USING MONEY TO GOOD ENDS: MICROFINANCE IN CAMBODIA

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When first thinking about becoming a McMaster Scholar, I heard about a proposed micro-lending project but doubted I could provide a successful design. However, after researching and coming to understand micro-lending's underlying philosophy, I realized that I wanted to be involved. In the hope of enabling Cambodians to help themselves, especially in light of their tumultuous history and devastating poverty, I became involved in selecting a micro-lending agency in Cambodia to lend money to so that these funds could be distributed and monitored correctly.

Literature Review

To understand micro-lending, one must first understand the life work of Muhammad Yunus. In his book *Banker to the Poor*, Yunus (2003) describes how he laid the foundation for a new way to think about the poor and their place in society. While Yunus' work started in Jobra, Bangladesh, in 1972 as a way to encourage villagers to plant more food (p. 35), it has exploded into a worldwide phenomenon that is changing the life of poverty-stricken individuals everywhere. In 1977, Yunus founded Grameen Bank after working for six months to get a loan from the Janata Bank (p. 57). Yunus describes this moment and the origin of his life's work: "I had no intention of lending money to anyone. All I really wanted was to solve an immediate problem. Out of sheer frustration, I had questioned the most basic banking premise of collateral. I did not know if I was right. I had no idea what I was getting myself into. I was walking blind and learning as I went along" (Yunus, 2003, p. 57).

Ultimately, Yunus realized that having groups of people take out a loan was a better plan for success than giving loans to individuals (p. 62). He describes the process by which Grameen Bank lends money: "To gain recognition, all the members of a group of five prospective borrowers have to present themselves to the bank, undergo at least seven days of training on our policies, and demonstrate their understanding of those policies in an oral examination administered by a senior bank official" (p. 63). After passing this test, the member asks for a loan, a moment Yunus calls, "the beginning for almost every Grameen borrower," a moment when, whatever financial difficulties and failures have previously occurred, "for the first time in her life, an institution has trusted her with a great sum of money. She promises that she will never let down the institution or herself" (p. 65). Yunus counts on women to spread the word to their neighbors and friends about the success of these loans. The testimony is expected to convince others to seek out Grameen for help. Yunus also encourages members to save some of their money in case they fall on hard times, such as natural disasters, or to use this money for other opportunities (Yunus, 2003, p. 65).

As an incentive for the members to help each other, if one group member is unable to pay back her loans, then other members might not be eligible for larger loans (p. 66). Loan repayments are to be made in very small amounts, and in the first project, Yunus chose a villager to be in charge of collecting the repayments (p. 69). This person was to mark in a notebook the date and amount that members paid on their loans. Eventually this system switched to the current weekly repayment system, with a bank worker visiting the villages to collect the loans (Yunus, 2003, p. 70).

In the past 20 years, Muhammad Yunus's ideas have come a very long way and have had an impact on many people. Grameen now has "1,181 branches, works in 42,127 villages, and has a staff of 11,777. The total amount of loans disbursed by Grameen Bank, since inception, is $3.9 billion. Out of this, $3.6 billion has been repaid, with the recovery rate standing at 98 percent" (Yunus, 2003, p. 235). Grameen is now self-reliant and has made a profit every year except 1983, 1991, and 1992 (p. 236). It offers many different types of loans and also gives out scholarships for children of Grameen members (p. 236-237). A newer version of Grameen called Grameen II was introduced in 2001 and offers basic as well as flexible loans for those who have been unable to make payments and who may need loan adjustments (p. 238). Policies are in place to help members save and there is even an insurance policy should a member die (p. 241). Throughout the years, Yunus has been willing to change his framework to make sure that the needs of those in poverty are met. His ideas have sparked other microfinance programs around the world.

In Cambodia "microfinance started in the early 1990s as Cambodia emerged from a long period of conflict. Microcredit was first provided by NGOs, to fill gaps left by the banking sector. . . . The National Bank of Cambodia issued a subdecree to license large deposit-taking institutions and to register the smaller ones. Since then, microfinance has grown to encompass more than 75 microfinance institutions (MFIs) in the country" (BWTP, 2005, p. 1). The growth in the number of lending institutions has helped the poor by decreasing the interest rates on the loans from 5% in 2000 to 3% in 2005. In practice, however, microfinance interest rates in Cambodia are still high because of the high cost of operations, low-cost efficiency, and expensive borrowing from local and overseas sources. The positive outcome is that interest rates will continue to drop as competition increases (BWTP, 2005, p. 2).

Microfinancing is important to Cambodia because the country has only recently come out of thirty years of conflict. Cambodia's "financial system was virtually nonexistent as a result first of the Khmer Rouge policies and then of the Vietnamese occupying government. The Khmer Rouge abolished money and banking during their reign of terror from 1975-1979. Following this, from 1979 to 1988, the Vietnamese instituted a centrally planned banking system, but by late 1980s, weak credit policies and mismanagement rendered this system moribund" (DAI, 2004, p. 1). In addition to lending to small groups, one microfinance lender, ACLEDA, provides loans to whole communities (p. 2).

Geetha Nagarajan (2000) reports that "the staff provide multiple services, such as counseling and education, in addition to lending that reduces their time available for lending activities" (p. 3). This provides an interesting insight into the challenges that face the staff of microfinance institutions in post-conflict territories. Nagarajan also stresses the importance of flexibility in a microfinance organization, stating, "Institutions that have achieved financial self-sufficiency were launched with flexible designs at small levels after the immediate post-conflict stage later expanded" (Nagarajan, 2000, p. 4).

Kang Chandararot (2002) highlights some of the persistent challenges that microfinance lenders face in Cambodia. First, the small sums equate to low purchasing power for the borrowers. In addition, most poor Cambodians work in agriculture and the demand for agricultural products tends to come from others in poverty. The ability to sell one's agricultural surplus is difficult because the local market has no money (p. 2). Generally, surplus agricultural goods must be transported to urban markets. With the small number of middlemen who can provide transportation, a monopoly has developed that controls the cost of getting goods to markets. An unnecessarily complicated and expensive process prevents others from entering the transportation field and providing more competition (p. 2). Finally, Chandararot explains that domestic goods cannot compete with much less expensive imports from other countries. "The fact that the poor borrow money, despite the high risk, could be explained because *it is the only chance people have as opposed to remaining poor*" (Chandararot, 2002, p. 2).

It is important to understand why women are such an important demographic to reach with microfinance. According to April Watson and Christopher Dunford (2006), "Research has shown that inequalities in gender and women's lack of empowerment inhibit economic growth and development. A World Bank report on gender equality states, 'In no region of the developing world are women equal to men in legal, social, and economic rights'" (p. 4). Like Yunus, Watson and Dunford found that women are better credit risks than men, they work better in groups and social networks, and the income women bring to the household directly contributes to the health and well-being of the children (p. 7). As a result, "families accessing microfinance have better health practices and better nutrition and are less sick than comparison families. Increased incomes lead to better and more food for the family, improved living conditions, and consumption of health services, including preventive healthcare" (Watson & Dunford, 2006, p. 9).

Project Description

While in Cambodia I met with several micro-lending firms and conducted interviews so that I could learn more about how micro-lending processes differ from organization to organization. Nancy Preis, my partner on this project, worked to set up appointments by contacting these firms by email and explaining our purpose. We both developed a set of questions to ask during these interviews.

In- Country Activities

My first in-country activity was to go with other group members to Phnom Penh's Central Market, filled predominately with women workers standing

at booths or sewing, and observe the kind of work that women perform. In addition to the working women, young girls were helping at the market, but the only men present were either watching the entrances or begging. This exercise demonstrated that women are an important entrepreneurial presence in Cambodia.

During our time in Cambodia, Nancy Preis made phone contact with several micro-lending firms and set up seven appointments over the span of the first week. We met with Cambodian Entrepreneur Building Limited, Cambodia Microfinance Association, Thanakea Phum, Angkor Mikroheranhvatho Kampuchea, Seilanithuh, CREDIT, and Hattha Kakasekar Limited and received many annual reports and pamphlets containing information about these institutions. Even though these micro-lending organizations had similar goals, there were differences. For example, some offered group loans while others specialized in single individuals; also loan sizes ranged from $78 to $828.

Results

While I went to Cambodia to attend meetings with micro-lending agencies and collect information about their practices, I gained knowledge of micro-lending. I also experienced the business world in another culture. This experience taught me to become a good observer and a quick study of those around me in situations in which I have no control. In between deciphering the Cambodian accent, taking notes, and wondering if the water I had been served was safe to drink, my interest in microfinance increased.

While the purpose statement I created for this project was to find an agency to donate money to, I realized that before I could create a project that would benefit these agencies, I needed to find out how MFIs functioned in Cambodia. Through the meetings that Nancy Preis and I attended, it seemed that Defiance College could help train the credit officers who promote micro-lending in rural villages. These loan officers must be able to explain their lending programs, the purpose of interest, and the process of repayment to potential customers, many of whom have only dealt with loan sharks that charge exorbitant interest rates. Some MFIs expressed interest in partnering with Defiance College to create the training materials that loan officers could use to help rural people understand micro-lending. Additional training materials could help the loan officers better understand the microfinance process, as well as potentially attract loans. While I was impressed at the structure and apparent success of the MFIs that I visited, they seemed to be lending more money in cities than the rural villages. However, from what I saw, the people in the rural villages are most in need of help. As these MFIs develop, perhaps they can expand to the reach people in rural areas, as well.

Reflection

Traveling to Cambodia and speaking with those involved in micro-lending helped put this project into perspective and give a direction for future work. I learned something about patience: I needed much more of it. In the process of running to meetings and balancing the uncertainty of Phnom Penh traffic, I realized it took much more energy to worry and be frustrated about situations over which I had little or no control than to make the best of them. Likewise, the note-taking I did during the meetings was grueling. It was a struggle to decipher the English spoken through thick Cambodian accents. Even so, the importance of this information gave me motivation to get as much as I could out of these meetings and use each one as a learning experience for the next.

Since I did not speak Khmer, I had to be patient while others spoke this language around me at meetings. Patience can carry over into my future professional life in the accounting world. Using patience and attacking a problem with an open and positive mind can make the difference between struggle and success. I intend to take the patience I learned in Cambodia and apply it to my professional and everyday life.

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