Pact

Savings-Led and Self-Help Microfinance in Cambodia

Lessons Learned and Best Practices

August 2004

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Acronyms

AIDS	Acquired Immunodeficiency Syndrome
CCSF	Cambodia Community Savings Federation
CNGO	Cambodian Non-Governmental Organization
CWS	Church World Service
EW	Empowerment Worker
HIV	Human Immunodeficiency Virus
KHR	Cambodian *Riel* (national currency)
MFI	Microfinance Institution
MWVA	Ministry of Women's and Veteran's Affairs
NBC	National Bank of Cambodia
NGO	Non-Governmental Organization
PAD	People's Association for Development
PAR	Portfolio-at-Risk Rate
RDB	Rural Development Bank of Cambodia
RGC	Royal Government of Cambodia
SHG	Self-help Group
UN	United Nations
UNDP	United Nations Development Program
USAID	United States Agency for International Development

Exchange Rate

US$1 = KHR 4008
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Executive Summary

Microfinance is a powerful tool to fight poverty and transform lives. When poor people have access to financial services, they can earn more, build their assets, and cushion themselves against external shocks. Poor households use microfinance to move from everyday survival to planning for the future: they invest in better nutrition, housing, health, and education. Microfinance can also serve as a means to empowerment.

To reach its full potential, however, microfinance must build permanent local institutions which deliver long-term services at scale. Achieving scale, in turn, is a function of lowering transaction costs to the point where the majority of client segments can be served in a cost-effective manner. It also means offering services that are more useful to clients. This includes not only credit but also savings (and one might add complimentary services which make microfinance more accessible and impactful for a wider circle of clients, including literacy and business training.) These points represent the global consensus on the future direction of microfinance, recently captured in the statement of "Key Principles of Microfinance" developed by the Consultative Group to Assist the Poor (CGAP) and endorsed by Group of Eight leaders at the G8 Summit on 10 June 2004.

This report was commissioned by Pact Cambodia's WORTH initiative with two objectives. It studies three existing programs in Cambodia with similar characteristics, drawing out lessons learned and best practices for WORTH's design, though the conclusions should be of interest to a wider community of practitioners. The study also analyzes the current state of microfinance in Cambodia, assesses shortfalls in meeting demand, and suggests that an innovation like WORTH may be a necessary complement to the current microfinance models practiced in Cambodia.

The full promise of microfinance has not yet been fulfilled in Cambodia. This study finds that the majority of Cambodians remain unserved, despite rapid growth in the provision of services over the past decade or recent emergence of a strong group of financially self-sufficient institutions. Some 77 percent of Cambodians lack access to institutional financial services. There is an estimated shortfall of US$120 million in rural credit supply, and the US$1.3 million in savings on deposit with microfinance institutions represents three percent of total potential savings that can be mobilized from rural households.

It is not yet clear how these shortfalls will be made up from among current players in the Cambodian market. This report describes how leading microfinance institutions face real challenges in lowering operational costs in order to reach new segments of the population. Meanwhile, NGO microfinance programs in Cambodia have, in most instances, failed to achieve significant scale or demonstrate the internal management capacity necessary to control costs and develop market-driven products. They also remain dependent on donor funds. Finally, few institutions of any type – bank, MFI or NGO – are working to deliver a safe, liquid savings mechanism for ordinary Cambodians, which is potentially the greatest unmet need of all.

Pact's WORTH initiative offers a way to reach more of the unbanked poor via a low-cost, savings-led model packaged with complimentary services including literacy, business training and empowerment for rural Cambodian women. This report summarizes findings from a study of three similar programs in Cambodia – Cambodia Community Savings Federation, People's Association for Development, and the Self-help Group program of Church World Service. Lessons learned are identified in the areas of: limitations and innovations with credit and savings components; accounting systems; forming strong groups at the village level; developing sustainability, trust and ownership; and strategies for driving to scale. The report closes with recommendations for enhancing the WORTH model for implementation in Cambodia.

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Introduction

This study was commissioned by Pact Cambodia to develop recommendations for the organization's WORTH initiative which seeks to improve economic security for rural households through improved access to financial services, literacy and women's empowerment. Pact has been engaged in community development in Cambodia since 1991, working in collaboration with hundreds of local NGOs to build capacity and implement programs in areas such as poverty alleviation, good governance, grassroots advocacy movements, and HIV/AIDS continuum of care services. WORTH marks Pact Cambodia's newest initiative in the area of community development. WORTH has been implemented with success in multiple countries around the globe where it has proven to be an innovative, sustainable and low-cost program of women helping women that expands access to financial services and fosters grassroots development. Pact is now entering a pilot phase for its Cambodia WORTH program.

The overall objectives of this research were:

1. *Primary:* To study existing savings-led and self-help group approaches to microfinance in Cambodia in order to identify lessons learned and best practices which can inform program design for WORTH; and,
2. *Secondary:* To assess the current extent to which microfinance programs in Cambodia meet client needs, with an eye towards identifying unmet demand and gaps in service which may be better serviced by a model such as WORTH.

This study is divided into four parts. Section one examines the microfinance environment in Cambodia, including common methodologies, the regulatory environment, and current trends in the sector. It also analyzes unmet demand and gaps in service, and assesses what innovations may be required to respond. Section two provides a description of Pact's WORTH model, how it operates, and how it differs from other microfinance methodologies, both in Cambodia and in the global microfinance industry. Section three presents findings, lessons learned and best practices from the Cambodian programs studied for this research. Section four delivers recommendations for WORTH's program design in Cambodia, though many of the conclusions will be of interest to a wider audience of microfinance practitioners.

Methodology

Information gathering for this study focused on: (1) a desk review of existing literature on Cambodia's microfinance sector and, in particular, evaluations and analyses of savings-led and self-help group approaches currently being implemented; (2) interviews with practitioners, government officers, and program managers; (3) field visits to observe operations of three selected microfinance programs; and (4) interviews and focus groups with participants of those programs.

The literature review included a mix of reports, sector studies and program evaluations responsive to the research objectives of this study. A first round of interviews was conducted with professionals from a variety of perspectives in the microfinance sector in order to further orient the study to the microfinance environment in Cambodia. Three organizations were subsequently selected for in-depth analysis based on the results of the literature review, interviews and input from staff at Pact Cambodia:

Target Organizations for Study	
Organization	**Selection Criteria**
1) Church World Service (CWS)	o Operates one of the largest self-help group programs, with 400+ groups managing US$300,000 in member savings and loans.
2) People's Association for Development (PAD)	o Fully-local Cambodian NGO with village banking program in Kandal province.
3) Cambodia Community Savings Federation (CCSF)	o Cambodia's largest savings-led microfinance program, with some 14,000 clients.

Section Three includes further description of each organization. The organizations selected gave the study its desired mix of international and Cambodian NGOs practicing three different methodologies:

self-help groups, village banking, and credit unions. Each of these models has some similarity to Pact's WORTH model. The three organizations also operate in a diverse range of provinces across Cambodia, including: Kandal, Takeo and Kampong Cham near the capital; Svay Rieng in eastern Cambodia; and Battambang and Banteay Meanchey in the northwestern part of the country.

A second round of interviews was held with senior management at the three selected programs. This was followed by field visits to observe operations in two savings banks of CCSF in Battambang, two PAD village banks in Kandal, and three CWS self-help groups in Kampong Thom. All groups were located in rural environments, with the exception of one CCSF bank in a peri-urban setting. Interviews and focus groups were carried out on-site with 62 program participants. The objectives of the field research were to identify and assess:

- Characteristics of strong village banks, self-help groups and similar groups;
- Methodologies for selecting/forming strong groups at the community level;
- Limitations to credit and saving services, and potential innovations for expanding their scope and impact;
- Strategies for building trust and ownership within groups; and
- Strategies for developing sustainable groups and building to scale.

Findings were coordinated with information about other programs gathered in the literature review and interviews. There are two limitations to this study. First, the study was conducted over a four week period in June and July 2004. Additional time would have permitted the inclusion of more organizations. Second, the main objective of this study was to extract lessons learned and best practices useful for the design of Pact Cambodia's project. Programs which concentrate on direct lending to individuals, such as Grameen-style programs and some MFIs such as Acleda, were not a major focus of this study.

Section 1: Microfinance Environment

1.1 Country Context

Protracted civil unrest from the early 1970s to the 1990s has bequeathed Cambodia a poor legacy for development. Despite recent progress in inflation control and macroeconomic stabilization, Cambodia still lags in most development indicators. The country moved up ten places to 130th out of 177 countries between the 1998 and 2004 UNDP Human Development Reports, but Cambodia "remains the worst performer in East Asia and the Pacific when it comes to its Human Poverty Index."[1] Infant mortality remains the highest in East Asia and the Pacific (UNDP, 2004). Some 36 percent of Cambodia's 13.4 million citizens live below the poverty line of US$0.46-0.63 per day, and a further proportion is clustered slightly above this mark. (Council for Social Development, 2002).

Poverty in Cambodia has distinct gender manifestations: women's literacy lags 20 percentage points behind that of men (Council, 2002).[2] Women also perform 65 percent of agricultural labor and 75 percent of fisheries production in rural areas, where four out of every five Cambodians reside (Rural Development Bank, 2003). Due to decades of conflict and upheaval, some 20 percent of households are headed by a female member – one of the highest rates in the world. Overall, poverty in Cambodia is the result of high population growth, inadequate opportunities, lack of economic security, and exclusion among multiple sectors of the population (Council, 2002). The Royal Government of Cambodia (RGC) has made a strong commitment to reduce poverty, and it "recognizes microfinance as a vital mechanism in its assistance to community development in all fields" (RDB, 2003).

[1] UNDP, 2004. UNDP's Human Poverty Index is a composite weighting of longevity, access to education and standard of living indicators.
[2] Overall, an estimated 63 percent of Cambodians are illiterate or semi-literate (having the capacity to read or write numbers and words but not complete sentences) (Council, 2002). For an assessment of literacy, see Pact Cambodia's 2004 report *"Adult Literacy in Cambodia"*.

1.2 Development of Microfinance in Cambodia

According to the National Bank of Cambodia (NBC), ninety-three microfinance programs were operating in Cambodia as of October 2003, including NGOs, licensed microfinance institutions (MFIs), and banks with microfinance services. These programs provide credit, savings and other financial services to some 374,000 families. Most microfinance programs charge interest rates of between three and four percent, though some NGO programs charge less.[3] Outstanding loans totaled US$56.9 million as of October 2003 (NBC, 2003). The sector has grown very rapidly in the past decade (see table).

Expansion of Microfinance Lending, 1993-2003[4]					
	1993	**1996**	**1998**	**2002**	**2003**
Borrowers	4000	82,000	140,000	264,452	374,641
Loans Outstanding	$100,000	$4.1 mil	$25.3 mil	$41 mil	$56.9 mil

Notwithstanding this considerable growth, most demand for rural financial services continues to go unmet in Cambodia. Approximately 77 percent of Cambodia's rural households do not have access to institutional finance (RDB, 2003). The Rural Development Bank estimated a credit shortage of up to US$120 million among rural households in 2002. This is due in part to the near total absence of commercial banking services outside of Phnom Penh and major urban areas. Only one bank, Acleda, operates a nationwide branch office system of any considerable size (105 branches at latest count). Reliable measures of demand for savings services are not readily available, but there is widespread agreement that access to safe, liquid savings mechanism for rural households is even more poorly developed than credit services (Chandararot, 2002). Compared to US$56.9 million in outstanding loans, microfinance programs have mobilized only US$1.3 million in deposits as of October 2003.

1.3 Regulatory Environment

The RGC has established a supportive regulatory framework for the development of microfinance. In November, 1999 a "Law on Banking and Financial Institutions" (Royal Kram NS/RKM/1199 13) was enacted. It established a stricter regulatory regime for the operation and supervision of financial institutions in Cambodia. One of the major goals of the law was to increase confidence in the banking sector.

In January 2000, the NBC issued Prakas[5] No. B700-006 on the "Licensing of Micro-Finance Institutions." Microfinance programs are invited to meet certain requirements and attain a licensed status, which entitles them to access to potentially considerable refinancing facilities through the RDB.[6] The requirements include restructuring as a limited liability company or cooperative, monthly program reporting to the NBC's Department of Banking Supervision and, most significantly, meeting certain thresholds for liquidity and paid-in equity (KHR 250 million or approximately US$62,000). Neither the NBC or RBD expect that all microfinance programs can or even should transform into MFIs, however all will be required to at least register with the NBC and provide quarterly reports on saving and credit activities.

1.4 Current Trends in Cambodia's Microfinance Sector

1.4.1 *Emergence of Market Leaders:* One effect of the regulations has been to shake out the microfinance sector by establishing a two-tier classification of licensed and unlicensed programs. There has also been a winnowing out as increasing competition in the sector strengthens some of the more successful programs. There are reportedly more than 100 organizations in Cambodia providing financial services to low income families. However, only 38 of these are large enough to be registered with the NBC, and only nine of these are currently certified as fulfilling the capital and capacity requirements to be licensed MFIs.

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[3] These are stated interest rates, and may not reflect effective interest rates born by borrowers.

[4] Sources: 1993 data – Council, 2002; 1996 & 1998 data – Urashima, 2000; Chandararot, 2002; 2002 & 2003 data – NBC, 2003; Chandararot, 2002. Note that 1996 and 1998 Urashima data does not include Prasac or MWVA. Data for 2003 is from September of that year.

[5] Term used in Cambodia for an implementing decree.

[6] In 2000, the Asian Development Bank (ADB) approved a soft loan of US$20 million to provision an onlending fund managed by the RDB. At present, this represents the largest individual pool of capital available to MFIs inside Cambodia. However, under the terms of the loan, the RDB can only serve those institutions which have met the NBC's licensing requirements.

With the effect of licensing and competition, a small group of ten institutions has come to dominate the provision of microfinance services in Cambodia. Collectively, they account for 84 percent of all microfinance loans made.[7] Eight of these institutions are licensed MFIs ranging in size from 5,000 to 92,000 clients. One (PRASAC) is a registered NGO. Rounding out the leaders is Acleda Bank, which has recently converted to commercial bank status. It is the largest microfinance provider in Cambodia, with 104,644 microfinance clients and a portfolio valued at $28.4 million. Overall, there has been tremendous growth in microfinance services in recent years, but the vast majority is accounted for by a few institutions.

1.4.2 *Emphasis on Financial Sustainability:* The 1999 law encouraged microfinance programs to devote more attention to their financial sustainability. This mirrors the overall trend in global microfinance circles as well. One major manifestation has been microfinance programs separating from their NGO parents to become independent limited liability companies. Two such institutions are Thaneakea Phum Cambodia (TPC) and Amret, more widely known by its previous name Ennatien Moulethan Tchonnebat (EMT). Both started lending in Cambodia in the early and mid-1990s as NGOs using village banking methodologies. Each has recently placed itself on an independent financial footing, with TPC separating from Catholic Relief Services and Amret from GRET, a French NGO. Another example is Acleda Bank, which will be described in more detail shortly. Vision Fund, Credit and AMK are other MFIs which have recently transformed.

Overall, this process makes the financial position of MFIs more transparent, and it places a premium on establishing institutions financial self-sufficiency. This approach should help build permanent institutions capable of delivering financial services over the long term. However, the attention to financial self-sufficiency may make MFIs reluctant or even incapable of serving clienteles which carry greater operating costs, including large slices of Cambodia's rural households. This helps explain a substantial portion of why the majority of rural households are not yet served by the microfinance sector.

1.4.3 *Going Up-Market:* Cambodia has also witnessed some MFIs moving towards larger loan sizes focused on individual borrowers. These are typically individuals with higher volume, non-seasonal enterprises which permit them to absorb and repay larger loans. No institution better represents this trend than Acleda Bank. Acleda has recently garnered international attention for its conversion from NGO to commercial bank, and its leading position within the Cambodian microfinance sector. Acleda's US$28 million microfinance portfolio million exceeds that of all other MFIs put together. Less attention has been devoted to its strategy of targeting loans at better-off clients near the top of the microfinance market.

Despite its large portfolio, the number of clients served (104,644) by Acleda is only 13 percent larger than that of its closest competitor, Amret (92,173 clients). The major difference is in loan size: Acleda loans average US$271 versus $61 per loan at EMT. CEB and Hatha Kaksekar have joined in this upscaling trend, with average loan sizes of $250 and $300 respectively. This compares with averages of $82 per loan at TPC, and $46 at AMK.[8] Delivering larger loans to a subset of more productive clients may yield greater returns per loan for banks and MFIs. Focusing on better-off clients may therefore contribute to a stronger bottom line. However, the majority of Cambodian households fall outside this target group, particularly in rural areas. This raises the possibility of individual MFIs becoming financial sustainable while certain portions of the market remain underserved.

1.4.4 *Focus on Microenterprise Lending:* Data gathered for the Asian Development Bank indicates that at least 16 percent of rural households reported borrowing for consumption purposes in a 12-month period. Demand may be even higher if affordable credit for this purpose becomes more available (Uniconsult, 1999). However, many programs in Cambodia require or strongly encourage borrowers to use loan funds for microenterprise development. Cash is eminently fungible, however, and no doubt a number of clients are making use of microenterprise loans to meet a variety of household needs. This may amount to some

[7] These institutions are: Acleda Bank, EMT, TPC, CEB, Hattha Kaksekar, Seilanithih, Vision Fund, Credit, AMK and PRASAC. See Annex 2 for full detail of these programs, including outreach and portfolio size.
[8] Data provided by MFI Association and represents average loan amounts for operations in the first half of 2004.

clients fitting a square peg (their exact financial need) into a round hole (loan products designed for microenterprise), with implications for effectively meeting the multiple financial service needs of rural families.

1.4.5 *Underdeveloped Savings Services:* The majority of microfinance activity has been in the area of credit. In one survey conducted for the ADB, villagers most often cited lack of capital as their greatest problem. Yet 77 percent of respondents expressed a preference for self-financing rather than borrowing when they needed to gather a lump sum of cash. Fully 61 percent of households declared an amount of cash savings, and nearly every household stored value in some combination of land, livestock, farm equipment, housing materials, or gold (Uniconsult 1999). Despite these conditions, savings mechanisms are decidedly underdeveloped in most microfinance programs. TPC is the only institution which has mobilized any significant level of savings (50,355 depositors).[9] The NBC reports total savings deposits with all microfinance programs as US$1.31 million from 122,786 clients, as of November 2003. This falls far short of fulfilling the total demand for savings services, which has been estimated at close to US$45 million (Urashima 2000).

1.4.6 *NGO Microfinance Programs:* "Village banking" is a term widely used by most other NGO programs outside the "big 10" market leaders. However, the term is often used to refer to a wide range of methodologies that can differ significantly from the more narrow international understanding of the phrase. Some NGO programs using the "village banking" moniker actually lend to solidarity groups on terms that more closely resemble the stricter Grameen Bank approach (Ducos, 2004). Some programs utilize a "self-help group" (SHG) model. PADEK and Church World Service are leaders in this area, operating programs that now reach some 18,000 clients. The SHG model used in Cambodia is adapted from one originally developed by the Indian NGO Myrada and imported to Cambodia in the mid-1990s. A final group of NGO microfinance programs practices a methodology that would be recognized as closely resembling the village banking model pioneered by FINCA. Section Three will provide additional detail on methodologies in use in Cambodia.

Overall, there are some 80 NGO microfinance programs registered with or known to the NBC; there may be many more operating under the regulatory radar. The largest NGO programs may have five to ten thousand clients. Some programs report client numbers in the double digits. The main exception is PRASAC, which uses a village banking model to serve 58,000 clients, though with very low portfolio quality (>50% portfolio-at-risk). Most NGO programs charge an interest rate between two and three and a half percent, which makes it equal to or less than interest charged by the larger MFIs.

1.5 Unmet Demand and Other Service Gaps

The RDB estimates there is a US$120 million shortfall in rural credit supply. The entire microfinance sector has recently topped US$56.9 million in loans outstanding, indicating that there is a long way to go in meeting demand. Moreover, current players in the Cambodian microfinance market may not be poised to greatly expand services to the majority of Cambodians who still seek access.

Cambodia's most successful microfinance server provider, Acleda, is proceeding to move up-market towards individual microentrepreneurs capable of absorbing larger loans. This may amount to skimming the "best" clients from the market. Other MFIs will have to assume the mantle of serving the many rural households who still require credit. Yet the operational costs of delivering services nationwide to dispersed, poorer rural households may make it unfeasible for MFIs who have financial sustainability on the mind. In addition, MFIs may have difficulty accessing adequate, affordable capital to fuel a drive to greater scale. Conversely, many NGO programs have not paid adequate attention to sustainability and achieving scale. Some NGOs simply lack in-house expertise or capacity to significantly expand their services (Urashima 2000). Finally, few institutions of any type – bank, MFI or NGO – are working to deliver a safe, liquid savings mechanism for ordinary Cambodians.

[9] Acleda Bank claims 39,667 depositors with over US$15 million in savings, but the vast majority of deposit holders are institutions rather than individuals.

Given these constraints, it is likely that Cambodia's microfinance sector will be able to meet the preponderance of demand for credit and savings services in the short- to medium-term. A summary of service gaps and the characteristics of unmet demand would include the following:

- Other than Acleda, commercial banks have shown little interest in entering the microfinance market or extending services outside of urban areas.
- Acleda itself, along with some MFIs, is leading a trend up-market to serving microentrepreneurs capable of absorbing larger, individual loans.
- Leading MFIs have focused on financial sustainability in recent years, making their institutions at once better able to continue providing services into the future, but also cautious about taking on high operational costs associated with nationwide services for rural households.
- Many NGOs lack the expertise or capacity to greatly expand their programs.
- Many microfinance programs also focus on credit for microenterprise development, leaving demand for credit for consumption and emergencies underserved.
- Poor households prefer services which provide convenient, safe mechanisms for accumulating small amounts of savings in order to smooth consumption and respond to emergencies, as well as take advantage of microenterprise opportunities. Yet savings services are poorly developed in Cambodia.
- Finally, although villagers often identify lack of capital as their biggest need, credit alone may not be enough. Microfinance is most easily taken advantage of by individuals with a viable business opportunity, confidence and other skills (especially literacy). By providing credit alone, the majority of rural households who do not possess one or more of these qualities may self-select out of participating in microfinance programs. Expanding access to microfinance for many households may require packaging it with other services.

Microfinance has made tremendous strides in the past 15 years in Cambodia. But there is an obvious case to be made that new innovations are needed in the Cambodian microfinance sector, given the existing limitations and unmet demand. In particular, there is a clear need for a low-cost microfinance model capable of reaching scale rapidly in rural settings, providing concurrent access to savings *and* credit, and delivering literacy and empowerment services not included in most microfinance programs at present.

Section 2: Pact's WORTH Model

2.1 What is WORTH?

Pact Cambodia has launched a women's empowerment program inspired by Pact's award-winning WORTH model. The program, beginning as a two-year pilot, will empower Cambodian women through literacy, self-help and economic development. Initial achievements will inform a longer term effort, with the ultimate goal of **reaching more than 100,000 Cambodian women** over the course of five years. Cambodia WORTH is part of an expanding global effort to reach women in Kenya, Tanzania, the Democratic Republic of Congo, Ethiopia and Madagascar.

The WORTH model builds on Pact's award-winning women's empowerment project in Nepal that was funded by USAID and implemented between 1998 and 2001. The project demonstrated that large numbers of poor women have the capacity to quickly move themselves to being literate, income producing, and socially active members of their communities. As detailed in a program evaluation supported by the USAID AIMS project,[10] WORTH secured the following accomplishments in less than three years:

- The number of literate women in the program increased from 39,000 to 125,000.
- Savings increased by over US$1 million, from US$720,000 to US$1,800,000.
- The number of women in business grew from 19,000 to 86,000.

[10] A summary of the report, *Women's Empowerment Program: A Literacy- and Savings-Led Option for Village Banking*, can be obtained at http://www.pactworld.org/initiatives/worth/impact_evaluation.pdf.

- Annual incomes from women's businesses increased from US$1.2 million to over US$10 million.
- Women participated in over 40,000 grassroots campaigns on issues such as cross-border girl trafficking, domestic violence, and the dowry system.
- Women increased their decision-making role concerning family planning, marriage of their children, the buying and selling of property, and sending their daughters to school.
- Spending on the education of women's daughters and sons increased.
- WORTH implementation in Nepal, including all development, external technical assistance, and start-up costs, required less than US$42 per woman to establish more than 6,000 financially self-sufficient village banking groups.

A recent program evaluation reports that more than 70% of self-help groups have continued operating since the end of Pact's involvement. Moreover, average savings appear to have gone up by nearly $400 per group. This highlights the robust nature of the WORTH model and underscores its innovative approach to building sustainable financial services for poor rural households.

2.2 How WORTH Works

A strikingly simple concept, WORTH implements a sequence of activities that:

- Introduces literacy through action-oriented, group learning, while women save together;
- Enables women to build transparent savings and credit groups through simple, practical village banking, using their new-found literacy skills;
- Encourages women to borrow from their savings to develop micro-enterprises;
- Enables women to generate income from their group lending, with interest on loans remaining within the group to grow the loan fund and be shared out as dividends;
- Gives women the experience and skills to manage their group far into the future; and
- Trains women in problem-solving and advocacy to tackle the most difficult challenges facing families and communities, including gender-based violence, water and property rights, and HIV/AIDS, among others.

Literacy-led. The core of the WORTH model is a two-part book series, *Women in Business*, that focuses on developing the strong reading and technical skills needed to create savings-led village banks and micro-enterprises. The first book in the series, *Our Group* teaches women basic sounds, letters and numbers, while introducing principles for developing strong groups. The second book, *Road to Wealth*, instructs women on how to set aside mandatory and voluntary savings and use simple math to track the growth of savings; learn responsible lending and borrowing; study basic bookkeeping principles that enable the group to function as a self-sufficient village bank; and gain insight into sound entrepreneurship.

Small group formation. With help from local NGOs, women are encouraged to form small groups of 15-20 members. Groups are responsible for setting their own meeting rules and electing their own officers. In addition, WORTH recommends that each woman pay a nominal program entrance fee and book fees that can be used to increase the group's savings fund.

Targeted messages. As women read together and practice their literacy, they can learn about different development issues, such as home care for the ill, or legal rights. The materials not only teach women about the issue, but also encourage them to be proactive in their communities, engaged in educating others and organizing programs to mobilize women to take constructive actions, such as going to clinics to be tested for sexually transmitted diseases or organizing a grassroots campaign against spousal abuse.

Savings-led village banks. When a group begins to save, the amount each women contributes, which is set by the group, may be as small as three cents per woman per week. Women are highly motivated to save not only because they want to put aside resources, but because their savings generate interest when they are lent out to group members in the form of micro-enterprise loans. Typically, in other microfinance programs, the interest is collected by outside agencies, but in WORTH the interest accrues to the savers. Thus no matter how poor a woman may be, the village bank offers a source of income for each woman member/owner/saver.

Micro-enterprises. When women begin small businesses, they are encouraged to build on what they already know and to gear it to local markets. Many women familiar with subsistence farming choose to grow market gardens, raise goats or keep chickens, while others near towns start tea stalls and engage in petty trade. WORTH recommends multiple enterprises to spread risk and provide regular income that will enable loan repayment. It takes time for women to develop this diversity.

An appreciative approach. Success stories about women's businesses and social actions are included in newsletters and disseminated through the WORTH networks. These stories provide an ongoing source of energy that helps groups, NGOs, and WORTH staff overcome obstacles and turn problems into learning opportunities. Looking for success finds and creates more success.

Participatory monitoring and support. WORTH is monitored in three ways: women periodically assess the health of their own economic group; women visit each other's groups to facilitate learning from one another; and staff visit groups to backstop, troubleshoot, and assist in identifying challenges the women are facing.

2.3 How WORTH Differs from Other Microfinance Models

WORTH is an innovative, sustainable and low-cost program of women helping women that fosters grassroots development, increased family income, and local control of resources.

WORTH is based on the premise that dependency is not empowering. Unlike many other development programs that provide participants with capital and a variety of inputs needed for program delivery, WORTH provides no seed money, no matching grants, no subsidized interest rates, and no classroom teachers. Women learn that if they want a brighter future, they must take responsibility for their own development.

WORTH addresses the key components of the greatest development problem of our time - HIV/AIDS. Two of the fundamental reasons HIV continues to plague Cambodian communities are gender inequality and general impoverishment. Through raising their incomes and gaining respect in their families and communities, women are better able to protect themselves from the social factors that leave women the most-at-risk group for disease transmission. Families also grow their capacity to care for the ill.

WORTH works through local NGOs and women's groups. WORTH quickly reaches thousands of villages because it works through women's groups and local NGOs that are often already active in their communities.

Savings-led microfinance links to, but does not depend on, outside credit. Most of the world's famous microfinance programs for women start by providing credit. WORTH starts with literacy, numeracy, and savings. With basic math and simple accounting skills women are able to manage a village bank (with their own savings constituting the loan capital) and become successful entrepreneurs.

Networking facilitates sharing knowledge and building bonds. Regular training workshops bring women together in groups of 20 from clusters of 10 groups, providing an important forum for problem solving, sharing, and interaction. The ties formed sustain the individual groups and create dynamic networks for social action.

Women focus on success. WORTH women look at their successes, their strengths, and their remarkable capacities to cope with adversity. Other programs focus on women's problems and the obstacles they must overcome. WORTH has discovered that if women look for problems, they find and create more problems; if they look for success, they find and create more success.

WORTH is low cost, making replication possible by women themselves. Because WORTH places primary responsibility for program success on the women, it can reach a large scale in a short time. WORTH implementation in Nepal, including all development, external technical assistance, and start-up costs, required less than US$42 per woman, reaching 125,000 participants in less than three years. More recent initiatives, carried out at scale, are dropping costs even further. WORTH has worked in challenging environments as diverse as Guinea, Liberia and the Democratic Republic of Congo.

2.4 Awards and Recognition for WORTH

Pact's WORTH model has been recognized on two separate occasions by the World Bank's Development Marketplace Innovation Competition, once for "Building Sustainable Village Banking" and again for "Combating HIV/AIDS". Pact was selected from among hundreds of entrants. WORTH has also received the 2000 UN/Habitat/Dubai "Best Practice Award," awarded on the basis of tangible impact, partnership, sustainability, social inclusiveness and leadership in inspiring action and change. The World Bank and the Government of Japan, through the Global Development Network, also cited WORTH as one of the "ten most innovative development projects in the world." Most recently the program has been awarded the prestigious Club of Budapest *Change the World* award.

Section 3: Findings

3.1 Village Banking, Savings-led Programs, and Self-help Groups in Cambodia

There are dozens if not more than a hundred microfinance programs operating in Cambodia. The NBC has licensed, registered or identified 93 programs as of October 2003. This study focuses on three programs: Cambodia Community Savings Federation (CCSF), People's Association for Development (PAD), and Church World Service (CWS). These institutions were selected to reflect three predominant methodologies utilized in Cambodia which share some characteristics with the WORTH model, particularly in the area of group-based operations, linkage of savings and credit services in the same program, and a focus on serving poor, rural households.

3.1.1 *Village Banking:* Village banking models are commonly associated with FINCA, which pioneered it in Bolivia in the 1980s. However, there have been substantial modifications made to the model as it has been adopted for use around the world. In its essence, the model includes an organization which mobilizes typically rural individuals who form village banks. The banks then receive a wholesale loan, and these funds are then on-lent to individual members. Another characteristic of the model is the connection between savings and credit. Some amount of monthly savings is compulsory. It is used as collateral against loans and to provision an internal fund from which the village bank can also make loans to members. In village banking programs, most decision making resides with the microfinance institution, which exerts authority in setting compulsory savings amounts, establishing a scale for gradual increases in loan size, and deciding the amount of loans that will be made to the village bank for on-lending to individuals.

Multiple organizations in Cambodia utilize some form of a village baking methodology. TPC began lending on this model as a CARE project in the 1990s, and it has recently transformed into a limited liability company in order to complete the requirements for licensing. For this study, People's Association for Development (PAD) was selected on the following criteria: (1) it practices a village banking methodology; (2) PAD is a fully-local CNGO; and (3) PAD operates on a relatively small scale – 8 village banks with some 350 members. This actually makes it representative of the majority of microfinance programs in Cambodia, which are operated by CNGOs on a small scale. Pact wished to include one program with these characteristics in order to draw lessons learned in this area.

3.1.2 *Savings-led Microfinance:* Savings-led microfinance is a relatively recent term used to describe microfinance programs which focus on the mobilization of member savings as a significant source of loan capital and a service itself independent of credit. The model has grown out of an increasing realization that (1) many programs have a disproportionate or even exclusive focus on credit, while poor households also have much to gain from savings services, and (2) savings has been relatively untapped as a sustainable, large-scale source of capital, in contrast to the grant funding and loans from donors and capital markets used by most programs around the world (as well as in Cambodia). To date, NABARD in

India and CARE have been notable in their promotion of and relative success with savings-led methodologies.

One such program is Cambodia Community Savings Federation (CCSF), itself a CNGO spun off from a prior CARE project implemented from 1998 to 2001 (Cornford 2001). CCSF is an apex institution for 39 member-owned and operated Savings Banks with 14,673 participants in Battambang and Banteay Meanchey provinces. Members have approximately US$ 194,000 on deposit or in shares with their Savings Banks, which also manage US$434,185 in loans outstanding with one percent delinquency, as of May 2004. Savings Banks range in size from 350 to 1400 members, and are managed by elected committees of officers. Members are required to make compulsory monthly savings of KHR 1000 and purchase at least one share of KHR 5000, which entitles the member to an annual dividend based on bank performance. Members can purchase additional shares or contribute to voluntary savings. Savings Banks offer loans for productive purposes, consumption and emergencies, all at three percent interest. There is also a microinsurance program which pays benefits in the event of a member's death. Compared to village banking and self-help group microfinance, savings-led programs are least common in Cambodia. CCSF was included in the study to learn more about its innovative approach to savings services, and its success with member-owned and operated banks in rural contexts.

3.1.3 *Self-help Group Microfinance:* The Indian NGO Myrada pioneered this model, though it has close ties to the many informal cooperative savings and credit groups which appear in many if not most cultures around the world (Rao 1998). The self-help group (SHG) model shares some characteristics with the village banking model, notably compulsory savings. Like in village banks, SHG members save monthly, building up a loan fund which the group then uses to make loans to its members. Interest payments are returned to the loan fund, helping increase its size over time. There may or may not be an external source of credit from a NGO in addition to the internal fund. One of the most important variations from village banking is the degree to which SHGs have autonomy in choosing how they will operate, including the amount they will save, the frequency of meetings, and the use members make of loans (Rasmussen 2001). SHGs are often smaller than village banks as well, commonly ranging in size from 10 to 20 members.

In Cambodia, PADEK and Church World Service (CWS) are the leading institutions practicing the SHG model. Since 1998, CWS has worked with communities in Kampong Thom, Svay Rieng and Kandal provinces to launch over 400 SHGs with some 8,500 members. CWS provides training and on-going monitoring to groups to help them acquire the skills necessary for managing saving and loan accounts. Sometime during the first year of a group's existence – usually after six months – CWS also provides Working Capital Assistance, a group loan of up to US$25 for each member. This study included CWS as the autonomy afforded to its SHGs bears similarity to the high degree of flexibility in WORTH. WORTH does not include external capital, such as that provided by CWS.

Together, PAD, CCSF and CWS, comprise a diverse group of programs which can offer lessons learned and best practices from their years of experience. The observations offered below have emerged from extensive interviews with senior management and field staff at these three organizations, in addition to multiple field visits to observe operations and gain feedback from participants.

3.2 Characteristics of Strong Village Groups

The following characteristics were observed to contribute to strong groups.

3.2.1 *Homogeneity in Economic Status:* Members who share reasonably similar economic circumstances are able to gel together faster, choose savings amounts that are mutually agreeable, and draw on the group fund with relatively similar frequency and loan size. This reduces friction between members, and facilitates development of the group.

Leaders in both CCSF banks stated that it was desirable to have a mix of better-off and very poor members. As one officer said, "if everyone were poor, who would help whom?" However, officers also estimated that no more than 10 percent of members were what they considered "very poor", which they defined as household income of less than US$2 per day. In one bank, the "poorest" members represented an estimated four to five percent of the group. The most vulnerable members seem to be those with land and a singular dependency upon rice farming for their income, as (1) rice farming is prone to flooding/drought, (2) it delivers income 1-2 times per year, and (3) the crop is harvested simultaneously with other households, driving down the price. Members with less land, but multiple economic activities including farming concentrated on year-round herbs and vegetables, had more economic security. Savings Bank officers also stated the richest villagers are often uninterested in joining because (1) the interest on savings (12% p.a.) is less than that received from acting as a moneylender, and (2) the rich already have access to capital and don't need loans. This was a general trend among all programs we observed.

It may be most accurate to state that villagers in the middle economic strata were primarily attracted to CCSF bank membership. PAD makes this an explicit operating principle for their village banks, restricting membership to individuals with a certain threshold of household assets, which effectively excludes the poorest. PAD instituted this approach after several negative experiences with village banks containing poorer members, whose ability to save and repay was not well matched with others in the group. This caused a substantial amount of friction between members. Members of CWS SHGs also appeared to be relatively similar in economic status, though with more diversity due to the SHG model which appeared to tie in more closely with existing affinity networks.

3.2.2 *Affinity:* CWS' most successful SHGs tap into existing social networks for the trust and solidarity that is already in place. Affinity is manifested in kinship (extended families) and support relationships, including households which cooperate annually in economic activities such as sharing labor and resources in rice planting or loaning rice and money to one another at low or no interest. Focus groups with PAD's village banks revealed that these larger groupings (approximately 40 members, to the 10-20 in CWS SHGs) also tapped into affinity networks, though often more than one considering the number of households involved.

In practice, there is often a balancing act between homogeneity and affinity. Homogeneity is rooted in similar economic class; affinity groups can include families with relatively wide differences in economic status. Strong village-level groups appeared to tap into both. Conversely, a group built solely on homogeneity may lack cohesion and trust; conversely, a group built solely on affinity may find it has challenges in agreeing on savings and loan amounts.

3.2.3 *Migration and Additional Factors:* PAD and CWS village groups exclude individuals who are likely to move out of the village, either for work in the city or other purposes, as well as individuals who depend on a major breadwinner who is likely to move. This has obvious implications for regular savings and repayment of loans. In addition, member exit, if frequent, appears to damage cohesion among the remainder of the group. There are several more obvious points of selecting individuals known to be trustworthy, and those who have bought into the self-help philosophy.

Building Strong Groups,
In a Member's Own Words…

One of the most successful village groups we observed was SHG "Samaki Choy Met", facilitated by CWS in Kampong Thom province. The group of ten women has operated for 5 years, the spirit of camaraderie was very strong, and the savings and credit activities have delivered results for members. Its Secretary offered the following advice for how to build a strong group:

a) *"Assess the people around in the community and choose people you know to be of good character and able to cooperate with others."*
b) *"Don't select people who will leave the area."*
c) *"Choose people of a similar class. If people are from different economic strata, it will be difficult to agree on monthly savings amount, loan sizes."*
d) *"Don't let anyone skip a savings contribution with the promise to pay 'next month.' Even if they follow through, it encourages other people to follow suit, often with ill-effects."*

3.2.4 *Trust Building:* Trust building is a major challenge within the Cambodian context. Three decades of instability, conflict and social disorder have bequeathed fissures in the social fabric, including the extent to which Cambodians are willing to enter into cooperative frameworks. Program managers, field staff and participants all cited this as a major challenge to initiating collective actions at the grassroots level.

Solid operating systems – particularly in transparent accounting – appear to be the most effective trust-building strategy available to village groups. Program staff stated that members build mutual trust over time (especially in the first year) as the operating system - and the members who manage it - are observed to be worthy of confidence. Another important trust building process appears to be the sharing of stories among SHG members. This takes place when members are asked to justify their request for a loan, leading them to describe their problem, circumstances or goal, and inducing other members to offer advice or encouragement. Trust also seemed more in evidence in programs where decision making was more equitably shared. We observed varying levels of trust in the three programs studied, with higher degrees evident where operating systems were strong, members shared their experiences, and decision making was relatively "flat" – i.e. without a strongly hierarchical differentiation between members ability to contribute to group decisions.

3.2.5 *Ownership and Autonomy:* The strongest groups exhibited a high degree of autonomy in choosing rules and procedures. This appears to enhance the sense of ownership. Many groups we observed altered the original model given to them. For example, one CCSF savings bank decided that members would not be permitted to have more than one loan outstanding at one time; another savings bank decided they would – both had good performance. Propagating an "ideal type" of self-help association can stifle innovation and ownership among members. The one exception is in the area of accounting. SHGs need strong financial management to build transparency, ownership, and avoid fraud.

We observed that groups appeared to rely on the parent organization for auditing, and could benefit from better monitoring of financial records. CCSF banks had by far the most developed accounting systems. However, in one instance at CCSF, we observed that passbooks are only updated once a *month* from *daily* collection sheets; this leads to the risk of temporary fund diversion. In other words, ownership at the individual bank level still has some way to go.

Most program staff at CCSF, PAD and CWS were vocal about the importance of establishing ownership at the group level. However, it did not appear that ownership was synonymous with independence. None of the three organizations had "let go" of any village banks, SHGs or savings banks. The lone exception was an instance where Church World Service hived off a troubled provincial grouping of SHGs into its own NGO. Otherwise, all three organizations were continuing to provide support services to groups, some of which were five and six years old. Findings regarding exit strategies is addressed in Section 3.5.2 below. The subject is further discussed under Recommendations, Section 4.4.2.

3.2.6 *Transparency and Accountability:* Transparency and accountability are the lifeblood of village groups where members are taking the risk of pooling household resources with others. Failures in these areas can quickly lead to the loss of trust, rapid drop-out, and dissolution of a sense of ownership among members. Creating transparency and accountability is heavily dependent upon the existence of a solid operating structure, but also members having the skills to manage the systems required for operations, clear guidelines about the relations between elected leaders and the membership, and adoption of group norms which set high expectations and standards in these areas. There were several methods we observed which may help improve accountability. These included: mandatory rotation of group leaders or a portion of them every one to two years, use of secret balloting in selection of leaders, and nominating more candidates than positions available in order to facilitate choice.

Among the three programs studied, transparency was most developed where a large number of members (1) have had equal access to training in accounting methods, and (2) possess the literacy and numeracy skills to deploy the training they have received. In both PAD and CCSF programs, only a select number of group members – elected leaders – are trained in the accounting systems. The reason for this is clear with CCSF's savings banks, which range in size from 300 to 1,400 members. It is less understandable with PAD's village banks, with some 30-40 members, but where the executive committee members are the only ones with knowledge of how the books are done. CWS makes efforts to ensure the majority of SHG members have some knowledge of how the group accounting is organized. However, illiteracy or semi-literacy was the rule for the majority of SHG members we encountered, making it difficult if not impossible for most members to either monitor the financial management performance of leaders, or assume roles of responsibility themselves. In some CWS and PAD groups, members left their passbooks with the executive committee between members; most members at PAD could not tell with accuracy how much was in the village bank fund; several CCSF bank members had their passbooks, but were unable to read how much interest they had earned on their saving deposits.

3.2.7. *Literacy:* Literacy is a missing (and very desirable) component for all three programs observed. None of the programs included literacy as a core component of their methodology. Some – CWS for example – offered it as an option through a parallel part of the organization; others offered a short course. In our analysis, improved literacy among SHG members would be very effective in addressing some of the transparency, accountability and ownership challenges which represent varying degrees of threat to sustainability for the individual groups as well as the overall program.

3.3 Forming Strong Groups at the Community Level

3.3.1 *Community Selection:* Of the three programs in this study, CWS and PAD have other community programs which drive the selection of regions in which they will work. CCSF was founded by CARE in 1998 and the choice of Battambang was explicit – Battambang at the time did not have major microfinance programs operating in the area. All three programs continue to expand in their respective regions. They primarily select new communities in which to work based on the following criteria:

- Positive response from village and district officials, to whom each program reaches out in order to promote the program in new communities;
- The existence of an adequate number of community members who, in the estimation of the field worker, have bought into the program philosophy.

PAD has an in-depth community assessment process for identifying where and with whom it will work.

3.3.2 *Recruitment of Members and Formation of Groups.* For the three organizations in this study, new savings banks, village banks or SHGs are always formed for the express purpose of the microfinance program. None of the three organizations attempts to transform existing community groups into platforms for its credit and savings activities. Program managers and staff interviewed judged this to be a strategy with certain risks:

- New members may not be fully bought into the self-help philosophy. Instead, they may join out of a sense of obligation to stay with their previous colleagues;
- Members may carry pre-existing expectations from the previous program, leading to potential frustration with the higher level of individual effort required for a successful savings and credit group as well as the typically longer period before significant results are delivered;
- The criteria for "successful" groups may very well be different from what motivated people to join the pre-existing group, causing potentially high drop-out rates;[11]
- One runs the risk of "importing" transparency, staff, interpersonal, or other problems contained in the pre-existing group; and
- By using pre-existing groups, CCSF, PAD or CWS may find itself "locked into" using another NGO's field staff who originally mobilized and worked with the group – these staff are not automatically the best choices for the job of organizing a savings bank, village bank, or SHG.

We found that, by and large, the programs studied did not often launch more than one group in the same community. In the case of CCSF, where mature banks have over 1,000 members, this makes sense. PAD is also operating at an initially small scale. CWS however, has witnessed positive results when more than one SHG operated in a similar area.

[11] For example, the prime criteria for membership in a well user group may be based on families that have houses close together, sharing the common pump. These same households may lack homogeneity of economic status, and may not share affinity as discussed above, making them ill-suited as members of a savings and credit group.

First, having multiple groups appears to permit individuals to self-select into groups which strike a balance between their respective economic status and affinity networks, as described in Section 3.2 above. Second, the most effective promotion and recruitment tool for launching new groups appears to be the existence of another group already in the community. CWS field staff report that it is common for new groups of individuals to request CWS assistance after viewing the operations of a SHG in the same community. This has some implications for reaching poorer and/or more risk-averse members of the community. A growing body of research suggests that poorer and risk-averse individuals adopt a "wait and see" approach to new programs which enter a community (Rao 1998, Alter 2001, Aschmoneit 1998). By committing to start more than one group in a community, an organization may expect to reach these segments of the population in the second wave of group launches.

3.3.3 *Working with Local Leaders:* Finally, a word about the involvement of village leaders: the three organizations all had different attitudes towards the best approach to working with local leaders. There is a complex set of issues involved. Local leaders can sometimes be "opinion leaders" – their approval of a program was valued by some program participants interviewed for this study. Village heads also can act as a "court of last appeal" when a significant problem strikes a group. We observed one CWS group which had experienced theft, and took the issue to the village head for resolution. Then there are the obvious challenges of usurpation of control by local elites with potentials for fraud, mismanagement or re-direction of program benefits from one group to others.

There is no easy or single solution to how programs should relate to local leaders. However, a relationship at some level is a requirement to operate in rural areas. All of the groups we studied solicited the approval or input of local leaders. CCSF invests significant time in seeking their support – CCSF will not start operations in a community in which local leaders have not given active approval. PAD ties village leaders into its selection process for village bank members, but also prohibits leaders or members of their family from joining. CWS advises working very closely with local leaders as well, though it has no condition about whether they can join or lead a group.

3.4 Limitations and Innovations with Credit and Saving Components

3.4.1 *Loan size:* The most common dissatisfaction expressed by participants was, "the loan size is too small." This was more true at CWS and PAD than at CCSF, whose large savings mobilization permits much larger loan sizes (some loans exceeded KHR 1 million, or US$250). Conversely, PAD and CWS' operational models appear to have a built-in "credit ceiling" emanating from (1) the limited size of external capital offered to groups, and (2) the upper limit of what members are able to practically save on a regular basis. CWS and PAD village banks had maximum loan sizes of approximately KHR 300,000, or US$75. Most loans at PAD were smaller than this threshold, usually below KHR 200,000. Some CWS SHGs allowed members to have multiple loans outstanding at one time, with several members observed to have upwards of KHR 1 million in simultaneous loans. Additionally, we observed several cases where CWS SHG members had secured loans that were much larger than common. The largest was KHR 750,000, or US$185. But these were exceptions rather than the rule. Participant interviews and focus groups indicate that many members would prefer access to loans averaging KHR 500,000, or about US$125.

The complaint about loan size was heard from CWS and PAD groups at all stages of development, including those recently launched as well as groups with more than five years of operation. As described, PAD and CWS both provide an external capital component of up to US$25 per member. Though this helps, based on member opinions it does not seem to satisfy all needs for capital. One observation for PAD's program is interest payments on loans made off of external capital accrue mostly to PAD and not the group: 70% of interest is returned to PAD, 15% is distributed as a stipend to Committee members, and the final 15% is utilized for village bank expenses in administration. In short, the external capital does not generate interest that builds the village bank's loan fund. By contrast, all interest from CWS external capital assistance remained with the SHG.

There were two strategies observed at CWS and PAD to mitigate the common desire for larger loan sizes. These include:

- *Maximizing monthly savings amounts early on:* Several CWS groups we observed begun their operations with monthly savings amounts of KHR 5,000 to 10,000, reducing this later on to KHR 1,000 to 2,000 per month after first loans were made and members began paying interest. While the higher savings amount was only practiced for several months (3 and 6 months in the instances we observed), it had a substantial effect on the group's ability to make loans earlier and in larger amounts. For example, the 16 members of SHG "Samaki Meanchey" saved KHR 240,000 in the first two months, an amount which constituted one-third of the total amount saved after 18 months of operation (monthly savings was reduced to KHR 2,000 in the third month). This strategy, while not sustainable over the long term, permitted the SHG to make its first loans in the third month. It should be noted that over time accrued interest quickly exceeds member savings as the main source of increasing loan funds. The ability to lend earlier starts this process going, with long-term ripple effects in a larger loan fund at an earlier date.

- *Retaining a minimal amount of cash between meetings:* The most effective village banks and SHGs lend out almost all funds as soon as monthly savings are collected, keeping a minimum amount of cash in the group cash box between meetings. This maximizes members' access to loans. It has the added benefit of keeping cash-on-hand to a minimum between meetings, thereby reducing potential for fraud or theft.

3.4.2 *Savings Services:* Most programs in Cambodia treat savings as a means to other ends: savings build the group fund, serve as collateral, and help establish ownership and independence from donors. This is largely true of PAD and CWS. By and large, members can not withdraw individual savings except when exiting the program. This observation extends to nearly all other microfinance programs in Cambodia which have a savings component, including some of the larger programs such as TPC which has the highest amount of client savings in Cambodia.

The experience of CCSF appears to show that savings are valued in their own right by clients. This is demonstrated in the high level of interest in the CCSF program, despite considerable competitive pressure from Acleda, World Vision, CRS and others. We found it interesting that only 45 percent of members have taken a loan during the past 6 years, despite the loan terms being reasonably attractive for a variety of productive and non-productive purposes. Why would more than half of clients not avail themselves of the opportunity to borrow? One explanation is that CCSF clients earn 12 percent interest p.a. on ordinary savings,[12] and a comparable amount on shares which return an annual dividend (dependent upon the bank's annual performance). This suggests that many CCSF clients prefer to meet their needs for large lump sums, at least in part, from interest and dividends, rather than credit. A sizeable class of clients (the risk averse) may prefer self-financing their cash needs before credit.

While many microfinance programs can not and do not offer interest on savings, there is still a lesson to be learned here. Programs that allow some return on or access to savings itself may be more responsive to a larger slice of client demand. Several CWS SHGs were practicing methods which are of distinct interest. Two of the groups we observed have recently or are planning to share out a sizeable proportion of group funds to its members, in excess of US$75 per member. In both instances, the group has agreed to purchase one cow per member. CWS staff stated this was a common strategy chosen by many SHGs. Other SHGs also offered no-interest emergency loans to members, which is analogous to a withdrawal of savings since there is no interest to be paid. This practice makes member savings accessible in the event of emergencies; the sharing out of group funds is another method which enhances the utility of savings for members, instead of locking them up long-term where the only way to access them is by leaving the group.

[12] It should be noted that CCSF is reducing the interest rate on savings, in order to meet sustainability requirements.

3.5 Developing Sustainable Groups and Building to Scale

3.5.1 *Accounting Issues:* The importance of solid operating systems – particularly in the area of financial management – has been discussed at length. It is worth reiterating how crucial this is for the sustainability of village savings and credit groups. A good accounting system does much to help build trust among members, especially during the first year. The transparency and accountability it supports are instrumental in maintenance of trust and an equal sense of ownership among members.

One area examined in this study was the kind and complexity of accounting systems in place in the groups studied. CCSF savings banks utilize a system with seven components: books for cash in and cash out, general ledger, deposit record, non-financial transactions, journal, and member passbooks. There is one 12-page report that is completed by bank officers to pass on financial data to CCSF itself. CWS and PAD utilize simpler systems with just three components, including a loan book, savings book and member passbooks. PAD keeps a parallel set of books for each group, which allows the field agent to closely scrutinize the accuracy of the village bank records. CWS has a reporting form that is completed by the field agent. Overall, the systems seemed targeted to the level at which the groups concerned were operating; however there is room for improvement as well. CCSF's more complex program mirrors the larger size of the savings banks, both in numbers of clients, total amount of savings and loans, and frequency of transactions. As noted above, the low level of literacy among PAD and CWS members makes it difficult to require additional financial record-keeping from groups. Though this would probably be desirable, most group members stated that the accounting system was the biggest challenge and time commitment. It is questionable whether members could assume greater responsibility without a higher level of literacy and numeracy.

3.5.2 *Factors Holding Programs Back from Scale:* This study included two institutions – CCSF and CWS – which have achieved a moderate degree of scale. CCSF has mobilized over 14,000 rural households into its program. CWS has launched SHGs with approximately 8,000 clients within the same timeframe. PAD was selected as an organization still developing its programs before driving to scale. The achievements of these institutions are praise-worthy considering that financial services hardly existed in Cambodia a dozen years ago. However, the level of unmet demand is significant in Cambodia, and many more Cambodians could benefit from access to programs like these. Several factors were observed which present challenges for organizations in Cambodia attempting to reach large scale in services.

Somewhat paradoxically, the biggest obstacle may be the absence of well-developed exit strategies. Quality exit strategies include a vision for sustainability, and a plan for achieving it, not only on the level of the institution, but also (and especially) in establishing the preconditions for the sustainability of client groups at the village level. An exit strategy permits an organization to take time-delimited sources of funding and apply them to the maximum effect for the maximum number of communities feasible. CWS has recognized the need for this, some six years after the launch of its SHG program. CWS and SHG members would clearly have benefited from having this in place early on, especially as relates to expectations for groups assuming ownership of their activities. CWS will pilot a federation of SHGs in the near future.

Program expansion also carries particular dangers. Church World Service encountered this challenge in their Kandal program in 2000. As related by senior management, expansion was overly rapid, with ambitious targets for number of SHGs that would be started. As happened with CWS' Kandal program, poorly-implemented expansion can lead to even well-motivated field workers losing sight of the self-help philosophy in favor of a top-down approach to meet targets for SHGs launched.

Section 4. Recommendations

Despite rapid expansion in the past decade, the Cambodian microfinance sector continues to be characterized by substantial unmet demand and gaps in service. The RDB estimates that US$120 million in demand for rural credit remains unserviced. Savings mechanisms are also poorly developed: the US$1.31 million in current deposits represents a scant three percent of estimated potential for mobilized savings among rural households. Moreover, literacy, business training and empowerment programs are not commonly offered: these have the potential to improve access to and impact of microfinance for more clients. As discussed, existing microfinance service providers in Cambodia are not poised to comprehensively fulfill this continuum of needs, not least because their operating model may make it prohibitively expensive to match extended services with financial sustainability.

Programs like WORTH may be well-positioned to respond where the microfinance industry has not. WORTH's low-cost, savings-led approach packaged with complimentary services may be the kind of innovation required to substantially expand microfinance services in Cambodia. However, WORTH will face a cluster of special challenges to being successful. The lessons learned from the target organizations in this study indicate best practices and adaptations which should be accounted for in the design of Pact Cambodia's WORTH initiative.

4.1 Community Selection and Group Formation

4.1.1 There are a variety of advantages and disadvantages to mobilizing WORTH groups from either pre-existing community groups or mobilizing people into entirely new groups for the express purpose of participating in WORTH. It should not be assumed that utilizing existing community groups and transforming them into WORTH groups will not come with some tradeoffs. <u>Pact may want to consider employing its pilot program to experiment with organizing groups of both kinds, in order to identify the more optimal methodology.</u> In this scenario, WORTH should be certain to form enough groups of each kind, in a variety of communities, in order to develop valid conclusions about the pros and cons. Pact should also consider the following:

Strategies for mitigating drawbacks if using existing groups:

a) As detailed, existing groups present a broad, but perhaps manageable, danger of importing sub-optimal group conditions from the pre-existing program, be it a well-user group, literacy class, or farmers group. Empowerment workers should scrutinize the group closely for transparency, accountability, interpersonal, or other problems. The challenge is identifying and assessing the magnitude of such issues from essentially outside of the group, potentially with limited exposure and time. One response may be to engage the field worker responsible for the existing group in this process, though they may obviously be reluctant to "publicize" shortcomings in the group(s) they are responsible for. NGO field managers and program staff higher up the chain of command may be helpful with this, especially where Pact is engaging the NGO as a partner for the medium- to long-term with WORTH.
b) The process of formation of a WORTH group should not be rushed. In fact, there may be *more* awareness raising required in a pre-existing group before the self-help philosophy of WORTH is introduced, especially in groups which have had relations with a NGO characterized by decision-making authority concentrated at the level of the NGO field worker, or programs where grants or donations have played a significant role in gathering resources for the program activity. Adequate time must be devoted to unraveling prior norms and winning potential participants over to the WORTH approach.
c) The following kinds of existing groups may be more attractive candidates for transformation into WORTH groups:
    - Established savings and credit groups who have had minimal material inputs/grants/loans from the parent agency;
    - Literacy groups which have practiced some level of self-guided learning
    - Groups which have already been practicing some version of a self-help methodology with success.

Strategies for mitigating drawbacks if mobilizing entirely new groups:

a) It is recommended that Pact develop a clear set of procedures for community identification, potentially using PAD's process as a starting point. These procedures should be geared to the following criteria:
    - They should include a baseline survey of some sort to facilitate program monitoring

- The procedures should not be overly complex or time-consuming. Instead they should permit a rapid rollout for individual groups. This will facilitate a drive to scale in the long run.

b) Pact should use its pilot program to develop and test this roll-out strategy.

4.1.2 Regardless of which of the above approaches Pact chooses for WORTH, there is a need to establish clear but not overly rigid guidelines about the qualities desirable for successful WORTH groups. Guidance can be provided by the findings in this report on striking a balance between homogeneity of economic status and affinity networks. WORTH empowerment workers and potential participants will need a clear vision of who should join the program. This can help strengthen the process of awareness-raising and promotion in the early phases of WORTH.

4.1.3 WORTH may want to consider a strategy of "saturating" a village with several SHGs at one time. This would permit people of different economic strata and affinity groups to self-select into the most appropriate groups. Additionally, the strongest promotion tool was often the presence of a successful SHG in the same area.

4.1.4 There is wide variation among programs in how village leaders are included. This is due to the complex mix of advantages and disadvantages associated with their interaction with SHGs. One learning objective for the WORTH pilot should be to establish the desired level and character of involvement by village leaders.

4.2 Developing Sustainability, Trust and Ownership

4.2.1 The strongest groups exhibit a high degree of autonomy in choosing rules and procedures. This appears to enhance the sense of ownership. WORTH should avoid propagating an "ideal type" of self-help association, which may stifle innovation and ownership among members. The one exception is in the area of accounting. SHGs need strong financial management to build transparency, ownership, and avoid fraud.

4.2.2 Pact should examine the suitability of its accounting system for WORTH, which has been developed in Nepal. Most programs in Cambodia use an accounting system with no more than five or six components; even with this level of complexity, all group leaders and participants we spoke with said accounting was the greatest challenge and time commitment for their group. Adjustments may be necessary for bringing WORTH to Cambodia. At the same time, limitations in the literacy level of members in other programs may be driving the less comprehensive systems observed. Pact's literacy component may open the way to developing a program with higher standards of financial management.

4.2.3 Trust-building is a major challenge within the Cambodian context. There is no magic bullet for expunging the effects of three decades of instability, conflict and social disorder. However, solid operating systems – particularly in transparent accounting – are the most effective trust-building strategy observed. Pact should put significant effort into devising an accounting system, as well as training and monitoring framework, which secures the timely development of skill and fluency with financial management among WORTH group members.

4.3 Credit and Savings Components

4.3.1 The most common dissatisfaction with SHG programs was small loan size. This complaint was heard from groups at all stages of development. There are three potential responses for WORTH:

a) WORTH does not have an external fund, but it can encourage SHGs to set the savings limit as high as is feasible and mutually agreeable. This permits groups to give out loans sooner and in larger amounts. Earlier lending also generates interest, which over time will be the primary source of increasing loan funds. The disadvantage of this will be the inability to mobilize the poorest when savings amounts are large. This can be mitigated by the practice of starting more than one WORTH group in communities, allowing members to choose different saving levels.

b) Empowerment workers should inculcate SHG members with the virtue of lending out the majority of funds as soon as they are collected from savings. This maximizes people's access to loans. It has the added benefit of keeping cash-on-hand to a minimum between meetings, thereby reducing potential for fraud or theft.

c) WORTH should also explore an early link to an established MFI. Given the inherent "credit ceiling" in the SHG model, accessing a MFI may, in the long run, be the most effective response to client demand for increasing loan sizes. There are some conditions to examine. Pact may want to consider MFIs willing to wholesale funds to the SHGs, rather than lending to individual members, which may have the effect of stratifying the group and reducing cohesion if some members are receiving much larger loans than others. An MFI practicing a village banking methodology targeted at rural areas may be most likely to express interest in partnering with WORTH. Additionally, WORTH will be increasingly attractive to established, more successful MFIs as it grows in scale and becomes able to offer linkages to a substantial number of SHGs and members at one time. This is one incentive for achieving large scale with WORTH.

4.3.2 The experience of CCSF and some other savings-led programs should orient Pact towards examining how the savings component of WORTH can be enhanced to deliver more benefits to participants. This has the potential to expand the proportion of demand for microfinance services which WORTH is able to service, potentially easing recruitment of new WORTH groups and facilitating the drive to scale. WORTH may want to explore the feasibility of one or more of the following components: no-interest emergency loans, sharing out dividends more frequently, an option to buy additional shares in dividends, or allowing partial withdrawal of savings under certain conditions after the group loan fund reaches a certain size. Each option would need to be weighed against several factors, not least being the additional complexity it introduces to financial management responsibilities for SHGs.

4.4 Program Sustainability, Expansion, and Driving to Scale

4.4.1 Program expansion carries particular dangers. Expansion must be well-planned, adequately staffed and not pushed too rapidly. Poorly-implemented expansion can lead to even well-motivated EWs losing sight of the self-help philosophy in favor of a top-down approach to meet targets for SHGs launched. In general, WORTH should ensure that empowerment workers have fully bought into the self-help group philosophy.

4.4.2 It is crucial to have a well-defined exit strategy as soon as feasible. Decisions made about methodology and operating structure will impact the program for its duration, sometimes adversely. WORTH should seek to form a clear vision and exit strategy by the end of its pilot program and before taking the program to scale. The strategy should specifically address exit at the level of both individual SHGs as well as between Pact and its CNGO partners.

A clear exit strategy can do much to ensure SHGs achieve sustainability. The exit strategy should include a defined package of training/capacity building for each SHG as well as benchmarks to guide EWs in stepping-down their involvement within a suggested timeframe. It may also include establishment of links with other programs that can provide larger loans, skills training and other support. By plotting a clear trajectory towards the eventual reduction/end of Empowerment Worker involvement in individual groups, the exit strategy will facilitate EWs moving on to start and strengthen other groups. This should help WORTH drive to scale.

The exit strategy should also establish clear expectations between Pact and CNGO partners. It should lay the groundwork for a very cost-effective operating structure that will allow CNGOs to carry on the work in the future.

4.4.3 Other NGO programs may be very interested in WORTH's literacy component, the curriculum modules developed and, after program launch, Pact's field experience in this area. This capacity in combining literacy with microfinance could create opportunities for partnership, or even consulting on a fee basis.

4.4.4 Pact may want to further explore the regulatory environment for this kind of microfinance program. Cambodia's existing laws are geared for programs that make loans or mobilize savings directly, which WORTH does not. It is not completely clear whether the 1999 banking law and 2000 implementing decree governs programs like WORTH, or provides it any protections. During the course of this research, staff at the NBC stated that the law and decree would apply to WORTH. However, the exact language in these documents is somewhat ambiguous, stating that all entities "involved in" credit or savings activities are required to register with the NBC and abide by the provisions of the 1999 law: the phrase "involved in" is not defined or delimited in any fashion.

It is also uncertain which laws will apply to the WORTH groups themselves, especially in the area of liability in the event of failure, fraud or theft. Absence of clear guidelines in these areas can threaten the sustainability of individual groups as well as WORTH as a program. Pact can explore joining forces with interested programs – such as CCSF, which faces similar issues with its Savings Banks – to lobby the government to issue pertinent regulations on these questions.

Conclusion

Significant strides have been made in developing microfinance services in Cambodia over the past decade. After three decades of civil strife, Cambodia of the early 1990s had virtually no formal financial institutions, let alone those dedicated to serving the poor. Today, a strong group of market-leading MFIs, complemented by numerous NGO programs, have extended financial services to many Cambodian households. Cambodia represents one of the fastest growing markets for microfinance in the world.

This track record, however, should not cloud the general conclusion that considerable improvement is still possible, and even necessary. The majority of Cambodians have not yet been touched by microfinance. Service provision needs to be expanded by several orders of magnitude. Finding cost-effective ways to reach a greater proportion of the population will be challenging. In addition, savings mechanisms, other financial services and complimentary services such as literacy and business training are largely undeveloped. These will play a part in making microfinance more accessible and impactful for a greater number of clients with diverse service needs. Innovative responses will be needed to take the next step in developing microfinance in Cambodia. Practitioners, policy makers and donors should "lift their vision" towards thinking about how their schemes, and new ones, can contribute to the overall development of microfinance and poverty alleviation in Cambodia.

Pact's WORTH initiative offers one approach to meeting this challenge. WORTH will face its own obstacles particular to the nature of a savings-led program centered on self-sufficient village groups. This paper set out to study three similar programs in Cambodia, and outlines some of the lessons to be learned. In particular, the process of developing sustainability, trust and ownership among group members lies at the heart of whether programs like WORTH will be successful. The relevance of transparent, effective yet simple accounting systems to all three matters (sustainability, trust, ownership) can not be underestimated. Adjustments and innovations with credit and savings components are necessary to ensure that membership in a group delivers the promised benefits. A number of those adjustments have been highlighted in this report, though no doubt more will develop as Pact implements WORTH and groups begin to innovate with the model. Above all, WORTH must strive for scale if it is to fulfill its potential as a low-cost model of expanding financial services, literacy and empowerment for rural women in Cambodia.

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Annex 1: Interviews

Name	Position	Organization
1. Chan Thy (Mr.)	Analyst, Banking Supervision Department	National Bank of Cambodia
2. Chap Chantha (Ms.)	Executive Director	People's Association for Development (PAD)
3. Huot Sokha (Mr.)	Vice President, Marketing and Communications	Amret
4. Keo Keang (Ms.)	Deputy Country Representative	Pact Cambodia
5. Kim Phealy (Ms.)	Project Coordinator	Hope International
6. Le Pechoux, Michel (Mr.)	Project Officer, Seth Koma Programme	UNICEF
7. Loek Thy (Mr.)	Deputy Section Chief, Banking Supervision Department	National Bank of Cambodia
8. MacLeod, Kurt (Mr.)	Country Representative	Pact Cambodia
9. Nuon Vanny (Mr.)	Marketing Officer	Amret
10. Phal Pisey (Ms.)	Executive Director	Cambodia Community Savings Federation (CCSF)
11. Rasmussen, Karen (Ms.)	Independent Consultant	--
12. Mao Sophal (Ms.)	Credit Advisor, SHG Program	Church World Service
12. Torres, Olga (Ms.)	Technical Advisor	AMK
13. Visda, Olivet (Ms.)	Deputy Director of Programs	Church World Service
13. Wierda, Vincent (Mr.)	Community Finance Specialist, East Asia Region	Oxfam America

Annex 2: Outreach and Size of Major Microfinance Programs in Cambodia

The following microfinance providers account for 84 percent of all loans made in Cambodia, as measured by portfolio size.

Data for December 31, 2003*	**Clients Served** (number)	**Portfolio Size** (US$ millions)
Licensed MFIs		
Ennatien Moulethan Tchonnebat Ltd (EMT)[13]	92,173	$5.583
Cambodia Entrepreneur Building Ltd (CEB)	7,551	2.425
Hathakaksekar Ltd (HKL)	5,372	1.377
Seilanithih Ltd	13,248	1.290
Thaneakea Phum (Cambodia) Ltd (TPC)	31,668	2.608
Recently licensed[14]		
Angkor Mikroheranhvatho Kampuchea Ltd (AMK)	18,423	0.843
CREDIT Ltd (formerly World Relief)	7,208	0.689
Vision Fund	18,000	0.900
Registered NGO		
PRASAC Credit Association	58,147	6.880
	251,790	$22.595
Commercial bank		
ACLEDA Bank	104,644	28.401
	356,434	**$50.996**

*All rounded figures are estimates for 31 December 2003, based on information from the MFI Association of Cambodia and the National Bank of Cambodia.

[13] Note: EMT has recently changed its name to Amret as of July 2004, though EMT is still the more widely recognized name at the time this report was produced.
[14] As of June 2004.