

Bachelor Thesis

Tokyo University of Foreign Studies

Microfinance for Poverty Reduction

What is the Best Form of Borrowers in Cambodia?

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<List of Acronyms>

ACLEDA	Association of Cambodian Local Economic Development Agencies
ADB	Asian Development Bank
AIDs	Acquired Immune Deficiency syndrome
AMK	Angkor Microfinance Kampuchea
ASEAN	Association of South East Asian Nations
BRAC	Bangladesh Rural Advancement Committee
CARD	Center for Agriculture and Rural Development
CGAP	Consultative Group to Assist the Poor
CREDIT	Cambodia Rural Economic Development Initiative for Transformation
GDP	Gross Domestic Product
GNP	Gross National Product
HDI	Human Development Index
HIV	Human Immunodeficiency Virus
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
IMF	International Monetary Fund
JICA	Japan International Cooperation Agency
Lao PDR	Lao People's Democratic Republic
LIP	Living In Peace
MDGs	Millenium Development Goals
MF	Micro Finance
MFI	Micro Finance Institution
NGO	Non Governmental Organization
ROSCA	Rotating Saving and Credit Association
SEWA	Self Employed Women's Association
TYM	Tao Yeu May
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
US	United States
USA	United States of America

1. Introduction

In the last decade, microfinance has internationalized and generated worldwide awareness and recognition in developing countries as well as industrialized countries.¹

Multilateral lending agencies, bilateral donor agencies, developing and developed country governments, and NGOs, all support the development of microfinance. A variety of private banking institutions has also joined this group in recent years.²

According to the Microcredit Summit Campaign Reports (2009), 3,552 MFIs are thought to be present in the world. However, 95 percents of those agencies and institutions are in developing countries. Above all, Asia and the Pacific regions accounts for a half. Then, 26 percents of those MFIs are in Sub-saharan Africa. And 17 percents are in South America and Caribbean States, and the other 2 percents are in Middle East and North Africa.

One of the most famous contributors in the early stages of the development of microfinance is Muhammad Yunus, the founder of Grammen bank³ in Bangladesh. In 2006, “for their efforts to create economic and social development from below”, he and his Grameen Bank received Nobel Peace Prize.⁴

In Latin America the development of solidarity group lending to urban vendors was led by Accion International.⁵

Large conferences and summits have been dedicated to microfinance. For

¹ See appendix for more information.

² Asian Development Bank (2000).

³ See appendix for more information.

⁴ The Nobel Peace Prize for 2006, Nobel Foundation, http://nobelprize.org/nobel_prizes/peace/laureates/2006/, accessed on July 9th, 2011.

⁵ Joanna Ledgerwood (1999).

example, the microcredit summit of 1997 and the Year of Microfinance of 2005 by the United Nations have contributed to this awareness and recognition. Large international organizations such as the World Bank, ILO, UNDP and Development Banks have entered the scene.⁶

As a result, microfinance services have grown rapidly during the last decade. Although from an initial low level, they have come to the forefront of development discussions concerning poverty reduction.⁷

1.1. Terminology

To be clear terms used in this thesis, I will define some of the most important words in this thesis.

1.1.1. Microfinance

Microfinance is a much researched discipline and has brought forth an abundance of literature. Despite this, there is hardly any agreement on universally accepted definition of microfinance.⁸

Though, generally microfinance is collective name for different financial services to the poor including credit, savings, insurances and pensions.⁹

Gert van Maanen defines “microcredit or microfinance” as banking the unbankables. It means bringing credit, savings and other essential financial services within the reach of millions of people who are too poor to be served by regular banks. In most cases, it is because they are unable to offer sufficient collateral.¹⁰

Within the microfinance branch, the terms “microfinance” and “microcredit” are used interchangeable. However, there is a theoretical distinction.

⁶ Gert van Maanen (2004).

⁷ Same with 1.

⁸ Aliya Khawari, Microfinance (2004).

⁹ Anne-Marchien van Campen (2008).

¹⁰ Same with 3.

According to CGAP, “microcredit” or “microlending” are small loans provided to individuals that help them to undertake productive activities, stabilize consumption or grow their businesses. As examples of undertaking productive activities, they start sewing business by getting a sewing machine and haulage by getting a truck. There are generally uncollateralized loans offered to an individual and especially group lending.¹¹ This is unlike the traditional banks, which are reluctant to work with the poor seen as cost inefficient because of lack of collateral, minimal information on the clients and tiny credit amounts.¹²

“Microfinance” is the whole spectrum of financial services: loans, savings, insurance, transfer services and the other financial products targeted at low-income clients.¹³

In this thesis, the financial products that will be discussed are limited to credit and savings. For that reason, the term “microfinance” will be used to indicate only these services.

Although the poor in developed countries are also included in users of microfinance, “borrowers” in this thesis are limited to the poor in developing countries. It is because 95 percents of MFIs are in developing countries¹⁴.

1.1.2. Group Lending

The forms of lenders and borrowers in microfinance are various. Banks, credit unions, agricultural unions, NGOs and money lenders are included in the forms of lenders. On the other hand, individual lending, group lending and community lending are included in the forms of borrowers. Above all, group lending draws attention as a new method for poverty reduction.

In “Grameen Classic System”, the original system of Grameen Bank, each borrower organizes the primary group of five members. And they elect a leader

¹¹ What is Microfinance?, CGAP, <http://www.cgap.org/p/site/c/template.rc/1.11.947/1.26.1302/>, accessed on July 9th, 2011.

¹² Same with 2.

¹³ Same with 2.

¹⁴ Microcredit Summit Campaign Reports (2009).

of the group. After that, two borrowers except for the leader can get loans. If they can repay, the other borrowers except for the leader can also get loans. After the two borrowers can also repay, finally the leader can get a loan. In Grameen Classic System, borrowers repeat these processes. It is considered that this system operates upon that the repayment rate of Grameen Bank is estimated at 95 percents.

The main factors in the success of group lending are considered “Peer Selection” and “Peer Monitoring”.

“Peer Selection” is the ability of borrowers to select members with each other when they organize groups. Group members must help each other if someone in the same group defaults in repayment. Therefore, they hope to organize the group with safer members, and only safe borrowers remain in the market. It means that risky borrowers are automatically cleared out.

“Peer Monitoring” is the ability of borrowers to monitor the investment behavior of one another during the course of the loan. By doing this, they make sure that each member undertakes only safe investment projects with borrowed capital.

Group Lending is not required to give any collateral for a loan. That is because the trust relationship of group members is substituted for collateral.

1.1.3. MFI

MFI is an organization that provides financial services to the poor. This broad definition includes a wide range of providers that vary in their legal structure, mission, and methodology. However, all share the common characteristic of providing financial services to clients who are poorer and more vulnerable.¹⁵

Anne-Marchien van Campen states that microfinance services are provided by three types of sources as below:¹⁶

- a) Formal institutions, such as commercial and rural banks
- b) Semiformal institutions, such as non government organizations and governments
- c) Informal sources such as money lenders and traders

¹⁵ What is a Microfinance Institution?, CGAP, <http://www.cgap.org/p/site/c/template.rc/1.11.947/1.26.1308/>, accessed on July 9th, 2011.

¹⁶ Same with 2.

Formal institutions are sometimes defined as providers that are subject not only to general laws but also to specific banking regulation and supervision. For example, development banks, savings and postal banks, commercial banks, and non-bank financial intermediaries are included. Formal institutions may also be any registered legal organizations offering any kind of financial services. Semiformal institutions are registered institutions that are subject to general and commercial laws. But they are not usually under bank regulation and supervision. For examples, financial NGOs, credit unions and cooperatives are included. Informal sources are non-registered groups such as ROSCAs and self-help groups.¹⁷

The difference of MFIs with formal financial institutions such as commercial banks is that MFIs need to create mechanisms to bridge the gaps created by poverty, literacy, gender and remoteness.¹⁸

MFIs often also need to address the necessities of their clients. According to Ledgerwood, specific production and business skills as well as better access to markets are necessary if they are to make profitable use of the financial services they received. This has also been addressed as enterprise development services. Other MFIs address the social services such as health care, education and literacy training. These social intermediations can improve the ability of low-income men and women to operate microenterprises either directly or indirectly.¹⁹

The numerous institutions within the branch, all define MFIs slightly different. ADB defines MFIs as institutions whose major business is the provision of microfinance services.²⁰

In this thesis, the term “MFI” will be used to indicate the generic concept of all institutions providing financial services to low income people.

1.2. Country Background

¹⁷ Same with 7.

¹⁸ Same with 3.

¹⁹ Same with 3.

²⁰ Same with 1.

1.2.1. Overview

The Kingdom of Cambodia, with an area of 181,035 square kilometers, is located in South East Asia, on the south-western part of the Indochina Peninsula. It is bordered by Thailand on the west and north-west, by Lao PDR on the north, and by Vietnam on the east and south-east. Cambodia is bounded by the Gulf of Thailand on the south-west with a coastline that is 435 kilometers long.

Cambodia is known for its cultural heritage and the impressive Angkor temples represent the country's major tourist attraction. The temples were built between the 9th and the 13th century in the religious and administrative center of the Khmer Kingdom.

Situated between the Tropic of Cancer and the Equator, Cambodia has a tropical climate with two distinct seasons: the dry monsoon season from November to May, and the humid and rainy monsoon season from June to October.

Annual average temperature varies between 21 to 35 degrees. It often reaches over 40 degrees in April, the hottest month.

The landscape is dominated by the Lake of Tonle Sap as well as the Mekong and Bassac Rivers that run through the country's central plain.

While 75 percent of the country is flat, the more densely forested and sparsely populated highlands comprise the Cardamom Mountains in the southwest including the country's highest mountain, Phnom Aural and the Dangrek Mountains in the north among the Thai border.

Administratively, the country is divided into 20 provinces, four municipalities and 12,738 villages.²¹

²¹ Michael Minges, Vanessa Gray and Lucy Firth (2002).

Figure 1.1: Map of Cambodia.



Source: Country Overview, World Bank.²²

1.2.2. Demography

The national census in 2008 counted a population of 13.4 million. The majority of the population is rural, with only 21.6 percent residing in urban areas. Cambodia's capital is Phnom Penh, with a population of about 1.4 million.

With an estimated annual growth rate of 1.54 percent. 46 percent of the population is under the age 20 and 68 percent of the male population is under 30. With relatively fewer adult men, 35 percent of Cambodia's households are headed by women.

²² Country Overview, World Bank, <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/CAMBODIAEXTN/0,,menuPK:293863~pagePK:141132~piPK:141121~theSitePK:293856,00.html>, accessed on July 10th, 2011.

Table 1.1: Population Indicators.

Item	Year 2008
Total Population (million)	13.4
Population Growth Rate	1.54
Life expectancy at birth (years)	
• Male	59.2
• Female	62.8
Urban population (%)	21.6
<u>Age Distribution:</u>	
Below 15 years (%)	33.7
15-29 years (%)	31.5
30 years and older (%)	34.8

Source: National Institute of Statistics and World Bank (2008).

The population of Cambodian accounts for around 90 percent. The other five percent is Chinese and the other is Vietnamese. The official language, spoken by 95 percent of the population is Cambodian. There is some use of French and English. French tends to be understood mainly by older people while English is more commonly understood by the younger generation. The Buddhism is the religion of virtually all of the ethnic Cambodian. And it is about 95 percent of the population.

Source: Ministry of Foreign Affairs of Japan.²³

1.2.3. Economy

Cambodia is one of the poorest countries in the world. In 2005, its GNP was US\$ 5.34 billion and its GNP per capita was US\$ 380.²⁴ For comparison, the World Bank used these intervals as the categories in World Development Report in 2000:

²³ Ministry of Foreign Affairs of Japan,
<http://www.mofa.go.jp/mofaj/area/cambodia/data.html>, accessed on July 10th, 2011.

²⁴ Students of the world,
<http://www.studentsoftheworld.info/>, accessed on December 21st, 2011.

Table 1.2: GNP per capita Intervals.

Rank	GNP per capita
Low	\$755 or less
Lower middle	\$756-2995
Upper middle	\$2996-9265
High	\$9,266 or more.

Source: World Bank (2000).

Although at almost 10 percent per year between 1998 and 2008, Cambodia's GDP growth was very strong. The episode of sustained growth was interrupted in 2008-09 because of the financial crisis, Lehman's fall. But it is recovering strongly in 2010-11 with GDP growth estimated at 6.7 percent.

The rapid economic growth has created employment opportunities. And the poverty headcount has declined from 45-50 percent in 1993-94 to 30.1 percent of the population living below the poverty line in 2009. Poverty is concentrated in rural areas. It accounts for 90 percent.

The Cambodian economy is largely based on agriculture, which employs 70.2 percent of the workforce in 2001. The industrial infrastructure of the country is poorly developed and the sector accounts for 10.5 percent of employment. Services account for the remaining 19 percent of the labour force.

In 2009, agriculture represented 35 percent of the total GDP. And services accounted to 42 percent, and industry accounted for 23 percent.²⁵

Although Cambodia's progress toward meeting is uneven, the MDGs has been strong. Especially strong progress has been made in a number of areas, such as poverty reduction, primary education, child mortality and HIV/AIDS.

For instance, the net primary admissions rate increased from 81 in 2001 to 92.4 in 2008, and the under 5 mortality rate has decreased from 124 per 1,000 live births in 1998 to 83 in 2005. However, progress has been lagging behind in other areas, in particular, maternal mortality and environmental sustainability.²⁶

A review of governance indicators confirms the importance of governance

²⁵ World Bank.

²⁶ World Bank.

as a key development issue for Cambodia. In surveys such as the Bank's Investment Climate Assessment, firms report high levels of corruption, and register complaints about the costs and reliability of public services.

Ministry of Foreign Affairs of Japan states the conspectus of Cambodian economy as below:

The tourist business and the manufacturing industries such as sewing and shoemaking are growth areas. Peace and stability were attained, and also the economy recovered gradually and the economic growth rate of double figures at an annual rate was recorded from 2004 to 2007, however it was affected by a world economic crisis. According to IMF, the growth rate in 2008 became 6.7%, and it became minus 2.0% in 2009.

The 4th kingdom government established in September, 2008 is planning to continue to be involved in the reform for enhancement of governance and achievement of a high economic growth rate in order to realize sustainable growth and poverty reduction. For that, the improvement of an investment environment and attraction to direct foreign investment are important.²⁷

After many years of war and internal conflict, a stabilizing political environment has led to an improved economic performance. And the economy has been growing slowly but steadily in the last decade. Economic growth was 10.2 percent in 2007, and 6.7 percent in 2008.²⁸

Cambodia's most important exports include garments (83.5%), footwear (3.7%), gold (2.7%) and rubber (1.8%). Its main markets are HongKong, USA, Singapore, Canada and UK.²⁹ Entry to ASEAN is likely to have a positive influence on the politics as well as the economies.

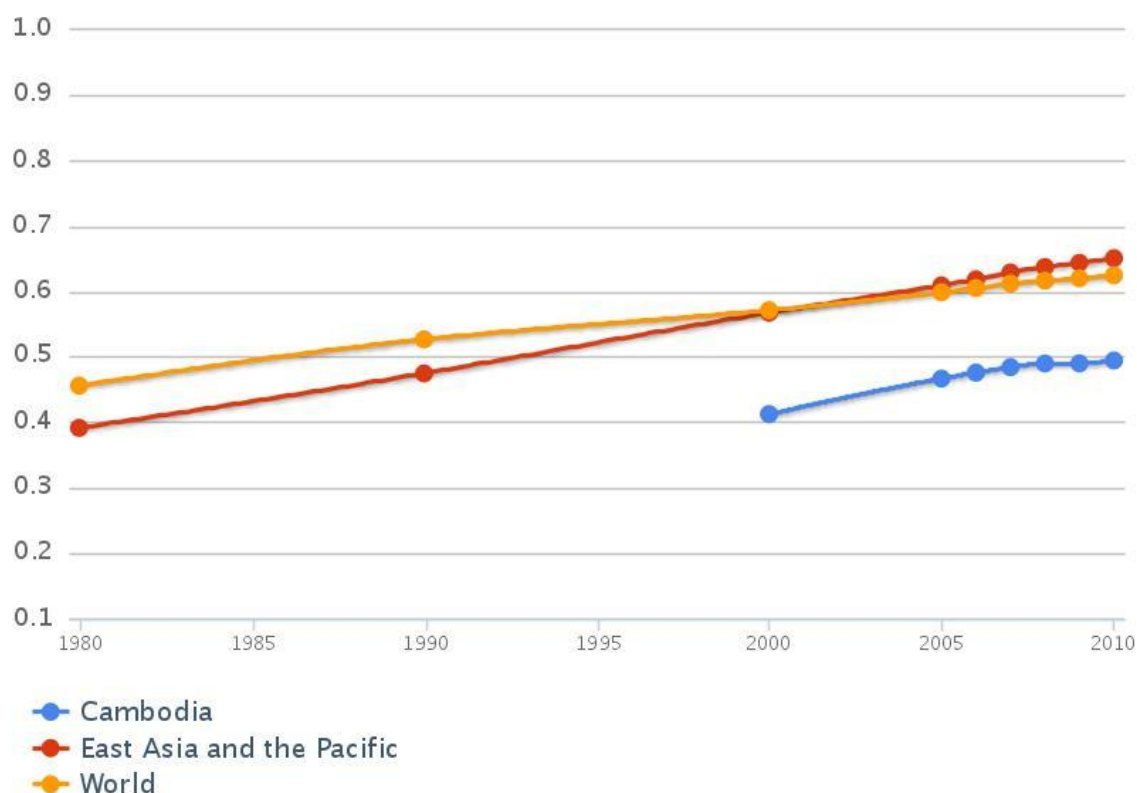
²⁷ Basic Data Kingdom of Cambodia, Ministry of Foreign Affairs of Japan, <http://www.mofa.go.jp/mofaj/area/cambodia/data.html> (updated in April 2011), accessed on July 12th, 2011.

²⁸ World Bank.

²⁹ Ministry of Foreign Affairs of Japan.

1.2.4. Human Development

Figure 1.2: Human Development Index: Trends 2000 – Present.



Source: UNDP (2010).

Cambodia ranks 124th out of 169 on UNDP's Human Development Index, HDI³⁰. The HDI of East Asia and the Pacific as a region increased from 0.391 in 1980 to 0.650 today, placing the country below the regional average. One of the lowest ranked South East Asian countries only above Myanmar, Cambodia is about where it should be in terms of human development given its per capita. Table 1.2 shows that the HDI varies greatly in the ASEAN region and that Cambodia, together with Myanmar, has the region's lowest HDI. Cambodia's history of war and internal conflict have had a detrimental impact on the country's social and economic structure.³¹

³⁰ HDI value: A composite index measuring average achievement in three basic dimensions of human development—a long and healthy life, knowledge and a decent standard of living.

³¹ UNDP (2010).

Table 1.3: Human Development Indicators.

HDI Rank	Country	HDI Value	Life expectancy at birth (years)	Inequality adjusted HDI value	Gender Inequality Index	Multidimensional Poverty Index (k greater than or equal to 3)	Mean years of schooling (of adults) (years)	GNI per capita (2008 PPP US\$)
27	Singapore	0.846	80.7	-	0.255	-	8.8	10.8
57	Malaysia	0.744	74.7	-	0.493	-	9.5	9.5
92	Thailand	0.654	69.3	0.516	0.586	0.006	6.6	9
97	Philippines	0.638	72.3	0.518	0.623	0.067	8.7	8.3
108	Indonesia	0.6	71.5	0.494	0.68	0.095	5.7	8.3
113	Vietnam	0.572	74.9	0.478	0.53	0.075	5.5	8
122	Lao PDR	0.497	65.9	0.374	0.65	0.267	4.6	7.8
124	Cambodia	0.494	62.2	0.351	0.672	0.263	5.8	7.5
132	Myanmar	0.451	62.7	-	-	0.088	4	7.4

*Cambodia compared to selected Asia-Pacific economies

Source: UNDP (2010).

1.2.5. Government³²

Cambodia has a long history, and its culture goes back at least to the South-East Asian Hindu state of Funan in the first century. It is known for the kingdom of Angkor, which has its origin in the eighth century.

Weakened by wars and dynastic rivalries, Cambodia became a French protectorate in 1863, and a virtual colony by 1884. While French control over the country was temporarily suspended during the Second World War, French rule returned to Indochina, once the Japanese had surrounded.

However, the quest for independence increased in 1954, Cambodia gained full independence under King Norodom Sihanouk. Although Sihanouk emphasized Cambodia's neutrality, the country was eventually drawn into the US-Vietnam war, and in 1969 the United States suspecting communist enemies in Cambodia heavily

³² Same with 19.

bombed the country. Internal conflicts led to the overthrow of Sihanouk in 1970 and the establishment of the pro-military regime under General Lon Nol.

Sihanouk formed an alliance with his former enemies, the Cambodian communists called “the Khmer Rouge” against the government of Lon Nol. Despite US support for Lon Nol, the government was overthrown, and the Khmer Rouge gained power in 1975.

In the next four years the Khmer Rouge, under the leadership of Pol Pot, tried to convert Cambodia into a self-sufficient, agrarian country. This social and economic experiment established state control through terror, turned citizens into slave workers, and killed an estimated 1.7 million people, some 20 percent of the population at the time.

Border disputes, ideological differences, and the wish to restore order in the region, led Vietnam to invade Cambodia in 1979. The Khmer Rouge were pushed westwards, toward the border with Thailand, from where they fought a guerrilla war against the Vietnamese backed government. Other groups, beside the Khmer Rouge, began to fight for Vietnamese withdrawal. In 1989, the last Vietnamese troops left the country and four political groups, including a faction led by former King Sihanouk, started their struggle over power.

A framework for a settlement between the opposing forces within Cambodia was agreed upon in 1990, and a year later the UN was given authority to supervise a ceasefire and organize elections that took place in 1993. Over four million Cambodians, around 90 percent of eligible voters participated in the elections, which established the Royal Government of Cambodia.

Within a framework of parliamentary democracy King Sihanouk was proclaimed Head of State. Two Prime Ministers, Prince Ranariddh and Hun Sen were appointed to represent the two major parties that won the elections. The Khmer Rouge, who boycotted the election were promised amnesty. This led to the defection of some of its members and in 1994 the group was officially outlawed.

After internal struggles within the coalition government in 1997, the Cambodian People’s Party assumed leadership. Hun Sen was elected sole Prime Minister in 1998 in a new coalition government, with Prince Ranariddh as President of the National Assembly.

1.3. Study Objective

1.3.1. Leading Literature in Microfinance

According to Jun Goto (2009), microfinance has been drawing attention as a strategy for poverty reduction:

- a) Economic effects: improving access to credit, rising income and decreasing risk
- b) Political effects: improving women's empowerment and accumulating the capital of social relations
- c) Autonomy of MFIs: high repayment rate of loans and profitability

Although it is difficult for financial projects to succeed in countries which are remarkable for information asymmetry, group lending is effective in overcoming imperfection of credit market.

The asymmetry of information, that is to say, lenders cannot get only partial information about borrowers:

- a) Lenders don't know the type of borrowers.
- b) Lenders don't know the behavior of borrowers.
- c) Lenders don't know how much borrowers can get profits by the investment.

Lenders need to raise interest rates to collect the above information, however if they do so, the following issues will occur:

- a) Adverse selection
 - Safe borrowers disappear from the market when interest rates are increased, and only risky borrowers remain at the market.
 - Borrowers who need to borrow money cannot do so. (Credit rationing)
- b) Ex ante moral hazard

- When interest rates are increased, borrowers invest in riskier projects, therefore repayment rates declined.
 - Lenders cannot cover the cost of capital, lenders are cleared out.
- c) Ex post moral hazard
- After borrowers finish investing in a project and achieving the result, lenders cannot show it.
 - When interest rates are increased, borrowers may falsely report that they failed in the projects.

Source: Goto (2009).

Group lending can solve these problems with peer selection and peer monitoring. Therefore, the group lending is considered appropriate in most studies.

On the other hand, Mariko Okamoto states about group lending as follows:

It is in the spotlight, however there are some cases of failure. And there are studies which explain about whether all borrowers repay or not, by game theory. Collateral loan should be used more actively, however it is needed to consider concretely which the collateral or the guarantor is better, according to environmental conditions on the basis of accumulation of case studies.

Source: Microcredit Study Group (1997).

1.3.2. Problem Statement

Microfinance is recognized as a strategy for poverty reduction by most researchers while the opinions on approaches are various, especially about the forms of borrowers. There are some forms of borrowers such as individual lending, group lending and community lending. However, the group lending has been major. Therefore, it accounts for the large share of the whole successful examples and has been considered as the best form of borrowers.

According to Zeller, M., Sharman, M., McClafferty, B (1997), the impact of other forms has not been examined. In fact, there are some cases of success in other forms.

In addition, there are some cases of failure in group lending, and the Grameen Bank that have been famous for group lending, introduced new forms of borrowers, “Grameen Generalized System” in 2000.

1.3.3. Aim and Objective of Study

The purpose of this study is to clarify conditions where each form of borrowers operates effectively, and find the best form of borrowers in Cambodia to make microfinance more effective there.

The reason for limiting the target of this study to Cambodia is to make the most of the ability of Cambodian, and be found too many institutions of microfinance in the country at present.

2. Model and Method

- a) Impact Survey: What analyzed how people's life and the community developed by the investment
 - It is a problem that it is difficult to extract the portion the credit affected purely.

$$\begin{aligned} \text{The average treatment effect on the treated (ATT)} &= E(y_1|d = 1) - E(y_0|d = 1) \\ &= [E(y_1|d = 1) - E(y_0|d = 0)] - [E(y_0|d = 1) - E(y_0|d = 0)] \\ &= [E(y_1|d = 1) - E(y_0|d = 0)] \end{aligned}$$

The following assumption is required in order to form the above formula.

$$d \perp\!\!\!\perp y_0 \text{ and } E(y_0|d = 1) = E(y_0|d = 0)$$

In brief, if the capability of the household economy which participated in microfinance is high from the first or the area that introduced the program is a place where a result is likely to come from the first, the bias will be positive to evaluation.

$$E(y_0|d = 1) > E(y_0|d = 0)^{33}$$

- b) Investigation based on success examples and its factors
 - There is a partially common view about the success factors at a development assistance agency.
- c) Evaluation of autonomy and the efficiency of the organization of a financial institution (in the second half of the 1980's)
 - Autonomy of an organization is important for establishment as a financial system. The analysis using not only profit as the financial institution itself but also dependency ratio, staffs to a

³³ Jun Goto (2009).

customer, the amount of loan to operating costs, etc. is conducted. However, there are also many problems such as how to take an index, and there is nothing defined.

- d) Research on the possibility of application: What extracts the success factors and explores the possibility of application to other organizations.
- e) Research on a theoretical background
- f) Research on the importance of institutional construction

- This is a field into which research is made the most actively. At this field, it is needed to study the actual condition and the present condition of the present or the existing financial institutions more deeply.

Source: Microcredit Study Group (1997).

In this thesis, the following approach is used in addition to the above approaches, (b) and (d).

- g) Interview about cultural background of Cambodia

Indicators used to evaluate the performance of microfinance are as follows:

- a) Repayment rate
- This is the most fundamental index of a loan program. Even if it is the microfinance for any project goals, it must be designed to

secure a repayment rate, in order to prevent confusion of “loan” and “donation” and realize the activity. Moreover, if it is made light of, the sustainability of the result of the whole project will be spoiled. This point is the consensus already established not only in financial institutions such as World Bank, but also in an assistance organization and a microfinance organization.

- b) The number of users: The material which measures efficiency (the number of users per staff) and the sustainability of service (the rate of repeaters) in addition to the scale and the depth (the number of the poor using the microfinance).
- c) The possibility of financial independence: The index which measures whether an organization can cover operating costs (a staff salary and an office cost) with a return of interest, and it can maintain activity without depending on external funds (whether it has mobilized deposit, and it has the system which can cover the cost of raising funds). It keeps making a long-term system in mind.

The number of users and repayment rate considered “success” changes by each project goal, however as long as the reports of projects are read, these indices are considered as the criteria of judgment of “whether the performance has succeeded or not” in general.

Source: JICA (2004).

3. Data

In this thesis, the followings are used as the cases of success in Asia. These MFIs are the largest or the second largest in each country. Especially, TYM in Vietnam is the first MFI desinated in the fall of 2010 in the country.

Bank	Country
SEWA	India
Rakyat	Indonesia
Grameen	Bangladesh
BRAC	Bangladesh
CARD	Philippine
TYM	Vietnam

Source: It is referred to each bank's website and created by the author of this thesis (2011).³⁴

On the other hand, the followings are used as the cases of failure in Asia.

Case	Country
Small Farmer's Development Program	Nepal
Field Work	Vietnam

Source: It is referred to the footnote below and created by the author of this thesis (2011).³⁵

According to LIP Report (2009), 84 NGOs, 24 registered NGOs and 60 non-registered NGOs provide financial services to the poor. The number of MFIs which were given permissions to provide financial services to the poor by National Bank of Cambodia by 2010 is 20 institutions. And eight institutions out of them can get permissions of deposit affairs. Therefore, it can be said that these 20 institutions

³⁴ See reference for more information about each bank's website.

³⁵ Kono (2006) and IFAD, <http://www.ifad.org/>, accessed on January 4th, 2012.

succeeded as MFIs in Cambodia.

In this thesis, the following MFIs and provinces are used to see the possible application to the case of Cambodia.

These eight MFIs are given permissions to provide financial services to the poor by National Bank of Cambodia, and the latest data can be obtained through the websites.

MFIs
Amlet Co Ltd
Hatthakaksekar
Selanithih
Vision Fund Cambodia Ltd
CREDIT Co Ltd
Prasac Microfinance Institution
AMK
ACLEDA

Source: It is referred to National Bank of Cambodia (2011), and created by the author of this thesis.

Cambodia is administratively composed of 23 provinces and a city, Phnom Penh.³⁶ In this thesis, all provinces and a city are used to evaluate the possible application to the case of Cambodia.

³⁶ Cambodia Tips, <http://www.cambodiatips.com/travelguide/>, accessed on January 4th, 2012.

Table 2.4: Administrative Division of Cambodia.

Provinces and a City
Banteay Meanchey
Battambang
Kampong Cham
Kampong Chhnang
Kampong Speu
Kampong Thom
Kampot
Kandal
Koh Kong
Kratie
Mondol Kiri
Otdar Meanchey
Preah Vihear
Prey Veng
Pursat
Ratana Kiri
Siem Reap
Stung Treng
Svay Rieng
Takeo
Kep
Pailin
Preah Sihanouk
Phnom Penh

Source: Tourism Cambodia (2011).³⁷

³⁷ Tourism Cambodia, <http://www.tourismcambodia.com/travelguides/provinces/>, accessed on December 20th, 2011.

4. Analysis

In this chapter, the best form of borrowers in Cambodia is analyzed from three sides, investigation based on success examples and its factors in Asia, interview about cultural background of Cambodia and research on the possibility of application to the case of Cambodia.

4.1. Case Study

In this section, it is analyzed whether the scheme adopted by successful MFIs³⁸ is also applicable to six successful examples in Asia.

According to Table 3.1.1 and Table 3.1.2, two concrete methods are seen commonly among all the successful examples. They are uncollateralized loan, and activity in a group and a leader's support. The purpose of uncollateralized loan is the poor without collateral are also coped with. And the purpose of activity in a group and a leader's support is the mental fence between women or the poor and a banker is made low. The strategy of these concrete methods is the innovative method which suited the poor's characteristic is adopted for achievement of the poor.

Any bank except CARD adopts a setup of the top limit of loans as one of the concrete methods in common. And Assistance by sufficient explanation, a simple loan process and the staff, and Education of staffs are adopted by any bank as the

³⁸ See Table 3.2 for more information.

concrete methods, except for Rakyat.³⁹ The purpose of a setup of the top limit of loans is an opposite cost benefit is lessened, that is loan amount obtained to time and effort is lessened. And the strategy is the merit the rich enter is reduced for achievement of the poor.

The purpose of assistance by sufficient explanation, a simple loan process and the staff is the procedure in which a non-literacy person is also possible is made. And the purpose of education of staffs is the mental fence between women or the poor and a banker is made low. The strategy of these concrete methods is the innovative method which suited the poor's characteristic is adopted for achievement of the poor.

Also the joint liability on a guarantee system by the members of a group is adopted by any banks except CARD⁴⁰ as one of the concrete methods. However, SEWA also adopts it only in cities.⁴¹

This concrete method has two kinds of purposes and strategies. One purpose is the borrower who is likely to default is eliminated, and the strategy is examination of loan is performed effectively and appropriately so that high repayment rate can be secured. The other purpose is the system in which a borrower will become troubled socially if he or she does not repay is made, and the strategy is the system used as the incentive of payment is used so that high repayment rate is secured.

From the above analysis, the following things are considered as main factors that affect the success of microfinance.

- a) Uncollateralized loan
- b) Activity in a group, and a leader's support
- c) A setup of the top limit of loans
- d) Assistance by sufficient explanation, a simple loan process and the staff

³⁹ In these cases, CARD and Rakyat have no data.

⁴⁰ CARD has no data on this item.

⁴¹ It is not adopted in villages.

- e) Education of Staffs
- f) The joint liability on a guarantee system by the members of a group

The concrete method	SEWA	Rakyat	GB
A setup of property and an income standard	×	○	○ Land ownership area
The interest rate on loans according to a market rate	○	×	○
A setup of the top limit of loans	○	○	○
The division payment at a weekly meeting□	×	—	○
Uncollateralized loan	○	○	○
Assistance by sufficient explanation, a simple loan process and the staff	○	—	○
Personal identification is made possible.	○ A photograph and a fingerprint	—	○ Training of a sign
Quick examination of loan and procedure □	○ 2 weeks	○	○ 2 weeks
Irregular business hours □	○	—	×
Mobile bank	○ A car and a branch office	—	○ Meeting place
Education of staffs	○	—	○
Activity in a group, and a leader's support □	○	○	○
Members can participate in decision-making bodies such as board of directors.	○	—	○
Examination of the business activity by the member in the same business	○	—	×
The joint liability on a guarantee system by the members of a group	City: ○ Village: ×	○	○
Recommendation by the influential person of the area	×	—	×
It is carried out by deposit preceding and good performance is made condition.	○	—	○
The joint liability on a guarantee system by the members of a group	City: × Village: ○	○	○
The guarantor system	City: ○ Village: ×	×	×
Payment performance is reflected on the next loan conditions. (interest rate, the amount limit of loans, etc.)	○	—	○
In the case of default, collateral which can be disposed of is taken. (Land is difficult in practice.)	Precious metals, etc.	—	×
Source: It is referred to the websites of footnotes, and created by the author of this thesis (2011).			

Table 3.1.2: Successful Banks in Asia (2).

The concrete method	BRAC	CARD	TYM
A setup of property and an income standard	○	—	○
The interest rate on loans according to a market rate	×	—	×
A setup of the top limit of loans	○	—	○
The division payment at a weekly meeting□	○	—	○
Uncollateralized loan	○	○	○
Assistance by sufficient explanation, a simple loan process and the staff	○	○	○
Personal identification is made possible.	—	—	—
Quick examination of loan and procedure □	—	—	—
Irregular business hours □	—	—	—
Mobile bank	—	—	○ Branch offices
Education of staffs	○	○	○
Activity in a group, and a leader's support □	○	○	○
Members can participate in decision-making bodies such as board of directors.	—	—	—
Examination of the business activity by the member in the same business	—	—	—
The joint liability on a guarantee system by the members of a group	○	—	○
Recommendation by the influential person of the area	—	—	—
It is carried out by deposit preceding and good performance is made condition.	—	—	—
The joint liability on a guarantee system by the members of a group	○	—	○
The guarantor system	○	○	○
Payment performance is reflected on the next loan conditions. (interest rate, the amount limit of loans, etc.)	×	○	×
In the case of default, collateral which can be disposed of is taken. (Land is difficult in practice.)	—	—	—

Source: It is referred to the websites of footnotes, and created by the author of this thesis (2011).

Table 3.2: Scheme Adopted by Successful MFIs.

Characteristics as MF	Strategy	The purpose of the concrete method	The concrete method	
Achievement of the poor	It is targeted only at the poor.	A loan candidate's qualification criterion is clarified.	A setup of property and an income standard	
	The merit the rich enter is reduced.	The income transfers by a low interest loan are not performed.	The interest rate on loans according to a market rate	
		An opposite cost benefit is lessened. (Loan amount obtained to time and effort is lessened.)	A setup of the top limit of loans The division payment at a weekly meeting	
	The innovative method which suited the poor's characteristic is adopted.	The poor without collateral are also coped with.	Uncollateralized loan	
		The procedure in which a non-literacy person is also possible is made.	Assistance by sufficient explanation, a simple loan process and the staff	
			Personal identification is made possible.	
		A loan is obtained at required time.	Quick examination of loan and procedure	
		It corresponds to the user which can not go to a bank in business hours.	Irregular business hours □	
		It corresponds to the user without transportation expenses and time for going to a long distance bank.	Mobile bank	
		The mental fence between women or the poor and a banker is made low.	Education of staffs Activity in a group, and a leader's support	
	The poor's needs are reflected on management policy.	Members can participate in decision-making bodies such as board of directors.		
	High repayment rate is secured.	Examination of loan is performed effectively and appropriately.	The borrower who is likely to default is eliminated.	Examination of the business activity by the member in the same business
				The joint liability on a guarantee system by the members of a group
Recommendation by the influential person of the area				
It is carried out by deposit preceding and good performance is made condition.				
The system used as the incentive of payment is used.		The system in which a borrower will become troubled socially if he / she does not repay is made.	The joint liability on a guarantee system by the members of a group	
			The guarantor system	
The system in which a borrower become disadvantageous economically if he/ she does not repay is made.	The system in which a borrower become disadvantageous economically if he/ she does not repay is made.	Payment performance is reflected on the next loan conditions. (interest rate, the amount limit of loans, etc.)		
		In the case of default, collateral which can be disposed of is taken. (Land is difficult in practice.)		
Source: Okamoto, Kurino and Yoshida (1999).				

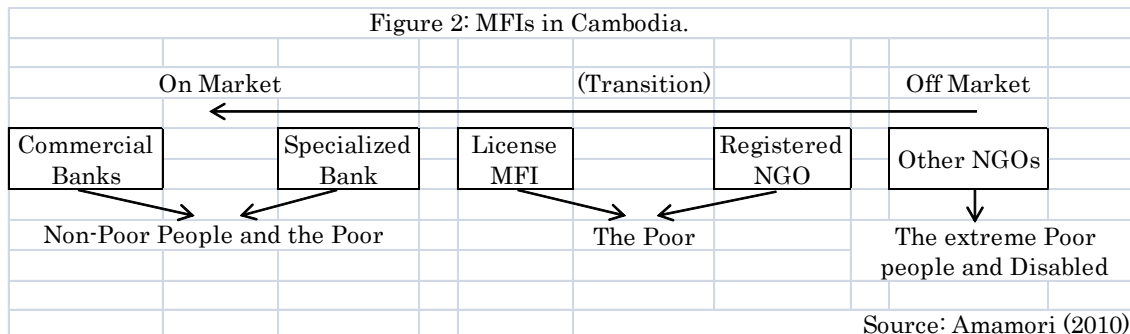
4.2. Cultural Background of Cambodia

According to the interview⁴² about the cultural background of Cambodia, Cambodian people don't choose banks to borrow money because of two reasons as follows.

- a) Distrustfulness in formal financial institutions
 - Most of the Cambodian households have a custom to store money at their houses because they worry about bad debts of banks.
- b) Public image and reputation
 - For Cambodian, going to banks to borrow money means poverty. Therefore, they avoid publicity of neighbors and go to borrow from money lenders in the distance when they need money.

From the above analysis, the trust of each other are considered important in the success of microfinance in Cambodia.

4.3. Possibility of Application



Eight MFIs targeted to see the possible application to the cases of Cambodia in this thesis are banks or license MFIs. Therefore, it cannot be assessed the microfinance effect on the extreme poor people.

⁴² An interview with Cambodian students, including both of men and women.

5. Concluding Remarks

The system of microfinance is considered appropriate to make a profit for the local economy. The analysis shows that sustainability and trust of each other are important for microfinance in Cambodia.

The following things are important for sustainability. As the population density of a community increases, the cost performance of MFIs is improved. Therefore, it is clear that the sustainability of the MFIs also increases. The same thing can be said about repayment rate. And also, technical assistance, business environment and infrastructure are needed to increase the success rate of the business conducted by borrowers. It also influences the repayment rate.

- a) Density of population
- b) High repayment rate
- c) Technical assistance
- d) Business environment
- e) Infrastructure

And the following things are important for trust of each other. In microfinance, lenders cannot know borrower's information in detail like a regular bank. Therefore, it is important that lenders built a relationship of trust with borrowers and obtain information about them. To provide more effective assistance to borrowers, education of staffs and access of both lenders and borrowers are important.

- a) Marketing information
- b) Assistance

As a result, the answer expected to the question, what the most appropriate form of borrowers is nothing. And it is not always true that group lending is the most appropriate form because each community has the different best form for them. And the factors such as sustainability and trust of each other are considered more important than forms.

In brief, flexibility to each situation in each country is essential to continue to develop microfinance as a strategy for poverty reduction. And the merit the rich enter should be reduced for achievement of bottom of the pyramid.

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Appendix

Expansion of Microfinance

Table 4.1: Expansion of Microfinance.

End of year	Total number of institutions	Total number of clients reached (millions)	Number of "poorest" clients reported (millions)
1997	618	13.5	7.6
1998	925	20.9	12.2
1999	1,065	23.6	13.8
2000	1,567	30.7	19.3
2001	2,186	54.6	26.8
2002	2,572	67.6	41.6
2005	3,133	113.3	81.9

Source: Goto (2009).

Advantages and Disadvantages of Each Lender

Table 4.2.1: Borrowing from Money Lender.

Advantages	Disadvantages
• There is no limit on the loan amount and borrowing period.	• Interest rate is high. • They request collateral for securing the loan.

Source: Asia-Pacific Cultural Center for UNESCO (ACCU) (2000).

Table 4.2.2: Borrowing from Farmers' Cooperative.	
Advantages	Disadvantages
• Interest rate is low.	• There is limit on the loan amount and borrowing period.
• A group member may support you if you have difficulty.	• You need to become a member and pay a membership fee.
• No collateral is necessary.	
Source: Asia-Pacific Cultural Center for UNESCO (ACCU) (2000).	

Grameen Bank

Grameen Bank⁴³ is one of the famous successful examples of microfinance. In 2006 the bank and Professor Muhammad Yunus won the Nobel Peace Prize.

Professor Muhammad Yunus, Head of the Rural Economics Program at the University of Chittagong, launched an action research project to examine the possibility of designing a credit delivery system to provide banking services targeted at the rural poor. He established Grameen Bank as NGO in 1976 and it transformed into a formal bank in 1986.

The Grameen Bank Project has mainly four features:

- a) Grameen system is collateral-free.
- b) The objective is bring financial services to the poor, particularly women and the poorest.
- c) 97 per cent of borrowers are women.⁴⁴
- d) The repayment rates are almost 100 percent..

The first feature, unsecured loan is adopted at many institutions in the field of microfinance around the world. Grameen Bank gives high priority to women to raise the status of poor women in their families by giving them ownerships of assets because "Parda"⁴⁵, the code of conduct for women prevents those women

⁴³ Grameen means "rural" or "village" in Bangla language.

⁴⁴ Is Grameen Bank Different From Conventional Banks?, Grammen Bank, http://www.grameen-info.org/index.php?option=com_content&task=view&id=27&Itemid=176, accessed on June 28, 2010.

⁴⁵ Parda means "curtain" in Persian.

from working outside the house in South Asian countries such as Bangladesh and Pakistan. The fourth feature is really amazing. While repayment rates to public sector financial institution is from 70 to 80 percent, the repayment rates to Grameen Bank in Bangladesh is 51.6 percent in 1980, after four years from Grameen Bank was established as NGO.⁴⁶

⁴⁶ Grameen Bank.

List of Items

Table 4.3: List of Items.

	Item	remark
a. Geographical conditions	Distance to a neighboring city or a town	
	Roads, means of transportation and diffusion rate	The time required and frequency
	Industry of a neighboring city	
	The industry and the occupation of the area	Employment system and an employment situation are included.
	The actual condition of a standing market and a periodic market	The distance from a village, frequency and form of use
	A public facility and other infrastructures	Irrigation, electric power, schools, hospitals, temples, the experiment stations of agriculture and stockbreeding, and the place for public transactions
b. Characteristics of the community	The scale of the community	
	What the community are	The number of households, population, religion, ethnic group distribution, the relation between administrative districts and natural colonies, and the decision-making method, and custom
c. Financial market of the area	The situation of utilization of both formal financial institutions and informal sources	Service contents, the amount of deposit, the amount of borrowed money, borrowing period, interest rate, repayment rate, debtor-creditor relationship and a savings plan
d. Basic data of the group	The number of poor households and its rate <input type="checkbox"/>	The classification of household according to its property and income
	The special features of poor households <input type="checkbox"/>	Ethnicity, household size, literacy, livelihood means, household economy and property

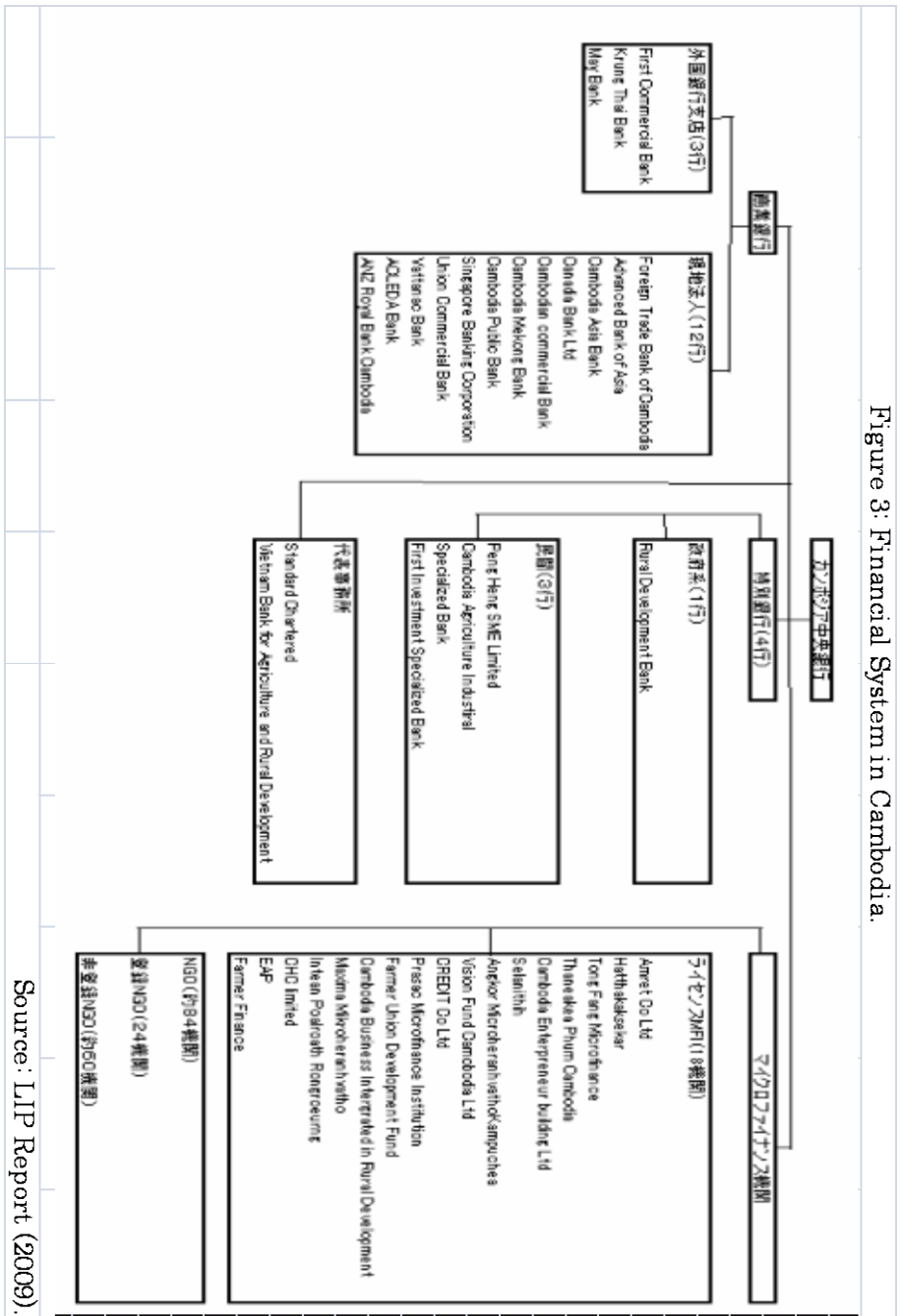
Source: Okamoto, Kurino and Yoshida (1999).

Geographical Conditions and Forms of MF

Geographical conditions	City	Farming village	Remote farming village
Population density	High	High	Low (There is also a case that people gather in the village.)
General economic conditions	<ul style="list-style-type: none"> • Since the market is active, there are various business opportunities such as subcontract work and chores, and daily income in cash. 	<ul style="list-style-type: none"> • Dealings with both a village market and a city market are possible, and there are also many business opportunities outside agriculture. 	<ul style="list-style-type: none"> • Since the market is underdeveloped, there are few business opportunities other than agriculture.
	<ul style="list-style-type: none"> • Living environment is inferior. 	<ul style="list-style-type: none"> • The poor area depends on two or more income sources of agriculture and other than that. 	<ul style="list-style-type: none"> • The percentage of self-sufficiency is high and there are little income in cash. • Agriculture is centered, and the distribution of natural risks such as bad weather is difficult.
The main demand to microfinance	<ul style="list-style-type: none"> • A loan to operating funds and a capital investment fund • Deposit of daily income in cash • Housing loan 	<ul style="list-style-type: none"> • Loan of agriculture and other than that • The deposit system where it can respond to a risk 	<ul style="list-style-type: none"> • Agricultural loan • The multiple-purpose loan • small deposit savings
	<ul style="list-style-type: none"> • The various loan schemes and payment period corresponding to various demand (Operating funds: Small sum and short period, A capital investment fund and housing loan: Large sum and long period) • Various savings products 	<ul style="list-style-type: none"> • It is targeted at the poor. • In the agricultural loan, the loan and repayment schedule united with seasonality • It corresponds to a risk with a group fund, etc. 	<ul style="list-style-type: none"> • A loose object standard and loan conditions (Strict targeting and loan conditions limit the employment range, and make continuity low.)
A possible form of organization	<ul style="list-style-type: none"> • Since the operating costs of management in a commercial base is comparatively cheap, it is also possible. 	<ul style="list-style-type: none"> • Operating costs are high. 	<ul style="list-style-type: none"> • System manageable in the village
		<ul style="list-style-type: none"> • To choose a city or a remote farming village according to the situation of a country. 	<ul style="list-style-type: none"> • Diversification of risks by cooperation with an external organization (credit union etc.)
Source: Okamoto, Kurino and Yoshida (1999).			

Financial System in Cambodia

Figure 3: Financial System in Cambodia.



Source: LIP Report (2009).