



Microfinance in Cambodia

Commercial microfinance providers are among the most successful financial institutions in Cambodia, and recognized worldwide for their achievements. In total, over a million poorer Cambodians have borrowed more than \$500 million to finance their farms and micro businesses, and until the global financial crisis began in 2008, 99% repaid their loans. Default rates in 2009 average less than 5%, but this is still low by international standards.



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In just over ten years, 19 Cambodian microfinance institutions have transformed from donor dependent to commercially viable institutions. Other evidence of MFI success includes interest rates that have declined from 5 to 2.5 percent per month, annual portfolio growth of 60% up to 2008, and more than 70% of loans going to women. Every year Cambodian MFIs are among the top winners of international awards for excellence, and a number of MFIs have received high ratings from international assessors of microfinance.

The beginnings of microfinance

Institutional microfinance got its start in Bangladesh in the mid-1970s by providing very small loans to poor people. When evaluations showed that borrowers reliably repaid their loans and that micro loans helped improve incomes and living standards, microfinance institutions multiplied around the world.

Poor people, just like everyone else, need to borrow, save and transfer money, but in developing countries, millions still lack access to affordable and reliable financial services. If they cannot borrow from family, poor people usually have no choice but high priced and unforgiving money lenders. For savings, they have no alternative but keeping cash, jewelry and other assets at home where they can be lost or stolen. To transfer money to another city or receive it from another country, poor people must use

informal services which are expensive and risky.

Evaluations from around the world which are cited by the Consultative Group to Assist the Poor – CGAP – show that the poor benefit even more than the rich from access to finance and financial services. Microcredit enables farmers and micro business owners to earn more from their enterprises, and with their greater earnings, micro borrowers can provide their families with better housing, better healthcare, better transportation and more years of schooling for their children.

The launch of microfinance in Cambodia

Microfinance got its start in Cambodia in the early 1990s when Cambodia rejoined the international community after years of war and isolation. Based on excellent results in other countries, microfinance



Life has improved a great deal since Nuch, who lives in Battambang, took out her first microfinance loan of \$50 in 2003. At the time, Nuch, 38, and her 4-member family lived in a leaky thatch hut and earned just \$1 a day selling traditional Khmer cakes and growing rice on one hectare of land.

With her first loan, Nuch's cake trade and farm productivity began to improve, along with her business confidence. In 2006, she started a second business as a trader, and now has a loan of \$2,000 to finance her business.

Today Nuch earns \$10 a day buying rice, sesame seed, and mung beans from farmers and selling the crops to exporters. Nuch is very proud of her success. "We now own five hectares and have a decent wooden house, 11 cows, a motorcycle, and a TV and DVD player. I also plan to send my two children to university so they will get good jobs."

was included in many of the development projects donor agencies and non-governmental organizations set up to help Cambodians

improve their incomes and standard of living. The demand for microfinance continues to be high in Cambodia as less than 10% of the population have access to banking services, and MFIs offer significantly lower interest rates than money lenders.

Some reasons for success

Microfinance has been especially successful in Cambodia because MFIs have years of experience, they are well managed, and they are committed to

achieving high standards of governance and transparency. MFIs are also willing to innovate and adapt, government regulators and donors support innovation, and there is healthy competition among MFIs.

An example of adaptation has been lending to individuals as well as groups of borrowers, and offering a range of loan sizes rather than just very small loans. Many Cambodians want individual and larger loans so they can pursue individual opportunities.





Having the financing to start some small businesses has helped Vanna and his wife, Sroeng, to build a better life for themselves and their four children.

Five years ago, this Kandal Province family lived in a tiny house, too small for all of them, and some days could not feed their children.

In 2004, the couple borrowed \$75 to buy fishing gear. By 2008, their micro loan increased to \$500, and with savings, they were able to buy a boat, more nets, and start raising pigs and chickens for sale.

Before taking out their first loan, Sroeng earned just \$.50 to \$.75 a day. "Now, thanks to the loans, I earn \$5 to \$7.50 a day," says Sroeng. "We have a much better house, a bicycle, a motorbike, and our children go to school like other kids. We no longer feel ashamed for being poor."

Achieving sustainability

A key innovation in Cambodia has been the transformation of a number of MFIs into sustainable enterprises, with no further need for donor funding. This has been successful because MFIs were committed to the goal, and government and donors supported them. Government regulators helped by creating a regulatory

environment that ensures high standards, and by not capping interest rates. Thus, interest rates have been set at levels sufficient to cover all the costs of lending, including inflation, and increased efficiency has kept operating costs low. This has allowed MFIs to charge interest rates based on the market and the risks of lending. Donors and international NGOs have supported Cambodia's transition to sustainable

microfinance by providing funds at market rates and improving MFI capacity through advisory services and training.

New directions in microfinance

Cambodian MFIs are continuing to innovate with new products and services. New regulations that allow taking deposits will be of great help to MFIs in mobilizing local funds for their lending operations. Although previously restricted to lending, with very limited deposits, MFIs that meet government standards can now accept deposits. This will benefit customers by giving them a safe place to save money and the opportunity to earn interest from savings. Additionally, taking deposits will give MFIs a cheaper and more secure source of funds for lending than what they currently borrow from international lenders.

Innovation is also taking place in microfinance infrastructure. MFIs strongly support government plans to improve credit reporting. More comprehensive credit reporting will help to avoid client over-indebtedness, reduce the risks of lending, and decrease loan processing time. This, in turn, should help to reduce the costs of lending and interest rates, especially for borrowers with a good credit history.



Greater access to finance and lower costs for financing should help micro enterprises to grow and achieve their potential as creators of jobs, developers of human resources, and generators of income that improves standards of living.

In summary, Cambodia's MFIs are among the country's most successful financial institutions, and through a combination of good management, innovation and a supportive regulatory environment, MFIs will continue to expand poorer peoples' access to finance and financial services, and serve as role models, both locally and internationally.

With their businesses financed by small loans, Mach, who sells boiled corn, and Ny her husband, who works as a barber, provide a good living for their six children.

Prior to microfinance becoming available in their village in Kompong Speu, the family had no capital to expand their businesses. Earning just \$2.50 per day, they sometimes could not feed their large family, and their oldest son had to quit school and become a construction worker to help feed the family. Recalling those days, Mach says, "I could almost never afford meat for my children."

Mach used her first loans to expand her fruit business, but now sells boiled corn. Her husband used to sell ice

cream, but microfinance made it possible for him to become a barber – a skill he learned in childhood from his father. With a succession of microfinance loans worth between \$100 to \$250, the couple now earn about \$15 a day.





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Cambodia Microfinance Association

The Cambodia Microfinance Association (CMA) was established in 2004 by seven of Cambodia's commercial microfinance institutions in order to discuss and develop solutions to common challenges and advocate effectively for the industry as a whole. Today CMA has 17 members who share the common vision of promoting microfinance and enhancing the capacity of members to operate effectively and profitably, but also to maximize their contribution to economic and social development.

Cambodia Microfinance Association

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