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*Cambodia Post-Harvest Fisheries Livelihoods Project*

# Guidelines to Improve Access to Microfinance by Poor Fishing, Processing, and Trading Communities

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## Abbreviations

| | |
|---|---|
| ADB | Asian Development Bank |
| ACLEDA | Association of Cambodian Local Economic Development Agencies |
| ARCM | Asia Resource Centre for Microfinance |
| BWTP | Banking With The Poor Network |
| CBO | Community-based Organisation |
| CCD | Community Capacity and Development, NGO |
| CCRF | Code of Conduct for Responsible Fisheries |
| CCSF | Cambodian Community Savings Federation |
| CSO | Civil Society Organisation |
| CDRI | Cambodian Development Resource Institute |
| CFDO | Community Fisheries Development Office, DoF |
| CFDS | Cambodia Family Development Service |
| CGAP | Consultative Group to Assist the Poorest |
| CPHFLP | Cambodia Post-Harvest Fisheries Livelihoods Project |
| DFID | UK Department for International Development |
| DoF | Department of Fisheries, Government of Cambodia |
| FAO | Food and Agriculture Organization of the United Nations |
| FQPD | Fish Quality and Processing Division |
| GoC | Royal Government of Cambodia |
| GRET | Groupe de Recherche et d'Echanges Technologiques |
| HKL | Hattha Kaksekar Limited |
| IFReDI | Inland Fisheries Research and Development Institute, DoF |
| IMM | Integrated Marine Management Ltd, Exeter, UK |
| IO | International Organisation |
| M&E | Monitoring & evaluation |
| MYRADA | Mysore Resettlement and Development Agency, India |
| NBC | National Bank of Cambodia |
| NGO | Non-Governmental Organisation |
| NRIL | Natural Resources International Ltd. |
| NRI | Natural Resources Institute, University of Greenwich |
| MFI | Micro-finance Institution |
| MRC | Mekong River Commission |
| PHFRP | DFID Post-Harvest Fisheries Research Programme |
| PHLAT | Post-Harvest Livelihoods Analysis Tools |
| PRA | Participatory Rural Appraisal |

| | |
|---|---|
| RDB | Rural Development Bank |
| RUA | Royal University of Agriculture, Phnom Penh |
| RMA | Rapid Market Appraisal |
| SHG | Self-help Group |
| SHGPI | Self-help Group Promoting Institution |
| SLA | Sustainable Livelihoods Approach |
| SSA | Sub-sector Analysis |
| VSG | Village Support Group, NGO |

**Exchange Rates**

£1 = US$1.75

US$ 1 = approx. CR (Cambodian Riels) 4,000

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## SUMMARY

These guidelines to improve access to microfinance by poor fishing, processing, and trading communities have been produced by the Community Fisheries Development Office (CFDO) of the Department of Fisheries (DoF) with support from the Natural Resources Institute (NRI) of the University of Greenwich, UK. The guidelines were produced as part of the Cambodia Post-Harvest Fisheries Livelihoods Project (CPHFLP) with funding provided by the Post-Harvest Fisheries Research Programme (PHFRP) of the UK Department for International Development (DFID).

The aim of the CPHFLP is to develop an understanding of how the post-harvest fisheries sector can be better managed for the benefit of the poor. The work plan of the project consists of several interlinked strands of activity, including the preparation of a post-harvest fisheries overview (PHFO), the building of capacity, and the implementation of pilot impact interventions. The microfinance component of the pilot impact interventions is the focus of these guidelines.

The PHLAT (Post-Harvest Livelihoods Analysis Tool) exercises carried out by CFDO in Banteay Meanchey, Kampot, Koh Kong, Kampong Cham, Prey Veng, and Pursat revealed that lack of access to credit is a major livelihoods constraint frequently mentioned by fishing communities. In particular, the vulnerable and poor members of these communities rarely have access to formal credit and rely on moneylenders who charge high interest rates.

A nodal study on the role of formal and informal credit in the fish marketing chain found that some fishing communities are already able to obtain micro-credit from ACLEDA bank, and MFIs such as AMRET (formerly EMT) and Hattha Kaksekar Limited (HKL). Nevertheless, the study also points out that ACLEDA and MFIs should continue expanding their services to remote, rural areas.

Consultative needs assessments were undertaken with various stakeholders such as community members, Department of Fisheries officials, MFIs, NGOs, and ACLEDA Bank. Several success stories were identified, such as:

- Interest rates have come down in areas where there is a strong presence of micro-credit providers. For example, whilst moneylenders have charged 10% and more per month, due to the increased liquidity in the system they now charge about 5% per month. ACLEDA Bank and MFIs charge about 3% per month.
- Micro- and small-scale entrepreneurs who have obtained formal loans were encountered, in particular around urban centres.

- The formation of village banks and self-help groups (SHGs) has helped to improve the livelihoods of members of some fishing communities.

Several determinants of successful microfinance operations were highlighted by stakeholders, including institutional issues related to MFIs and NGOs (e.g. sufficient training and pay for staff), community related aspects (e.g. organisation into solidarity groups, capacity building, and information sharing), and business related factors (e.g. ability to reimburse loans, entrepreneurial spirit, and existence of technical assistance if required).

At the same time, a number of factors were found in explaining the limitations of existing microfinance schemes. They were grouped into institutional factors (e.g. corruption by a few village committee members, lack of trust into NGOs, leaders of village banks lacking book-keeping and management knowledge), external factors (e.g. natural disasters or marketing problems), impact constraints (e.g. businesses not expanding although loan was reimbursed), borrowers' capacity and willingness to repay a loan (e.g. some people do not respect their contract and avoid reimbursing the loan), and lack of capacity and willingness to save (e.g. the vulnerable and poor find it difficult to make savings).

In addition, microfinance institutions (MFIs) explained that they find it difficult to expand their operations into fishing communities for various reasons, such as, large numbers of fishermen not having a permanent address; the fishery policy is perceived as unstable; natural resources have deteriorated; and there is a lack of transportation and communication for monitoring and evaluation.

Reflecting these points, a number of recommendations and options were developed as to how to improve microfinance in poor fishing, processing, and trading communities.

Lending to individuals should be expanded to those entrepreneurs who have the capacity to reimburse loans. In addition to conventional banking, which emphasises the existence of physical collateral, more use should be made of non-conventional credit technology which is based on a "ladder approach" to loan sizes (i.e. smaller ones at the beginning and then larger ones if successful); credit history of clients; and interest rates that may be higher reflecting small loan sizes and higher transaction costs.

More use of group based lending approaches appears necessary in remote areas where many poor and vulnerable people live. This includes the formation of self-help groups (SHG) by the poorest and solidarity savings and credit groups by less poor villagers.

The microfinance institution AMRET has been successful with solidarity credit following the transformation of village banks into village associations. It needs to be recognised that group approaches can be difficult to implement and mistakes of the past ought to be avoided. Social intermediation (i.e. institutional capacity building) by NGOs is often required so that these groups can begin to function on their own with less external help. In particular, poor communities that are located in remote areas or have low levels of social capital, are not ready for sustainable financial intermediation without first receiving some capacity-building assistance.

Given the importance of savings as a means of internal resource mobilisation, it appears appropriate for banks and MFIs to expand their savings-related microfinance services, especially in remote areas. Not only is saving an essential task for the poor to be able to manage their lives, but it also carries an educational function in that it provides them with a longer-term view based on planning.

Appropriate loan terms for fishing, processing, and trading communities need to take their preferences into account. For example, loans should be multi-purpose in that clients are likely to use them for several different economic activities throughout a year. Accordingly, the borrower's capacity to reimburse a credit is more important than the purpose. Also, members of fishing and processing communities tend to prefer to reimburse the bulk of a loan towards the end of the loan period. Although there are complaints about the level of interest rates charged by MFIs, it needs to be acknowledged that the rates have declined over the last decade, and the rates must also reflect the transaction costs incurred by the financial service providers.

Members of fishing communities tend to have assets (e.g. boats, floating houses) that are often not accepted as collateral by the banks and MFIs. As a result, there should be less emphasis on the existence of physical collateral, and groups and individuals should be judged on the existence of a sound business plan and their ability to pay back a loan. Nevertheless, there is still scope for broadening the concept of collateral beyond the current boundaries. For example, there is the option of using assets such as stocks of processed fish as collateral if local authorities (e.g. Commune Councils) can provide guarantees and security.

Given that many fishing communities currently lack sufficient access to microfinance it appears appropriate to improve the links between the NGOs and CBOs that are active in these communities, and the larger MFIs and banks. It is expected that this would allow the local NGOs and CBOs to access capital for on-lending to their clientele. At present, it appears that only the larger organisations have access to

substantial amounts of funds through their links with donor projects and overseas investors.

The Fish Quality and Processing Division (FQPD), which is being created under the Department of Fisheries with members of the Cambodia Post-Harvest Fisheries Livelihoods Project (CPHFLP), should have a facilitating role to play between the microfinance institutions and the communities that are in need of financial services. This may involve a number of activities including awareness raising and lobbying on behalf of fishing, processing, and trading communities, and building of partnerships with MFIs and NGOs that are active in the field of microfinance, and linking them up with these communities.

# BACKGROUND TO THE CPHFLP

The Community Fisheries Development Office (CFDO) of the Department of Fisheries is implementing the Cambodia Post-Harvest Fisheries Livelihoods Project (CPHFLP) in partnership with DFID's (UK Government's Department for International Development) Post-Harvest Fisheries Research Programme (PHFRP). The Programme is managed from the UK by Natural Resources International Ltd and the foreign partners in the implementation of the CPHFLP include IMM Ltd, and the Natural Resources Institute of the University of Greenwich, UK.

The aim of the CPHFLP is to develop an understanding of how the post-harvest fisheries sector can be better managed for the benefit of the poor. It seeks to encourage the implementation of policies and management strategies that improve the livelihoods of vulnerable people in the sector. This supports DFID's key aim, and one that is central to the Millennium Development Goals, which is poverty reduction. The work plan developed for the project consists of a number of interlinked strands of activity. These are focussed on:

1. The development of a post harvest fisheries overview for Cambodia and the commissioning of nodal studies to improve the understanding of key issues;
2. The building of capacity to enable the development of sustainable post harvest fisheries livelihoods;
3. The implementation of pilot impact interventions to improve the livelihoods of the poor in post-harvest fisheries.

The implementation of pilot impact interventions includes a microfinance component which is the focus of this guide. In particular, the findings from various studies and needs assessments will be presented, followed by options to improve microfinance services in fishing communities. The guide draws on both international and Cambodian experience in the microfinance sector, highlighting key issues as well as challenges.

On 22 & 23 December 2005, a workshop was organised at the Department of Fisheries in Phnom Penh to discuss how to improve access to microfinance by poor fishing, processing and trading communities, and to validate the results of the pilot impact interventions. Selected findings of the workshop discussions have been included in these microfinance guidelines.

# FINDINGS FROM STUDIES AND NEEDS ASSESSMENTS

## Findings from the PHLAT exercises

The findings of the PHLAT (Post-Harvest Livelihoods Analysis Tools) exercises carried out by CFDO in Banteay Meanchey, Kampot, Koh Kong, Kampong Cham, Prey Veng, and Pursat highlight the importance of moneylenders, traders and fishing gear sellers in the credit system of fishing communities. If traders are the credit providers this often implies that the borrowers will have to sell their catch through them, at times at discounted prices, whilst the interest charged may sometimes be quite low.

Despite their high interest rates, moneylenders are usually approached in times of emergency because their terms are more flexible than those of MFIs or banks when it comes to loan disbursement and repayment.

Amongst the providers of formal micro-credit and small-business loans, ACLEDA Bank is present in the majority of locations surveyed. At the same time, it was evident that the poor and very poor find it difficult to access credit from ACLEDA bank if they do not have collateral. Generally, the poor people, including fishermen, do not dare to borrow money directly from ACLEDA Bank because they are afraid that the bank would confiscate their only property if they were unable to repay their debt on time. It was reported that some of the traders and moneylenders borrow money from ACLEDA Bank to lend to the poor or fishermen at much higher interest rates.

A number of MFIs are present in different locations. AMRET (formerly EMT) and Prasac belong to the largest MFIs in the country whilst some communes are only served by small local NGOs or micro-credit providers.

In sum, the PHLAT exercises by CFDO revealed that lack of access to credit is a major livelihoods constraint which was frequently mentioned by fishing communities. In particular, this affects the poor and the poorest members of these communities given that they rarely have access to formal credit and mostly rely on moneylenders who charge high interest rates.

## The role of formal and informal credit in the fish marketing chain (Hap Navy, Nodal study 13, 2004)

Formal and informal credit services are particularly important to the fisheries sector. A previous study found that about 50% of households in fishing communes in 8 provinces, namely, Phnom Penh, Kandal, Kampong Cham, Kampong Chhnang, Siem

Reap, Pursat, Battambang, and Kampong Thom, were involved in some sort of micro-credit (Ahmed et al. 1998).

The present situation is one of a mixture of formal and informal credit schemes. The main sources of formal credit available to the fishing sector in the three provinces (i.e. Kandal, Kampot, and Pursat) where this study was undertaken were found to be ACLEDA bank, and the MFIs Ennatien Moulethan Tchonnebat (EMT, now AMRET) and Hattha Kaksekar Limited (HKL)[1]. They charge lower interest rates (about 3 to 3.5% per month) compared to informal credit sources.

According to the study, which was mostly based on qualitative and participatory data collection techniques, the sources of capital for the fishermen in the three provinces surveyed include formal credit (40 – 70%), informal credit (15 – 20%), and own capital (10 – 40%). The size of loans was of the order of CR 50,000 to CR 4 million.

About 80% to 90% of processors surveyed have borrowed money from informal credit providers. The money was borrowed in order to purchase fish for processing, and then was paid back after processed fish products had been sold.

Among the selected sample of wholesalers (mostly based in Oreusei market, Phnom Penh), 50% used their own capital for purchasing fish from middlemen and 50% used money from playing *Tontin*. There is therefore no formal credit used by fish distributors or wholesalers in Phnom Penh.

The majority of sales by wholesalers are made on a credit basis, payment being made two to three days later, which indicates that the wholesalers know and trust their customers.

Fish traders interviewed in Pursat generally provided informal credit to fish collectors, and also in some instances took out informal credit from money lenders. Traders also lent money to fishermen directly so that they could buy gear, and then the fishermen sold fish back to the traders.

Fish traders in Kandal also lent money free of charge. Generally, they provided credit to fishermen in cash (90%) and some (7%) in kind as fishing equipments, engines, and boats.

[1] It should be noted that the fishing communities where the survey took place had been selected due to their access to micro-credit. As a result, the picture is likely to be less favourable in other communities where access to microfinance is not as good.

Fish traders in Kampot reported that 30% of fish traders borrowed from formal credit systems and 70 percent used their own capital.

As with wholesalers, retailers are also in the habit of selling fish without immediate payment. However, retailers also have to take credit themselves, so that they can buy fish from wholesalers and afford to give fish on credit to their customers. The majority relied on informal sources of credit, such as: *tontin*, moneylenders, and relatives.

The recommendations of the study include:

- Providers of formal credit systems, particularly of services provided by NGOs, should look to learn from the existing internal structure of informal credit and its operation. There may be things to learn in particular for group borrowing schemes.

- ACLEDA and MFIs should continue expanding their services to rural areas, particularly remote villages.

- If NGOs and MFIs could offer even lower interest loans (e.g. 1-2%) this could make formal credit more accessible to the poor. At the same time, this needs to be seen in relation to the administrative and transaction costs of the microfinance services offered. In order to be sustainable, MFIs need to be able to charge interest rates that allow them to cover their costs.

- There is therefore a need for formal credit providers to consider how they can improve their services for the poor.

- The credit system could be improved for those in the fishing sector by making repayment schedules tailored to the fishing season, i.e. with higher repayments in the open season and lower in the closed season.

- Formal credit providers need to find ways of making the system more accessible and accelerating the loan application process.

- MFIs should look towards providing group credit to those involved in playing *Tontin*, in order that the financial risks associated with borrowing can be minimised.

- Possible solutions to the necessary risk taken on by MFIs providing to the very poor might involve some sort of community fund guarantee system, whereby communities have collective savings to cover missed repayments.

## Participatory needs assessments

In late 2004 and early 2005, a consultative needs assessment was undertaken by CFDO staff with MFIs, NGOs and other stakeholders in Kampong Chhnang Province. The objective of this exercise was to assess the experiences of these organisations in the provision of microfinance services and develop recommendations that outline the way forward for a microfinance pilot intervention by CPHFLP.
The methodologies used for the needs assessment includes participatory group meetings, and related tools such as checklists, etc. In particular, it was attempted to prepare case studies and identify success stories, as well as determinants of success and failure in microfinance schemes.

In addition to Kampong Chhnang town, the assessment was undertaken in Pralay Meas and Phlov Touk Commune, Kampong Leng District, Kampong Chhnang Province. Besides NGOs and MFIs, other stakeholders consulted include local government officials, and private sector operators such as fisherfolk, traders, and processors.

The organisations contacted in Kampong Chhnang during this exercise include:

- Phnom Neang Kang Rei (PNKA)
- Khmer Peace Organization (KPO)
- PRASAC Microfinance Institution
- ACLEDA Bank
- Department of Fisheries

The following are some of the **success stories** of microfinance in the Cambodian fisheries sector, which were identified during the course of the survey:

- Reduction of interest rates from about 10% - 20% per month to 3% - 5%. In particular, over the last few years in less remote areas interest rates have declined to considerably lower levels since the arrival of ACLEDA bank or MFIs. To some extent this appears to have been due to competition between the microfinance providers, and the fact that business people such as traders and moneylenders have now found a new source of capital, which they can use for onward lending in fishing communities at an interest rate of about 5% per

month. The increased liquidity has contributed to much lower interest rates in the less remote communities.

- During the survey it was possible to encounter entrepreneurs who have been able to obtain individual loans from MFIs and ACLEDA bank. These business people, who appear to be based near urban centres such as Kampong Chhnang town, may be fish traders, processors or aquaculture producers. Some case studies are presented below (e.g. Box 2).

- In some areas, the formation of village banks and self-help groups (SHG) has helped to improve the livelihoods of members of fishing communities (e.g. Box 3). Although it is recognised that group approaches are often fraught with difficulties, very poor community members have often no other choice but to organise themselves in groups and associations with the help of NGOs or MFIs.

**Determinants of success,** which were highlighted by stakeholders:

**(1) Institutional issues related to MFIs and NGOs**

- Skilled staff of institutions and NGOs should receive more training to work directly with people.
- Provision of salary for staff of NGOs or MFIs in order to avoid pay-related issues and biases.
- People and communities should be left with sufficient capital or equipment once NGOs leave the area.
- NGOs should use case studies to disseminate information and draw on good experiences and best practice from other places.

**(2) Community related aspects**

- Community members should be organised in solidarity groups and help each other whilst risks are being met.
- Sharing of information within groups and between communities and organisations such as NGOs and MFIs is important.
- People should have opportunities to participate in training on:
    - Leadership;
    - Responsibilities in groups;
    - Administrative procedures;
    - Designing and implementing of plans;

- Community members should have an understanding of how to plan for their families.

**(3) Business related factors**

- Households need to find alternative livelihoods in accordance with the Government's poverty reduction strategy.
- When providing credit, the focus should be on borrowers' business and ability to pay back the loan.
- Provision of credit to people who have more than one occupation in order to spread the risk if something goes wrong in one business.
- Small-scale business people need to have an entrepreneurial spirit when doing business (this may involve taking risks) and have someone who can provide assistance and encouragement when needed.
- Offering both credit and technical assistance improves people's doing business by themselves.
- Having sufficient funds in their account (i.e. equity) allows people to borrow money more easily when they need it. As a result, people should be encouraged to build up their savings.

**Factors of failure or constraints**

A series of explanatory factors were found in explaining the limitations of existing microfinance schemes. These can be usefully classified into: (1) institutional factors; (2) external forces; (3) impact constraints; and (4) borrowers' capacity and willingness to repay. The classification is also specified depending on whether it related to credit or savings facilities respectively.

- **Credit related**

**(1) Institutional factors**

- There are a few corrupt village committee members who take money and use it for their family without reimbursing it to the NGO.
- People find it difficult to concentrate on other tasks when they are busy solving conflicts.

**(2) External forces**

- Natural disasters (flood, drought, etc) affecting the livelihoods of people.

- Marketing – sometimes, when people produce large quantities of produce (e.g. cabbage, tomato, cucumber, corn etc), market prices will decline.
- Some community related constraints are beyond the control of the project.

**(3) Impact constraints**

- Although money was refunded to the NGOs, the borrower's business did not expand.
- Some people borrow money from other NGOs or moneylenders in order to refund a loan to a NGO.
- Some people are easily affected by flattery.

**(4) Borrowers' capacity and willingness to repay**

- Some borrowers did not respect the principle or role of NGOs and their contract.
- Some borrowers did not refund on time and some did not pay back and moved their house.
- Some people want to obtain loans but do not want to do business.
- Some people are overambitious.
- Some people have money but they do not refund.
- People use many tricks to avoid reimbursing loans.
- Some customers get credit for business but they use the money for medical treatment or other family matters, as a result of which their business gets postponed and refunds to NGOs are not on time.

➢ **Saving groups related**

**(1) Institutional factors**

- When savings group was started, people did not trust NGOs.
- A minority of saving group chiefs borrowed money from the saving group's cashbox without paying interest.
- Chiefs of village saving groups tend to have little knowledge in book keeping and the management of money.
- Some saving group chiefs put money from saving group members into their own pocket and then charge them to refund money to NGOs.

**(2) Capacity and willingness to save**

- People living in poverty did not contribute on time.

- It is difficult to work with elderly people in saving groups, because they often cannot make contributions.

**Findings from Battambang**. Although there has been an expansion of micro-finance services in Cambodia during the past few years, most of the MFIs are still reluctant to work in fishing communities. In particular, the more remote areas appear to be affected. For example, CCSF (Cambodian Community Savings Federation), which is based in Battambang, gave the following explanations why they are not prepared to expand their services into fishing villages for the time being:

- Most fishermen do not have permanent addresses or residences; this includes lack of official ownership certificates and titles.
- The fishery policy is unstable and unsecured; i.e. at least to outsiders, the policy situation is not clear especially after the recent reforms.
- The fishery association is in the process of regulating the fishery status and by-laws.
- Natural resources have deteriorated.
- There is a marketing problem with fish.
- Lack of access to transportation and communication for monitoring and evaluation (M&E).

In particular, this affects the poor and the poorest members of these communities given that they mostly rely on moneylenders who charge high interest rates. As a result, there is a need that the MFIs expand their services in fishing communities taking into account the needs of the poorest parts of the population.

**Recommendations provided by stakeholders**

- **Concerning institutions and NGOs**

  - Both loans and technical assistance should be provided.
  - In order to improve the standard of living of people we should focus on finding alternative livelihoods for local people.
  - New occupations of people should meet their aspirations.
  - Success in processing credit; MFIs should avoid giving loans to the poor who have no employment and will therefore use the money from saving groups or NGOs mainly for food at first; they won't take loans to do business. If NGO agents introduce or find occupations for them and this fails then NGOs will be blamed.
  - The amount of loans should not be more than 300.000 riel (75 dollars).

- Interest rates should not be more than 2% to 3%. However, it is important to note that the interest rates should be set by the MFI based on the institution's operational costs, cost of capital and loan loss reserve, as well as on clients' preferences and demand.
- Frequent monitoring by field agents is required - Don't trust too strongly in people.
- The project should have incentives for good leadership for chiefs of saving groups.
- If the Cambodia Post-Harvest Fisheries Livelihoods project wants to get involved with micro-credit, then it should not work in places where NGOs are already present.

➢ **Concerning people who obtain loans**

- Credit should be provided over longer periods (i.e. 1 to 2 years).
- The provision of credit should be combined with business training.
- Interest rates should be of the order of 1% to 2% per month.
- Interest rates should not be charged on loans every month. NGOs or other projects should charge the total amount (i.e. interest and principal) at the end of the loan period.
- The appropriate amount of loan for fishermen is CR 100.000 to 500.000 for a family; and CR 150.000 to 200.000 for processors.

**Box 1**

**Case study: Fish Processor in Ek Phnom District, Battambang Province**

Mrs Hun Hen is 53 years old, and has two sons and two daughters. Her husband has passed away 11 years ago. She started fish processing about 20 years ago, making products such as smoked fish, *prahok*, and fish paste. Her husband was a fisherman and now her son is a fisherman too; sometimes she accompanies him on his fishing trips.

During one season she can process about 900 skewers of smoked fish. She receives about CR 300 per skewer, however she has to pay approximately CR 1100 per skewer if she has to buy on the market later in the year. She only stores in her house, where she can keep the smoked fish for up to 15 days. If the storage period is longer she has problems with insects and bad smell. She doesn't use chemicals for fish preservation.

In March 2004, she obtained her first $20 credit from the NGO Village Support Group (VSG). The loan duration was 6 months, and every month she had to pay 3% interest. She bought fishing gear (i.e. gill-net) with the loan.

Because the loan was not sufficient, she also had to borrow $25 (CR100,000) from a private moneylender at a monthly interest rate of 10%. She can only pay the monthly interest because she does not have enough cash to pay back the loan. Sometimes she has difficulties to pay the interest. As a result, the moneylender is unhappy and puts pressure on her. For example, she would have to work as a labourer in the fields at a daily rate of CR 3,000 ($.075).

She is also member of a self-help group, and her monthly savings contributions are of the order of CR500. For the current agricultural cycle (May to September) she has another loan from VSG ($20). She uses the money to rent land in order to grow maize. She does not own land.

When asked for suggestions how CPHFLP could help her she indicated the following: training in fish processing; training on how to be successful in business; and funds to increase the capital in her self-help group.

**Source**: Authors' field surveys

# OPTIONS TO IMPROVE MICROFINANCE IN FISHING COMMUNITIES

The needs assessments and PHLAT exercises described above show that the majority of individuals in fishing communities still find it difficult to access formal and semi-formal credit despite the increasing importance of micro-finance institutions in Cambodia. This finding is confirmed by Banking With The Poor on their website (www.bwtp.org), stating in their Cambodia Profile that "there are almost no branches of banking institutions operating in rural areas, with the exception of ACLEDA. This makes the movement of cash for MFIs very difficult, and restrains their expansion to rural regions. In consequence, most MFIs compete in urban and easily accessible rural areas. Outreach is still limited in more remote, rural regions".

In this context, several options will be considered here which could improve fishing communities' access to microfinance services. In particular, the guidelines focus on the following issues to achieve this objective:

(a) Lending to individuals;
(b) Group approaches;
(c) Savings mobilisation;
(d) Appropriate loan terms for fishing communities;
(e) The use of stocks of processed fish as collateral in order to obtain credit;
(f) Linking large MFIs and banks with NGOs and groups in fishing communities.

## Lending to individuals

According to the BWTP (Banking with the Poor) website,[2] MFI Credit methodologies in Cambodia seemed to have shifted from village banking experimentation (1991-1995) to solidarity groups (1995-2002) to individual lending (2002 to now). However, the majority of the MFIs offer a mix of lending products such as group and individual loans, while some are still using an adapted village banking structure to channel the funds more efficiently.

According to S. Shetty (quoted in Tietze and Villareal, 2003), there are two basic approaches to lending that play a major role in financing small and microbusinesses in developing countries. They are individual-based and group-based approaches. Each

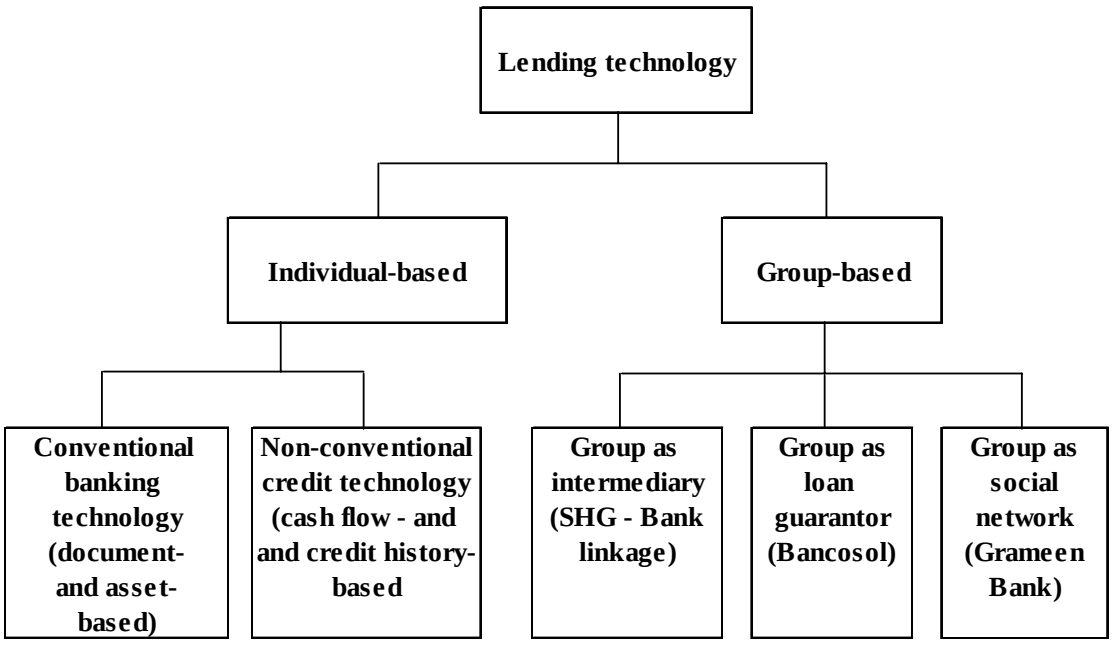
[2] www.bwtp.org - Banking with the Poor – Cambodia Country Profile

can take a number of different forms in practice and five of these variants are widely used by MFIs according to the authors (Figure 1).

Two approaches can be distinguished amongst the individual-based credit technologies, i.e. conventional banking technology and non-conventional credit technology.[3]

**Conventional banking** is used by banks in dealing with established customers. It is geared to an individual borrower and his or her individual project, and is document- and asset-based. This means that credit granting decisions are generally made on the basis of available documents (e.g. firm's balance sheet) and the availability of what is generally called "bankable collateral" or "bankable securities". Although this technology has been tried out in small and microenterprises, its applicability in the microfinance context appears to be limited (Tietze and Villareal, 2003). Small and microentrepreneurs often do not have the time to go through the process nor do they have the required collateral. Also, many agricultural banks have tried this technology and have not been able to cater for the demands of poor households in rural communities.

**Figure 1: Main types of lending technology**




**Source:** Shetty, in Tietze and Villareal (2003)

[3] The sections on individual lending and group based approaches draw extensively on the paper by Shreekantha Shetty in Tietze and Villareal (2003).

**Non-conventional credit technology** is different from conventional banking in that it has been adapted to the special situation of borrowers from the small and microbusiness sector. It retains the advantage of dealing with each individual case separately and is tailored to the situation of each borrower. It makes a conscious attempt to acquire more information about the borrower by direct inspection rather than by studying documents. Collateral is used wherever available but premium is placed on the applicant's character and personality. Three major adaptations have been made by successful MFIs that use this technology. First, these MFIs use a "ladder approach" to credit delivery. Smaller loans are given initially and, based on the repayment performance, larger loans are then granted. Second, the emphasis is on the credit history of the client and not on collateral. Third, the rate of interest is higher than in conventional lending in order to cover the full costs of delivery and recovery (including risk), which tend to be higher in the case of small loans compared to large ones.

Cambodia's ACLEDA Bank and its predecessor organisations have been able to rapidly increase their presence in rural areas during the last decade. Although ACLEDA Bank loans have an element of conventional banking (e.g. emphasis on the availability of collateral), they appear to combine this to some extent with non-conventional credit technology (e.g. importance of credit history, and increasing loan sizes).

ACLEDA was established in 1993 as an NGO named Association of Cambodian Local Economic Development Agencies with the objective of developing micro and small businesses through credit provision. At the time the NGO obtained support from a range of agencies and donors including the UNDP, EU, Government of the Netherlands, and the Caisse Francaise de Developpement. Following steady expansion, in October 2000 ACLEDA was licensed by the Bank of Cambodia to become a specialised bank with a capital of US$4 million. Finally, in December 2003, ACLEDA became a commercial bank with a capital of US$13 million. Since its inception, the organisation has provided loans totalling over US$ 300 million to about one million customers. In addition to loans, ACLEDA also offers other financial services such as current accounts, savings accounts, and money transfers. Table 1 demonstrates ACLEDA's rapid expansion since its inception more than a decade ago.

**Table 1: The Development of ACLEDA Bank**

| Year | Offices | Staff | Borrowing Customers | Average loan size (US$) | Loan Portfolio (US$) |
|---|---|---|---|---|---|
| 1993 | 5 | 28 | 1475 | 147 | 216,556 |
| 1995 | 11 | 100 | 6,539 | 177 | 1,157,093 |
| 1997 | 27 | 291 | 44,533 | 132 | 5,898,486 |
| 2000 | 28 | 463 | 60,860 | 274 | 16,667,328 |
| 2001 | 66 | 662 | 81,453 | 258 | 20,980,016 |
| 2002 | 75 | 964 | 82,976 | 332 | 27,547,752 |
| 2003 | 97 | 1,284 | 98,905 | 516 | 40,572,670 |
| 2004 | 119 | 2,108 | 122,173 | 715 | 65,981,229 |
| Nov. 2005 | 138 | 2,434 | 139,157 | 681 | 94,831,556 |

**Source**: ACLEDA training material made available at CPHFLP training workshop in February 2005, and presentation made at microfinance workshop on 22&23 December 2005.

Table 1 demonstrates to what extent ACLEDA's average loan size has increased between 1993 and 2005. Whilst the first decade was characterised by micro-credit, loan sizes are now more geared towards small-scale businesses.[4] The majority of ACLEDA loans are for individual customers. The bulk of the loans are for trade related businesses (74% in 2004), followed by services (17%) and crop loans (4%). Out of the total loan portfolio in 2004, only about 1% (or US$630,183) was given to the fishery sector, i.e. most likely fishing lot owners. Nevertheless, fish processors and traders were encountered during the course of field visits who receive ACLEDA loans that are unlikely to figure under fisheries loans.

ACLEDA applies a rigorous policy as far as reimbursement of loans and default are concerned. As a result, it is possible to encounter numerous villagers who would hesitate to take a loan from ACLEDA for fear of losing their collateral (e.g. piece of land) if they are unable to pay back the credit. However, it needs to be acknowledged that such a policy is necessary if levels of default are to be kept low, and if the bank is to continue its expansion.

Hattha Kaksekar Limited (HKL) is a microfinance institution that uses mainly individual loan products for their clients, some of whom are based in fishing communities. HKL started in 1994 in Pursat Province as a food security project, which was supported by Oxfam Quebec. As part of the project's micro-credit component, loan disbursements were made in four communes of the Province. In 1996, the project became an NGO itself, which was named Hattha Kaksekar (i.e.

[4] ACLDEA definition of loan sizes:
< US$500 = micro; $500 - $10,000 = small; $10,000 - $1,000,000 = medium; > $1,000,000 = large.

"Farmer's Hand" in Khmer). In 2001, following a gradual expansion into other provinces and some internal restructuring, the organisation became a licensed micro-finance institution (MFI) called HKL. Also, due to difficulties with their group loan approach HKL decided to focus on individual loans. As at September 2005, HKL has a total of six branches in five provinces, which serve about 8,200 clients. The total loan portfolio is of the order of US$3.4 million. Loan recipients are expected to make compulsory savings representing 5% of the loan amount.

Given that HKL operates in areas around Tonle Sap Lake, there are four branches where clients borrow money for fisheries business. Table 2 shows HKL's loan portfolio of fisheries-related clients broken down by branch.

**Table 2: HKL's Fisheries-related Loan Portfolio**

| Branch | Active clients | Loan portfolio | % of total |
|---|---|---|---|
| Pursat | 35 | $10,405 | 5% |
| Stung Sen | 86 | $51,291 | 25% |
| Staung | 493 | $93,803 | 46% |
| Siem Reap | 95 | $49,618 | 24% |
| Total | 709 | $205,117 | 100% |

**Source:** Lay Rachana (2005)

In 2006, HKL plans to reintroduce group loans as part of a microfinance component of an ADB funded project that operates in the Tonle Sap Lake area. It is recognised that both HKL staff and newly formed solidarity groups will be in need of training.

**Box 2:**

**Case Study: Aquaculture producer in Kampong Chhnang**

Four years ago, Mr Visoth borrowed money from ACLEDA for the first time for his aquaculture business, which is located close to Kampong Chhnang town. He needed working capital to buy fish feed. Starting with US$1,000 in the first year, this sum was increased every year by the same amount, now totalling US$4,000, a sum which he considers sufficient. Every year, he has to pay back his loan before he obtains a new one. The interest rates to be paid depend on the size of the loan and whether the loan is in US$ or in Riels. For example, 2% are charged per month on US$ loans if the loan size is in excess of $1,500. If the loan is smaller then 3% are being charged per month. Similarly, 3% are charged on loans which are larger than CR 5 million and 4% on loans that are smaller. Mr Visoth never had problems with reimbursing his loans, which has helped him to "stay out of trouble" with ACLEDA and obtain every year a new loan.

**Source**: Authors' field surveys

## Group based lending technologies

Group-based lending technologies are those that involve groups of borrowers in different guises in the process of granting and recovering loans. The impetus for the development of group-based lending technologies was provided above all by the desire to reduce transaction costs and at the same time to reduce risks. There are three major group-based lending technologies, which differ according to the role played by the group in the lending process.

**Self-help groups (SHGs).** The first variant in this category is the use of groups as a financial intermediary. Lending to self-managed savings and credit SHGs falls under this category. Mysore Resettlement and Development Agency (MYRADA) in India has been the pioneer in conducting the required research and development for fine-tuning the SHG movement. The common features of the SHG model are: i) group size is generally from ten to 20; ii) groups are self-managed and make all decisions regarding credit management; iii) loan size, interest rate to end user, repayment terms, savings rate, periodicity of meetings, etc. are all determined by the groups; iv) the group starts saving and lending, using savings before obtaining external finance; and v) loans are made to the group (Fernandez, 1998; quoted in Tietze and Villareal, 2003).

The SHG lending methodology dominates the microfinance sector in India. There is now a tendency to use the term SHG for any form of group involved in savings and credit activities. Thus, the term is frequently used for various common interest and economic activity groups, which may follow some but not all of the features of a genuine SHG model. The concept of an SHG is a small, socially and economically homogeneous group of 10-20 rural poor, voluntarily formed for mutual benefit and support with savings and credit as the entry point activity.

While access to financial services is a basic objective of SHGs, they are essentially credit-plus groups. SHGs provide a mechanism to extend mutual help and support through the sharing of resources, ideas, experiences, information and other services for improving the incomes and quality of life of the rural poor and they have proved to be important tools for social and economic empowerment. They are self-managed community banking institutions at the micro-level, collectively accessing credit (initially from their own savings) and non-financial services critical for the effectiveness of micro-credit.

SHGs have established that the poor are able to save and successfully manage credit funds in a flexible manner matching their activity cycles and cash flows. SHGs have shown that mutual support mechanisms lend synergies to individual strengths and build up confidence and motivation. The cost of forming SHGs can be significant and the time needed for careful nurturing of the group is frequently lengthy. However, this methodology has a cost advantage from the financial institution's perspective since it externalizes delivery, supervision and recovery costs.

According to Shetty (2003), the most remarkable aspect of SHGs is their high and punctual repayment rate of above 90 percent. This happens largely because SHGs are autonomous groups of relatively homogeneous persons in terms of income. All members have a high degree of familiarity with each other as borrowers and with the risks of the purposes for which money is being lent. They also have fairly reliable information on diversion of either the lent funds or the income streams from the funds. Thus, it becomes difficult for a potential defaulter to hide his/her intentions. In addition, since members tend to have numerous social linkages, the non-economic cost of default is high.

In the Cambodian context, the formation of self-help groups (SHGs) is being encouraged by NGOs and CBOs in order to cater for the needs of the poorest villagers. In some cases guided by international NGOs (e.g. Oxfam GB), local organisations such as VSG (Village Support Group) and CCD (Community Capacity Development) are forming SHGs with the aim of improving their savings capacity. Additional assistance is geared towards confidence building and general socio-economic improvements including business creation and health care. Once SHGs have started to save they tend to receive small grants from the NGOs.

**Groups as loan guarantors.** This involves the use of groups as guarantors, which means that groups of final borrowers assume collective liability. Technically speaking they are jointly and severally liable for each other's liability. Many financial institutions employ this technology to cater explicitly for the credit needs of small and microenterprises. In Latin America, group lending has become synonymous with the use of joint and several liabilities among group members. Institutions such as BancoSol have achieved sizeable business volumes using this technology.

Institutions using this technology provide credit to groups comprising four to five persons, which may be made up of neighbours or vendors in the same area. The borrower groups are formed exclusively in order to enable individual members to obtain loans. Group formation does not take much time and consists largely of an

initial training course focusing on the responsibility that the group must assume for its members' debt. Based on the group application, the promoter visits the loan applicants and reviews the loan applications. The loan is approved based on the recommendations of the promoter. Joint and several liabilities are the essential elements of the loan contract. Once the credit decision has been made, funds are usually disbursed very quickly to a person chosen by the group as its representative. This person distributes loans to individual borrowers and collects their repayment. The individual loans to the group members are of similar size.

This technology has it own disadvantages. In addition to cases of normal delinquency on the part of individual group members resulting from inability or unwillingness to pay, there are three main reasons for the break-up of groups, which usually means that the entire group loan can no longer be collected. These three main reasons are: i) embezzlement of funds by the group coordinator; ii) passing on loans to a single member of the group; and iii) informal agreements among group members to avoid repayment of loans.

Institutions using this methodology have factored in the risk of default into the interest rate. They tend to charge higher rates of interest. In addition, they have started mandatory savings deposits, obligatory training courses and a graduation principle of beginning with smaller loans and providing larger loans after the closure of the previous loan.

Based on research in Peru, Marr (2003) demonstrates how information asymmetries between borrowers and lenders, and the enforcement of sanctions by MFIs on groups to reimburse loans can ultimately weaken group cohesion, hitting the poorest and vulnerable hardest. Key main risks of group-based methodology include:

- Group pressure could lead to mounting conflict between members, disrupting the social fabric of communities.
- As decisions are primarily made by the group's central committee, cases of favouritism may arise.
- If group savings are kept by the central committee, they risk being lost, misplaced or misused.
- Risk of loan default by a large number of group members is still high if these are struck by a collective shock, e.g. crop disease, or the majority of members have very similar activities and income sources.

Some safeguards can be introduced by MFIs, however, to help minimise the above-mentioned risks. These include, primarily, procedures for transparency and

accountability, as well as mixed groups in terms of the income-generating activities that members undertake.

**Lending to individuals in solidarity groups.** The Grameen Bank of Bangladesh pioneered this model which has integrated group organisation with credit delivery to assist the rural poor. Individuals first take part in the banking process by organizing themselves into groups of five. Mostly women's groups are formed and membership is mainly limited to people who do not own more than 0.5 acres (0.2 ha) of land, are not members of the same household, have similar economic resources and therefore equal bargaining strength, enjoy mutual trust and confidence and live in the same village. The spatial and social cohesiveness developed among individuals of the same gender residing in the same area and having similar economic backgrounds are the important factors in the smooth functioning of these groups (Khandker, Khalily and Khan, 1995; quoted in Tietze and Villareal, 2003).

Each group elects a chairperson, who is responsible for the discipline of the group members, and a secretary. Both hold office for one year. Members meet weekly, when they practise, learn and discuss the rules of the Grameen Bank and other group activities. Two to three weeks after the group formation, all group members make small savings deposits. Credit is issued to individual group members. Initially two members of the group are given credit and observed for one or two months. If they pay their weekly instalments and maintain group discipline, new loans are given to the next two members. The group leader customarily is the last to receive credit.

Although there have been issues in the past over declining loan recovery rates and repayment problems, Grameen Bank is the internationally best-known microfinance institution (Pearl and Phillips, 2001). Apparently, procedural flaws in dealing with arrears, natural disasters such as floods, and increased competition in the Bangladeshi microfinance sector were to blame for the shortcomings. Nevertheless, the Grameen model has emerged as an important strategy in poverty alleviation and MFIs across the world have copied or adapted it (Tietze and Villareal, ibid). The principal features of the model are: i) group size of five; ii) weekly meetings of groups with MFI staff at the centre; iii) a prescribed pattern of phased access to loans by members; iv) a prescribed pattern of progressive maximum loan sizes determined by the MFI; v) fixed repayment terms for all loans with 50 weekly instalments comprising interest and principal; vi) the MFI is responsible for credit management; and vii) mandatory savings regimes are determined by the MFI, supplemented by additional voluntary savings at the discretion of the group.

In Cambodia it is the microfinance institution AMRET (formerly EMT) that has adapted the Grameen model to the local context. In 1991, the French NGO GRET set up an experimental microcredit project based on solidarity credit and the formation of village banks. Following the introduction of new procedures for solidarity credit and the launch of an individual credit product, the microfinance institution EMT (Ennatien Moulethan Tchonnebat) was started in 1996. In 1999 it started to borrow from commercial banks for the first time and in 2000 it became a private limited company with a registered share capital of CR 330 million (about US$82,500). As of October 2005, AMRET operates through 28 district branches which are located in 6 Provinces. It works with 1,384 village associations and has 119,183 active borrowers, out of which 75% are female, and 95% are borrowers of group loans. 8% of the borrowers are involved with fishing activities. The average outstanding loan per borrower as part of group loan is US$80, whilst it is US$258 in the case of individual loans.

AMRET's solidarity credit (SC) is channelled through groups of five members who are organised in village associations. The latter have a contract with AMRET and usually consist of several joint liability groups. Solidarity credit does not require physical collateral to protect against loan default, whilst capacity to repay the loan is the main criteria. An individual who is a member of a joint liability group can obtain a solidarity credit of up to CR 500,000 (about US$125) with a maximum duration of 12 months. Whilst solidarity credit is targeted at the poorest, individual credit is aimed at rural clients who are engaged in larger-scale activities and in small investments within village associations. The maximum amount of individual credit is CR 8 million (about US$2,000). The interest rates are of the order of 3.0% to 3.5% per month depending on the size of the loan, and are charged using a declining balance calculation (AMRET Information Leaflet).

In addition to MFIs, there are also smaller NGOs that are active in organising villagers into solidarity savings and credit groups. CFDS (Cambodia Family Development Service), which started their micro-credit programme in 1999 with funds from Oxfam America represent such an example. One of their regional offices is based in Pursat province where they undertake activities related to community based resource management, micro-credit, capacity building, literacy classes, and promotion of income generation. Their micro-credit programme is based on village banks whose members are organised in solidarity groups of five.

Ledgerwood (1999) highlights the importance of social intermediation to build the institutional capacity of groups so that these can begin to function on their own with less external help. In particular, poor communities that are located in remote areas or

which have low levels of social capital, "are not ready for sustainable financial intermediation without first receiving some capacity-building assistance".

**Box 3:**

**Case Study: AMRET's switch from Village Banks to Village Associations**

With the introduction of the village association model the roles and responsibilities of the main stakeholders have changed. AMRET is fully playing the role of a lending institution whilst the roles of the Village Association (VA) have been redefined as follows:
- VA committee consists of one chairman, one vice-chairman, and no more cashier is required.
- As an unofficial association (no legal entity), the village association plays the role of an intermediary by borrowing funds from AMRET and then lending them to its members.
- VA committee does not deal with cash management and record keeping - all this is handled by credit agents who are AMRET staff. .
- VA committee deals with administrative work in the village association and takes part in loan decision making.

Reasons for the transformation from Village Bank (VB) to Village Association (VA) model:
- Mismanagement and misuse of the funds by some VB committees such as using the loan fund for their own purposes, or lending to their relatives or interested groups.
- Fraud and robbery: because the credit fund belongs to the VB and the fund is managed and kept by the VB's cashier in the village, fraud cases by the committee have happened and in other cases some VB funds were robbed.
- VB members (or clients) do not really care about the ownership of the credit fund in the VB, the members just want to borrow and they want more financial services. The management of the credit fund in the VB really relied on the VB committee.
- The growth of the VB is limited as it is dependent on the credit project or microfinance institution, particularly in the event that subsidies from donors are cut.

Advantages of the transformation:
When successfully transformed, the credit project or microfinance institution can
- expand its activities by serving more clients.
- provide more financial products to both existing and new clients.
- the institution becomes financially sustainable and can ensure long-term services to the clients.

Constraints of the transformation:
- Some clients and VB committees do not agree with the transformation, especially on the ownership of the fund.
- It requires time and efforts to convince the clients and other stakeholders.
- Some clients have rejected to repay the loans.

**Source:** Dos Dinn (2005)

**Box 4:**

**Case study: Mrs But Yom, Anlong Rang Village, Krakor District**

Mrs Yom is 58 years old and lives in a floating village on Tonle Sap Lake. She is the head of a women and credit group which has five members, and which belongs to a village bank supported by CFDS. She obtained her first loan five years ago. Every year the size of the loan has been CR 300,000 (US$75), which she is supposed to pay back after 10 months. In fact, during the first three years, she only obtained CR270,000 in cash, since the remainder was kept by the village bank as saving. The monthly interest rate is 3%, or CR 90,000 for the entire 10-month period. She pays to the village bank only interest since the principal (i.e. CR300,000) seems to be carried over into a new loan every time it is due to be paid back.

Mrs Yom invested the money from the loans in fishing gear, fresh fish for smoking, livestock (i.e. pig), and aquaculture. Her livelihood has changed as a result of the loans insofar as she has more equipment (gear) and cash available.

**Source**: Authors' field surveys

## Savings mobilisation

Credit programmes without a savings component ignore savings as a means of internal resource mobilisation and ignore their importance as a basis for investment and repayment behaviour (Seibel and Parhusip, 2003). At the same time, experience has shown that micro-entrepreneurs around the world may be poor but they are able to save and often do so through informal channels and organisations such as groups and associations (Otero, 2003).

Saving carries an educational function which instils discipline and habit required for borrowers' shift in perception regarding their situation – from a daily struggle to survive, to a longer-term view based on planning with a growing cushion of savings (Otero, 2003).

According to Rutherford (2003), saving is an essential task for the poor in order to be able to manage their lives. However, the difficulty may not come so much from finding the resources as with the practical problems of saving up. Given the absence of formal institutions it is hard to find safe places to store cash. At the same time, saving in kind (e.g. livestock) may not offer the financial liquidity when required.

Nevertheless, around the world there exist numerous informal and semi-formal savings schemes ranging from compulsory and voluntary schemes offered by MFIs to

rotating savings and credit associations (ROSCAs) (Ledgerwood, 1999). As for the latter, *tontins* are in use in Cambodia although they are illegal due to the financial risks involved in playing them (Hap Navy, 2004).

The findings of the needs assessment and PHLAT exercises point to the need of improved savings services, in particular in remote areas of Cambodia's countryside. Whilst the likes of ACLEDA Bank and MFIs have been able to expand their networks in urban areas and the more accessible rural areas, remote communities still find it difficult to access microfinance services including formal savings accounts.

NGOs such as CFDS, CCD and VSG are attempting to bridge this gap by providing related services. In particular the poorest are in need of assistance through schemes demonstrating to them the usefulness of savings. Some of the local NGOs are supported by international organisations such as Oxfam. The NGOs take different levels of wealth / poverty within the villages into account. For example, CCD and VSG encourage the less poor / middle income villagers to form savings groups whilst the poorest community members are organised into self-help groups (SHGs) consisting of 10 to 20 households.

Each savings group receives a start-up capital of about CR 1 million (US$250) which will be shared out in the form of loans amongst group members. Between the third and the fifth year of the project, this amount is expected to be passed on in the form of a revolving fund to another savings group. The interest accumulated in the meantime (i.e. 3% on each loan) will remain with the group.

On the other hand, each member of a SHG receives a grant of approximately CR50,000 to CR100,000. No repayment is required, but it is expected that the group and its members make savings so that no new grant will be required in the following year. The NGOs recognise that microcredit is not suitable for the poorest. The latter require assistance in mobilising themselves and in order to achieve a certain level of empowerment. As such the microfinance services are combined with development activities.

Although CCSF (Cambodian Community Savings Federation) are reluctant to set up their savings banks in fishing communities for the reasons explained above (i.e. difficulties to access the areas for monitoring and evaluation being one of them), they have been able to implement a successful savings mobilisation programme in Battambang and Banteay Meanchey Provines. In 2003, CCSF was transformed from a project managed by CARE Cambodia into a community based microfinance institution.

The CCSF model is based on the credit union model. As of May 2005, CCSF provided the APEX structure for 38 community based savings banks which have a total of about 17,000 members. As already indicated, due to the perceived risks, CCSF are still reluctant to become more active in fishing communities. At the same time, this also points to the need for community leaders to become more proactive in approaching MFIs for their services. Also, CFDO and the Food Quality and Processing Division (FQPD), which is to be created in the near future, are well placed to play a brokerage role to that end.

Lastly, it is important to highlight some of the conditions that need to be in place when MFIs engage in savings mobilisation. Apart from positive real interest rates on deposits, according to CGAP (1997, quoted in Ledgerwood 1999) the following are important:

- Existence of an enabling environment, including appropriate legal and regulatory frameworks;
- Adequate and effective supervisory capabilities to protect depositors;
- Good management of the funds held by MFIs. The latter ought to be solvent with a high loan recovery.

## Appropriate loan terms for fishing communities

MFIs are increasingly recognising the *fungibility* of money, that is, the borrowers' ability to use funds borrowed for a certain activity for other activities or household expenses (Ledgerwood, 1999). Accordingly, the borrower's capacity to reimburse a credit is more important than the purpose.

In this context, members of fishing communities around the Great Lake stated that throughout a year they were likely to have different purposes for a loan. For example, whilst processors require working capital for the purchase of fish during the main fishing season they were likely to use the funds for agricultural production during the rest of the year. Similarly, fishermen stated they would need funds for fishing related activities (e.g. boat, gear, and working capital) during the fish catching season, whilst they may be engaged in aquaculture activities during the other months.

Equally, MFIs ought to take fishing communities' specific needs into account when determining the duration of loans and frequency of repayments. Whilst loans often require regular reimbursements from an early point during the loan period, fish processors tend to prefer to pay back the bulk of a loan towards the end of the loan period. Although single "balloon" repayments may not always be appropriate, credit

terms ought to take fishing communities' specific needs into account (e.g. less frequent repayments, with larger sums towards the end of the loan period).

There are numerous complaints about the interest rates charged by MFIs being too high, however these tend to reflect high administrative and transaction costs including risk. Nevertheless, interest rates have started to decline during the last decade from about 5% per month to 3% and below. This appears to be the result of increased competition and more efficient lending practices in the microfinance sector.

Given that fishing communities tend to have "floating assets" rather than fixed ones, there should be less emphasis on physical collateral. Instead, groups and individuals should be judged on the existence of a sound business plan and their ability to pay back a loan. In the case of solidarity groups, it is important to take into account and strengthen this form of social asset, which is particularly important for very poor community members. Nevertheless, as the following section demonstrates, there is still scope for broadening the concept of collateral beyond the current boundaries.

## The use of stocks of processed fish as collateral in order to obtain credit

As discussed above, during the course of different needs assessments with fishing communities it became apparent that they find it difficult to access credit. One of the problems stated is their lack of collateral that is accepted by banks. The latter tend to prefer 'fixed' assets such as land or buildings, as compared to the assets that are generally available in fishing communities (e.g. floating houses, boats, gear, stocks of processed fish).

This section attempts to highlight the possibility of using fisheries related assets as collateral by describing the principles and highlighting some of the key steps involved.

As for the mechanics of inventory credit, there are three essential parties to a commercial inventory credit scheme which is based on warehouses that are managed by specialised warehouse operators or storekeepers (Coulter and Shepherd, 1995):

a) The borrower who uses the produce as a security (i.e. collateral) for a loan;
b) The lender, usually a bank, which is looking for a relatively secure way to lend its funds and expand its clientele;
c) The warehouse operator, a third party, which maintains the produce in good condition and assures the lender that the collateral is secure. Usually, a

warehouse operator charges a fee for their service, which is paid by the borrower.

According to Coulter and Shepherd (ibid), other approaches to inventory credit include:

a) Centralised warehouses operated by a specialised warehouse operator, which also acts as a channel for bank lending to a number of individual borrowers (alternatively, banks could operate warehouses directly or through subsidiary companies);
b) Centralised warehouses managed by a storekeeper, who is also a trader;
c) Warehouses operated by individual borrowers, under the supervision of a surveillance company;
d) Warehouses operated jointly by the borrower(s) and a bank under a dual-key arrangement.

In Madagascar, the "Caisses d'Epargne et de Credit Agricole Mutuels" (CECAM)[5] are offering credit to farmers who are organised in groups and who have stored their rice in a common building (Fraslin, no date). This stock is a type of mutual collateral which allows CECAM to grant an individual loan to each member of the group.

Given that there is little experience with fish based inventory credit schemes, one of the main challenges will be to adapt the above models to the Cambodian context. For example, it was suggested that local authorities such as commune councils could provide additional guarantees to lenders. This may be in the form of a certificate or receipt indicating the person who has deposited fish, their location, quality and indicative prices. Accordingly, these authorities should also be in a position to supervise stocks of processed fish. Transparent and "watertight" procedures ought to be put in place to avoid misallocation of funds and other potential causes of failure of such a scheme.

Other assets owned by fishing communities which are currently not recognised as collateral include fishing boats and other gear. MFI staff have indicated that boats and gear might also be acceptable as collateral as long as local authorities provide a guarantee.

[5] Savings Banks and Agricultural Credit Mutual Societies

Follow-up visits to places such as Pursat have revealed the need for more storage capacity at village level. For example, the construction of a small floating house with a storage capacity of 3,000 skewers of processed fish would cost about CR 1.5 million. Maintenance work such as changing of bamboo of the floating platform will cost CR 0.8 million every four years.

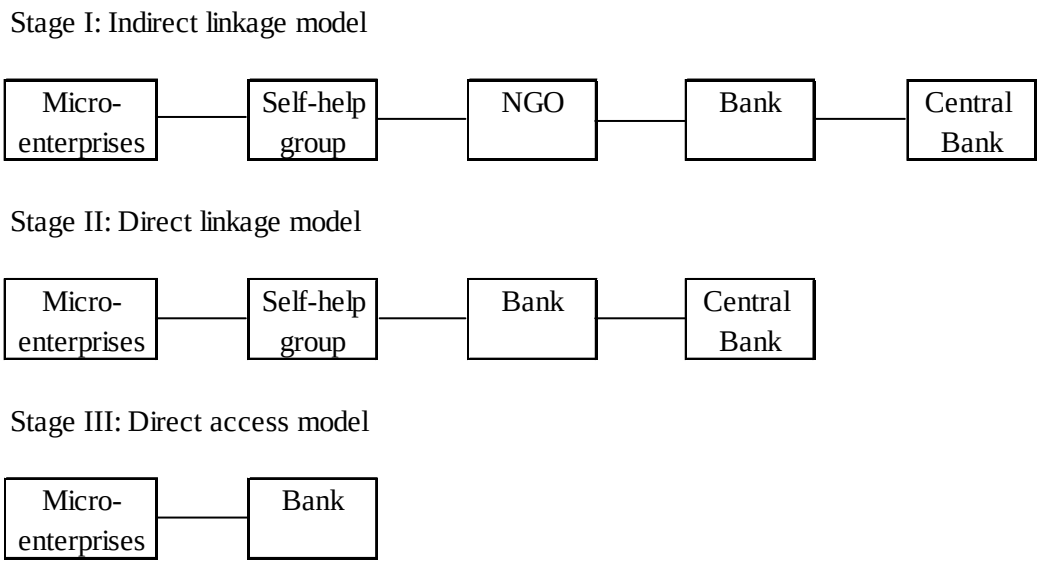
The above shows that there is potential to use collateral other than the fixed assets currently favoured by MFIs and banks. Schemes would have to be adapted to local conditions in Cambodia, which includes the provision of guarantees and securities by local authorities. As indicated above, this might involve some sort of community fund guarantee system, whereby the Commune Council holds a guarantee fund, or where communities have collective savings to cover missed repayments.

## Linking large MFIs and banks with NGOs and groups in fishing communities

Given that many fishing communities currently lack sufficient access to microfinance it appears appropriate to improve the links between the NGOs and CBOs that are active in these communities, and the larger MFIs and banks. It is expected that this would allow the local NGOs and CBOs to access capital for onlending to their clientele. At present, it appears that only the larger organisations have access to substantial amounts of funds through their links with donors and overseas investors. Although there seem to have been plans to improve the links between the various players, implementation apparently has stalled for the time being. For example, local NGOs are hesitant to approach ACLEDA for loans stating the bank's interest rates as too high for them. The NGOs would prefer interest rates of 1% to 2% per month which would allow them onward lending at approximately 3%.

According to Seibel and Parhusip (2003), institutional linkages between banks and self-help groups are likely to proceed in an evolutionary sequence of three steps, from indirect to direct linkages, with the ultimate step of making individual micro-entrepreneurs bankable and giving them direct access. Between these stages, there may be intermediary steps, with NGOs or self-help groups respectively in a consultative role. In addition, NGOs and various other agencies may supply supplementary technical and extension services.

**Figure 2: Evolutionary stages of institutional microfinance linkages**




**Source:** Seibel and Parhusip

Tietze and Villareal (2003) describe three bank – SHG (self-help group) linkage models which have been developed in India.

Model I: Bank - SHG members (bank as SHGPI). In this model, the bank itself acts as a self-help group promoting institution (SHGPI). It takes the initiative in forming the groups, nurturing them over time and then giving them credit once it is satisfied about the group's maturity to absorb credit.

Model II: Bank - facilitating agency - SHG members. In this model, groups are formed by facilitating agencies such as NGOs (in most of the cases) or by government agencies. The groups are nurtured and trained by the agencies. The bank then provides credit directly to the SHGs after observing their operations and maturity to absorb credit. While the bank provides loans to the groups directly, the facilitating agencies continue their interactions with the SHGs. Most linkage experiences begin with this model, where NGOs play a major role. The model has also been popular with and more acceptable to banks, since some of the difficult functions of social dynamics are externalized.

Model III: Bank - NGO as MFI - SHG members. For various reasons, banks in some areas are not in a position even to finance SHGs promoted and nurtured by other agencies. In such cases, the NGOs act as both facilitators and microfinance

intermediaries. First, they promote the groups, nurture and train them and then they approach the banks for bulk loans for onlending to the SHGs.

In particular, Model II is widely used accounting for about three quarters of the loan portfolio in terms of overall amount of credit and number of loan receivers. Source: Tietze and Villareal (2003).

Currently, ACLEDA and most licensed MFIs have access to the US$20 million ADB wholesale fund channelled through the Rural Development bank, which provides wholesale credits (US$1 million) of three-years terms to microfinance providers (BWTP – ARCM, 2005).

As yet, ACLEDA Bank has provided a loan of US$150,000 to a microfinance institution (MFI). The requirements were that the MFI had a solvency ratio of at least 15%, and the risk rate of outstanding loans was at an acceptable level (ACLEDA, 2005).

Given that remote fishing communities still lack access to microfinance it appears appropriate to test and further develop the aforementioned linkage models in the Cambodian context. This may require negotiations involving the National Bank of Cambodia (NBC), Rural Development Bank (RDB), and the Cambodian Microfinance Association (CMA). Capacity is an issue in that only the larger, more focused, MFIs are capable of channelling significant amounts of funds into rural areas. NGOs, on the other hand, often require assistance for strengthening their technical capacity in financial management and operations. Self-help groups, in turn, tend to rely on these organisations for various types of support including microfinance. As a consequence, selection criteria ought to be established for NGOs and SHGs that can potentially participate in these linkage schemes.

# OVERVIEW OF CAMBODIA'S MICROFINANCE SECTOR

This section provides a brief overview of the main microfinance providers in Cambodia. In particular, Table 3 demonstrates the dominance of ACLEDA, PRASAC and AMRET in terms of portfolio and outreach. However, it also shows that in the case of most MFIs the amount of deposits is negligible compared to their loan portfolio.

**Table 3: Main Microfinance Providers in Cambodia as of September 2004**

| | Loan Portfolio outstanding (in US$ million) | Number of borrowers (rounded) | Amount of deposits (in US$ million) | Number of depositors |
|---|---|---|---|---|
| ACLEDA Bank | 57 | 115,000 | 29.2 | 51,437 |
| PRASAC MFI | 7.5 | 65,000 | 0 | 0 |
| AMRET (ex. EMT) | 7.3 | 101,000 | 0.2 | 110 |
| Cambodian Entrepreneur Building (CEB) | 3.4 | 8,000 | 0.16 | 8,147 |
| Thaneakea Phum (Cambodia) Ltd (TPC) | 3.1 | 36,000 | 0.37 | 59,931 |
| Hattha Kaksekar Ltd (HKL) | 2.0 | 6,000 | 0.08 | 7,723 |
| Seilanithih | 1.6 | 13,000 | 0.2 | 13,012 |
| CREDIT | 1.4 | 10,000 | 0.16 | 10,054 |
| AMK | 1.3 | 23,000 | 0.002 | 393 |
| Vision Fund | 1.2 | 19,000 | 0.02 | 1,745 |
| CCSF | 0.4 | 14,700 | 0.15 | 14,673 |
| Maxima | 0.2 | 1,000 | 0.02 | 10 |
| Credo | 0.1 | 3,000 | 0.02 | 2,033 |

**Source:** Banking With The Poor - Asia Resource Centre for Microfinance (ARCM); Available online at www.bwtp.org; Cambodia Country Profile, 2005.

# MICROFINANCE RELATED ROLES AND RESPONSIBILITIES OF FQPD

The Fish Quality and Processing Division (FQPD), which is being created under the Department of Fisheries with members of the Cambodia Post-Harvest Fisheries Livelihoods Project (CPHFLP), should have a facilitating role to play between the microfinance institutions and the communities that are in need of financial services.

This may involve a number of activities, including:

- Awareness raising and lobbying on behalf of fishing, processing, and trading communities, with the view of increasing the presence of MFIs and NGOs in areas that are not sufficiently covered.

- Building of partnerships with MFIs and NGOs that are active in the field of microfinance, and linking them up with communities.

- Creation of a platform that allows a regular exchange of information, e.g. regular meetings with members of the Cambodia Microfinance Association (CMA), or the organisation of workshops.

- Ensuring that the interests of poor communities are well represented in the design of related projects. Monitoring activities may be required during the implementation phase of these projects.

- Raising the awareness at community level about the services of MFIs and NGOs, and guiding the communities towards these organisations.

# APPENDICES

**Appendix 1: References**

**Appendix 2: Results of working groups at CPHFLP microfinance workshop, 22&23 December 2005, Department of Fisheries, Phnom Penh.**

**Appendix 3: Determinants of success of microfinance operations**

## Appendix 1: References

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# Appendix 2: Results of working groups at CPHFLP microfinance workshop, 22&23 December 2005, Department of Fisheries, Phnom Penh.

## Group 1: The financial role of traders and money-lenders in the fish marketing chain

1) Roles to be carried out by traders
   - Provide cash and sufficient and legal fishing gears
   - Buy fish and fish products at reasonable price
   - Sign contracts
   - Help to access better markets for fishery products
   - Help to look for more credit ( in case more credit is required)

2) Roles to be carried out by money lenders
   - Should provide credit at appropriate interest rate
   - Should provide market information
   - Should prolong the term of repayment, if borrower faces problems

3) Roles to be carried out by Banks, MFIs, and NGOs
   - Set up new branches in Community Fisheries Areas
   - Set up special terms for credit repayment and interest rate for fishery sector.
   - Build close relationship with traders and money lenders (provide loan and get low interest rate)
   - Provide training to borrowers
   - Disseminate the contents of the fishery law
   - Seek for grant to support community fisheries

## Group 2: How to link large MFIs and banks with smaller NGOs, and savings and credit groups in fishing communities

1) Strategy
   - NGOs should have permanent residence
   - NGOs should have clear vision and objectives
   - NGOs should have clear structure

- NGOs should have project action plan
- NGOs should not get involved in any political parties
- NGOs should have guarantee from:
    a. Government (Department of Fisheries)
    b. Donor
- NGOs should have good reputation
- NGOs should have 20% of total investment from their own capital
- NGOs should be able to make profit
- Credit should be used legally
- NGOs should have relationship with relevant competent institutions
- NGOs should identify from which institutions they can get loans: e.g ACLEDA, RDB

2) Terms of credit
    - Interest rate should be low (1-1.5%)
    - Loan size should be US$30,000 – 100,000
    - Duration should be 1-3 years

3) Governmental legislation required
    - Not existing, as yet: Law on Asset Management
    - Already existing: Commercial Company Registration
    - Account registration
    - Government should have policy to deal with dissolvent capital of NGOs

**Group 3: The role of the Fish Quality and Processing Division (FQPD) in the financial system of the fish marketing chain**

1) Roles of Fish Quality and Processing Division
    - Research and develop fish processing technologies
    - Draft legislations and regulations related to quality, safety, preservation of quality of fish and fish products and monitor aquatic animal health
    - Resolve all issues related to quality and safety of fish and fish products at processing plants and in the market
    - Inspect quality and safety of fish and fish products at selling , stocking and processing locations

- Monitor and evaluate quality and safety of fish and fish products based on regional and international standards
- Monitor and evaluate quality of fish and fish products for import and export
- Responsible for other tasks as maybe assigned by the DoF Director General

2) The role of the Fish Quality and Processing Division (FQPD) in the financial system of the fish marketing chain
   - Build relationship and coordinate with IOs, NGOs, donors and MFIs to seek grants and loans to improve fishers' livelihoods
   - Research, develop and disseminate fish processing technologies to improve quality of fish and fish products
   - Identify new markets for fisheries products
   - Coordinate with Aquaculture Division, Community Fisheries Development Division, Inland Fisheries Research and Development Institute, and Provincial Fisheries Offices.

# Appendix 3: Determinants of success of microfinance operations[6]

**Determinants of success for Individual Enterprise that has received credit / microfinance**

| |
|---|
| **Institutional & management factors**<br>2. Marketing / demand oriented;<br>6. client oriented;<br>11. license / permit;<br>3. number of products (e.g. smoked fish, salt, dried, paste);<br>10. business plan;<br>1. long-term experience and business skill;<br>5. equity;<br>4. local resident;<br>7. clear vision;<br>9. good management,<br>8. encouragement, and staff up-grading; incentives; |
| **Social factors**<br>2. Employment<br>1. Expansion of business<br>4. Encouragement, and staff up-grading; incentives<br>3. Poverty reduction<br>5. Environmental considerations (e.g. cage aquaculture that does not use fingerlings for feed)<br>6. Communication (e.g. advertising)<br>7. No illegal activities (e.g. electro-fishing) |
| **Financial & business factors**<br>1. Repayment on time<br>2. Growth of business<br>3. Cash flow management (financial record)<br>4. Savings<br>5. Account<br>6. Reduced debt |
| **Economic factors**<br>1. Increased income generation<br>4. Household equipment (consumer goods)<br>5. Improved education<br>2. Sufficient food<br>3. Land |

NB:

- # = priorities for successful micro and small-scale enterprises
- Some of the points highlighted, especially under economic factors, are indicators of successful schemes rather than determinants (e.g. sufficient food, improved education)

[6] Results of discussions held during microfinance training workshop at the Department of Fisheries, February 2005.

**Determinants of success for a Credit and Savings Group that has received credit / microfinance**

| |
|---|
| **Institutional & management factors**<br>3. Group selection (homogenous social and economic condition)<br>2. Voluntary participation / agreement / trust<br>4. Principle of group status (registration and group structure)<br>6. Have received capacity building / training; transfer of knowledge to members<br>1. Dissemination of information / transparency (e.g. group status, plans)<br>5. Filing documents / book keeping<br>7. Marketing / market research |
| **Social factors**<br>1. Strong solidarity / reliability / trust<br>2. Promotion of professional skills (e.g. for income diversification)<br>3. Less dependence on moneylenders<br>5. Less discrimination between the rich and the poor<br>6. Less discrimination between women and men<br>4. Education for children |
| **Financial & business factors**<br>1. Ensures repayment of credit on time<br>2. Growth of business<br>4. Cash flow management (financial record)<br>3. Savings<br>6. Account<br>5. Reduced debt / interest rate |
| **Economic factors**<br>1. Increased income generation<br>3. Household equipment (consumer goods)<br>2. Sufficient food<br>4. Land / housing |

# = priorities for credit and savings groups in order to be successful
Some of the points highlighted, especially under economic factors, are indicators of successful schemes rather than determinants (e.g. sufficient food, or more household equipment).