

MICROFINANCE

During the 1990s, Cambodia was in a rebuilding phase after the genocide of the Khmer Rouge (1975-1979) and the Vietnamese occupation (1979-1989). This situation has created a highly competitive environment in which microfinance has played an important role. Since then, many MFIs have emerged in the country, and 20 have now been licensed by the Central Bank. They reach about 1 million customers, or about 5 million people when including the average number of family members in the country, which represents about one-third of the population.

Today, the evidence is in: MFIs in Cambodia are among the best in the world, whether in size, in ratings or in terms of transparency, even though the country is relatively small and sparsely populated. This climate of competition between MFIs is beneficial for customers, as all our interviewees have confirmed: it motivates workers, reduces interest rates, and most of all encourages innovation.

In fact, we can say that Cambodia today is a land of microfinance.

Our 3 partners – SIDI, PlaNet Finance and BNP Paribas – have planned interviews for us with 4 MFIs in Phnom Penh, which we spread over 3 days. Some of them took us out into the field, where we were able to talk with shopkeepers and artisans. While one of them has little confidence in his future, the others are quite optimistic, thanks in part to microfinance.

Most often, the loans are used to purchase a stock of products to be processed and / or resold. The loans are small – the average loan size provided by the “AMK” MFI, for

example, is \$110 – but they are essential in supporting the economic and social fabric of the country. All of our interviewees confirmed that they would like to take out a second loan once they have repaid their current loan, having observed a more or less significant improvement in their living standards. This change in living conditions – access to water, education, health care etc. – is referred to as the “social performance” of microfinance. It is currently the subject of debate among Western donors, including specialists seeking to establish a global balance sheet for the microfinance business.

This “social performance” can be contrasted with the “financial performance” of an MFI, which is considered less important in microfinance. In theory, the institutions involved should simply cover their costs, while the profit motive – for organic growth in particular – is only of secondary importance.



A microentrepreneur working at her weaving business, on the “Island of Silk” at Phnom Penh

It is also interesting to note that the financial crisis of 2008/2009 had an impact in an area as remote as the suburbs of Phnom Penh. Borrowers that we met complained of a recent decline in sales, and some of them have asked for emergency loans from

their MFI. These loans, which are available for a capped amount and are reserved for loyal customers, are different from conventional microcredit loans in the speed with which customers receive the funds and the simplification of formalities.

Here in Cambodia, microfinance does not make much use of the “Grameen Bank” group loan model, such as we saw in India and Nepal. No, here the norm is the individual loan, just like in commercial banks. It seems to us that this principle represents an evolution relative to group lending, because customers benefit from better service and because it makes them more independent. But of course, this may not be applicable everywhere, especially in the poorest countries.

Our interviewees in the 4 MFIs that we visited (Hattha Kakskekar, AMK, Maxima and Chamroeun) all cited innovation as their main objective. For them, the success of microfinance lies in the constant re-examination of the model, and their ability to offer products that are ever more responsive to customer needs.

Microinsurance, for example, is one of these products. According to Paul Luchtenberg of the MFI “AMK”, poverty is not only about low incomes, but also, and most importantly, because individuals suffer from shocks that completely exhaust their resources: sickness, death, fire etc.

Microinsurance is a perfectly adapted response to this problem. However, MFIs also need to fully master this complex product, which is far from being the case at the moment.

Gregory Héaulme, a French member of the network “Entrepreneurs of the World” and who developed the MFI Chamroeun, has opted to subcontract

its microinsurance services. It works with an NGO, GRET, which is used to managing these kinds of risks, so that Chamroeun can offer its customers this innovative service: for a cost of \$2 per month, the customer and their family receive health insurance. This is a type of partnership that we would like to see more often, as it seems to be effective.



In Southeast Asia, the majority of microfinance beneficiaries are small distributors, such as these two sisters, interviewed in Phnom Penh

The theme of partnerships with NGOs and private companies comes up frequently in our conversations with MFI officers. These partnerships make it possible for them to offer products and services that are not part of their core business. For example, at AMK, our partner Paul Luchtenberg is actively seeking a partner to take over the training of its customers.

Training is essential to teach customers at least the rudiments of budget management, which will help them in making payments on their loans. While this might seem strange in a commercial bank (who would want to be trained by their bank?), training is common in the field of microfinance.

Finally, it was by visiting these MFIs in Phnom Penh we were warned of a problem which is being seen more and more often by auditors: the tendency of MFIs to grow too fast. We noted two distinct aspects.

developed in Cambodia. Paul Luchtenberg, CEO of the MFI



Johan and Benjamin during the interview with the CEO of the MFI "Maxima" in Phnom Penh

The first is the MFI's desire to seek larger and larger loans, and therefore richer and richer customers. This trend can continue to the point where it distorts the nature of the MFI, to the extent that it forgets its social role. To overcome this problem, Chamroeun has imposed a safeguard: only 20% of its portfolio will be allocated to loans larger than 300 euros.

The second is the risk of emphasising the quantity of loans and the development of new branches to the detriment of control. Hattha Kaksekar experienced this problem in the early 2000s, and since then has steadily increased the number of staff assigned to control: "Systematic and regular control, this is the thing that is most important for anyone who wants to succeed in microfinance," concludes Hout leng Tong, CEO of Hattha Kaksekar.



"AMK" branch network is the most