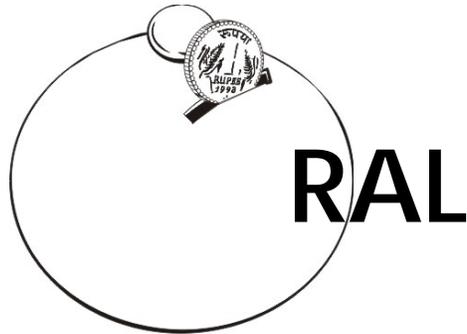


# GOVERNING THE



# INSTITUTION

"We shape our tools, and thereafter our tools shape us."  
-- Marshall McLuhan

Brett Hudson Matthews  
March, 2009.



# GOVERNING THE ORAL INSTITUTION

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This paper is dedicated to my best friend and life-long companion Margaret, who always gets things in perspective.

Cover art (and drawing, p. 26) by Prem Sharma.

## Executive Summary

“Successful operation of an exchange economy depends on mutual trust and the use of norms – explicit and implicit. When those behavioural modes are plentiful, it is easy to overlook their role. But when they have to be cultivated, that lacuna can be a major barrier to economic success.”

-- Amartya Sen<sup>1</sup>

The central hypothesis underpinning this paper is that much of the institutional fragility in poor villages results from *a mismatch between oral and literate ways of managing collective information*. Oral tools must be much more clearly understood -- and systematically applied -- if we are to really succeed in transferring the capacity to build institutions to rural villages.

‘Orality’ refers to the characteristic modes of thinking, speaking and managing information in societies where the technologies of literacy (especially writing and print) are unfamiliar to most of the population. It is a living domain where information is managed, decisions are made, trust earned (and lost) and legitimacy is conferred (see pp. 4-5). It is a profoundly *different* concept from ‘illiteracy’, and our failure to appreciate the difference has contributed to many poor practices in institution-building in developing countries.

Orality affects a huge population -- not just those who are formally illiterate but also those for whom literacy is not fully consolidated, and everyone else in communities dominated by oral populations. Many societies have maintained a comfortable equilibrium between a small literate population and an illiterate majority for thousands of years. The case for orality – and *against* literacy -- was strongly advanced by Socrates and Thomas Aquinas, among others. Even today, the oral village is adapted well to the needs of its people, offering illiterate adults few compelling reasons to change.

Understanding orality does not mean supporting its perpetuation or romanticizing it. It means helping users of local institutions to learn and grow as leaders, as entrepreneurs and as agents in their own development even *before* they acquire literacy. The incentive to change increases, transaction by transaction, in ways that feel positive, practical and relevant to poor people’s needs.

Village financial institutions (VFIs) such as credit cooperatives, self-help groups, ASCAs and village banks, have been plagued by a long history of failure in the developing world. Much of this failure results from elite capture, which in turn results from a toxic combination of external capital injections and a fundamental difference in views between literate and traditional oral communities about what institutions are, and how to manage them.

With orality in their blind spot, literate people and institutions promoting VFIs frequently stumble. Text-based systems of information management and control can be easily tampered with by literate elites, and are distrusted – based on

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<sup>1</sup> Amartya Sen. Development as Freedom. Anchor Books, Random House, New York, 1999, pp. 263-4

much bitter experience -- by most villagers. This deprives the institution of the transparency and legitimacy needed to ensure accountability and to gradually earn, and subsequently maintain, public trust. The use of text-based information systems in oral villages is not the only source reason of institutional weakness and failure, but a key lesson of development practice to date is that it is a critically important one.

Oral governance tools can be integrated into the retail interface while using text at regional and national levels, as governance needs and human capacities warrant (see p. 11). Oral tools can also be very valuable in reducing the tendency of poorer people to 'select themselves out': to hide their savings at home or keep using the village moneylender due to discomfort with text.

Based on a transaction cost economics framework, Section 2 argues that market failure will naturally occur in the oral village in the cases of 3 microfinance products: demand deposits, term deposits and longer-term capital loans (> 1 year) unless there is a trusted institution available in the village to deliver them. Centralized MFIs have not overcome this failure, citing high costs of product delivery and trouble enforcing contracts in remote areas. Most don't offer loans of the sort that farmers need (>1 year, seasonal repayment cycles). VFIs are the only institutions with the cost structures and enforcement advantages at the village level to sustainably overcome this market failure.

Therefore, this paper classifies 'oral governance tools' by the types of governance risks and costs they can reduce. Most tools offer practical bridges to either literacy or numeracy, or both, and include those:

- underpinning the elegant, efficient financial intermediation of ROSCAs (action research and collective memory),
- studied in diverse modern settings by experts in communications and cross-cultural literacies (row/column syntax, story, song, formula, scribes etc.),
- developed in ancient oral cultures (public display, mnemonics, 'memory palace', symbol etc.), and
- that can simply be used better (cash box, ballot box, information technology and most of the above).

Section 3 classifies oral governance tools by the types of transaction costs they reduce, and illustrates the diversity of such tools already in use. There is a vital need to test and refine oral governance tools that could help to strengthen the institutional performance of village financial institutions. The integration of more appropriate information management tools into VFIs should improve their ability to earn and keep local trust, and to set and achieve more ambitious financial and business goals. A more methodical and systematic approach to testing and refining such tools could yield important dividends in rural microfinance, and more broadly in rural institution-building.

As different tools prove their relative efficacy in the field, it will become increasingly valuable to test migration onto technology platforms including mobile phones, low-cost laptops etc.

## Key Definitions

### *Orality*

Orality refers to the modes of thinking, speaking and managing information in societies where technologies of literacy (especially writing and print) are unfamiliar to most people. Orality encompasses not just speech but a wide range of activities from pictures and numerals to memory, music and dance.

In his key work Orality and Literacy Walter Ong distinguishes between:

- *primary orality* ("the orality of cultures untouched by literacy"),
- *residual orality* (the orality of cultures where literacy is not yet common or fully integrated into national institutions), and
- *secondary orality* (the orality that has reasserted itself in the modern world, through oral technologies like the TV or the podcast).<sup>2</sup>

### *Governance*

"Governance is the sum of the many ways individuals and institutions, public and private, manage their common affairs. It is a continuing process through which conflicting or diverse interests may be accommodated and cooperative action may be taken." (Commission on Global Governance)

### *Institution*

For the purposes of this paper, 'institution' denotes high organizational quality. Thus an 'institution' is capable of respecting its own rules and those of its jurisdiction. It can also earn -- and subsequently maintain -- public trust. In development practice a critical recent priority has been to build institutional capacities: that is, the capabilities of stakeholders to strengthen organizations.<sup>3</sup>

### *Media*

'Media' are the communications technologies that extend our human capabilities.<sup>4</sup> In this digital era it is easy to forget that *most* of the greatest technologies underpinning institutional governance -- such as language, symbol, number, arithmetic and accounting<sup>5</sup> -- were invented over 5,000 years ago, by oral societies. Clearly, it would be impossible to build or successfully govern most institutions without these technologies. The people of the Tigris-Euphrates valley built cities with complex systems for collecting and redistributing wealth on this foundation five centuries before the dawn of writing.<sup>6</sup>

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<sup>2</sup> Walter J. Ong. Orality and Literacy: The Technologizing of the Word. Routledge, London and New York, 1988, p. 6.

<sup>3</sup> See Wilson, David and Lindsey Beaton. Promoting Institutional and Organizational Development: A Sourcebook of Tools and Techniques. Department for International Development, London, 2003.

<sup>4</sup> See Marshall McLuhan. Understanding Media: The Extensions of Man. MIT Press, Cambridge, Mass., 1994, pp. 7-9.

<sup>5</sup> The Mesopotamian token/envelope system that pre-dated cuneiform was in essence a pre-literate accounting system. Mattesich, Richard. The Beginnings of Accounting and Accounting Thought. Garland Publishing Inc., New York, 2000.

<sup>6</sup> This is an important sub-theme of Denise Schmand-Besserat's book, How Writing Came About. University of Texas Press, Austin, 1996.

## 1. Orality and Village Finance

The central problem in the theory of economic growth is to understand the process by which a community is converted from being a 5 percent to a 12 percent saver—with all the changes in attitudes, in institutions and in techniques which accompany this conversion.

-- Arthur Lewis, Nobel Laureate in Economics, 1955.

### *The Oral Context*

A literate perspective has made it hard to see the problem of village finance through the eyes of the villagers we want to help. But, as observed by communications theorist Walter Ong, in a critical way the view from the village is simple: *they don't trust written text.*

Ong, who maintained a lively interest in anthropology throughout his career, cites a study of community decision-making from 12<sup>th</sup> century England.<sup>7</sup> Writing already had a long history in England, and it would have been possible to use texts to establish for example, the age of majority of the heir to an estate. But people in those days were skeptical about texts, noting not only the cost of generating and managing them, but also the problems and costs involved in preventing tampering or frauds.<sup>8</sup>

As a result, they retained the traditional solution: gathering together “mature wise seniors of many years, having good testimony”, and publicly discussing the age of the heir with them, until agreement was reached. This process resulted in the retrieval of collective information they could accept as legitimate.

Even today in the villages of the developing world the harbingers of text are not always as benign as we might like to believe. In South Asia for example, it is common for literate village moneylenders and large land-holders to tamper with the local land registries and ownership papers, depriving poor people of their land.

The oral world-view, which invests confidence in information derived from traditional, generally oral or pre-literate methods of storing, managing and retrieving information, is referred to by Ong as ‘orality’.

It is a view that has had many prominent proponents. Socrates, who lived in an oral culture where the influence of text was slowly but inexorably growing, launched a vociferous attack against writing (contained in Plato’s dialogue Phaedrus).<sup>9</sup> Writing, he argues, is a crutch that erodes memory and chips away

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<sup>7</sup> Ong, Walter J. Orality & Literacy: The Technologizing of the Word. Routledge, Francis & Taylor Group, London & New York, 2002, p. 95. Ong was citing M.T. Clanchy. From Memory to Written Record, England 1066-1307. Harvard University Press, Cambridge, Mass., 1979, pp. 230-33.

<sup>8</sup> Subsequent studies have shown this concern to be well founded. Nearly half of the birth certificates from this period were manipulated after they were prepared.

<sup>9</sup> Plato. Phaedrus, translated by R. Hackforth. In The Collected Dialogues of Plato, Including the Letters (Edith Hamilton & Huntingdon Cairns, eds.). Princeton University Press, 1963.

at the learning power of human dialogue. Socrates lumps together the writers and rhetoricians, and heaps scorn on them, arguing that they debase truth and cultivate public cynicism with their clever arguments: the product of individual guile rather than accountable and engaged discourse.<sup>10</sup> In this position Socrates was by no means unique for his age. When documents appeared in the stage plays of the time they were treated as either comic or suspicious.<sup>11</sup>

Over a thousand years later Thomas Aquinas wrote in *Summa Theologica*:

... it is fitting that Christ did not commit his teaching to writing. First on account of his own dignity; for the more excellent the teacher, the more excellent his manner of teaching ought to be ... even among the pagans Pythagoras and Socrates, who were most excellent teachers, did not want to write anything."<sup>12</sup>

It is easy to dismiss these views by noting that we would not know about them today if they had not been committed to writing. But this is to miss the point. Human learning can be aided by writing, but writing cannot take the place of dialogue between people seeking truth with their hearts and minds open. This is still true in the juries, parliaments, boardrooms and 'handshake' business deals of today. The thumbprints adorning densely written microcredit contracts around the world are a sad testament to the dangers of which Socrates warned.

### *Village Finance*

Village financial institutions (VFIs) include informal institutions like ROSCAs, ASCAs, burial societies and savings clubs<sup>13</sup> as well as semi-formal and formal organizations like village banks, self-help groups, externally-promoted ASCAs, credit cooperatives, CVECAs and financial services associations, amongst others. A recent study by the Coady International Institute for the Ford Foundation concludes that member-owned financial intermediaries (which they have dubbed 'MOIs') achieve 'impressive outreach' into rural and remote areas.<sup>14</sup>

Rutherford's mapping of informal finance vividly depicts just how ingenious poor people can be, and how hard they are willing to work, to provide themselves with access to financial services, including not just loans but (at least equally) safe and flexible savings accounts. The efficient (and very elegant) operational design of ROSCAs accomplishes full financial intermediation and even

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<sup>10</sup> Even today, rhetoric can still be defined as '[a]ny verbal or written attempt to persuade someone to believe, desire or do something that ... attempts to motivate that belief, desire or action solely through the power of the words used.' Tracy Bowell & Gary Kemp, *Critical Thinking: A Concise Guide*, Routledge, London and New York, 2005, p. 5. Writing can still be used similarly.

<sup>11</sup> Eric Havelock. *Preface to Plato*. Harvard University Press, Cambridge, Mass., 1963, p. 40.

<sup>12</sup> Aquinas, Thomas. *Summa Theologica, Part III*. Marietti, Taurini, Italy, 1932. Cited in Marshall McLuhan, *The Gutenberg Galaxy*. University of Toronto Press, 1962, p. 98.

<sup>13</sup> Stuart Rutherford. *The Poor and Their Money*. Oxford University Press, Delhi, 2000. Rutherford maps out this ground in Chapters 3-4, pp. 31-76.

<sup>14</sup> Ford Foundation & Coady International Institute, *Reaching the hard to reach: comparative study of member-owned financial institutions in remote rural areas*, Antigonish, Canada, 2008, p. 2.

### **The Dawn of ‘Elite Capture’ (Comilla, Bangladesh)**

The ‘Comilla Model’ of rural cooperatives was initiated in the former East Pakistan (Bangladesh since 1971) by Dr. Akhter Hameed Khan in 1959. Khan drew inspiration from the Raiffeisen credit unions of rural Germany. He envisioned ‘vigorous local institutions’ that could provide credit and access to markets for the district’s farmers. The cooperatives were also to be an outlet for agricultural extension services and were tasked with maintaining roads, irrigation systems and embankments under government contract.

The Comilla cooperatives fell far short of expectations, and Dr. Khan’s frank testimonial offers telling lessons for the present. The project had particular troubles with government relations and efforts to build strong cooperative institutions. According to Dr Khan:

“... in actual practice, the four programs [in the Comilla project] suffered from distortion, mismanagement, corruption and subversion. After Independence of Bangladesh ... both theoretical criticisms and practical difficulties became more severe.”<sup>1</sup>

Escalating loan defaults became a particularly important concern, undermining the hope that the cooperatives would become self-reliant and develop into strong institutions. Dr. Khan reported that after the independence of Bangladesh in 1971, influential local people had secured management positions in the cooperatives. “They are powerful and well informed. They know that the old sanctions (certificates, notices, pressure by officers) are now dead, and they can repudiate their obligations with impunity.”<sup>2</sup> In addition, the new government annulled loans issued by its predecessor.

Chowdhury reports that by 1979 only 61 of the 400 cooperatives were still functioning. She attributes this result to four factors: fraud/lack of internal controls, stagnation, diversion of funds, and ineffective external supervision. The central problem of fraud and weak controls “was possible not only because of individual dishonesty, but because the people were not made aware of their rights, and were not in a position to voice their rights ...”<sup>3</sup>

Partly as a result of Dr. Khan’s experience, later Bangladeshi practitioners in microfinance, such as Dr. Muhammad Yunus and Fazle Hasan Abed (leaders of Grameen Bank and BRAC, respectively), directly targeted the poorest people, attempting to exclude those who were less poor from village organizations. Two of the key strategists at Grameen Bank recently commented that:

“A major reason for the prior failure of credit cooperatives in Bangladesh was that the groups were too big and consisted of people with varied economic backgrounds. These large groups did not work because the more affluent members captured the organizations.”<sup>4</sup>

The structural implication of this observation for Grameen, BRAC and other microcredit institutions from the 1970s to the present has been profound: branch-based administrative systems controlled out of an urban head office through an urban, educated workforce. This has worked well in cities and very densely populated places like Bangladesh, but is too expensive to reach more thinly populated rural areas.

The Raiffeisen credit unions of the 1860s and ’70s faced a similar problem in villages populated by a mix of landed but poor ex-serfs and more middle class members. They addressed governance problems through two powerful tools: a strongly values-oriented approach to leadership and practice that emphasized local self-reliance, sound stewardship and the priority of thrift over credit, and the development of second level federations accountable to the local societies and capable of intervening against the threat of elite capture.

1. Akhter Hameed Khan. The Works of Akhter Hameed Khan. Volume II, pp. 190-91.
2. Ibid., pp. 135.
3. Aditee Nag Chowdhury, Let Grassroots Speak, p. 54.
4. Asif Dowla & Dipal Barua. The Poor Always Pay Back: The Grameen II Story. Kumarian Press Inc., Bloomfield, Connecticut, 2006, p. 18.

auctioned allocation of resources entirely through oral governance tools. This mapping has offered practitioners the clearest view yet of the precise shape of the demand for financial services among poor people, because it shows what problems they will solve first when they can work out for themselves how to do it.

Sadly, VFIs often fail. The Ford study concludes that “governance is one of the biggest challenges for MOIs, particularly in remote areas. In spite of their potential, MOIs are plagued by fraud and mismanagement. The scale and continued existence of MOIs is limited by their governance.”<sup>15</sup> Variations on the theme of ‘elite capture’ (the process which brought down the Comilla credit cooperatives, p. 6) have been documented around the developing world. Even those that don’t fail often lose their members’ money.

The process that ends in loss of shareholder control begins when modern control systems break down. In the text box is an example from an ASCA organized through a CARE incubation system Mata Masu Dubara (MMD) in Africa. CARE credits this methodology with offering savings services to over 1 million rural villagers in the past two decades. These ASCA’s are locally governed within a year of start-up, and because many of them are genuinely empowered and do not feel dependent on CARE or the local NGO for future benefits, their rules evolve from one annual cycle to the next.

**“Yes, it’s right!”  
Nampula, Mozambique**

The rules of this ASCA state that prior to each meeting the 15 assembled members will recall the amount of cash held in the cashbox from the last meeting and announce it. The chairwoman will then open the cash box. The two money-counters will count the cash in front of the members, and then announce the tally. If the tally doesn’t match the numbers announced earlier the difference must be reconciled.

But this time, no one speaks before the cash box is opened. The two money-counters count the cash, then call out their tally and ask the group: “Is it right?” Everyone shouts out: “Yes, it’s right!”

In this case a control system (based on the modern institutional concept of separation of duties) has been undercut by the group and reshaped into an opportunity to express social solidarity. Has this ASCA evolved or devolved?<sup>16</sup> It seems certain that the future risk of institutional failure has increased.

Modern institutional logic loses ground in empowered VFIs because it adds complexity and work that are seen as needless. Even more importantly, it subtly reminds everyone of an awkward subtext that few people want to bring into the open (‘we can’t risk trusting each other’).

The author recently assessed several community-based savings banks in Battambang, Cambodia. They had just introduced a passbook system of savings

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<sup>15</sup> Ibid.

<sup>16</sup> When this situation was described to him, Hugh Allen (the architect of the methodology) took exception to my phrasing: “this group didn’t evolve” he told me, “it *devolved*.” But the methodology encourages this type of ‘devolution’ since the incubation process is concerned primarily with group empowerment.

mobilization in the villages, training members in the use and value of the passbooks. But the members insisted they didn't want the passbooks at home, fearing they might lose them. One woman summed up the feeling of members by saying "if we can trust the managers with our savings, why can't we trust them with our passbooks?" As a result, the savings banks keep the passbooks in their cashboxes, maintaining a pointless set of parallel records for the satisfaction of donors.

Once donors and practitioners 'phase out' or end their subsidies (including technical support) to VFIs, the aspects of the governance system adopted with external support and based on modern institutional logic tend to slowly unwind.

That is, separation of duties may be abandoned, written by-laws may be stored in the cashbox and forgotten, secret ballots may transmogrify into shows of hands, and even leadership may stop rotating. Another strong signal of 'devolution' may be the attitude towards those who are not among the original membership. Non-members may be allowed to deposit -- but not to borrow, or may be allowed to borrow -- but at higher rates. Whatever the local variation, this creates a class of non-members cut off from basic rights.

**Table 1** summarizes the key characteristics of Weber's ideal types of 'traditional'

**Table 1:** Weber's 'Ideal Types' of Institutional Governance

	<b>Traditional</b>	<b>Rational</b>
<b>1. Rules and legal norms</b>	A rule or constitution must be sanctioned by tradition; agreement is an insufficient basis for legitimacy.	Rules and legal norms may be established by agreement of the governed.
<b>2. The law</b>	The law derives its validity from precedent, tradition, and where those are silent, the residual authority of traditional leaders.	The law is shaped as a 'consistent system of abstract rules.'
<b>3. Obedience of the governed</b>	Obedience is owed to officials whether they are up-holding their offices or not.	Obedience is owed to the law and to the offices mandated by it; not to officials personally.
<b>4. Recruitment</b>	Primary criterion is loyalty to the leader; recruitment is often through kinship or indentured service.	Primary criterion is task-related competencies; recruitment is through free contractual relations.
<b>5. Relationship between office and office-holder</b>	Office-holders often appropriate the revenues, assets and powers of office. This right is often formally granted by their rulers.	Compete separation: office-holder cannot own either the office or any of the revenues or assets attached to it.
<b>6. Information management</b>	Decisions and rules are managed by collective recall, apprenticeship, traditional poets, etc.	Decisions and rules are recorded in writing, even if discussion is mandatory.
<b>7. Compensation</b>	Variable in-kind remuneration.	Fixed cash salaries.

**Source:** Weber, The Theory of Social and Economic Organization, pp. 324 ff.

and 'rational' administration. VFI promotion, which has generally involved rationalizing Weber's criterion #6 and expecting training to cover the other criteria, has not been successful. As shown in section 1, criterion #6 is not a necessary component of rational administration at the client interface: once rules are established 'with the agreement of the governed' written documents are simply one of many possible administrative tools.

Villagers tend to strip their VFIs of 'modern' or 'rational' characteristics once the donors and practitioners depart. This does not mean however, that they are not prepared to accept modern or rational logic. For example, a key theme of Kautilya's Arthashastra was to insert rational administrative features into governance in India over two millennia ago.<sup>17</sup>

Such logic can also be learned simply from experience. The villagers of Mazarpara in Assam have introduced an annual audit into their ASCAs. This village's informal financial system has been expanding for over two decades, and is composed of ASCAs that often last for 2-3 years before dissolution.<sup>18</sup>

### **Why Do Some VFIs Succeed While Others Fail?**

#### *Necessary Conditions for a Successful VFI*

- *Desire:* Villagers must want it enough to provide the money, skills and time to make it work.
- *Leadership:* One or two competent, committed and hard-working leaders who are generally respected in the village, understand leadership as service and realize that trust cannot be assumed.
- *Oral governance systems:* Literate systems cannot maintain transparency or accountability; essential for earning trust.
- *Frequent transactions:* Members must be engaged in frequent transactions with the VFI in order for trust to grow. Repetitive transacting is also helpful.
- *Values that promote success:* Leaders and members must continually show that their conduct is guided by the values needed to build a strong village institution.
- *Time:* Growth will result from trust earned, savings monetized (a powerful effect in villages where most savings are initially in-kind) and the power of compounding over time.

#### *Common Sources of Failure of VFIs*

- *The promise of external credit* during VFI formation (the crack cocaine of microcredit -- fast acting, addictive and destructive) attracts the wrong people to the VFI for the wrong reasons. It devalues poor people's savings (and their efforts to plan the future) and strangles the trust-building process.
- *Poor or irregular book-keeping:* The practices being transferred are actually more cultural than technical, and it cannot be assumed that training and text will consolidate good practices by themselves.
- *Failure to respect the rules:* The practices being transferred are actually more cultural than technical, and it cannot be assumed that training and text will consolidate good practices by themselves.
- *Elite capture:* This process, which either steals capital inside the VFI or secures control of it in the interest of influential locals, is a common result of the other problems noted above.

<sup>17</sup> L.N. Rangarajan. Kautilya: The Arthashastra. Penguin Books, London, 1992. Examples of rational features in Kautilya's model include administrative roles that integrate checks and balances, fixed salaries for officials and an emphasis on competency-based recruitment.

<sup>18</sup> Abhijit Sharma and Brett Matthews. Xonchoi xomities: the fascinating world of the ASCAs of lower Assam. Indian Institute of Bank Management, 2008.

In the Cambodian savings banks referred to above, the paper-based information and control system is neither transparent enough, nor strong enough, to prevent this reversion to traditional logic. In the CARE ASCAs the systems are more robust – they are themselves partly oral. But while the technical aspects are oral, the values that underpin them are sourced in modern literate logic. When transplanted to an oral village, they break down. The only way for promoters to prevent this collapse is to find a way to fuse the values driving the control system with local, traditional values.

VFIs can only succeed if members have an incentive to make them succeed. Subsidized external credit undermines that incentive and in the process it “hurts [VFIs], their members’ access to financial services, and the rural financial sector.”<sup>19</sup> (See the summary of key factors affecting success and failure of VFIs below in the **Text Box**, *Why do some VFIs succeed?*)

In the absence of sound institutional control systems, VFIs may still be able to manage credit and link members to banks – as the self-help groups of India do. But there is no realistic possibility of them earning enough trust from their members to build a significant pool of local savings.

### *The Role of Sanctions*

An effective sanctions regime is grounded in the rights of VFI shareholders, who must be the primary line of defense in enforcement of contracts. Poor 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.<sup>20</sup>

In the case of elite capture a senior villager (who may be a member of the VFI’s governing committee either directly or through a relative as proxy) borrows from the group and simply doesn’t repay – in the process killing the VFI. In a variation on this process, elite villagers siphon the money out and recycle it through the village moneylender. This leaves the group operational and financially sustainable while its mission, framed in terms of the goals of its shareholders, is fundamentally disabled.<sup>21</sup> Clearly, shareholders must be the first line of defense against such capture – and will frequently be the sole effective line of defense.

In a recent paper, Susan Johnson argues that NGOs have enabled failure of VFIs by focusing too much on training at the expense of a sanctions regime. With

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<sup>19</sup> *Reaching the hard to reach*, p. 3.

<sup>20</sup> See Brett Hudson Matthews. *Towards a shareholder rights approach to sustainable livelihoods in rural Bangladesh*, *Alternative Finance*, September 2003, pp. 1-7.

<sup>21</sup> The processes of killing and disabling VFIs through elite capture are documented for Cambodia by Matthews in *Literacy and internal control of community finance institutions in rural Cambodia*. Martha Chen et. al. (eds.) *Membership-Based Organizations of the Poor*. Routledge Studies in Development Economics, London & New York, 2007, pp. 142-43.

reference to rural community-based groups in Kenya, she notes that they must 'institutionalize suspicion' by collectively acknowledging that "the results of members' default affect the welfare of the whole group" and that consequently strong sanctions, such as taking the member to the local chief or seizing an asset from their house would be warranted.<sup>22</sup>

The argument here – that the adoption of oral information systems can greatly strengthen transparency and accountability – does *not* mean reverting to traditional systems of internal control.

The task of the practitioner is to enter into the domain of orality and challenge VFI members and leaders to build on strong local practices while improving on weaker ones. Creative links must be sought between the teachings of oral tradition and modern control practices. The principles of shareholder rights and responsibilities must be mainstreamed into the values of every VFI.

New generation VFIs must be able to circle their leaders with a ring-fence partly of their own construction: a tight web of transparent, widely understood and widely shared values, rules, processes and operational systems that significantly reduce the potential pay-offs from fraud and abuse of power.

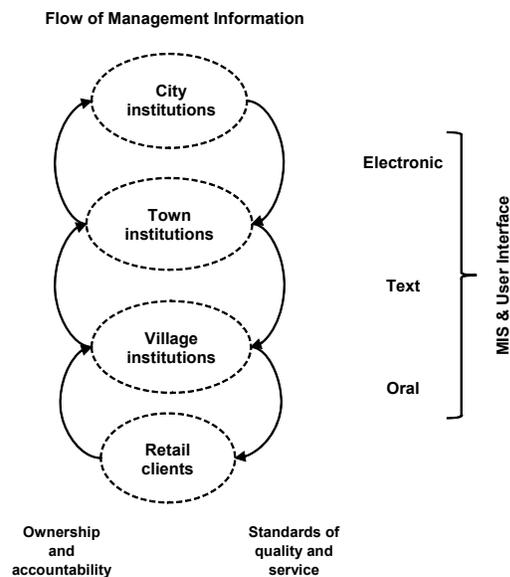
The whole information management system should be as oral as that of the village in which it operates. This cannot be a cosmetic shift. When there is a dispute in which one party is relying on oral records and other on text, resolving it automatically with reference to text is precisely the wrong instinct. The fears in the oral village about text – in particular that literate people can and often will falsify it to take advantage of them, must be fully considered.

Village financial institutions don't need to manage billions of bits of account information. What they must be able to do is operate on a small scale in a manner that is generally trusted.

Specifically, they must be able to:

- manage small amounts of information, such as the rules of the organization, the rules of the financial products, and the details of individual accounts,

**DIAGRAM 1:** Dominant Governance Media for Institutions & Enabling Actors



<sup>22</sup> Susan Johnson. *Institutionalizing suspicion: the management and governance challenge in user-owned microfinance groups*. In Thomas Dichter and Malcolm Harper. What's Wrong with Microfinance? Practical Action Publishing, Intermediate Technology Publications, 2007, pp. 68-9.

- select their leaders credibly and transparently,
- effectively resolve disputes over financial property and the rules of the organization, and
- manage operations soundly, including lending and collections decisions.

Many village institutions will never outgrow these simple needs. For those that do, growth requires a layering of information management methods based on legitimacy and local human capacities: oral at the retail interface, text-based in the towns and electronic in the cities (see **DIAGRAM 1**). A critical governance need can be supplied by networks capable of intervening at a senior level to reverse efforts by local elites to capture VFI assets.

New generation VFIs can be built on a more robust foundation, starting with local savings and oral information systems. These elements require the managers to earn trust and get into the habit of maintaining it day by day, and enable the members to be alert and empowered with respect to their rights.

## 2. Overcoming Market Failure

"Market failure is not absolute, it is better to consider a broader category, that of transaction costs, which in general impede and in particular cases completely block the formation of markets. ... The identification of transaction costs in different contexts and under different systems of resource allocation should be a major item on the research agenda of the theory of public goods and indeed the theory of resource allocation in general."<sup>23</sup>

-- Kenneth J. Arrow

Transaction costs economics (TCE) provides a useful framework for analyzing how to achieve institutional development and financial market deepening in the oral village, helping to pinpoint why transaction costs can 'completely impede' the development of financial markets. "A governance structure is usefully thought of ... as an institutional framework in which the integrity of a transaction, or related set of transactions, is decided."<sup>24</sup>

In his landmark paper *The Nature of the Firm*, Ronald Coase<sup>25</sup> depicted the price mechanism as a governance structure. Coase asked why the price mechanism is used in some instances, while entrepreneurial coordination (through the governance structure of a hierarchical firm) is used in others? Following Coase's lead, Oliver E. Williamson compiled considerable empirical evidence for the case that the mechanisms of governance are best understood in terms of alignment with the characteristics of the transactions to be governed.<sup>26</sup>

Earlier economists tended to view the firm as a bundle of contracts, and abstracted governance from this principle. But TCE argues that contracts are inherently and unavoidably incomplete, and that uncertainty and 'bounded rationality' are central to all business decision-making. Given these constraints, it is very common for parties to a contract to continue negotiating the terms long *after* it is written and signed.

It is an analysis of precisely why and when this '*ex post* private ordering' takes place, who is at the table and what kind of new governance mechanisms (or amendments to old ones) are agreed that leads to predictions in this model about the expected type of governance structure.

Western firms are the product of highly regulated and literate environments. If it is important to work back from written contracts to the essential characteristics of transactions in the Western business setting, it must be more important to do so in the oral village, where regulation is often ineffective and/or absent, and the literacy of contracting parties is little more than an administrative fiction sealed with the thumbprint of the illiterate party.

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<sup>23</sup> Cited in Eirik G. Furubotn and Rudolf Richter. Institutions and Economic Theory: The Contribution of the New Institutional Economics. University of Michigan Press, Ann Arbor, 2005 (second edition), p. 73.

<sup>24</sup> Oliver E. Williamson. The Mechanisms of Governance, Oxford U. Press, New York, 1996, p. 11.

<sup>25</sup> Ronald H. Coase. *The Nature of the Firm*. In Williamson & Winter (eds.) The Nature of the Firm: Origins, Evolution and Development. Oxford U. Press, New York, Oxford, 1993, pp. 18-33.

<sup>26</sup> Williamson (1996), p. 12.

The implications of this TCE analysis are best illustrated with an example. In a study of VFI members in Cambodia, a team from the Canadian Co-operative Association asked 301 member households in 37 villages what would cause them to deposit more savings in their local VFI? By far the strongest response was: “the managers must show more respect for the rules.”<sup>27</sup> The rules to which these villagers referred were not complex: they expected the managers to refrain from lending the whole fund of the institution to one or two relations or patrons, to keep the records reasonably consistently, and to return members’ savings when promised. This concern explained why the average member household was depositing less than 3% of its total ‘saving at home’ with its VFI – and that only to access low cost loans delivered from external sources.

Yet the NGOs that were incubating these groups did not seem to notice the governance issues: instead they seemed to be labouring under the illusion that if their written manuals and training programs were made *sufficiently* precise and detailed, the villagers in their VFIs would always know what to do, and always do it.

Since most villagers can’t read, this mentality offers a particularly poignant testament to the soundness of Williamson’s argument that the search for a ‘complete’ contract is futile.<sup>28</sup> And if contracting is unavoidably incomplete – far more so in an oral village than in a literate city -- then what really matters is not the contract at all, but whether the governance arrangements consistently ensure fairness and respect for the rules *after* the contract is signed.

### *Characteristics of Village Financial Transactions*

TCE posits three transactional characteristics that matter to governance: asset specificity, uncertainty and frequency. Asset specificity refers to “the degree to which an asset can be redeployed to alternative uses and alternative users without sacrifice of productive value.”<sup>29</sup>

Williamson argues that a ‘fundamental transformation’ takes place when contracting parties acquire certain assets that make their relationship more mutually profitable, but simultaneously increase their mutual dependency. For example, unskilled labourers who are hired by a firm may gain on-the-job skills that are uniquely tailored to the firm’s requirements. The initial relationship was governed by free contracting on an open market. After the transformation there emerges greater mutual dependency between the firm and the labourers because they have both invested heavily in the other. This transformation has

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<sup>27</sup> Brett Hudson Matthews. Towards Safety and Self-Reliance: Public Trust and Community Finance in Rural Cambodia. Canadian Co-operative Association, 2005, p. 51.

<sup>28</sup> Equally, it offers a poignant testament to McLuhan’s assertion that we are ‘numbed’ by our own literate consciousness. See section 1.

<sup>29</sup> Williamson (1996), p. 60.

'pervasive contracting consequences' and shifts the framework of governance to a combination of formal contracting and 'ex post private ordering'.<sup>30</sup> Williamson argues that as asset specificity progressively deepens, governance using market forces becomes less and less 'transaction-cost economizing'. Some kind of 'hierarchy' that reduces the need (and costs) of continually going back to individually-negotiated transactions in an open market becomes progressively more likely.<sup>31</sup>

Similarly, governance using market forces becomes less 'transaction-cost economizing' as the uncertainty of the transaction rises, and as the frequency of transactions between the parties drops. To use a simple example, it's easy to pick up tomatoes from an individual vendor in an outdoor market, but not to buy a car from an individual vendor at the next stall.

A 'fundamental transformation' can result from the acquisition of various types of assets that are specifically tailored to use by the other party: human capital, site locations, equipment or operational processes.<sup>32</sup>

In the absence of financial services delivered from outside the village, how does the specific nature of financial transactions lead to local market failure?

The perspective of the village household is depicted in **TABLE 2**.

With respect to *credit*, the villager is free to borrow from almost any source willing to lend. Within reason, she does not have to *trust* the lender in order to borrow from him, nor does she become more dependent on him as a *result of* borrowing. In other words, while some mutual dependency between the

**TABLE 2:** Characteristics of village financial transactions (client perspective)

**CHARACTERISTICS OF VFI TRANSACTIONS: CLIENT PERSPECTIVE**

Type of Transaction	Asset Specificity	Uncertainty	Frequency	Governance Mechanism	Example
<b>Credit</b>	low	low	medium	market	moneylender
<b>Contract savings</b>	medium	medium	medium	market or hybrid	ROSCA
<b>Profit-sharing</b>	medium	medium	low	hybrid	village bank
<b>Demand savings</b>	high	high	high	hierarchy	MARKET FAILURE
<b>Term deposit</b>	high	high	low	hierarchy	MARKET FAILURE

<sup>30</sup> Oliver E. Williamson. The Economic Institutions of Capitalism. Free Press, New York, 1985, p. 61.

<sup>31</sup> Williamson (1996), p. 16.

<sup>32</sup> Furbotn & Richter, pp. 142-3.

borrower and lender may take place, it does not deepen to the point at which a 'fundamental transformation' in the relationship becomes necessary.

However, it's worth noting that Coase's dichotomy between 'hierarchy' and 'market' can be misleading in this case. To the extent that financial 'markets' exist in the oral village, they are highly personalized and confined to the family, clan, faction or some kind of patron-client network. No one lends to those they don't know; there are no credit bureaus or land registries or secured transaction laws to back up such actions. Equally there is no anonymity: if a poor woman is desperate for a loan, every potential lender can quickly find out through local sources exactly how desperate she is. They can and will set the price and collateral arrangements accordingly. Potential lenders may also talk about her to each other before making a decision.

So it may be more correct to describe a dichotomy between governance by 'hierarchy' and governance by 'village' or 'community', with all the sociological implications of that word.

This situation has created what might be termed a *relative* market failure in rural credit that has particularly damaged the interests of poor villagers. Some credit is available. But the ideals of the modern marketplace, assuring consumers of anonymity and fair transaction terms, are entirely undeveloped.

The microcredit revolution of the 1970s-80s responded to this relative market failure. But given that a credit market exists, a parallel remedy is at least conceivable: regulating existing providers like moneylenders, along with public measures to stimulate competition by breaking down barriers to new entrants.

For financial reasons a *contract savings* transaction is quite different from a credit transaction: the client is locked into ongoing, regular deposits over several months or more, with little flexibility to withdraw. Contract savings involve considerable uncertainty, prompting depositors to ask themselves what will happen during the contracting period to their money, and to the person they have deposited it with.

These characteristics have governance implications for both parties in the transaction. Informal markets have demonstrated ingenuity by developing a 'hybrid' governance structure for this purpose: the 'time-bound' ROSCAs and ASCAs that wind up and distribute all their money to their clients on a pre-agreed date (usually less than 1 year in the future). This mechanism reduces uncertainty, affording clients some protection from fraud or theft.<sup>33</sup>

Contract savings also have a key redeeming feature: frequent transactions require frequent, repetitive meetings by the transacting parties. "Trust ... is something that has to be built and rebuilt – and thereby reinforced – over and

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<sup>33</sup> Time limitation as a control mechanism is discussed in detail by Rutherford (2000), pp. 43-59.

over again. People stay in ROSCAs because they observe, round by round, that everyone else is obeying the rules. Trust is more of a verb than a noun."<sup>34</sup>

The products with the highest asset specificity are demand deposits and longer-term term deposits. This is the domain where market failure is *absolute*: these products are simply unavailable in many rural areas of the developing world. It has proven extremely difficult for the right types of hierarchies to take root.

Clients must lock in their funds in a *term deposit* for several years – considerably longer than most contract savings products. This increases the uncertainty of repayment, since anything may happen to the VFI during this period. During the entire term of the loan there is no need for the two parties to transact with one another again -- eliminate the commensurate building of trust through habit. From the VFI perspective, significant investments must be made in setting up, segregating and servicing individual accounts and most critically, in earning client trust and comfort with the VFI's products. Once the two parties are accustomed to each other the relationship becomes sticky; both parties become reluctant to end it.

Whereas clients must trust the integrity of an institution to buy its term deposits, *demand deposits* require very high confidence in its *competence*. To be credible, a demand savings account must be backed by a credible promise to return the money at any time. Even with the best of intentions, this promise is technically quite tricky to keep. Many villagers have been duped by precisely this in the past, and most are instinctively sceptical. Unlike contract savings, demands do not necessarily yield frequent, repetitive transactions: transactions may be rare or simply highly unpredictable. This makes building trust to action a slower, more nuanced process. In other words, if a term deposit adds glue to the relationship, a demand deposit binds them together even more.

The testimony of the members of the VFIs in the Cambodia study sums up the scale of the market failure, and the effort required to overcome it. These villagers generally felt 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."<sup>35</sup>

The evidence also suggests that poor people are more likely to trust a private deposit collector offering a contract savings product than a demand savings product.<sup>36</sup> They will only bring savings out of their homes for more complex savings transactions in the unusual case that there is a nearby bank branch that

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<sup>34</sup> Rutherford (2000), p. 41.

<sup>35</sup> Matthews (2005), p. 39.

<sup>36</sup> See Rutherford, *op. cit.*, pp. 13-17 and 69-70.

they feel comfortable using. The behaviour of villagers corroborates the TCE thesis that such highly specific transactions *must* be governed by hierarchy.

Banks in the developed world recognize that the demand account is the critical entry point to a financial consumer's business, as well as the key to a long-term, 'sticky' and profitable relationship. Accordingly and in spite of its low profit margins on a stand-alone basis, much effort is expended to capture this business.

Overcoming the absolute failure in complex micro-savings markets requires a 'fundamental transformation' in Williamson's sense of the term. No amount of tinkering with existing markets can correct this failure. A hierarchy with an accountable governance framework must either reach the village from a distant place, or be created within it.

### *Institutional Governance in the Oral Village*

If hierarchy can overcome key market failures in the oral village, help villagers to develop habits of savings management and support the emergence of transparent and accountable private sector governance, it would appear to be a useful project to undertake. But there are many costs and risks associated with these transactions, especially for village participants and leaders.

**TABLE 3** summarizes six key transaction costs and risks involved in setting up a VFI in a typical rural village where few households have any practical access to reliable financial services.<sup>37</sup> Successfully reducing these costs and risks leads to the positive governance outputs in the right-hand column.

Section 3 (starting on p. 24) will discuss oral governance tools, and explore ways to systematically expand the impact of such tools. This section focuses on the costs and risks of a village institution-building project for the key stakeholders.

Search and information: This includes the personal costs and risks to each villager who wants to look into the possibility of setting up a VFI, decide whether to join or not, decide who to support for membership and leadership, and decide who to *discourage* from these roles.

If successful, the sum of these collective efforts will lead to a large and diverse membership that includes many high potential and motivated leaders, as well as a clear and legitimate founding charter.

But these costs and risks are high. Many are social, putting investments in personal reputations, relationships and networks at risk. Among these costs and risks are the following:

- the costs of uncovering the true story behind the VFIs in the neighbouring villages,

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<sup>37</sup> The table is based on a framework from Furubotn, Eirik & Rudolf Richter. Institutions and Economic Theory: The Contribution of the New Institutional Economics. University of Michigan Press, 2005.

**TABLE 3: Governance outputs by types of transaction costs**

Types of Transaction Costs <sup>1</sup>	Major Governance Outputs
<p><b>Search &amp; information</b></p> <ul style="list-style-type: none"> <li>◊ Costs and risks to villagers in assessing whether to help start, or participate in, the institution.</li> <li>◊ Costs and risks in assessing who to back for leadership.</li> <li>◊ Costs and risks in deciding whether to offer leadership services.</li> </ul>	<ul style="list-style-type: none"> <li>◊ size and depth of membership base, fully including poor villagers</li> <li>◊ agreement on values and purpose of institution</li> </ul>
<p><b>Bargaining &amp; decision-making</b></p> <ul style="list-style-type: none"> <li>◊ Costs and risks of negotiating the initial agreement of association plus later amendments to it. This includes decisions on the rules of the organization, who can join, who will lead, etc.</li> </ul>	<ul style="list-style-type: none"> <li>◊ rules of the organization,</li> <li>◊ election,</li> <li>◊ legitimate and elected leadership,</li> <li>◊ growing &amp; legitimate membership</li> </ul>
<ul style="list-style-type: none"> <li>◊ Costs and risks of major revisions to the founding agreement, such as affiliating with a network or linking to a bank.</li> </ul>	<ul style="list-style-type: none"> <li>◊ revised rules of the organization,</li> <li>◊ contracts with federations and banks</li> </ul>
<ul style="list-style-type: none"> <li>◊ Costs and risks of dispute resolution.</li> </ul> <p><b>Supervision &amp; enforcement</b></p> <ul style="list-style-type: none"> <li>◊ costs and risks of securing and maintaining support from local authorities</li> <li>◊ Costs and risks of complying with government laws</li> </ul>	<ul style="list-style-type: none"> <li>◊ resolution of disputes</li> <li>◊ recovery of assets affected by disputes</li> </ul> <ul style="list-style-type: none"> <li>◊ institution has local and national legitimacy</li> <li>◊ institution meets minimum local and national standards of quality</li> </ul>
<ul style="list-style-type: none"> <li>◊ Costs and risks of delegating supervisory power to federations</li> </ul> <p><b>Organizational maintenance</b></p> <ul style="list-style-type: none"> <li>◊ Costs and risks of failing to respect the terms of the founding agreement (as revised) and the rules of the organization.</li> </ul>	<ul style="list-style-type: none"> <li>◊ institution meets sector-specific standards of quality</li> <li>◊ higher capacity to protect deposits and resolve disputes</li> </ul> <ul style="list-style-type: none"> <li>◊ institution earns confidence of shareholders</li> <li>◊ institution earns public reputation for respecting its own rules</li> </ul>
<ul style="list-style-type: none"> <li>◊ Costs and risks of failing to keep product-related promises to members, such as those related to savings and loan services.</li> </ul>	<ul style="list-style-type: none"> <li>◊ safe, convenient savings products</li> <li>◊ credit that meets demand/respects rules</li> <li>◊ excellent financial and business planning services</li> </ul>
<ul style="list-style-type: none"> <li>◊ Costs and risks of back-office support for above, including cash management, book-keeping, banking etc.</li> </ul> <p><b>Agency</b></p> <ul style="list-style-type: none"> <li>◊ Costs and risks of delegating control of organizational resources to leaders whose capabilities may be inadequate for their tasks, or whose incentives may tempt them away from compliance with shareholder goals</li> </ul>	<ul style="list-style-type: none"> <li>◊ timely and reliable information and reporting systems</li> <li>◊ timely flow of cash adequate to keep institutional promises</li> <li>◊ bank documents that are user-friendly to villagers</li> </ul> <ul style="list-style-type: none"> <li>◊ managers respect rules</li> <li>◊ shareholders perform effective supervision</li> <li>◊ audit committees and micro-auditors understand/can perform their tasks</li> <li>◊ public confidence increases</li> </ul>
<p><b>Internal control</b></p> <ul style="list-style-type: none"> <li>◊ Costs and risks of delegating daily tasks to individuals whose capabilities may be inadequate for their tasks, or whose incentives may differ from the goals agreed by the shareholders.</li> </ul>	<ul style="list-style-type: none"> <li>◊ institution consistently keeps promises to members/makes a profit</li> <li>◊ service levels are high/rising</li> <li>◊ audit committees and micro-auditors understand/can perform their tasks</li> <li>◊ public confidence increases</li> </ul>

<sup>1</sup>Furubotn & Richter, pp. 51-54.

- the costs of uncovering the true story behind the NGO(s) promoting the VFI concept in the village,
- the opportunity cost of personal time,

- the risks and costs of ensuring that high-status or ambitious villagers who are not trusted do not secure leadership positions,
- the risks and costs of discouraging the participation of others who are viewed as unsuitable, and
- the risks and costs of having to live with the consequences of well-intentioned but wrong advice about what is likely to work and what won't.

Bargaining and decision-making: There are personal costs and risks to each villager in being involved in formalizing the rules, structure and social/political shape of a new VFI. These tasks include finalizing the selection of leaders and members, the goals of the organization, the rules of operation and so on.

If successful, the sum of these collective efforts will close the first and most important transaction among the members: the formation of an organization with clearly defined rules and goals and some initial legitimacy in terms of its membership and leadership.

The personal costs and risks to participants are potentially very high. Many are similar to those at the first stage, but are heightened at this stage by the need to make very public personal commitments. Perhaps of greatest importance is the continuing risk of bringing the wrong people into the organization in leadership positions: those who are less interested in protecting and growing local capital than in trying to access money from outside the village. Important new costs and risks result from the decisions at this stage, such as omitting important institutional safeguards in the rules, or negotiating agreements that are unenforceable or too complex to manage.

When these decisions are made the participants effectively shift some of the personal risks and costs associated with the venture into a collective, organizational format. It is now possible to begin speaking of organizational risks and costs, but in fact success will continue to be driven by personal risk-taking among both leaders and members for a long time after the VFI is formed.

This category of costs and risks also includes those incurred after the founding charter is formed, such as those involved in making important amendments to it (for example, decisions to invest organizational resources in a higher level federation), and those involved in resolving disputes that arise out of the organization's existence and shape.

If members are willing to continue incurring these costs and risks in later years, the organization will be able to learn from experience and change its procedures, leaders and even goals in future to adapt to changes in member needs and in the external environment.

Supervision and enforcement: This includes the costs and risks of complying with the demands of local authorities and of national laws. For nationally recognized organizations, it includes the costs and risks of poor national supervision. It also

includes the costs and risks of delegating some supervisory and enforcement powers to a higher level 'federation' or trade association structure.

If successful, these efforts will result in an organization that complies with its legal obligations and meets minimum standards for financial reporting, deposit protection and accountable governance at the national level. At the network level, there may be supplementary standards related to these matters as well as separate standards for member service, control systems and management capacity.

The reputational risks and costs to the VFI's leaders are very high in this sphere. Local authorities may not understand the values or governance systems of the organization. They may make demands on the organization that are in conflict with its goals and the expectations of its shareholders and depositors. The demands of local authorities must also be balanced against those of higher-level authorities, who may have conflicting expectations or demands. These risks may open a door to institutional capture by political elites.

VFI's must also decide whether to give up the use of some of their own capital to 'federations' or trade associations in exchange for technical support that might bolster deposit protection, help to resolve disputes and strengthen governance and local legitimacy.

In any case, whether supervision and enforcement are sourced in public or private institutions, the risks and costs to the organization of poor supervision and political meddling can cripple it if the leaders do not handle them adroitly and with integrity.

Organizational maintenance: Organizational maintenance encapsulates the essential elements related to the day to day tasks of earning and keeping trust – the most important function of good governance.

The main costs and risks involved in organizational maintenance relate to keeping retail promises to members, and keeping the promises to shareholders embedded in the founding agreement (as revised from time to time). Related to this (though independent) are the large risks and potential costs of operational error and fraud. Central to the task of managing these risks is a robust capacity to accurately recall on a day-to-day basis what promises have been made, and to whom. It is also important to recall what promises have been made by members, especially with respect to payments that they owe the institution in the future.

In addition there are competency-related costs and risks, such as those resulting when the organization doesn't have the management capabilities to effectively meet demands for cash during seasonal downswings, or when the lenders rely on borrower's collateral rather than their cash flow to make lending decisions.

If the organization is successful in addressing these costs and risks, shareholder confidence will increase, and member service will be protected by motivated and competent agents who deliver safe, flexible, high quality financial services. Vital back-office functions like reports to managers and stakeholders will be prepared accurately and in a timely manner. All of this will increase public confidence through word of mouth and other channels.

The problem of keeping promises to members and shareholders is the key to success (or failure) of the organization. For example, if the VFI promises to provide of loan of 2,000 *rupees* to a member in three days, it must do it. If it promises that funds deposited by a member can be withdrawn with three day's notice, it must consistently keep that promise – even in the lean season when cash has dried up in the village. Members must feel confident that their service experience is not continually shifting to meet the whims of indifferent or arrogant front-line service providers. Similarly, if the shareholders have agreed that a maximum of 25% of the total annual profit can go the management committee as compensation for their services, or if they have agreed that no loan will be approved for more than 10% of total assets, these promises must be kept.

The costs of failure to keep promises to members and shareholders are catastrophic for the organization's reputation, for member confidence and for efforts to win the confidence of local non-members.

Service delivery problems cannot be addressed (as they often are) by keeping services so simple and inflexible than most villagers only use them to get access to other benefits. Usually it is the personal risks and costs borne by the VFI's leaders that will result in a steady growth in the complexity and size of the organization without undercutting its ability to keep its promises.

Agency: The goals of an organization are set by its owners, in this case the villagers who provide the share capital the organization uses as a financial base for its operations. The 'agents' are the individuals, primarily managers or committee members, who ensure that those goals are achieved. These individuals may have personal or family-related motivations for acting in a way that is inconsistent with the needs of the owners and the goals of the organization. 'Elite capture' is the logical, almost inevitable outcome of escalating, unaddressed agency problems in an oral village.

The costs and risks of agency involve those of delegating control of organizational resources to individuals who either don't have the capability to control those resources, or have strong conflicting goals related to their use. They also include the costs and risks of not supervising such managers adequately.

If these costs and risks are managed effectively by the organization's stakeholders, the organization will be represented by managers and other agents who are capable of respecting the rules and the will of shareholders, and generally motivated to do both. Those who succumb to temptation will be

caught and other members won't lose their money. Audit committees will function well: testing the strength of the control systems and reporting directly to shareholders on problems and suggested solutions.

Internal control: It is the responsibility of the managers of a village organization to ensure that other representatives (such as the organization's retail service providers and those who perform back office functions) are also capable of performing their duties and motivated to achieve the goals of the shareholders. There are significant risks and costs for managers in making the necessary delegation and supervision decisions to see that this responsibility is carried out.

The benefits of success are substantial: an organization that consistently keeps its promises to members, high and rising service levels, and empowered and informed shareholders effectively performing their roles in the general meeting, the audit committee and the executive committee.

The challenges in the way of developing VFIs are no greater than the challenges of developing any other institution – but they are significant. Sen's call for "the development of an alternative system of institutions and codes with its own logic and loyalties" offers the key to successful VFI incubation. The only way to develop such a system is through inculcation of a new set of values – building on tradition but also transforming it. This is done through movement-building, and the use of information management tools that support it.

### 3. Some Testable Oral Governance Tools

"It is the medium that shapes and controls the scale and form of human association and action."

-- Marshal McLuhan<sup>38</sup>

This section will describe some tools that may be effective in supporting the governance of oral institutions in the villages of the developing world. The boundaries of possible financial service delivery among VFIs are defined by their success in exploiting this domain. And, while promoters of VFIs have relied largely on text-based governance tools for field incubation, oral governance tools have sometimes been implemented on an *ad hoc* basis to address one or more governance risks.

The goal of this section is to achieve progress in shaping a more systematic, scientific approach to the study of oral management information systems.

Based on the analysis in the previous section, **TABLES 2.1- 2.4** classify oral governance tools with respect to their practical application to village finance. In the left column of each table are six types of transaction costs and risks that require effective governance. By minimizing these costs to members of the VFIs, and effectively managing the risks, it is possible to build strong institutions. Along the top of the tables are 10 categories of oral governance tools that may be effective in reducing these costs and managing the associated risks.

When there is a dispute in which one party is relying on oral records and the other is relying on text, *resolving it automatically with reference to text is precisely the wrong instinct*. The fears in the oral village about text – in particular that literate people can and often will falsify it to take advantage of them, must be fully considered. Use of text (for example, to back-up information stored orally, to record agreements with third parties, or to track the proceedings of committees) is entirely possible, but its use *must* be governed by rules the oral majority consider legitimate.

VFIs rely on (and if successful, spur) development of individual and collective capabilities in the villages where they operate. This involves dissemination and extension of shared values through effective local leadership and collective learning. The values dimension of VFI institution-building is central to success, and this is one reason why oral governance tools are indispensable. Centralized microcredit requires a thumbprint from an illiterate borrower and effective sanctions from a strong urban institution. VFIs require collective will, and the one-way transmission of information embodied in millions of thumbprints on loan contracts cannot achieve this.

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<sup>38</sup> Marshall McLuhan. The Essential McLuhan, p. 272.

**TABLE 2.1:** Oral Governance Tools by Types of Transaction Costs

Types of Transaction Costs	Collective Memory	Action Learning	Mnemonics
<b>Search &amp; information</b>			
◊ Costs and risks to villagers in assessing whether to help start, or participate in, the institution.	◊ wisdom of elders ◊ networking ◊ meeting management	◊ time-limited ROSCAs and ASCAs ◊ oral 'study clubs'	
◊ Costs and risks in assessing who to back for leadership.	◊ collective character assessment	◊ time-limited ROSCAs and ASCAs ◊ oral 'study clubs'	
◊ Costs and risks in deciding whether to offer leadership services.		◊ time-limited ROSCAs and ASCAs ◊ oral 'study clubs'	
<b>Bargaining &amp; decision-making</b>			
◊ Costs and risks of negotiating the initial agreement of association plus later amendments to it.	◊ networking ◊ public & member consultation ◊ meeting management	◊ pilot projects to develop new products	
◊ Costs and risks of revising the founding agreement, such as affiliating with a network or linking to a bank.	◊ networking ◊ public & member consultation ◊ meeting management		
◊ Costs and risks of dispute resolution.	◊ networking ◊ public & member consultation		◊ memory theatre
<b>Supervision &amp; enforcement</b>			
◊ costs and risks of securing and maintaining support from local authorities			
◊ Costs and risks of complying with government laws			
◊ Costs and risks of delegating supervisory power to federations	◊ networking ◊ public & member consultation ◊ meeting management	◊ pilot projects to test joint products and services	
<b>Organizational maintenance</b>			
◊ Costs and risks of failing to respect the terms of the founding agreement (as revised) and the rules of the organization.	◊ delegated memory		◊ memory theatre ◊ general mnemonic tools
◊ Costs and risks of failing to keep product-related promises to members.	◊ delegated memory (individual accounts) ◊ confidential 'elder' advisors	◊ pilot projects to enhance service quality	◊ memory theatre ◊ general mnemonic tools
◊ Costs and risks of back-office support.			
<b>Agency</b>			
◊ Costs and risks of delegating control of organizational resources to leaders who can't or won't serve shareholders goals.	◊ auditing collective and delegated memory ◊ auditing oral control tools		◊ memory theatre
<b>Internal control</b>			
◊ Costs and risks of delegating daily tasks to individuals who can't or won't serve shareholders goals.	◊ auditing collective and delegated memory ◊ auditing oral control tools		◊ memory theatre

## *Collective Memory*

Collective memory is the foundation of oral MIS. Just as the information systems of modern financial institutions are founded on computerized data storage and retrieval, village institutions draw on collective memory.

Collective memory involves clarifying important information by consulting with groups that include as many as possible of those with cause to know. Collective memory need not imply any conscious effort by anyone to store specific information in advance; instead it may simply rely on those who are consulted to have determined what information was worth storing. The mechanisms of collective memory touch every sphere of VFI governance.

Collective memory can be used to address information management problems ranging in complexity from dispute resolution (see the example from medieval England on page 4) to simpler matters like delinquency management. In fact, this tool is already used routinely in oral contexts to resolve these types of matters.

Meetings and networking are among the most familiar tools of collective information management. These tools are still widely used in literate societies, though much of the burden of recall has been shifted to text and document retrieval from tapping collective and delegated memory.

VFI leaders must have the capacity to tap collective memory in a way that maps the values of the new institution into channels that are compatible with the values of the village and its traditions.

It is equally important to expand the understanding of 'collective memory' by consulting those villagers with the situational knowledge or the technical competence to help resolve specific problems. An effective ability to tap collective memory may play a critical role in identifying appropriate candidates to lead and participate in the new institution.

Most problems can be resolved within the VFI itself, if appropriate advisory mechanisms and committees can be integrated into its governance system, and the senior management show a sufficiently strong capacity to draw on collective memory internally.

Delegated Memory: Delegated memory is a form of collective memory that involves direct delegation of discrete facts to individuals or groups, for later recall. This tool can help to reduce the following governance costs and risks:

- organizational maintenance, and
- internal control.

A fundamental governance principle of ROSCAs is that all members are responsible for being present at all transactions. This collective witnessing of transactions means that if there is a problem later (such as a member who

borrowed at the first meeting and hasn't repaid since) everyone else can recall the details and take whatever collection action is considered necessary.

CARE's MMD methodology (referred to above) assigns each member a number and the same place to sit at each meeting. The members sitting to the left and right of borrowers are delegated to remember that borrower's loan details, including repayments, amounts still owing and delinquency status.

As noted in the text box on MMDs (p. 7), delegated memory systems can be defeated by groups who collectively view the costs to exceed the benefits. They are also subject to potential collusion between members who recognize that they can profit from manipulating their collective recall.

Apprenticeship has been an important oral information management tool for millennia. In healthy VFIs a similar role is important in passing the skills of managers and board members to successors. Local traditions and expectations about apprenticeship can strengthen the clarity and impact of such roles.

The likelihood of success with delegated memory systems will vary significantly depending on such factors as the depth of the local social capital and the extent to which such systems have strong traditional legitimacy. In general, however, principles for success may include:

- delegating to stakeholders who have strong incentives to recall accurately,
- randomly spot-auditing information stored in delegated memory, and
- reducing the overall cost and tedium of the system to members through mnemonic training that reduces or eliminates the 'rote' aspects of recall.

It is worth testing the prospects for expanding the outreach of demand savings services by delivering them through solidarity groups. At the institutional level records would be kept for the group; only at the group level would 'oral' records be kept for each individual. By delegating responsibility for most information management and most demand transactions to the level of the group, this system could, in some contexts, substantially reduce transactions costs for savings delivery.

### *Action Learning*

Action learning methods help to build trust and forge the human networks that are the most important building block for institutional success. Effective, appropriate use of action learning techniques can reduce many risks and costs, especially

- search and information,
- bargaining and decision-making,
- regulation and supervision, and
- organizational maintenance.

VFIs involve the practice of traditional competencies (such as protecting savings, or household asset management) in new ways, as well as learning complex new roles. Learning to manage a VFI is primarily 'learning by doing'.

For example, participants in ROSCAs modulate their future engagement based on joint action. Each round is an action learning process leading to the next round. When it ends one or more members who seem unreliable may be replaced, new people considered more reliable may be invited in, and the group may change its leader. Or it may continue exactly as it is, because experience has taught its members that that is their best choice.

The 'study clubs' developed by the Antigonish movement performed a similar function at the dawn of Atlantic Canada's credit union movement. Members of these clubs gained critical intelligence about each others' capacities, and about the skills needed to run a credit union, before making major financial or reputational commitments.<sup>39</sup> Credit union leader Alexander Laidlaw commented on the challenges of credit union implementation in the developing world that:

"... such concepts as group responsibility, reaching decisions by majority vote, delegating authority to responsible officers, observing rules agreed upon by the group, exerting self-discipline for the welfare of the group cannot be taught or learned in the abstract. They must become part of the personality of the individual and the experience of the group through actual situations."<sup>40</sup>

Collective 'action research' may be an effective tool for achieving this complex transmission of values. Because ASCAs are time-limited and inherently small, but lever competencies that are in many ways similar to those of larger VFIs, they are an ideal training ground; a bit like a bicycle with training wheels.

Prior to the formation of a complex, permanent institution like a thrift cooperative or village bank, villagers may try managing a smaller, time-limited ASCAs first. For example, ASCAs require internal management of cash – a critical competency required in permanent VFIs. This experience will provide each member with critical information about whom they can trust to repay and who is competent to lead. They may find that is as far as they want to go. Or they may see benefits in using their experience to fuel further institutional growth.

If they do decide to form a permanent institution they will have already dealt with many of the largest costs and risks associated with both 'search and information' and 'bargaining and decision-making'. They will have been able to achieve a reasonably reliable sense of the match between their collective capacities and the work ahead of them. None of this information is usually

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<sup>39</sup> Moses Coady, the key leader of the Antigonish Movement describes the technique in his book Masters of Their Own Destiny (Harper & Brothers, New York, 1939).

<sup>40</sup> Alexander Fraser Laidlaw. *Training and extension in the co-operative movement: a guide for fieldmen and extension workers*. Agricultural Development Paper #74, Food and Agriculture Organization of the UN, Rome, 1962, p. 10.

available to villagers propositioned to form a VFI from an external promoter, with cash dangling in front of them to entice them to say 'yes'.

Such action learning is also excellent practice for the continuous learning required to manage an expanding VFI later. For a VFI to grow soundly, it must continuously seek to improve the quality of its services and test the quality of its control systems. It must occasionally introduce new products. If it is considering federating, it must test the joint services that are being debated across the various primary level institutions. There are few better foundations for such work than a culture that embraces action learning.

### *Mnemonics*

Mnemonic tools aid recall of important information by creating a personal, emotional or creative link between the human memory and information that must be remembered. These tools are particularly effective in addressing information that appears overly complex or not very meaningful to the person who wants to remember it. Many of these tools offer 'bridges' helping illiterate users to incrementally add to their literacy skills (see below).

Mnemonic tools can reduce the following governance costs:

- organizational maintenance,
- agency, and
- internal control.

The discipline of mnemonics is often associated with extraordinary feats of memory by people who recall the value of  $\pi$  to hundreds of thousands of places. But it is also an everyday skill that is well tailored to the needs of people with ordinary mental capabilities. It features a host of tools and practices designed to sharpen different types of recall.

A few simple, but not commonly practiced, principles form the foundation for mnemonics. For example, information is easier to remember if it is associated in the mind with powerful images -- for example those that are strange, vivid, highly emotional, or very playful. Learning a foreign script by linking the shape of the 'M' to a strange image like a meat-hook would be an example. Linking abstract, complicated or featureless information to such images takes practice, but for those who are trained and motivated, it is not difficult to learn. Due to the nature of their context and schooling, oral populations are usually well equipped to master mnemonics.

Physical mnemonics are designed with the same purpose, but are backed up by a memorable physical reference point. Loans were often tracked at the trade fairs in medieval Europe by the use of tally sticks. The lender and borrower would plant a stick (often witch-hazel) in the ground and cut horizontal notches across it to indicate the amount owing at the next fair. The stick would then be split down the middle so that both parties received a 'copy'. A similar system was used by English kings to collect taxes.

The skills that require memory and rote learning, such as acquiring languages or reciting lengthy poems, are often better developed in oral societies than in modern ones. For those in oral societies who have not already systematized this skill, it is useful in a wide range of day to day situations and is a building block to acquiring literacy skills. As a result, the focus on mnemonics by VFIs can provide a valuable brand asset.

Memory Palace: The memory palace (and later 'place mnemonics', such as the medieval memory theatre) is a powerful mnemonic device for breaking large, complex content into small, easily recalled components that retain their original relationship with each other. It is particularly valuable in helping to reduce the following governance costs and risks:

- agency, and
- organizational maintenance.

The invention of the memory palace is attributed to Simonides of Ceos, a lyric poet who flourished in the decades before the birth of Socrates. Because this tool draws on personal recollection, it is potentially adaptable to any locality, and could be very useful in aiding management of complex information like the rights and duties of members and managers, or the details of important institutional precedents (such as those leading to the resolution of disputes).

The only precise surviving description of this system is contained in a Roman treatise on rhetoric, in which the anonymous author offers the example of a speech that must be recalled by the defending lawyer in a court case.<sup>41</sup>

Students are advised to:

- imagine in their minds' eyes a place that is familiar (e.g., their home, workplace or a familiar public building),
- in each room, place an image that is linked to information that must be remembered,
- clearly fix each image to a familiar room or place, so all can be remembered in order starting from the beginning, the end or the middle, and
- ensure that the images are in some way exceptionally beautiful, ugly, comic or otherwise striking so they will be memorable.

Suppose that the accusations against the defendant in the case are to be imagined in the first room. The defendant is accused of poisoning a man to gain an inheritance, and the prosecutor claims there are many witnesses and accessories to the crime.

We shall imagine the man in question as lying ill in bed, if we know him personally. If we do not know him, we shall yet take someone to be our invalid, but not a man of the lowest class, so that he may come to mind at once. And we shall place the defendant at the bedside, holding in his right

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<sup>41</sup> Francis Yates. The Art of Memory. pp. 26-8.

**TABLE 2.2:** Oral Governance Tools by Types of Transaction Costs (cont'd)

Types of Transaction Costs	Story, Image & Formula	Numeracy Tools	Public Display
<b>Search &amp; information</b>			
◊ Costs and risks to villagers in assessing whether to help start, or participate in, the institution.			
◊ Costs and risks in assessing who to back for leadership.			
◊ Costs and risks in deciding whether to offer leadership services.			
<b>Bargaining &amp; decision-making</b>			
◊ Costs and risks of negotiating the initial agreement of association plus later amendments to it.	◊ advocacy through traditional story & formula ◊ rhetoric	◊ business mapping ◊ economic mapping ◊ photos of above	
◊ Costs and risks of revising the founding agreement, such as affiliating with a network or linking to a bank.	◊ advocacy through traditional story & formula ◊ rhetoric		
◊ Costs and risks of dispute resolution.			
<b>Supervision &amp; enforcement</b>			
◊ costs and risks of securing and maintaining support from local authorities.	◊ legitimization through values-based stories	◊ number and picture-based reporting formats ◊ photos of above	◊ public resistance to elite capture (usually through federations)
◊ Costs and risks of complying with government laws.		◊ number and picture-based reporting formats ◊ photos of above	
◊ Costs and risks of delegating supervisory power to federations.		◊ number and picture-based reporting formats ◊ photos of above	
<b>Organizational maintenance</b>			
◊ Costs and risks of failing to respect the terms of the founding agreement (as revised) and the rules of the organization.	◊ song ◊ mnemonic formulas	◊ picture-based training in rows, columns & ratios	
◊ Costs and risks of failing to keep product-related promises to members.	◊ mnemonic formulas	◊ number and picture-based loan contracts and passbooks ◊ photos of above	◊ delinquency management
◊ Costs and risks of back-office support.		◊ number and picture-based cash planning and ledger accounts ◊ photos of above	
<b>Agency</b>			
◊ Costs and risks of delegating control of organizational resources to leaders who can't or won't serve shareholders goals.	◊ mnemonic formulas ◊ values-based stories	◊ picture-based training for all members in rows, columns & ratios	◊ public resistance to elite capture (usually through federations)
<b>Internal control</b>			
◊ Costs and risks of delegating daily tasks to individuals who can't or won't serve shareholders goals.	◊ mnemonic formulas ◊ values-based stories	◊ transparent reporting formats ◊ photos of above	

hand a cup, in his left tablets, and on the fourth finger, a ram's testicles. In this way, we can have in memory the man who is poisoned, the witnesses and the inheritance.<sup>42</sup>

The image of the cup reminds us that the charge is of poisoning, and the tablet reminds us of the inheritance. The ram's testicles are a startling visual pun, helping the lawyer to easily recall the Latin word *testes* or witnesses.

It is a short distance from investing memory with feelings (through mnemonics) to shaping a story, poem or song that encapsulates the lessons of experience and the values that are embodied in them.

### *Story, Image and Formula*

Shared values are critical to effective governance. The strategic use of stories, images and formulas by leaders of VFI can have a large impact on the dissemination and strengthening of collective values and shared will, as well as supporting collective recall of important information. This tool can have the greatest impact on entrenching shared values such as shareholder rights, and consequently is most effective in reducing the following governance costs:

- bargaining and decision-making,
- organizational maintenance,
- agency, and
- internal control.

In Greek mythology the goddess of memory, Mnemosyne, was the mother of the nine muses. The ancient Greeks subsumed all cultural activities under her aegis, because they viewed culture not just as based on memory, but as an actual *form* of memory.<sup>43</sup>

Oral societies value the skill of story-telling, because the transmission of values and often vital technical as well as cultural information depends on the ability to shape new stories and adapt old ones to current needs. Ong's list of characteristics of public speech in oral cultures emphasizes how mnemonics and content reinforce one another. Verbal formulas are used to transmit values, garner empathy and touch emotional chords through repetitive power – 'clever Odysseus', 'the wine-dark sea', 'young and foolish', 'glorious 4<sup>th</sup> of July', etc.

Oral epics are also structured mnemonically. For example the Illiad has a 'chiastic' or ring structure that provides the performer with a mental roadmap from beginning to end.<sup>44</sup> Abstract ideas and complex explanations must be transformed into simple stories the listener can empathize with directly.

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<sup>42</sup> Harry Caplan (trans.) Rhetorica Ad Herennium. Harvard University Press, 1954, III, xx, p. 33. Cited in Frances Yates, The Art of Memory. Pimlico, London, 1992, p. 27.

<sup>43</sup> Barbara Misztal A. Theories of Social Remembering, Open University Press, Maidenhead, Philadelphia, 2003, p. 30.

<sup>44</sup> Cedric Whitman. Homer and the Heroic Tradition. Harvard University Press, Cambridge, 1958.

Traditional bards have carried forward village truths through story for thousands of years.

Song is used widely by NGOs in South Asia as a vehicle for shaping and sustaining stakeholders' values. Shashi Rajagopalan, an architect of the movement of 'Swakrushi' thrift cooperatives in Andhra Pradesh, relates how songs composed around cautionary stories are used there to emphasize the importance of repayment discipline, social solidarity between members, and the importance of board members diligently reviewing the financial reports and taking action.<sup>45</sup>

Yates argues that Dante's Divine Comedy is actually a story built around a 'place mnemonic' or a kind of 'memory palace'.<sup>46</sup> Those who recall this great poem will remember that it involves visits to a series of places in hell, in purgatory and in heaven. In each of these places startling word-pictures of human experience are linked to moral messages that Dante wished to convey.

An early function of most credit union movements was to produce newsletters filled with stories that transmitted both technical information and values.

Today newsletters can also take an oral form: radio, video or DVD. It is also possible to use video cameras and audio recorders to record meetings, or digital cameras to record VFI records and contracts. These back-up electronic memory systems make it harder to tamper with records or agreements after the fact. However, if these are used, there must be effective governance systems for controlling access to both hardware and software, so records don't vanish or prove inaccessible later.

### *Numeracy Tools*

Most villagers today are functionally numerate. But the specific contours of that numeracy are not adapted to the needs of VFI governance or management. Strategically deepening selected numeracy skills among the leaders and members of the VFI can reduce the following governance costs and risks:

- bargaining and decision-making,
- organizational maintenance, and
- internal control.

The ability to free oneself from the sequential experience of processing the words of another person as she speaks, and to be able to focus simultaneously and at leisure on any or all aspects of a text, has had profound implications for human thought (opening up for example, the tendency to categorize, create lists and attempt to construct complex logical arguments). This freedom also emerges, albeit in a more limited way, from the ability to visually process numbers.

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<sup>45</sup> Discussion with Shashi Rajagopalan, Nov. 9<sup>th</sup>, 2008.

<sup>46</sup> Francis Yates. The Art of Memory, pp. 104-5.

Transmitting the syntax of columns and rows to most people of modest numeracy may have a transformative impact on their potential to plan and manage institutions, both individual and collective. First, it increases in an incremental but irreversible way, the transparency of the institution and management's accountability to shareholders and clients. Second, it opens the door to higher level skills (especially at the board level) such as data aggregation and the development of institutional plans with clear, relevant and challenging numerical goals for performance.

A key factor limiting the confidence of retail savers in their ability to accurately interpret the information in their passbooks is difficulty with the syntax of row and column – which is considerably less transparent in oral societies than the numbers themselves. Stronger client understanding could help retail financial institutions to build stronger internal control systems founded on client alertness to staff error.

The ability to recognize and manipulate numbers among ordinary villagers may already offer sufficient leverage to a village-based institution to offer loans of varying lengths and repayment schedules, tied to borrowers' actual cashflow expectations rather than a fixed institutional schedule. While moneylenders are able to structure such loans, most VFIs currently cannot. Villagers who are heavily dependent on seasonal income stay away or drop out, and membership becomes skewed towards the higher asset and income tiers, and away from those rural households who are dependent on agriculture for their livelihoods.

A basic understanding of ratios is essential for transparency in a VFI. It permits members to see trends in profitability and in costs of operation in the financial statements. It permits them to check whether the interest rate calculations for their savings and loans are correct. It helps them to understand the year-end dividend calculation. In the long-term, it helps them understand that the impact of compounding profitability is a critical source of village funds.

### DEPOSIT SLIP

NAME \_\_\_\_\_

ACCOUNT # \_\_\_\_\_

Rs 

		3	4	2
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	#	Amount		
(0.5)			0	
(1)	### ###	14	1	
(2)		8	2	
(5)	###	30	3	
10		20	4	
20		20	5	
50		50	6	
100		200	7	
500			8	
1,000			9	
	<b>Total</b>	<u>342</u>		

**TABLE 2.3:** Oral Governance Tools by Types of Transaction Costs (cont'd)

Types of Transaction Costs	Picture & Symbols	Physical Assets	Scribes
<b>Search &amp; information</b>			
◊ Costs and risks to villagers in assessing whether to help start, or participate in, the institution.	◊ participatory mapping		
◊ Costs and risks in assessing who to back for leadership.			
◊ Costs and risks in deciding whether to offer leadership services.			
<b>Bargaining &amp; decision-making</b>			
◊ Costs and risks of negotiating the initial agreement of association plus later amendments to it.	◊ business mapping ◊ economic mapping	◊ credible cash box design ◊ credible ballot box design	◊ recitation of formal agreements
◊ Costs and risks of revising the founding agreement, such as affiliating with a network or linking to a bank.	◊ business mapping ◊ economic mapping		◊ recitation of formal agreements
◊ Costs and risks of dispute resolution.			◊ interpretation of written agreements
<b>Supervision &amp; enforcement</b>			
◊ costs and risks of securing and maintaining support from local authorities			
◊ Costs and risks of complying with government laws			
◊ Costs and risks of delegating supervisory power to federations			
<b>Organizational maintenance</b>			
◊ Costs and risks of failing to respect the terms of the founding agreement (as revised) and the rules of the organization.		◊ segmented, colour-coded, self-balancing cashbox	◊ market-based scribal services ◊ literate children
◊ Costs and risks of failing to keep product-related promises to members.	◊ business and household mapping tools	◊ segmented, colour-coded, self-balancing cashbox	◊ market-based scribal services ◊ literate children
◊ Costs and risks of back-office support.	◊ number and picture-based cash planning and ledger accounts		
<b>Agency</b>			
◊ Costs and risks of delegating control of organizational resources to leaders who can't or won't serve shareholders goals.	◊ participatory mapping of operations	◊ video/audio recorders	◊ interpretation of written agreements
<b>Internal control</b>			
◊ Costs and risks of delegating daily tasks to individuals who can't or won't serve shareholders goals.	◊ participatory mapping of operations	◊ video/audio recorders	

Bridges to Numeracy: The sample deposit slip gives an idea of how bridges to numeracy can be integrated into financial reporting. The shaded area to the right shows the cardinal numbers with finger-counting translations.

The innumerate must still learn how to use place-holders; such training is critical in helping them understand and use their passbooks, and become more comfortable with deposit and withdrawal transactions. Teaching materials that include visual representations of % figures, and songs that vividly relate what can go wrong when changes in percentages are ignored, can help to impart and consolidate this learning. Such training and tools should be designed to support better microenterprise planning among members.

### *Public Display*

Public display makes selected internal matters transparent to the wider public, and in so doing can increase accountability. It can reduce a number of governance costs, especially:

- agency, and
- organizational maintenance.

Until the 20<sup>th</sup> century it was believed that literacy was common among the Greeks as early as the 7<sup>th</sup> century BC. One of the reasons for this belief was the presence of public monuments dated to that period in the squares of many Greek towns that outlined in writing the responsibilities of public officials and some of the most important rights of Greek citizens. It was only in the last century that scholars came to a startling re-assessment of the evidence.

Far from being proof that the Greeks of those days could read, these public monuments were used by governments to keep public officials accountable to the laws in a world where the vast majority were illiterate. Due to the visibility and public nature of this text, governments expected the small minority who could read to keep the large majority who could not informed of their rights. In this way, the whole population would keep public officials accountable.<sup>47</sup>

One common use of this tool today is to display the names of seriously delinquent borrowers in public, perhaps on a bulletin board in the office, or on the pages of a local newspaper. This has proven to be a strong incentive to repayment and can sometimes protect a VFI from the risk that members of the local elite will borrow all the funds and not repay them. Combined with other tools for ensuring the legitimacy of the institution, it can help the institution to resist other forms of elite capture, as well.

### *Pictures and Symbols*

Locally understood and accepted pictures and symbols can offer powerful leverage for other tools, include mnemonics, number and participatory

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<sup>47</sup> Havelock (1963), pp. 38-9.

mapping. Some of the key costs and risks of governance that pictures and symbols can help to reduce are:

- bargaining and decision-making,
- organizational maintenance,
- agency, and
- internal control.

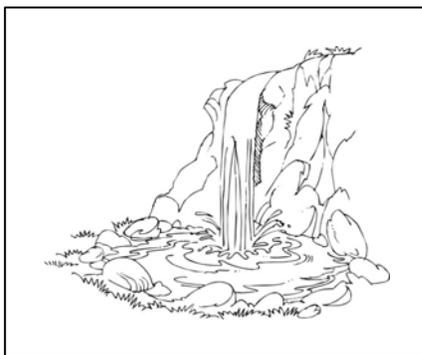
From the *quipu* of the Incas<sup>48</sup> and the clay tokens and envelopes of Mesopotamia<sup>49</sup>, to the tally sticks of medieval Europe<sup>50</sup>, the birch bark scrolls of America's Ojibway<sup>51</sup> and the picture-writing found in churches, pagodas and temples the world over, the physical mnemonics used by oral cultures to manage information that matters to them are of virtually inexhaustible variety.

There are not a lot of words required in passbooks, ledger accounts, and VFI financial statements. Because there is a small number (about 30-40) and most are either nouns or verbs, it is relatively

	<u>Key Financial Aggregates</u>	<u>Example of Mnemonic Picture</u>
Uses of funds	cash in the box loans outstanding to members accounts receivable cashbox and other fixed assets	cash notes a bunch of bananas cash notes entering box cashbox
Sources of funds	member savings accounts payable shares retained earnings	clay savings pot like those at home cash notes leaving box half a dozen eggs waterfall with pool below

easy for the members to assign mnemonic pictures and associations to each one. If members have the will to periodically practice and test each other, long term retention is virtually certain. The members of the VFI would agree on the pictures they would like to use, and retain a local artist to draw prototypes for copying into the ledgers or painting onto the cash box. The text box shows an example of how such a system might work.

'Cash in the box' might be depicted directly with a drawing of cash notes.



'Loans outstanding to members' is more abstract. To be memorable, images must be startling or odd, but in a way that directly links to the concept to be remembered. A bunch of bananas share a common stalk but are each independent of each other and can be used separately. The VFI (or the cashbox) might be imagined by villagers as the stalk, with the loans sprouting out of it for separate use by each of them. 'Retained earnings' might be visualized as water falling into a pool, and gradually

<sup>48</sup> Gary Urton. Signs of the Inkan Khipu: Binary Coding in the Andean Knotted-String Records. University of Texas Press, Austin, 2003.

<sup>49</sup> Denise Schmandt-Besserat. How Writing Came About. University of Texas Press, Austin, 1996.

<sup>50</sup> T.W. Baxter. *Early accounting: the tally and the checkerboard*. The Accounting Historian's Journal, vol. 16, pp. 43-83, 1989.

<sup>51</sup> Jack Goody (1987), pp. 14-18.

accumulating there.

For each item, the first few letters of the key word in the local language might be included, as a bridge to support a later jump to wider literacy.

From an audit/supervisory perspective it doesn't matter what pictures are chosen if the ledger form is standardized, with all the rows, columns and lines are in a consistent place. Analogous formats are possible for routine reports like internal audit and credit approval.

An intriguing prospect in this category relates to human identity. Most MFIs and other financial institutions in the developing world that are prepared to serve illiterate people have them sign with thumbprints. This arrangement is asymmetrical because it forces people to sign agreements in a code they don't understand. It also presents a practical problem because it is costly and complex to verify identities with thumbprints.

In societies that were less skewed towards an ideology of literate dominance, this matter has been addressed more practically. For example, the Mesopotamians wore a clay stamp around their necks moulded into a picture that communicated their individual and family identities. Contracts were prepared by scribes, who incised cuneiform text in wet clay. Before the clay dried, the signatory would press his personal stamp into it to indicate agreement with the terms.<sup>52</sup>

Participatory Mapping Tools: Participatory mapping tools were developed in the 1980s to help oral villages with a variety of planning and decision-making functions from setting community development priorities to influencing the priorities of local governments. They are useful for brainstorming, decision-making and planning. While they have rarely been mainstreamed into institutional development, they could potentially help to reduce many of the associated governance costs and risks, including:

- search and information,
- bargaining and decision-making, and
- organizational maintenance.

Mapping tools are derived from the 'participatory' methods developed for consulting with villagers in past decades. These mapping tools, which generally use paper and coloured markers but can be made even more direct and accessible through drawing with sticks; combine pictures, numbers and graphic frameworks to illustrate concepts. For example an external facilitator may help a group of villagers to construct a calendar based on the agricultural seasons, and through discussion create a graphic depiction of the scale and patterns of cash flows in and out of the village by season.

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<sup>52</sup> Schmandt-Besserat, Denise (1992), *Before Writing, Vol. I: From Counting to Cuneiform*, University of Texas Press, Austin, p. 2.

In principle participatory mapping tools are extremely flexible, and could support virtually any exercise from the development of a VFI business plan or annual budget, to the business plan for a microenterprise or the budget for a household. In practice however, the syntax of participatory mapping is based on post-literate logic and practices, and can be opaque to the uninitiated. Furthermore, the quality of facilitation – a critical variable – depends on getting both the skill and the incentives right in sourcing the key role of the facilitator.

This can be partially corrected by focusing more attention on oral tools. For example, villagers who have developed agility in the use of numbers, rows and columns (see above) can use a much wider repertoire of mapping tools.

Bridges to Literacy: Wherever pictures and symbols are negotiated with the users and embedded in regularly recurring operating and financial documents, they should be accompanied by the key word or phrase in written form. This provides illiterate members with a resource they can use to acquire literacy. At a minimum, the following documents should always include pictures/symbols and bridges to literacy:

- income statements and balance sheets,
- interim financial reports,
- financial plans/projections,
- loan contracts,
- loan application forms (including repayment schedules),
- passbooks, and
- deposit and withdrawal slips.

### *Physical Assets of VFIs*

The main physical asset of most VFIs is a cashbox where documents and sometimes cash are stored. There are countless cashboxes employed by VFIs around the world. Most are drab and poorly designed, appearing more as an afterthought than as an integral part of VFI operations. A well designed cashbox reduces the following governance costs and risks:

- bargaining and decision-making,
- organizational maintenance, and
- internal control.

The work of Hugh Allen on ASCAs in Africa shows that it is possible to design a cash box that can both simplify and make more transparent the process of managing cash and balancing the VFI's resources. However, the conceptual framework that underlies the flows of resources through these organizations continues to cause confusion, since few people understand it.

A clearer and more transparent process might:

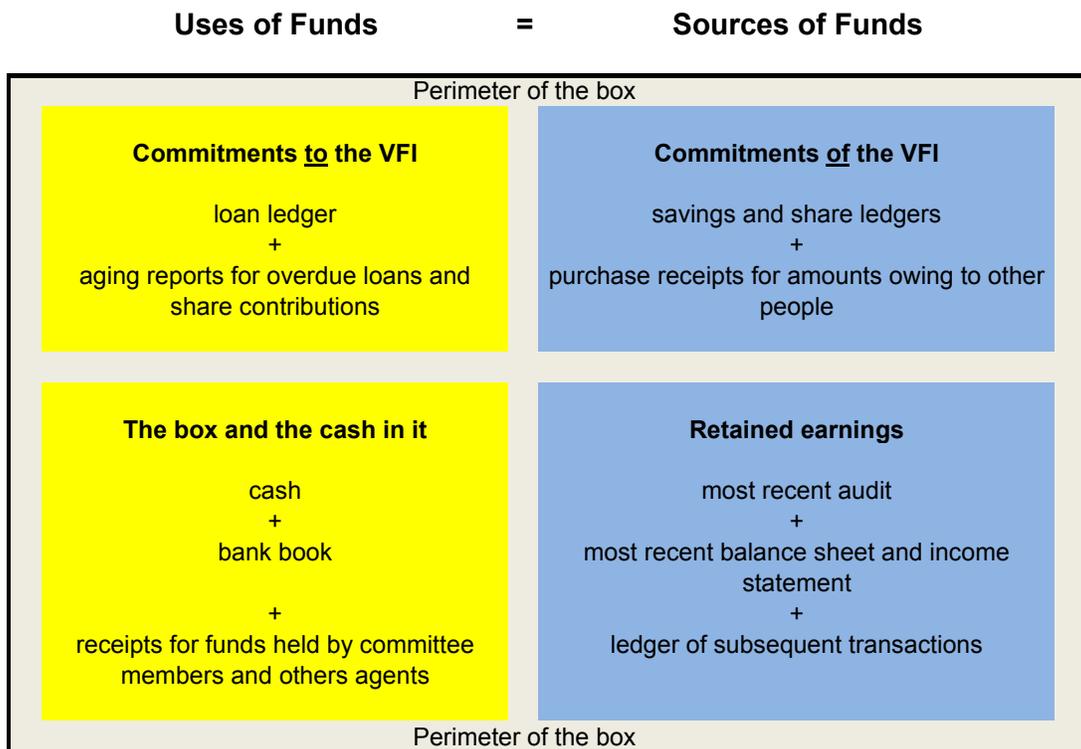
- have the members assign pictures to each of the key financial aggregates on the VFI balance sheet,
- segment the cash box by these categories,

- colour-code 'uses of funds' items separately from 'sources of funds' items (possibly assigning different members to look after each, and balance with each other) and
- paint pictures of the financial aggregates at the bottom of the box in the applicable segment.

**Image 1** shows one of many possible box designs, including the documents and other contents that would be maintained and up-dated by VFI officials in each compartment.

Another useful asset, if more for symbolic than substantive reasons, is a ballot box. In Cambodia and some other rural areas in which the author has worked, elections tend to devolve from secret ballot to show of hands fairly quickly after NGOs stop monitoring. This undermines the emergence of democratic norms. The use of coloured pebbles to signify competing candidates in elections, or competing proposals in a formal vote is sufficiently practical to reduce the risk of devolution. This is particularly true if a strong story embodying the critical norms can be imparted in the incubation stage, perhaps reinforced by a picture on the ballot box itself. The ballot box would be held in joint custody by a group of ordinary members, who would be designated as custodians of the box and the democratic rights it embodies. The story would be repeated ritualistically before each election.

**IMAGE 1:** Possible cashbox design by compartmental contents



Bridges to Literacy: Wherever colour-coding, pictures or symbols are used on a cash box, at a transaction counter, or on a poster, they should be comprehensible without reference to the text, but should be accompanied by key words written in the local language.

### *Scribes and Literate Children*

Para-professional scribes operate informally in many parts of the developing world, and literate children often keep the books of self-help groups in India. Effective, appropriate use of literate children and para-professional scribes can reduce many costs and risks, especially:

- bargaining and decision-making,
- organizational maintenance, and
- agency.

The potential demand for scribal services extends beyond book-keeping to formalizing agreements and contracts, reading and preparing minutes of committees, attending marketing negotiations, writing up receipts and interpreting written text for illiterate people.

Many illiterate adults have literate children whom they can trust to decode text for them. Ask microfinance practitioners why literacy-based communication methods are acceptable, and they will usually explain that children and/or other literate relatives can interpret contracts and documents to the illiterate client. However, this source has significant limitations. Adults may not want their children to know that they have just mortgaged their land to feed the family. In fact, it is by no means always the case that they want *anyone* to know. They may well consider the moneylender a preferable alternative.

Literate children often keep the books of small VFIs like self-help groups and village banks. The person who keeps the books is in a very strategic position. He or she often knows much about the organization that other members don't. However, a child cannot play the leadership and dispute resolution roles generally played by people with such privileged access. When the book-keeper is a child of the VFI leader, poorly thought out remarks can actually aggravate pre-existing disputes. Ibtada, a SHG promoter in Rajasthan, has introduced a policy that book-keepers cannot be from the same village as the SHG.<sup>53</sup>

### *Tools of Modern Information and Communication Technologies*

New generation information and communication technologies can have a huge impact on poverty. But, like text-based documents, electronic data-systems can easily be manipulated by educated people without poor people's knowledge. ICT interfaces for oral populations should be designed to enhance confidence,

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<sup>53</sup> Jan Meissner et. al. *Good practices in SHG book-keeping: three case studies*. In J.G. Karmakar (ed.) Microfinance in India, SAGE Publications India, New Delhi, 2008, p. 281.

TABLE 2.4: Oral Governance Tools by Types of Transaction Costs (cont'd)

Types of Transaction Costs	Technology
<p><b>Search &amp; information</b></p> <ul style="list-style-type: none"> <li>◇ Costs and risks to villagers in assessing whether to help start, or participate in, the institution.</li> <li>◇ Costs and risks in assessing who to back for leadership.</li> <li>◇ Costs and risks in deciding whether to offer leadership services.</li> </ul>	
<p><b>Bargaining &amp; decision-making</b></p> <ul style="list-style-type: none"> <li>◇ Costs and risks of negotiating the initial agreement of association plus later amendments to it.</li> <li>◇ Costs and risks of revising the founding agreement, such as affiliating with a network or linking to a bank.</li> <li>◇ Costs and risks of dispute resolution.</li> </ul>	<ul style="list-style-type: none"> <li>◇ digital photos of key agreements/plans</li> <li>◇ low cost laptops to store video of key meetings</li> <li>◇ digital photos of key agreements/plans</li> <li>◇ low cost laptops to store video of key meetings</li> </ul>
<p><b>Supervision &amp; enforcement</b></p> <ul style="list-style-type: none"> <li>◇ Costs and risks of securing and maintaining support from local authorities.</li> <li>◇ Costs and risks of complying with government laws.</li> <li>◇ Costs and risks of delegating supervisory power to federations.</li> </ul>	<ul style="list-style-type: none"> <li>◇ digital photos of legal compliance reports</li> <li>◇ low cost laptops to store video of key meetings</li> </ul>
<p><b>Organizational maintenance</b></p> <ul style="list-style-type: none"> <li>◇ Costs and risks of failing to respect the terms of the founding agreement (as revised) and the rules of the organization.</li> <li>◇ Costs and risks of failing to keep product-related promises to members.</li> <li>◇ Costs and risks of back-office support.</li> </ul>	<ul style="list-style-type: none"> <li>◇ digital photos of key agreements/plans</li> <li>◇ SMS notifications</li> </ul>
<p><b>Agency</b></p> <ul style="list-style-type: none"> <li>◇ Costs and risks of delegating control of organizational resources to leaders who can't or won't serve shareholders goals.</li> </ul>	<ul style="list-style-type: none"> <li>◇ digital cameras for auditors</li> <li>◇ video/audio recorders</li> <li>◇ SMS notifications to members</li> </ul>
<p><b>Internal control</b></p> <ul style="list-style-type: none"> <li>◇ Costs and risks of delegating daily tasks to individuals who can't or won't serve shareholders goals.</li> </ul>	<ul style="list-style-type: none"> <li>◇ digital cameras for internal auditors</li> <li>◇ video/audio recorders</li> <li>◇ SMS notifications to boards</li> </ul>

and should be provide bridges to literacy. Access to (and control of) expensive hardware like laptop computers also requires careful program design.

The new technologies can reduce the costs and risks of virtually all aspects of governance.

In 2007 Microsoft released a 'White Paper' on reaching five billion people below the 'top of the pyramid' with information technology.<sup>54</sup> It focuses on:

- making software and IT delivery systems more relevant to diverse societies and nations facing widely differing constraints on development,
- migrating from the exclusive, individualistic model of computer ownership and use characteristic of the West to a shared or multi-point model, and
- continuing to drive down the cost of IT delivery and use by developing cheaper devices, refurbishment of computers and developing flexible payment models for poor people and those on seasonal incomes.

From a governance perspective, the rapid fall in the price of generating high quality digital photos and videos is the most promising aspect now. The cost of preparing videos of various events – from board and committee meetings, to general meetings and loan closures – has fallen exponentially. This can enhance transparency and accountability considerably if usage is handled carefully and access is felt to be open.

This is particularly important in network development, as VFIs often fear the risks of networking since there is as commensurate risk that transparency will be lost. These records can be stored virtually indefinitely at little cost, forming an integral part of the permanent record of a VFI network.

Key performance data for a VFI (e.g., profit, delinquency level, savings, membership) can be sent by SMS to members every month, which can further enhance accountability and member confidence. Prior to board meetings and general meetings, supplementary SMS summaries can be sent to board members or to all members. A \$20 phone can pick up text and numbers. Once pictures and symbols have been negotiated for financial reports among the members (see pp. 36-9), and the reports include these oral tools as well as text, members will find it possible and perhaps worth the effort to understand the text in their messages. Debate is likely to be more vigorous in both boards and general meeting.

Those responsible for internal and external audits of VFIs can also gain considerable leverage from digital photo and video recordings.

From a service delivery perspective, as a VFI grows it may be able to effectively marry orality with technology, as some centralized MFIs are already doing. Stuart Rutherford reports that "in SafeSave now that we use Palm Pilots in all branches,

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<sup>54</sup> Microsoft Corporation. *Microsoft Unlimited Potential: Enabling sustained social and economic opportunity for the next five billion people.* 2007.

collectors tell me that clients recognize the different kinds of 'beep' the machine makes when it records different transactions (savings, repayments, interest etc): collectors say this helps (improves confidence etc)."<sup>55</sup> Similarly, SEWA Cooperative Bank in Gujarat inserts in the passbook of each member a photo of the account holder (the key identifier, replacing a signature) holding a slate with her account number on it.<sup>56</sup> This helps the member to orient herself towards bank procedures.

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<sup>55</sup> Correspondence with Stuart Rutherford, Oct. 2008.

<sup>56</sup> Jayshree Vyas. *Banking with poor self-employed women*. In K.G. Karmakar (ed.) Microfinance in India. SAGE Publications India, New Delhi, 2008, p, 267.

#### 4. Recommendations for Development Practitioners

Among the laws that rule human societies, there is one that seems more precise and clear than all others. If men are to remain civilized or become so, the art of associating together must grow and improve in the same ratio in which the equality of condition is increased.

-- Alexis de Tocqueville, Democracy in America, 1835.

*There is a vital need to test and refine oral governance tools that could help to strengthen the institutional performance of village financial institutions.* The integration of more appropriate information management tools into VFIs should improve their ability to earn and keep local trust, and to set and achieve more ambitious financial and business goals – especially those related to the delivery of quality savings products.

The key areas for researching, piloting and technical refinement among VFIs are:

- consolidation of action learning techniques, particularly to build confidence in unfamiliar transactions,
- extending specific, situational numeracies in pilot areas to enhance the legitimacy of VFI tools from passbooks to seasonal cash plans and financial statements,
- the design of the VFI cashbox, and strategies for simplified balancing and auditing,
- use of mnemonic tools including the ‘memory palace’ and many others designed to handle less complex acts of recall,
- deep integration of simple pictures and symbols into all aspects of record-keeping and contracting,
- deep integration of stories, songs and formulae into the proceedings of meetings and the rhetorical capabilities of leaders,
- use of low cost cameras to back up document records when they are prepared,
- strategic development of participatory mapping tools to support selected functions like personal financial planning or VFI business planning, and
- the bridges from the above tools to the daily improvement of members literacy and numeracy skills.

As different tools prove their relative efficacy in the field, *test migration onto technology platforms* including mobile phones, low-cost laptops etc.

Using a diagnostic tool like that outlined in **Appendix 1**, *measure the scale and specific dimensions of the misalignment between village-level and VFI-level tools.* Develop an appropriate suite of information management tools for release into the public domain and dissemination to village finance practitioners.

*Cultivate network leadership who are bilingual (oral, literate).* Network leaders should be able to understand oral information management methods used at the VFI level, appreciate the role they play in effective governance, and effectively use them and audit them. Network officials should have the capability to develop new initiatives (microinsurance, remittances etc.) that

integrate information management and control systems that are appropriate to the culture of communication.

*The tools and capabilities needed to audit oral institutions must be tested and refined.* Specifically, appropriate methods must be developed to test the accuracy and completeness of information stored through these systems. The types of risks that result in loss or distortion of information must be understood. Methods must be tested and consolidated to identify such losses and distortions, and to mitigate against their occurrence.

*For governance purposes text should be used sparingly at the village level, as well as in other oral settings such as board or committee meetings composed of elected officials.* The retrieval and use of written back-up information should be governed by rules and procedures that are generally considered legitimate in oral settings. Recourse to text to resolve disputes should never be a default mechanism.

*During institutional formation, it is essential to prove to villagers that they can manage VFIs themselves without the use of text or external financing.* This will bring the right people, with the right incentives for success, into play.

*Invest heavily in training for business management and leadership using oral/mnemonic tools.* VFI leadership must prioritize respect for the rules, and accountability to procedures and to member needs. Listening to members, understanding their needs and the local market, and exercising effective business planning and accountability through rules-based processes and procedures are technical skills that must be taught. Once taught, they can be monitored from within the VFI and at the federation level.

*Make every VFI a master of mnemonics.* Mnemonic tools are useful not just for addressing governance of VFIs, but in virtually every other aspect of village life as well. A strong network of VFIs can integrate mnemonics into its retail brand, offering lasting non-financial value to its members.

*Practitioners must maintain a strict focus on financing from within the village, with tight limits on external capital to keep incentives oriented towards improving the village and protecting village capital.* Neither oral nor literate governance tools are strong enough to protect a VFI from grossly skewed incentives.

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## APPENDIX 1

### 'SOCRATES $\alpha$ ': Institutional Media Diagnostic

#### *Analysis of information management and control processes within a VFI*

This will review all standard information management and control processes of the VFI. It will also include direct observation of processes underway, and anonymous interviews with users of the MIS.

- Amount and complexity of text by process type:
  - management and control meetings,
  - general meetings and elections,
  - internal audits,
  - external audits (where feasible),
- Amount and complexity of oral media by process type:
  - same sub-categories.
- Special MIS and control processes to accommodate needs of illiterate users (if any).
- User understanding of key details by process type and type of media used:
  - same sub-categories.
- User-friendliness of media by process type:
  - same sub-categories.

#### *Analysis of media characteristics at the retail interface*

This will review the standard retail procedures of the VFI, including special procedures used for illiterate members, if any. It will also include direct observation of processes underway, and anonymous interviews with VFI clients concerning the retail experience.

- Amount and complexity of text by product/process type:
  - loan application, repayment, management and recovery,
  - opening and using a contract savings account,
  - opening and using a demand savings account, and
  - opening and renewing/closing a term deposit.
- Amount and complexity of oral media by product/process type:
  - same sub-categories.
- Special retail systems to accommodate needs of illiterate clients (if any).
- Client understanding of key details by product/process type and type of media used:
  - same sub-categories.
- User-friendliness of media by product/process type:
  - same sub-categories.

### *VFI members' knowledge of their rights and duties*

This will involve private, anonymous consultations with clients of village institutions in their homes. Results will be compared with the related information on member rights and duties contained in formal texts at the VFI, as well as with the corresponding understandings of the leaders of the VFI.

- How well do they know their rights & duties as shareholders, depositors, borrowers and office-holders?
- Are there important rights and duties they are not aware of?
- How is knowledge of rights and duties communicated and maintained/enriched over time?

### *VFI managers' knowledge of members' rights and duties*

This will involve consultations with the managers of village institutions. Results will be compared with the related information on member rights and duties contained in formal texts at the VFI, as well as with the corresponding understandings of the leaders of the VFI.

- How well do they know the rights & duties of shareholders, depositors, borrowers and office-holders?
- Are there important rights and duties they are not aware of?
- How is knowledge of rights and duties communicated and maintained/enriched over time?

### *Analysis of media characteristics by village institution*

This will assess the MIS and control systems of member-based institutions, and the retail interface of all village institutions, to determine how well institutional goals are matched to user information needs. It will also compare methods used in traditional/informal institutions to those use in modern ones.

- How well do villagers understand their rights and duties related to:
  - government institutions (schools, health clinics, etc.),
  - private sector institutions (banks, big companies etc.),
  - life-cycle ceremonies (birth, marriage, death etc.),
  - local social organizations (theatre groups, special events clubs etc.),
  - local economic organizations (funeral societies, water user groups, ROSCAs, etc.),
  - religious ceremonies,
  - local emergencies, and
  - local elections or political activities.
- What actual media are in use in different institutions, and to what degree do some media show greater clarity in transmission than others, by types of use?