. Family livelihoods- list by gender of wage earners, daily income and categories

Earner's name	Sex		1st income			2nd income			3rd income		
	M	F	Riels/ day (month?)	Job	Months/year	Riels/ day	Job	Months/year	Riels/ day	Job	Months/year
1											
2											
3											
4											
5											

Livelihood codes

Work sector	Type	Sector Code	Type code	Occupation sector	Type	Sector Code	Type code
Elder		1	1	Other Trades	Blacksmith	6	1
No work		2	1		Brick factory		2
Merchant/ selling	Beer/wine	3	1		Charcoal burning		3
	Cakes		2		Construction contractor		4
	Cheese		3		construction/building labour		5
	fish		4		Fire Wood cutting		6
	Groceries		5		Labouring		7
	noodles		6		mechanic / bike repairs		8
	Rice		7		Moto-taxi/Taxi		9
	Soya-juice		8		Photographer		10
	Vegetables/ fruit		9		Porter		11
	wood		10		Sewing/tailor		12
					Thatch making		13
					Wine maker		14
				Community Service	Barber	7	1
Agricultural	Rice Farmer	4	1		Doctor		2
	Livestock farmer		2		Karaoke/ Musician		3
	Labouring		3		Nurse		4
	Bamboo digging		4		Teacher		5
	Other agricultural		5		Traditional healer		6
Other		5	1		VHV		7
			2				

15. Household type? (observation) please tick

Roof Walls	Tin	Thatch/leaf	Tile
Concrete,			
Brick,			
Wood			
Thatch,			

Size in square metres (observation) _____

16. Household assets list numbers- list them by observations, then ask if cannot see.

Agricultural assets	#	Other	#
Ox cart		Battery charger	
Water Buffalo/cow		TV	
Paddy storage		Radio	
Plough		Cassette player	
Harrow		Sewing machine	
Rake, sickle, hoe, spade		Motorcycle	
Sprayer		Bike	
Thresher		Water jar	
Pigs		Cook stove	

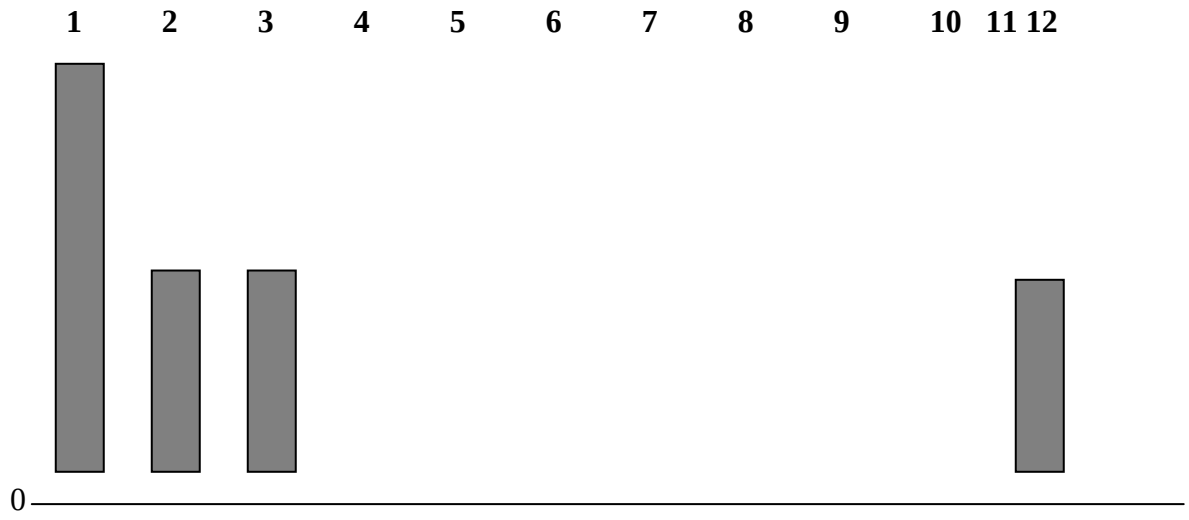
Ducks		Furniture	
Chicks		Gold/jewellery	
Well		Palm/Fruit Trees	
Pond		Cultivable land (hectares)	
Other		Other	

SAVING

Below are pictures of the income and expenses for some types of households.

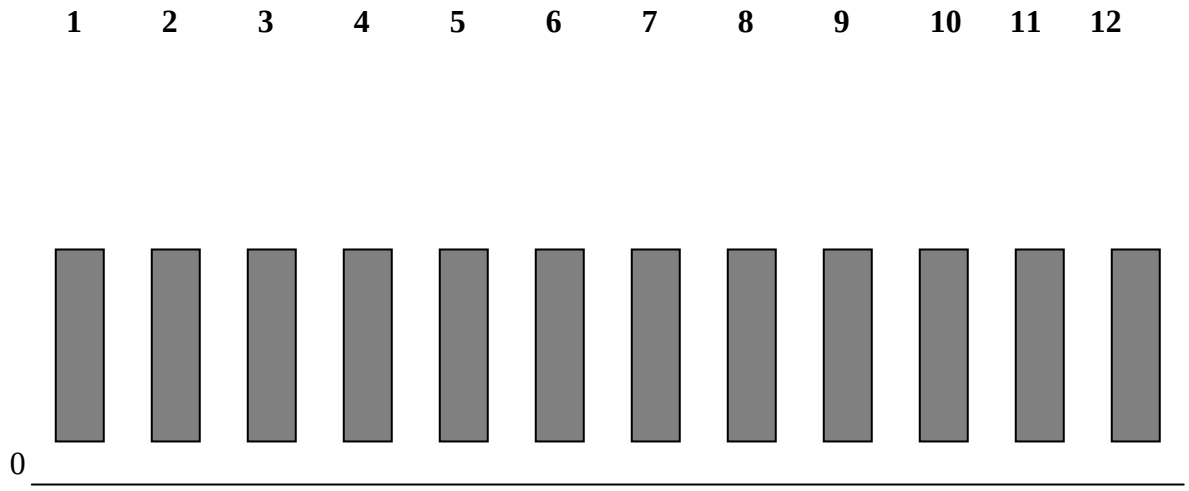
Household Cash In-Flows

SEASONAL or VARIABLE flow of cash **income** to the household.



In the picture, the line for month 1 is twice as long as the line for month 2. This means the cash income of the household was twice as much in month 1 as in month 2.

REGULAR flow of cash **income** to the household**.**

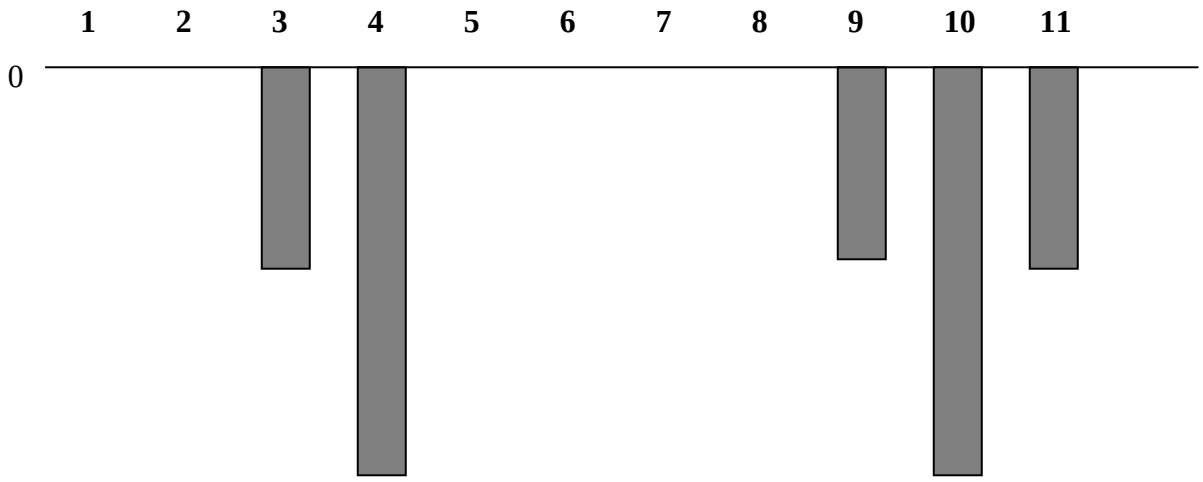


In the picture, the line for each month is the same length. This means the cash income of the household is the same each month.

Household Cash Out-Flows

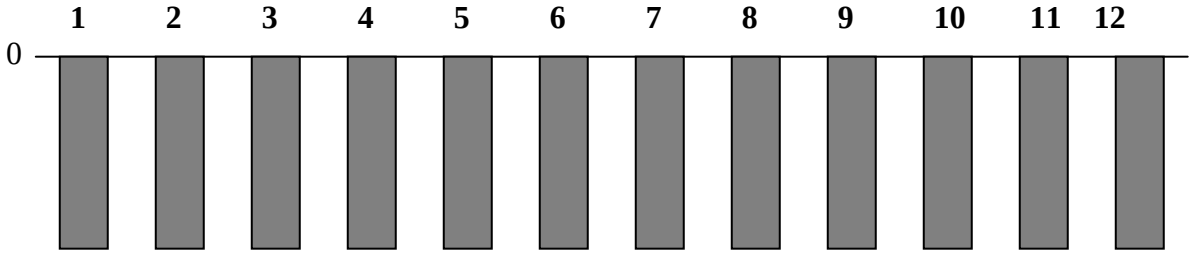
Below are pictures of the cash expenses of some types of households.

SEASONAL or VARIABLE flow of cash expenses from the household.



In the picture, the line for month 4 is twice as long as the line for month 3. This means the cash expenses of the household were twice as much in month 4 as in month 3.

REGULAR flow of cash **expenses** from the household.



In the picture, the line for each month is the same length. This means the cash expenses of the household are the same each month.

Most households have some seasonal and other regular cash income and expenses. Please draw a picture of the **cash** incomes and expenses for your household below.

17. **Your Family's Cash Income**

1 2 3 4 5 6 7 8 9 10 11 12

0 _____

Amount of income in riels in
Total
the best month _____

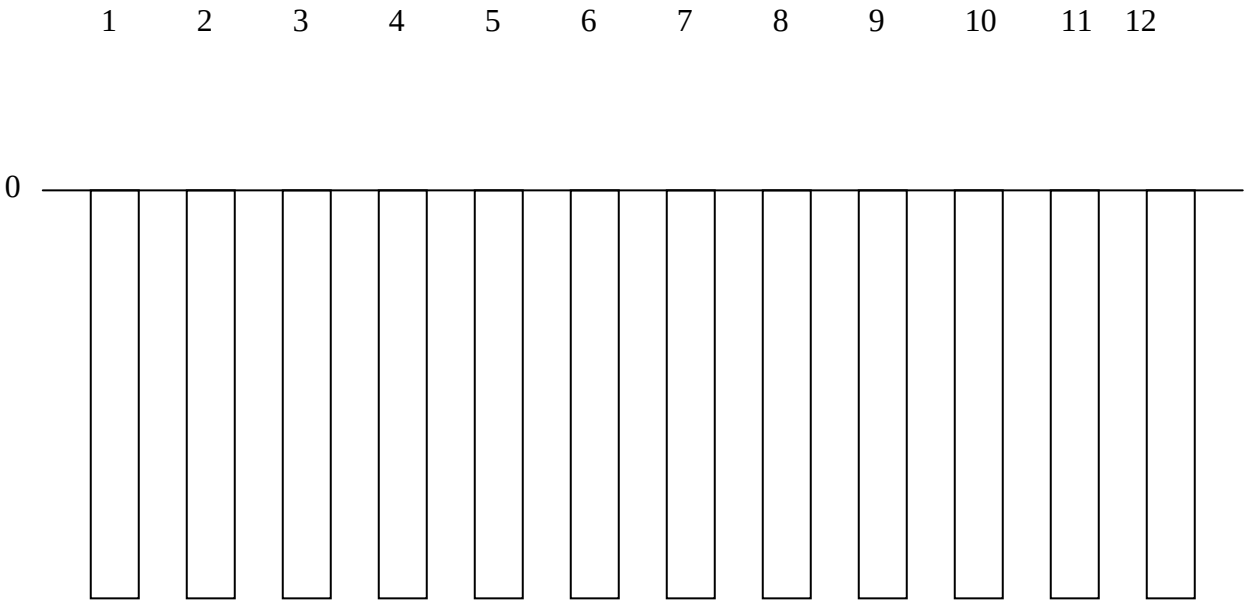
Amount of income in riels in
the most difficult month _____

(Staff, please note other currencies in the margin and assist respondents with conversion

BT – baht; $ -- US dollars; DG – dong; AU – gold)

Amount	**Currency**	
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

18. **Your Family's Cash Expenses**



	Amount	Currency
Expenses in riels in the most **Total** costly month _____ _____	_____	_____
Expenses in riels in the least costly month _____ _____	_____	_____
(Staff, please note other currencies in the margin and _____ *assist respondents with conversion*	_____	_____
BT – baht; $ -- US dollars; DG – dong; AU – gold) _____	_____	_____

19. What are the most important factors (livelihood strategies, circumstances) that make your household income regular/variable?

_____

_____

_____

20. What are the most important factors (livelihood strategies, circumstances) that make your household expenses regular/variable?

_____

_____

_____

21. Please **identify all** the reasons you are saving now, and **rank the top 5** reasons in order of importance with 1 being the most important (*Survey Team – please take the time to read each of these examples out loud to respondents; have them listen to all before responding.)*

Purpose	√	rank	Notes
Emergencies			
Medical			
Family food security in lean season			
Opportunities -large business			
-for small business			
Buy assets			
- housing			
-motorbikes			
-pump/bicycle			
- pots & pans -/other small assets			
Asset improvements/ housing			
Life cycles- funeral/			
- weddings			
- ancestral shrines			
-bun pachai boun			
Education/ training			
Support family elders			
Retirement			
To earn Buddhist merit			
Vacation/ recreation			
Planned medical costs			
Equipment/ materials			
Maintain/ replace livelihoods/ assets			
Status			
Group guarantee			
To earn interest			
Other			

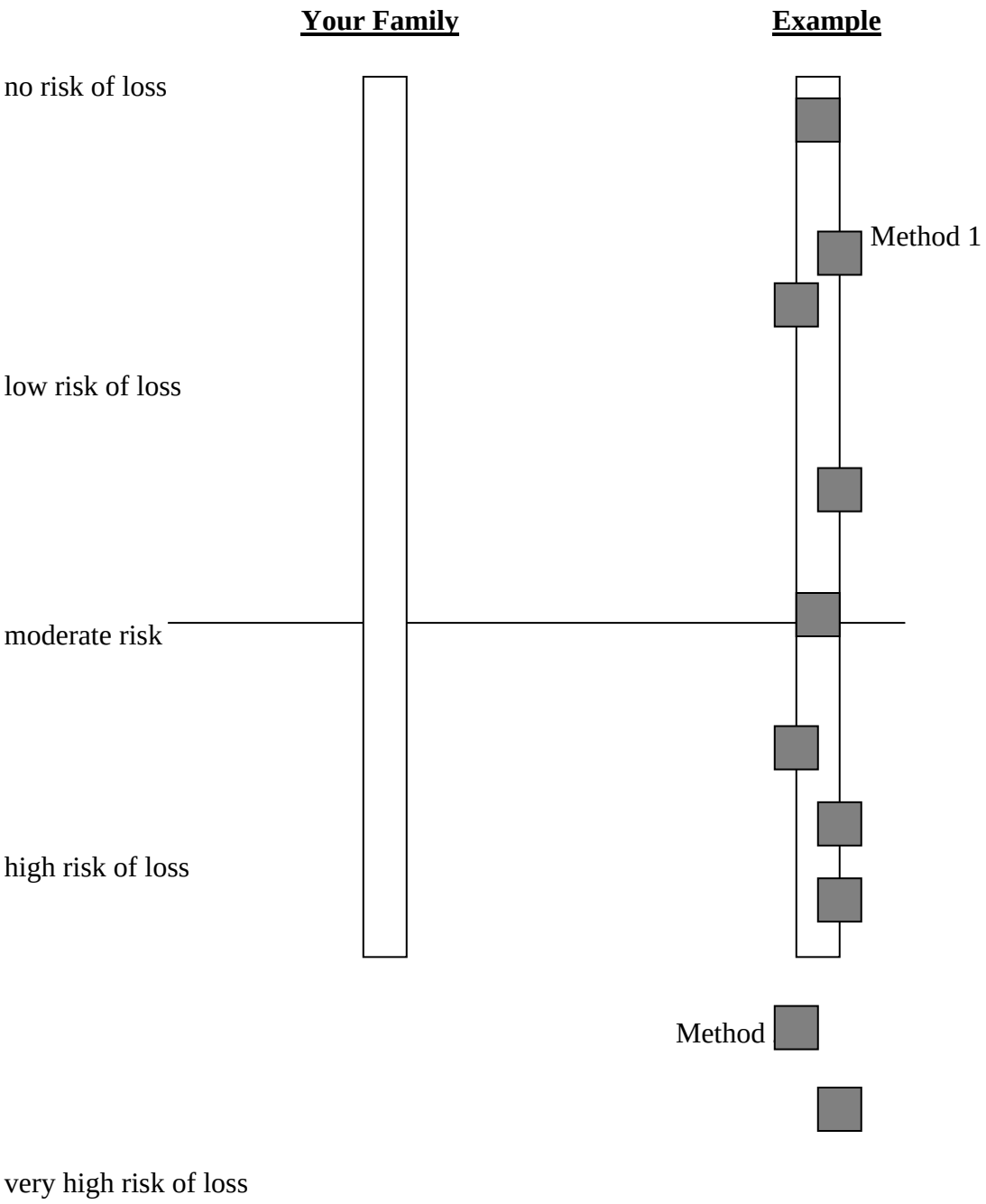
22. How do you save? Please identify all the ways you are saving, and how much you have saved in the past year using each method. (*Survey Team – please take the time to read each of these methods out loud to respondents; have them listen to all before responding. Then, ask respondents to estimate the amount they have saved using each method)*

Method	√	Estimate *how much* you have saved in the past year using each method.
family member or relative		
trusted friend		
secret place		
piggy bank		
box		
gold		
other jewellery		
building materials		
buffaloes/cows		
pigs/chickens		
rice		
sugar/other commodities		
land		
labour exchange		
other		

23. Saving costs money. For example, each time you smash a piggy bank, you lose the price. Animals get sick and die. Jewellers cheat buyers with fake jewellery. Building materials are damaged by water or insects. Please estimate what it has cost you for each method of saving in the past year.

Method	√	Estimate *how much it has cost you to save* in the past year using each method.
family member or relative		
trusted friend		
secret place		
piggy bank		
box		
gold		
other jewellery		
building materials		
buffaloes/cows		
pigs/chickens		
rice		
sugar/other commodities		
land		
labour exchange		
other		

For each of the savings methods you use, please indicate how *safe* you feel it is in the following picture.



24. How do you prefer to save? (please ring)

    a. save a planned amount regularly

    b. save a planned amount when it is available (e.g., after a planned sale in the market)

    c. save what is left after meeting your needs?

COMMUNITY FINANCE INSTITUTIONS

Questions for Members Only

If you are not a savings-group member go to question 45

If you are a savings group member:

25. When did you become a member?

month year

(**Survey Team please complete this box**)

No. of CFIs (savings groups) in village: ____

Sponsoring NGOs:

26. Are there other family members in the CFI (savings group)? Y N

27. If yes, how many? adults children

28. Are you on the board/management committee? Y N

29. How much have you saved with the group in the past year?_____ *riels*

30. What is the total amount of your savings with the group now?_____ *riels*

31. Have you withdrawn any savings from the group in the past year? Y N

32. What did you use these savings for?

_____

33. When was the last time you borrowed from the group? _____

34. How much money do you currently have outstanding from the group

_____ *riels*

(*Survey Team, please check the member's records to confirm the amount; tell the members the Team will help them by verifying the amount against the records of the CFI/savings group.*)

35. How often do the members meet?

_____

36. If a large loan was offered to a leader's brother for a very risky project against the rules of your CFI/savings group, do you think that the members could stop it?

yes maybe no

37. Have members of your group ever expressed concern about the safety of their savings? Y N

38. If yes, do you feel the leaders responded to/are responding to the concerns?

_____

39. Do you feel that loans are distributed and collected fairly?
    Y N

40. Do you feel that loans and savings are managed according to the rules and procedures agreed to by the group?
    Y N

41. In the picture in question 25, please draw the savings in your CFI [savings bank, SHG, etc.]?

42. Following are reasons why many people are uncomfortable increasing the amount of their savings in their CFI/savings group. Please identify the **top 5 changes** that would make you save more in your group. (*Survey Team – please take the time to read each of these possible changes out loud to respondents; have them listen to all before responding. Then, ask respondents to identify the most important and rank them)*

1=most important; 5=least important tick	Type of possible change in the CFI/Savings Group
☐	I'm treated more fairly when I apply for a loan
☐	managers have more skill
☐	I know more about what's going on in the group
☐	managers show more respect for the rules
☐	easier to withdraw money when I need it
☐	easier to deposit extra money when I can
☐	money is lent out on less risky projects
☐	the group's extra cash is kept in a safer place
☐	managers are less arrogant/show more respect for me
☐	group makes more profit from its activities
☐	I can earn more money on my savings
☐	Other _____
☐	Other _____

Questions for All Respondents

43. Have you ever lost money in a CFI/savings group?

    Y N

44. Have you ever left a CFI/savings group because of concern for the safety of your savings? Y N

45. If yes to 45 or 46, please describe what happened and the amount of money (in riels) lost.

_____

_____

46. What is the most appropriate role for *the leaders* of a CFI/savings group?

- make the decisions; as leaders they should know what's best for all of us
- negotiating consensus on the rules of the group; respecting the rules and interpreting them wisely
- to understand the needs of all members and make fair and responsive decisions

47. What is the most appropriate role for *the members* of a CFI/savings group?

- let the leaders lead; members cannot always understand because they have less information
- hold leaders accountable for respecting the rules and achieving fair benefits for all members
- hold leaders accountable for their promises and for fair and responsive decisions

Questions for Non-Members Only

48. Please rank what you believe is the *general* level of *public* trust of the CFI [savings bank, SHG, etc.] in this village?

highly trusted

some questions/doubts

lots of questions/doubts

not trusted at all

49. In the same picture, please rank your own *personal* feeling of trust for the CFI [savings bank, SHG, etc.] in this village?

50. Following are reasons why many people are uncomfortable joining or belonging to CFI/savings groups. Please identify the changes (1 or more) that might convince you to join a CFI/Savings Group. (*Survey Team – please take the time to read each of these possible changes out loud to respondents; have them listen to all before responding. Then, ask respondents to identify the most important and rank them)*

1=most important; 5=least important tick	Type of possible change in the CFI/Savings Group
□	I'm treated more fairly when I apply for a loan
□	managers have more skill
□	I know more about what's going on in the group
□	managers show more respect for the rules
□	easier to withdraw money when I need it
□	easier to deposit extra money when I can
□	money is lent out on less risky projects
□	the group's extra cash is kept in a safer place
□	managers are less arrogant/show more respect for me
□	group makes more profit from its activities
□	I can earn more money on my savings
□	Other _____
□	Other _____

No, there are no changes that would possibly lead me to join a CFI/Savings Group.