

POST CONFLICT MICROFINANCE IN CAMBODIA

REPORT BASED ON QUALITATIVE RESEARCH

CONDUCTED BY

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Alison Williams, 7 September 2001

ACRONYMS

ACLEDA	Association of Cambodian Local Economic Development Agencies
ADB	Asian Development Bank
ASEAN	Association of South East Asian Nations
BLDP	Buddhist Liberal Democratic Party
CAAFW	Cambodian Association for the Assistance to Families and Widows
CCB	Cambodian Community Building
CCC	Cooperation Committee for Cambodia
CCRD	Credit Committee for Rural Development
CGDK	Coalition Government of Democratic Kampuchea
CPP	Cambodian People's Party
CRS	Catholic Relief Services
EMT	Ennastien Moulethan Tchonnebat (Khmer for Rural Credit Project)
FUNCINPEC	French acronym for the National United Front for an Independent, Neutral, Peaceful and Cooperative Cambodia
GDP	Gross Domestic Product
GRET	Groupe de Recherche et D'Echanges Technologiques
IDP	Internally Displaced Person
ILO	International Labour Office
INGO	International Non Governmental Organisation

KPNLF	Khmer People's National Liberation Front
NBC	National Bank of Cambodia
NGO	Non Governmental Organisation
NIS	National Institute of Statistics
MFI	Microfinance Institution
MoP	Ministry of Planning
PDK	Party of Democratic Kampuchea
PRASAC	Rehabilitation and Support Programme for the Cambodian Agricultural Sector (Programme de Rehabilitation et d'Appui au Secteur Agricole du Cambodge)
PRK	People's Republic of Kampuchea
RDB	Rural Development Bank
RGC	Royal Government of Cambodia
SEADO	Social, Environment, Agricultural and Development Organisation
SNC	Supreme National Council
SOC	State of Cambodia
UNHCR	United Nations High Commission for Refugees
UNICEF	United Nations Children's Fund
UNTAC	United Nations Transitional Authority in Cambodia
VDC	Village Development Committee

1. EXECUTIVE SUMMARY

1.1 Background to the Research

Armed conflict and war is widespread in the current world with over 150 wars since 1945 (Dah-Bah, 1996). The human, social and economic costs of this, and the challenges of reconstruction for countries emerging from armed conflict are immense. Over the past few years there has been a growing interest amongst the international community in the potential of microfinance for restarting war-ravaged local economies, building peace and reconciliation and helping to bridge the gap between emergency relief and development. Achieving this potential has proved challenging and whilst there is a growing body of field-based research on better practice for microfinance in stable development contexts there has been little on microfinance in post conflict situations.

This research aims to contribute to the understanding of post conflict microfinance and document lessons learnt for better practice in order to improve the likelihood of microfinance experience matching its assumed potential. It will do this by focusing on the experiences of microfinance in Cambodia which is emerging from almost three decades of armed conflict and is where there has been significant experience of post conflict microfinance.

The research forms part of the first phase of a three-year project that seeks to enhance the provision of sustainable microfinance services in post conflict situations. The purpose of the project is to enhance awareness, skills and knowledge available to implement successful post conflict microfinance projects for the poor. Phase I aims to gain an in-depth understanding of the experience of microfinance in post conflict situations through research in Angola, Cambodia, Mozambique and Rwanda. From this research principles for better practice in post conflict microfinance and a tools for practitioners will be drafted. Phase II will then test and finalise these principles and tools in a pilot project in Rwanda and then disseminate them amongst post-conflict microfinance practitioners.

1.2 Data and methods

The research was conducted in three phases over a seven-week period and three questions were formulated to provide a framework for the research,

- What environmental conditions have the greatest impact on microfinance?
- What are the coping mechanisms of the poor for managing household finances during and in post-conflict situations?
- What types of microfinance products are in demand in post-conflict situations?

Phase one of the research involved gaining a broad overview of microfinance in Cambodia through general interviews with NGO/MFI staff, two brief field visits to Concern microfinance programme areas and reviewing secondary documentation. Phase two involved a period of in-depth inquiry in Banteay Meanchey province in the north-west of Cambodia. This province was selected because it had been severely affected by conflict and insecurity up until the late 1990s. Districts were chosen using criteria such as the characteristics of the population (e.g. comprising mainly internally displaced people (IDPs), returnee refugees or those who had not been displaced by conflict). Villages were then selected based upon criteria such as the length of time that they had had access to semi-formal microfinance services. Within villages a wide selection of informants were interviewed including the poor and poorest people, people with land and the landless, amputees and the disabled, women and men, widows and widowers, village leaders and commune officials, market sellers, gold sellers, moneylenders and traders. Data collection focused on building understanding of household coping mechanisms during and after armed conflict, the environment for microfinance and the characteristics of microfinance products that people demand. In order to avoid criticisms of anecdotalism, the focus was on creating testable propositions to explain the findings that could then be applied to other countries. Phase three involved the testing of these propositions in Pursat province which had a very different experience of conflict.

The research team comprised two Cambodian researchers and one international researcher who led the research process and wrote the report. The Cambodian

researchers were largely responsible for facilitating data collection in communities through semi-structured interviews, key informant interviews and focus group discussions. This data was recorded using a dictaphone and then translated word for word from Khmer into English. The international researcher oversaw the process of translation and was responsible for the collection of secondary data as well as facilitating data analysis and the creation of general theories.

1.3 Main Findings

A. Environment for Microfinance

The microfinance market will develop in different ways within a country in accordance with the different rates of transition from high to low intensity conflict, relief and rehabilitation to development

- Semi-formal and formal microfinance are most developed fastest in areas which were more secure, namely the south and central provinces of Cambodia.
- Informal microfinance products mirror the unit of exchange. For example where people exchange in gold or rice, informal products are in gold and rice and where people use cash, informal products are cash based.

Given functioning markets, trust is essential for informal microfinance to develop and security is essential for semi-formal and formal microfinance to develop.

- Informal microfinance establishes itself much more quickly than semi- and formal finance immediately after conflict.
- MFIs appear to have been created with little environmental analysis. They emerged as a result of the interests of NGO staff members working in the area and were influenced by development fashions. They have developed based on trial and error.

Although formal and semi-formal microfinance provision is likely to be very high cost during and after armed conflict, it is still important in generating competition and a functioning microfinance market.

- Microfinance is very high cost after conflict given damage to the infrastructure (for communications, banking etc.) and insecurity. This means that operational sustainability is very hard to achieve especially when working with very poor people in remote rural areas.
- Moneylenders have reduced their interest rates as the supply of microfinance, especially the low interest loans provided by NGOs/MFIs, has increased.

B. Coping Mechanisms

The household asset base determines how households cope during and after conflict

- Land is a key asset for coping following armed conflict and especially when areas become secure. Returnee refugees and IDPs are thus more disadvantaged than people who were not displaced because they tend not to have sufficient land and they tend to lack the resources to get a legal land title so rendering them vulnerable to losing their land to powerful people.
- Labour is a key asset for coping during and after conflict.
- Following armed conflict poor people rely on cooperative coping mechanisms. Reciprocal lending between neighbours is important for consumption smoothing and the pooling of assets for productive activities.
- Extended families who are less poor provide a safety net to poorer relatives.
- The income of poor rural people is dependent upon trading activities of richer people. Connectedness to better off people enables poor people to access paid employment and informal loans.
- Most households have a limited surplus to save in refugee camps.
- Poor people save in productive assets rather than money immediately after conflict
- Semi-formal and formal microfinance has been less important than informal finance in strengthening the coping mechanisms of households.

Successful productive activities depend upon market demand

- Trading is the most profitable (and dangerous) activity during and immediately after conflict due to high market demand.

Low investment, quick return activities are important for people during and immediately after conflict

- People have a preference for diversified productive activities which usually involve the exploitation of natural resources is more important than sedentary agriculture.

C. Microfinance Products

People prefer informal microfinance products as they are more tailored to their needs than semi-formal and formal products

- People choose between informal or semi-formal microfinance based on their preference for convenience or lower interest rates.
- The poorest people prefer the convenience and flexibility of informal microfinance and are afraid of the assumed rigidity of semi-formal finance.
- People prefer the terms and conditions of informal loans but when they have exhausted this supply they turn to semi-formal loans.
- People may repay informal loans in cash or in kind (including labour) although when repayment is in kind interest rates are higher.
- People prefer individual rather than solidarity group loans and poor people may find it difficult to get someone to form a group with them especially for larger loans.
- Lack of collateral and trust may exclude people from informal finance outside the village although in place of trust and/or collateral high interest rates are charged on informal loans.
- People save money in cash first so they can purchase larger productive assets.
- Liquidity is the most important feature of savings

Characteristics of microfinance products demanded by households change with the conflict and post-conflict environment

- Immediately after conflict people demand in-kind microfinance but now they demand cash credit.
- Immediately after conflict people demand small short-term loans for productive activities. Now people prefer longer-term loans.
- Poor people continue to demand loans for consumption and consumption loans are more important than production loans for poor people.
- Immediately post-conflict trust is more important than collateral, but later collateral is more important than trust for informal loans.

1.4 Issues to Consider in Better Practice

- MFIs need to monitor the changing environment during and after conflict as the sooner they enter the microfinance market, the more competition there will be and the better it will be for clients.
- MFIs need to understand the nature and impact of a particular conflict, as this will determine the cost of microfinance provision and the potential for sustainability.
- Microfinance product design requires an in-depth understanding of the environment and potential clients and their coping mechanisms.
- Flexible products are important in uncertain environments such as those affected by armed conflict.
- Micro-credit should not be restricted to micro-enterprise and agriculture as it may play a very important role in income smoothing and building social and human assets.
- Adequate technical support is essential for the effective provision of microfinance.

1.5 *Outline of the Report*

This report is divided into nine chapters. The next chapter introduces the research approach and chapter three details the methodology. The fourth chapter sets the scene for the data chapters by describing the pre-conflict, conflict and post-conflict environment in Cambodia. Each of the next three chapters present the findings of one of the research questions. There is some overlap here as the research questions are inter-related but they are presented separately for purposes of clarity. These chapters try as much as possible to include the voices of the people who told their stories and so quotations interspersed throughout the data chapters are left in raw form to capture the way people spoke. Chapter eight analyses the research findings and presents testable propositions about microfinance in post-conflict situations and the final chapter will draw together some conclusions and issues to consider in better practice.

2. INTRODUCTION

2.1 Reason for Choosing the Topic

Over the past ten years, microfinance has increasingly been seen not just as a magic bullet for development (i.e. a sustainable means of poverty alleviation and economic growth) but also as the answer to post-conflict reconstruction. Doyle (1998) notes how microfinance can be a tool for restarting local economies, building peace and reconciliation and helping to bridge the gap between relief and development. This is important given the fact that although (at the time of writing) the level of conflict in the world is remaining stable (ICRC, 2001), it is increasingly civil rather than inter-state and thus is affecting higher proportions of civilians than ever before with

‘untold human, social and economic costs which make conflict prevention, conflict resolution and the promotion of sustainable long-term peace an urgent priority’ (Date-Bah, 1996:1).

Goodhand and Hulme (1997:1) also note how armed conflict is ‘a pervasive element on the landscape of many countries’ and Oshima (2001) estimates that over the past decade some 20-25 million people have been displaced by war and instability. Within this context microfinance is increasingly seen as having the potential to help civilians cope and recover from conflict.

However experience has shown that the potential for microfinance in post-conflict situations is not always met, not least because technical skills are often not available. Further, Nagarajan (1998) notes how the outreach and sustainability of such programmes is often unsatisfactory and that problems arise because practitioners apply the same rules to post-conflict situations as they do to microfinance in more stable development contexts. There is limited understanding of Doyle adds to this stating that,

‘The potential for microfinance and microenterprise development programs in the dire circumstances that result from conflict appears extraordinarily high. Matching the potential with solid programming is a challenge that many are trying to meet on the ground...(F)ield-based inquiry that supports efforts to create best practice would be an enormous contribution’ (Doyle 1998:55).

To date most of the literature on post conflict microfinance has been either desk studies (e.g. Doyle 1998, Nagarajan 1998) or country specific (Hakemulder 1997, De Vletter 1999 and Gray and Allison 1997). There has been little of the field based research which Doyle (1998) notes as being so important or documentation and analysis of the general experience and lessons learnt for better practice of microfinance in post conflict situations. This report which focuses on the experience of Cambodia seeks to contribute to this gap in the research on post conflict microfinance.

Cambodia was selected as an interesting case study for post conflict microfinance for the following reason:

- The conflict lasted for almost three decades and at one point or another displayed characteristics of many types of conflict existing in the world including ideological, interstate and ethnic civil wars.
- Cambodia has now been 'at peace' for ten years following the signing of the Paris Peace Accords in October 1991.
- Cambodia has undergone many changes in the past ten years as it has tried to recover from years of conflict. This has involved the transition from a centrally planned to an open economy, from a one-party state to a form of democracy, from war to peace and from rehabilitation towards development.
- Semi-formal microfinance was established over 10 years ago so there is a lot of experience to learn from.

Research of a similar nature has also been conducted in Angola and Rwanda where armed conflict is on going, and in Mozambique, which similar to Cambodia signed a peace agreement in the mid 1990s and has had considerable experience of post conflict microfinance.

2.2 Research approach to be utilised

A qualitative approach was taken in this research in order to embrace the complexity of the topic and avoid the tendency towards reductionism that quantitative research offers. However in order to avoid the frequent criticisms levied at qualitative research of it being

no more than unfocused immersion and anecdotalism, this research took a very systematic approach to ensure validity and reliability of results. The objective was to collect information on post conflict microfinance that was both representative and generalisable. This was done by creating propositions based on the findings and then testing and modifying them as the fieldwork continued. Although most of the research was conducted in Banteay Meanchey province, the final week of fieldwork was spent in Pursat province in order to test which propositions were specific to Banteay Meanchey and which ones could be generalised to a different context.

2.3 Research questions

The research was based on the assumption that the conflict/post conflict environment impacts (a) household behaviour and thus demand for microfinance, and (b) the functioning of institutions that supply microfinance (see box 1). However in just seven weeks of field research it was not possible to investigate every aspect of these relations, as this would sacrifice rich detailed description for a more superficial broad-brush understanding. Thus Silverman's (1993:3) advice of making 'a lot out of a little' was adopted and the research focused on just the environment and the demand side of microfinance, leaving an examination of supply side issues to future research. Once this decision had been taken, the following research questions were formulated to provide a structure for investigating these issues:

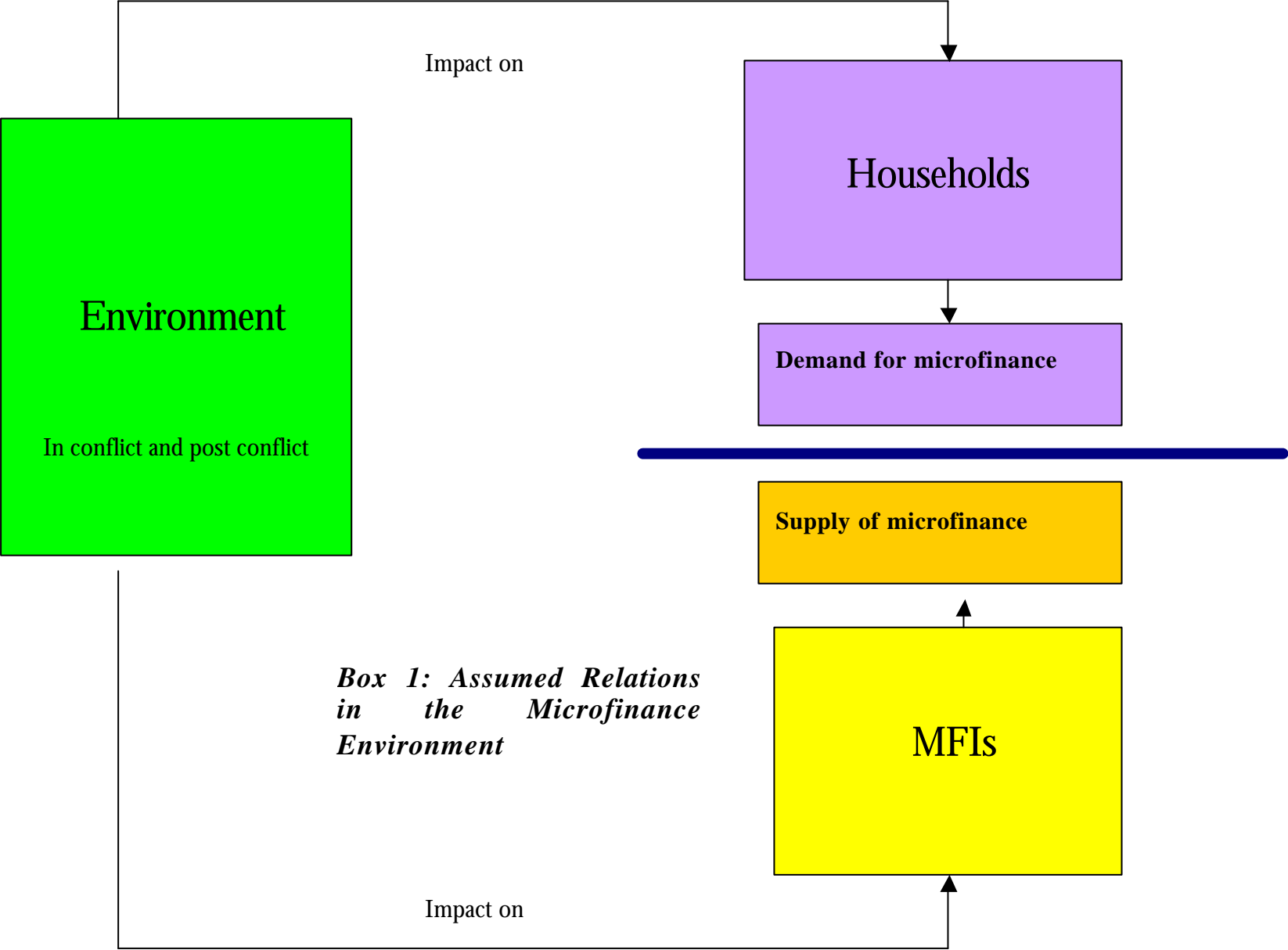
- What environmental conditions have the greatest impact on microfinance?
- What are the coping mechanisms of the poor for managing household finances during and in post-conflict situations?
- What types of microfinance products are in demand in post-conflict situations?

In addition the following research hypotheses were constructed for informal testing during the research:

- Microfinance products strengthen household coping mechanisms during and after conflict.

Post Conflict Microfinance in Cambodia

- Fulfilment of Doyle's minimum requirements ensures satisfactory conditions for the supply and demand of microfinance products.
- Fulfilment of Doyle's preferred requirements ensures satisfactory conditions for the supply and demand of sustainable microfinance.



- When choosing a microfinance product clients prefer those which are flexible, convenient and give people easy access to their money.

These research questions and hypotheses together with sub-questions are outlined in Appendix 1.

2.4 Definitions of Terms

Below are definitions of key terms used in the research.

Coping Mechanisms are strategies households undertake to cope with a shock. Sebstad and Cohen (2000) note that a range of strategies may be taken to manage loss and they may have negative or positive consequences in the long term – the way households mix and sequence these strategies will depend on the nature and extent of poverty. They define three main types of coping strategies – consumption modifying, income raising and personal financial intermediation.

Microfinance is an ‘economic development approach intended to benefit low-income women and men’ (Ledgerwood, 1999:1) and it refers to the provision of financial services which may include credit, savings, insurance and payment services. The European Commission (1998) defines it as involving transactions of less than US\$1,000.

Informal Microfinance refers to microfinance services provided by organisations and individuals, but generally not institutions, that are created by people themselves, without external intervention and with no legal status (European Commission, 1998).

Semi-Formal Microfinance refers to the services that fall somewhere in-between formal and informal microfinance. It is usually not regulated by banking authorities although providers may have to have a licence and are subject to supervision by government agencies (Ledgerwood, 1999).

Formal Microfinance includes services provided by public and private banks, insurance firms and finance companies which are subject to banking regulations and supervision (Ledgerwood, 1999)

Microfinance Institution (MFI) is any organisation that has a single focus on microfinance.

The Poor are very difficult to define and Rahnema (1995) notes that the variety of cases defining a person as poor in different cultures and languages is such that there may be as many poor and perceptions of poverty as there are human beings. However Sen (1999) helps in this definition by defining the poor as those that lack basic freedoms. He argues that freedom can relate to economic poverty when people do not have the freedom to satisfy hunger, to have adequate shelter and clothing, safe water and sanitation. Freedom can also relate to access to health, education and social care facilities and institutions that maintain law and order. Finally Sen notes that there are freedoms related to political and civil liberties and the ability to participate in the social, political and economic life of a community.

Post Conflict refers to the situation in war torn societies that are transitioning towards a more peaceful and stable situation (UNHCR, cited by Macrae, 1999).

3. METHODOLOGY

3.1 *Data studied*

The research period was from 13 June until 4 August 2001 and it was divided into three phases. Phase one involved gaining a broad overview of microfinance in Cambodia and the Cambodian conflict. This involved first conducting a stakeholder analysis with Concern staff in order to become familiar with the key stakeholders and thus be able to plan for the research and select a few cases to provide a representation of the wider picture. Following this secondary data was identified and reviewed, interviews were conducted with NGO and MFI personnel and two brief field visits were made to Concern programme areas in Banteay Meanchey and Kompong Speu. This led to phase two and a period of in-depth inquiry conducted in Banteay Meanchey province in north-west Cambodia. Phase three involved the formulation and testing of propositions developed in Banteay Meanchey in Pursat province and the discussion of research findings with other microfinance practitioners.

Data studied came from three main sources. First, secondary information which included World Bank socio-economic statistics, Royal Government of Cambodia (RGC) reports and statistics and reports of research undertaken mainly by donor organisations or NGOs on microfinance in Cambodia. All secondary data used in this research is cited in the References section at the end of this report. Second, interviews were conducted with key informants working for international and Cambodian NGOs implementing microfinance programmes and the staff of MFIs and banks. This information provided an overview of the microfinance sector in Cambodia. Third, primary data was collected from a variety of sources including the poor and poorest people, people with land and the landless, amputees and the disabled, women and men, widows and widowers, village leaders and commune officials, market sellers, gold sellers, moneylenders, traders, returnee refugees, IDPs and people not displaced by conflict. This data focused on building understanding of household coping mechanisms during and after armed conflict, the environment for microfinance and the characteristics of microfinance products that people demand.

Banteay Meanchey province was selected as the focus for data collection because it was a place which had been severely affected by conflict up until the late 1990s and there was a good mixture of returnee refugees, IDPs and those who had not been displaced by conflict. It was also an area where semi-formal microfinance had started from 1992, which meant that there was a wealth of experience to study. Pursat province was selected for generalising research findings as it had been affected by conflict differently and was more secure than Banteay Meanchey in the 1990s and thus there had been less displacement of people and it had been able to transition from relief to development at an earlier stage. It was also an area where there had been semi-formal microfinance since the early 1990s.

Districts were selected on the basis of the characteristics of particular populations. Three districts were chosen in Banteay Meanchey - Mongkul Borei where few people had been displaced by conflict, Thma Pouk where there was a high proportion of returnee refugees and Svay Chek where there was a high proportion of IDPs. Sereisophon district was included later on based on some leads taken up from interviews in the other three districts. In Pursat, Bakan district was selected, as this is where people had been able to access both informal and semi-formal microfinance for some years.

Villages were chosen based on several criteria with an aim to get an understanding of how different factors affected communities. For example, villages were selected which had had a market since the early 1980s or where the market was far away, where there had been semi-formal microfinance for a long time or a short time, and where most people were returnee refugees, IDPs or where few people had been displaced. Information about the villages visited and the people that were interviewed is attached in Appendix 3.

3.2 *Methods of data collection*

A team of three people (two Cambodian researchers and an international researcher) was formed to conduct the research. The Cambodian researchers were responsible for translation and facilitating discussions in the community, whilst the international researcher led the research process, identified and reviewed secondary data, conducted interviews with NGO and MFI staff, monitored the quality of primary data, facilitated data analysis and wrote the report.

Prior to the field research, the following five tools were designed for purposes of answering the three research questions:

Tool 1: Stakeholder Analysis

The purpose of this tool was to provide a framework for identifying important stakeholders in the research, to identify conflicts of interest between stakeholders which might influence the information collected and to identify how various stakeholders should participate in the research. The stakeholder analysis was done with Concern Cambodia staff working in microfinance. First a stakeholder table was constructed and primary, secondary and external stakeholders were identified together with their interests and their importance for the research. Next the information was transferred onto a matrix which listed the stakeholders in terms of their importance and influence. This was then designed to guide the research which would focus on stakeholders which were of high importance but would enable the researchers to be aware of the level of influence that other stakeholders could exert on the research.

Tool 2: Wealth Ranking

This tool was designed to identify the relative wealth of every household in a particular village to gain awareness of the people's livelihoods. First a discussion would be held to get an understanding of what wealth means to local people and then two groups would be formed of approximately five women and five men preferably from the same socio-economic group. The groups would work separately and systematically rank every household in the village in terms of the wealth categories identified by the community. This tool is used in all Concern target villages in Cambodia and so to save time, it was decided that in villages where Concern worked, the researchers would use the classification and categories that had already been created through using this tool.

Tool 3: Timeline

The timeline was designed as a good entry point into a village as it was fairly simple and would thus make people feel comfortable. Five to ten of the oldest people in the village would be gathered and asked to describe the main events that had occurred in the past. These were then plotted on a graph with the dates along the x-axis and whether the time

was a happy or a sad time on the y-axis. This then provided a tool for discussion about why times were happy or sad, the changes in household coping mechanisms over time and important factors influencing the supply and demand of microfinance. The timeline was usually used as part of a semi-structured interview or focus group discussion (see tools 4 or 5).

Tool 4: Semi Structured Interviews

These involved a list of areas for discussion and could be conducted with individuals/key informants or two or three people. The list of areas for discussion was modified as the research proceeded in order to test the propositions being developed. Semi-structured interviews were usually held in an office of the particular NGO/MFI/bank or in the house of a villager or somewhere where they were comfortable to meet. At times semi-structured interviews would be conducted prior to a focus group discussion and at other times a focus group discussion would identify people who could be key informants and with whom it would be useful to talk to at length.

Tool 5: Focus Group Discussions

This tool was often used when the research team first entered the village and people would generally join and leave the discussion based on their interest. It was a useful tool to find out general information about the village and to identify people that the researchers may want to interview in greater detail later on. Focus group discussions were usually held in the village chief's house or in a fairly public place like alongside the road or outside the village shop.

The research was iterative in its approach with constant modifications and simplifications to the methodology based on the findings and the context in which the researchers were working. It was found that the most useful tools for primary data collection were focus group discussions and semi-structured interviews. As Silverman notes, interviews

‘offer a rich source of data which provide access to how people account for both their troubles and good fortune’ (Silverman 1993:114).

Both focus group discussions and semi-structured interviews used open-ended questions such as ‘tell me about your life from one time to another’ and ‘please explain

to me from the beginning about how you established the microfinance programme here' in order to gather detailed descriptive information on people's experiences and feelings.

Most of the primary data studied was recorded using a dicataphone and then translated from Khmer into English (when necessary) and typed word for word into the computer. This was an extremely time consuming process taking approximately four hours to translate 30 minutes of discussion. However it was important as in general translations a lot of information and detail is lost. The tapes were labelled and stored in a safe place so they could be referred to at a later stage if necessary.

Secondary data was collected initially to provide an overview of the socio-economic situation in Cambodia and the microfinance sector, and then following field research to provide further sources of information to illuminate the research findings. Prior to the fieldwork internet searches were used to gather information on other research conducted on microfinance in post-conflict situations as well as microfinance in Cambodia. Within Cambodia the Cooperation Committee for Cambodia (CCC) resource centre and the Concern library were useful sources for secondary data. Brief notes were made from the secondary data sources.

In order to try to generalise and apply the research findings to other contexts, the researchers developed testable propositions and these were reviewed and modified during the course of the research. The research started off with a checklist of question areas and then based on an analysis of the raw data, propositions were created and question areas were modified and categories of people to interview were identified in order to try to disprove these propositions. For example the research found that labour was a key asset for coping following conflict and that when people didn't have labour due to sickness or disability, the coping mechanisms of a household were severely affected. This proposition led to a conscious effort to talk to households that were rich in labour assets and households that were poor in labour either due to disability, sickness or death.

3.3 Analysis

Following the translation of the data, analysis occurred in several stages. First the research team read through the transcripts picking out key findings for the creation of

propositions and also for searching for examples that would disprove the testable propositions. Following each analysis session, the testable propositions, key question areas and key target groups for data collection would be adjusted.

The second stage of analysis involved reading through the transcripts and coding the information. To start with this was done using three coloured highlighter pens (yellow for household coping mechanisms, green for environment and pink for microfinance products). In addition the text was marked with symbols to denote possible quotes and key information which either proved or disproved a hypothesis. Key points of analysis were written at the bottom of each page and then transferred onto the computer firstly under the three main areas of investigation and then a second time according to the testable propositions. This ensured that the whole data set was used in analysis and avoided the danger of selecting information to support the ideas and biases of the researchers.

The final stage of the analysis involved viewing the data collected, particularly the propositions and using these to create more general propositions. The data collected in Pursat was important in this process as it helped to distinguish findings that were Banteay Meanchey specific from those that could be applied to both locations and therefore could potentially be generalisable.

3.4 Advantages and Limitations of the Methodology

This section will first assess the advantages and limitations of the methodology in general and will then consider the research tools used one and by one.

A. General Methodology

The research methodology was qualitative and underwent a continuous process of development and simplification as the research proceeded in response to the data that had been collected.

Advantages

The advantages of this methodology are that firstly it was very flexible which enabled changes to be made based on experience to both the orientation of the research and its

methods. For example it was originally envisaged that the research would specifically investigate the work and experiences of three NGOs/MFIs. However as the research proceeded it was realised that this was not really important and that the focus should be on the household. Although visits were made to communities where a range of MFIs or NGOs (e.g. Concern, Rufade, CAAFW and ACLEDA) were providing microfinance services, the focus remained on the households rather than on how the NGO or MFI operated. In terms of the research methods, twelve tools were originally developed for use in the field research but once in Cambodia, it quickly became evident that these needed to be simplified and the researchers ended up with the five tools described above. In reality only three of these were found to be useful in collecting rich detailed descriptive information. The research schedule was also very flexible and this enabled the researchers to return to a village that they had been to before to gather more information. This was very profitable as demonstrated by one woman who in a second interview told of how after being resettled from the refugee camp she had to move again because of the Khmer Rouge burning her rice field. Originally she had said it was only because of flooding (which she reiterated in the second interview). Thus the researchers were able to collect additional and important information.

Secondly, the methodology of the research facilitated the collection and analysis of very detailed qualitative information which enabled generalisations to be made. Multiple cases, multiple informants and a range of data gathering methods (primary and secondary) were used in an attempt to build thick descriptions of the areas being investigated. For example in Trapeng Thlork village the research started off with a general group discussion with community members and then with a semi-structured interview with two women. The information they shared was very interesting and following translation the researchers had more questions so made another visit and this time discovered that they were getting credit from wood traders who came to buy firewood collected by the villagers. The next stage of inquiry was then to search for the wood traders and from here it was discovered that they sold wood in Sisophon market where people could also get credit. The research then moved onto the market to investigate these issues from another perspective.

Thirdly, looking for multiple cases increased confidence and the validity of the data. For example, a key informant from an NGO initially stated that only semi-formal microfinance

was able to reach the very poor. The researchers attempted to test this assumption in several villages by asking the village leader or elder to take the researchers to interview the poorest people. In several villages it was found that most of the poorest people were not clients of the semi-formal microfinance providers and instead had to rely on the high interest rates of moneylenders. The research team then tried to investigate this situation further by talking to MFI or NGO staff working within the village or the village bank committee.

Finally, the methodology aimed at frequent data analysis which led to a continual modification of testable propositions which might then lead the research in a different direction. This helped to ensure that the personal biases of the researchers were constantly challenged and that decisions on how the research should proceed were based on an analysis of the whole data set that had been collected to date rather than of specific 'interesting' examples.

Limitations

The main limitation of the methodology was that it was too ambitious in a seven-week time frame. A lot of time was spent travelling to villages because roads were poor and security concerns in Banteay Meanchey meant that Concern would not allow foreigners to stay in remote areas overnight. It thus took on average between two and three hours to travel from the provincial centre to a village. Other time consuming tasks were the translation of recorded interviews word for word. This however was very important as it improved the quality of the data and guarded against the loss of the detailed description that often occurs in general translations. The research originally aimed to create generalised theories but given that the broad scope of the research (which prior to the fieldwork was considered to be quite narrow) and its time consuming nature, it was not possible to do this. Instead general propositions were developed for further research.

Secondly there was a gender imbalance in the research team as all the researchers were women. In Cambodia women tend to have responsibility for the household finances so in reality it was useful to have female researchers who women felt comfortable in sharing information with. However a conscious effort was made to get a balance between female and male perspectives and experiences.

Thirdly, both national researchers were past or current employees in the microfinance project of Concern in Banteay Meanchey. Initially there were concerns that community members would know that the national researchers were connected with Concern and that this would bias the results. The international researcher monitored this closely and found that in the majority of villages, communities had never met the researchers. In addition when making introductions in the village the researchers would describe themselves as 'a team wanting to understand more about the situation of the people in this village from the past up until now' rather than having connections with Concern. Therefore people appeared to be able to speak freely and if they mentioned Concern they appeared not to be frightened to say exactly what they thought even if this was negative.

Other concerns about the methodology were that the presence of a foreigner might create expectations and skew results. As it was almost impossible for a foreigner to enter a village unnoticed, once the national researchers had become confident about using the research tools, one researcher went alone to the communities whilst the other two remained in the office translating interviews. This was found to be a very efficient use of limited time and the quality of data did not suffer as the three researchers spent a lot of time discussing the results and planning for further fieldwork.

Finally all interviews were recorded apart from those in one village where the dictaphone wasn't working. Before the interview started the national researchers asked if people minded the conversation being recorded and stating that their voices would be recorded for translation purposes only. People always agreed and the national researchers commented that most people had never seen a dictaphone before and that it had not appeared to distort the results of the interview. It was only in one interview in Sisophon market when a gold seller asked whether it was to be used for broadcasting and that because of this she better be careful what she said. The national researchers were extremely skilful in distracting attention away from the dictaphone and facilitating discussions and building a good rapport between the interviewer and other participants.

B. Research Tools

Tool 1: Stakeholder Analysis

Advantages

The stakeholder analysis was a good starting point for the research as it focused the mind on who it would be important to talk to and it gave an overview of who was involved both directly and indirectly in the area of post conflict microfinance.

Limitations

The stakeholder analysis was used just once at the beginning of the research as a planning tool and in retrospect it was a very complicated way to get simple information. Stakeholder analyses are important for projects but in research it would have been just as useful to brainstorm on who the stakeholders were and whether they were important for the research.

Tool 2: Wealth Ranking

Limitations

In order to save time, the researchers used the wealth ranking already carried out by Concern staff using the same methodology so in villages where Concern didn't work no information was collected on wealth. This exercise was not used as it was thought by the research team to be very time consuming, complex and potentially divisive in prompting people to categorise each other. It was thought to also have the potential of raising expectations of future assistance and would thus be more appropriate when designing and implementing a longer-term intervention rather than in a seven week research project.

Tool 3: Timeline

Advantages

Timelines were very useful in providing a general overview of a situation. They were a good way to start discussions in a community, both for the researchers to give them an idea of important information to follow up on and for the community to help them to become comfortable by asking them to describe their own experiences.

Disadvantages

To start with the researchers attempted to get community members to actually draw a time line but later this was abandoned and simply discussed as people in rural areas appeared to be scared by pens and paper and by having to visualise things. Getting one person to draw a timeline also personalised things and tended to put pressure on that person especially in a large group. Other problems were that often people couldn't remember things clearly especially as conflict in Cambodia has lasted for three decades. In addition each person tended to have a different timeline as villages were often very heterogeneous with people originating from all over the country and with very different experiences.

Tool 4: Semi Structured Interview

Advantages

This was one of the most useful tools because it was flexible and allowed a conversation to flow naturally. They tended to be very informal and relaxed and enabled the collection of a broad range of information as well as for specific areas to be explored more deeply.

Limitations

There was scope to stray on to irrelevant information due to the flexible nature of semi-structured interviews although this limitation was overcome by ensuring that all researchers had a common understanding of the information that needed to be collected. Prior to field visits the researchers would meet early in the morning to discuss specific areas of interest, categories of people to interview and propositions that needed to be tested.

Tool 5: Focus Group Discussion

Advantages

Focus group discussions were often used as the first tool when the team entered the village and were therefore important in helping communities to feel confident and able to share information. They were easy to organise and carry out and were sometimes conducted outside a small shop or under a stilted house. Focus Group Discussions were very useful to find out about coping mechanisms and products that people demanded

and the comments of various participants would spark comments and feedback from others. They were often very lively events and in general people seemed to appear relaxed and eager to talk. They were also useful for identifying people to have a more in-depth discussion with.

Limitations

There was a potential that one person may dominate focus group discussions and if there were too many people it would often be just the men or elders who would participate. In addition the culture of Cambodia means that people do not disagree or make someone lose face in public. Therefore although in some contexts focus group discussions may ensure that people speak the truth as there are others to verify stories, this does not happen in Cambodia. Such discussions were also not appropriate for the discussion of sensitive issues and in one village people appeared to be uncomfortable to discuss the Khmer Rouge period possibly because there were ex-Khmer Rouge cadres in the village who may have been participating in the discussion too.

3.5 *What claims can be made about the data*

The previous sections have documented the actions that were taken by the researchers to try to ensure reliability and validity of the research. However in just seven weeks it was beyond the scope of this research to build solid theory and so therefore the findings are presented as testable propositions for further research.

4. THE ENVIRONMENT FROM PRE- TO POST CONFLICT

4.1 *History of the Conflict*

The history of Cambodia's three decades of conflict is very complex and Doyle (1999) notes how it displays characteristics at one time or another of ethnic civil war, inter-state war and ideological war. Box 2 gives a historical timeline of the conflict which can be divided into the following periods:

A. Pre-Conflict – Sihanouk regime (mid 1960s- 1970)

The roots of conflict in Cambodia lie in the mid-1960s when there was a gradual increase in both internal and external tensions. Within Cambodia Sihanouk, who was then the Chief of State, was gradually losing popularity as people tired of his bad policies, corruption and harsh treatment of political dissenters many of whom had to flee from Phnom Penh into the mountains and forests of Cambodia. Externally, amidst the rising tensions within Indochina in the 1960s which culminated in the Vietnam War, Cambodia initially declared itself as neutral in international affairs. However in May 1965, fearing a US plot against him and his family, Sihanouk broke diplomatic relations with Washington and started taking the side of North Vietnam and the Viet Cong by allowing their armies to set up bases in Cambodia to fight the South Vietnamese and US. The US retaliated by carpet-bombing suspected communist bases in eastern Cambodia which over four years (1969-73) killed and displaced thousands.

B. Conflict Phase I – Lon Nol regime (1970-5)

In March 1970 with the blessing of the US, Sihanouk was deposed in a coup led by General Lon Nol and Sihanouk's cousin Prince Sisowath Matak. Sihanouk was in France at the time of the coup but returned to Asia to live in Beijing where he set up a government in exile with nominal control over the Khmer Rouge. Interestingly, the Khmer Rouge was composed of many people (e.g. Pol Pot) who had previously fled Phnom Penh to escape Sihanouk's harsh policies against political dissenters. The Khmer Rouge exploited this partnership to build more support as most Cambodian peasants considered Sihanouk to be semi-divine and thus wanted to fight for him.

One month after Lon Nol took control, the US and South Vietnamese invaded Cambodia in a failed attempt to remove the 40,000 Viet Cong and North Vietnamese troops. The troops simply escaped further into Cambodia causing fighting to quickly engulf the whole country killing over 700,000 and displacing millions of peasants who sought refuge in Phnom Penh and provincial capitals (Curtis 1998). At this time the Khmer Rouge with North Vietnamese support came to play a dominant role in trying to overthrow the Lon Nol government whose greed and corruption which had been far worse than the government led by Sihanouk made him increasingly unpopular. Despite massive US military and economic aid, Lon Nol never succeeded in fighting against the Khmer Rouge and large parts of the countryside fell to the rebels and many provincial capitals were cut off from Phnom Penh. Eventually on 17 April 1975, two-weeks before the fall of Saigon, Phnom Penh fell to the Khmer Rouge.

C. Conflict Phase II – Khmer Rouge regime (1975-9)

The Khmer Rouge in their three years and eight months rule attempted one of the

‘most radical and brutal restructuring of society ever attempted; its goal was to transform Cambodia into a Maoist, peasant-dominated agrarian cooperative’ (Ray 2000:20).

The advent of Khmer Rouge rule was called Year Zero, currency was abolished, schools and monasteries closed and the cities were emptied with people forced into the countryside to work in mobile teams preparing fields, digging irrigation canals and growing rice and vegetables for 12-15 hours a day. Cambodia became completely closed to the outside world except for one fortnightly flight from Beijing to provide aid and technical advice to the Khmer Rouge. It is unknown how many people were executed for crimes such as stealing or being part of the old urban elite, or how many simply died of starvation and disease over this period but estimates range from 1 to 3 million people but they may be higher (Ray 2000).

Fighting with Vietnam started in 1976 in an attempt by the Khmer Rouge to take Vietnam’s southern region, which it claimed to originally belong to Cambodia (or Democratic Kampuchea as it was called in this period). Thousands of Vietnamese civilians were killed in these border raids which sparked retaliation from the Vietnamese.

On 25th December 1978 they launched a full- scale invasion of Cambodia and by the 7th January they had taken Phnom Penh. The Khmer Rouge were ousted from power and fled westwards settling on either side of the Thai border and taking as many civilians as they could with them, burning crops and rice stores on their way.

D. Conflict Phase III – Heng Samrin/Hun Sen regime (1979-89)

The Vietnamese installed a government led by two former Khmer Rouge officers - Heng Samrin and Hun Sen – both of whom had defected to Vietnam in the late 1970s. Following the Vietnamese invasion the destruction of unharvested crops and rice stocks by both sides together with the general movement of people looking for their families rather than growing rice, resulted in greatly reduced harvests in 1979 and 1980 and consequently famine. This resulted in a mass exodus of almost a million people to Thailand in search of food and security. This caught international attention and resulted in an enormous UN coordinated famine relief effort. However the realities of cold war politics meant that Cambodia remained largely isolated from the international community during the 1980s and depended on aid from Vietnam and Eastern Bloc countries.

Fighting continued throughout the 1980s between the government and opposition forces. This involved wet season guerrilla warfare by opposition groups including shelling government controlled garrison towns, planting landmines along roads and in rice fields, attacking road transport, blowing up bridges, kidnapping village chiefs and killing local administrators and school teachers. Opposition forces also forced many of the men women and children in the refugee camps they controlled to work as porters, transporting ammunition and other supplies into Cambodia across the heavily mined border. In the dry season government troops with heavy tanks and weapons launched their offensives.

In 1982, pressure from ASEAN and China forced the establishment of a coalition of the three opposition groups to the government. This Coalition Government of Democratic Kampuchea (CGDK) was thus formed and headed by Sihanouk. It comprised his National Union Front for an Independent, Neutral, Peaceful and Cooperative Cambodia (FUNCINPEC) which was supported by Western Europe, Son Sann's Khmer People's National Liberation Front (KPNLF) supported by the US and the Party of Democratic Kampuchea (PDK) or Khmer Rouge supported by China. The coalition fought against

the government and often amongst itself too. Each group depended on the support of its foreign patron with the Khmer Rouge strengthened during this period by international food aid which the Thai government insisted must also go to the Khmer Rouge if it was passing through its territory, and weaponry from the Chinese delivered by the Thai army. The other groups in the coalition were supplied with weapons by Malaysia and Singapore and the British government despatched the SAS to a Malaysian Jungle camp to train FUNCINPEC fighters in land mine laying techniques. The US gave over US\$15 million a year in aid to the KPNLF. Meanwhile the government had military support from the Vietnamese. Each faction contested the claims of the others to legitimate authority over Cambodia which

‘created problems of recognition for the international community. While the UN recognized the CGDK as the legal government of Cambodia, the State of Cambodia controlled more than eighty percent of the country.’ (Doyle 1999:191).

It was not until December 1987 that any of the factions demonstrated willingness to discuss peace. Doyle (1999) speculates on the range of reasons for this development including Hun Sen’s desire to obtain international recognition, Sihanouk’s age, the removal of patron support following the end of the Cold War or simply war fatigue. Peace talks proceeded spearheaded by the United Nations, France and Indonesia but were largely inconclusive.

E. Conflict Phase IV – State of Cambodia (1989-91)

In September 1989 the Vietnamese withdrew all troops from Cambodia and this provoked renewed offensives from the CGDK dominated by the Khmer Rouge bringing the number of IDPs to over 150,000 by autumn 1990 with 2,000 people killed in the first 8 months of 1990 (Ray, 2000). Diplomatic efforts to end the civil war continued and at the International Conference on Cambodia in Paris in July-August 1989, the four factions, five permanent members of the Security Council and 13 other countries set up a framework for peace. Talks continued and finally on 23rd October 1991, at a meeting in Paris all five permanent members of the UN Security Council (USA, former USSR, France, Britain and China) and the four Cambodian factions agreed on a plan for peace. The Agreements on a Comprehensive Political Settlements of the Cambodian Conflict (or Paris Agreements) involved the formation of a coalition of all factions called the

Supreme National Council (SNC) under the presidency of Sihanouk, together with a UN force to supervise the administration of the country and create an environment conducive to free and fair elections.

F. Post-Conflict Phase I – SNC and UNTAC (1991-3)

The transition of Cambodia from war to peace began with the Paris Agreements and the installation of the United Nations Transitional Authority in Cambodia (UNTAC) in March 1992 and although these

‘did not bring immediate peace to Cambodia, they did signal a dramatic change in Cambodia’s circumstances and offered hope for a new future for the country and its long-suffering people’ (Curtis 1998:2).

The UNTAC operation was the most expensive one in the UN’s history at the time at a cost of about \$2 billion. At its peak UNTAC employed over 20,000 international personnel (16,000 military and 3,500 civilian police) and 60,000 Cambodians (Curtis, 1998). This had a great impact on the economy stimulating economic growth to an average of 6% per annum over the period but also inflation which peaked at 114% in 1992 (World Bank, 1995). Curtis (1998) notes how many civil servants left their positions in government, thus reducing the provision of important public services, in order to get the high UNTAC salaries. Although the monthly salary of a local UNTAC employee was less than the daily allowance of international staff it was still far higher than any other wage Cambodians could hope to earn (Curtis 1998).

During this period 370,000 refugees were repatriated from Thai border camps. However most of the work of UNTAC was in preparing Cambodia for elections which took place between 23-8 May 1993 with 90% of registered voters turning out to vote. On 21 September 1993 the Constituent Assembly adopted the new constitution and three days later Sihanouk signed the constitution and was reinstated as King and the country once again became the Kingdom of Cambodia. UNTAC congratulated itself on doing a successful job and forces left the country in November 1993.

G. Post Conflict Phase II – First Government (1993-8)

Following the establishment of the Royal Government of Cambodia (RGC), the transition towards some form of democracy, market economy, from rehabilitation to development and from war to peace continued slowly with many setbacks as described by Curtis,

‘widespread insecurity throughout much of Cambodia- whether directly attributed to the Khmer Rouge or to other rogue elements, including the undisciplined military – prevented the establishment of an environment conducive to the country’s reconstruction and development, including its further political development. Ongoing hostilities, including the continued ebb and flow of fighting according to the country’s seasons, continued to divert human, material, and financial resources badly needed for the country’s reconstruction’ (Curtis 1998:33).

In 1994, hostilities increased when the RGC’s dry season offensive succeeded in taking Pailin, the nominal capital of the Khmer Rouge in the north-west of the country, displacing 20,000 rebel fighters and civilians. However within one month the Khmer Rouge re-took Pailin and Anlong Veng and fighting displaced 40,000 civilians in Battambang and 10,000 in Banteay Meanchey. Aid workers in this region were evacuated and the year also saw a number of kidnappings of foreigners by the Khmer Rouge forces. Khmer Rouge attacks on villages and along roads continued until 1996. At this time there was also fighting between FUNCINPEC and the CPP which culminated in the coup of July 1997. However with the assistance of the UN the government organised second elections which were held in July 1998.

H. Post Conflict Phase III – Second Government (1998-present)

Following the elections there was a lot of insecurity but in November 1998 a new coalition government was formed this time headed by Hun Sen who was Prime Minister with Prince Ranariddh who was Head of the National Assembly. In December 1998 the last leaders of the Khmer Rouge defected to the government effectively ending the years of intimidation and fear they had rendered on Cambodia’s people. From this point forward although banditry continued to be a problem in many remote rural places of

Box 2: Conflict Timeline

1941	Norodom Sihanouk became King.
Nov 1953	Independence declared (recognised by Geneva Conference in May 1954).
Mar 1955	Sihanouk abdicated and formed the Sankum Reastr Niyum (the People’s Socialist

	<p>Cong to use Cambodian territory in their war against South Vietnam and the US started its secret bombing campaign from 1969-73 of suspected North Vietnamese and Viet Cong bases in Cambodia, killing and displacing thousands.</p>
Mar 1970	<p>Sihanouk was ousted in a coup and General Lon Nol took over as leader. Sihanouk set up a government in exile in Beijing with nominal control over the Khmer Rouge, which with the help of the North Vietnamese gradually gained control of large parts of the Cambodian countryside.</p>
Apr 1975	<p>Khmer Rouge took Phnom Penh and declared the year 'Year Zero'. People from towns were forced into the countryside to work and currency, markets, schools, hospitals and temples were abolished. 1-3 million people died between 1975-9.</p>
1976	<p>Khmer Rouge started fighting with Vietnam.</p>
25 Dec 1979	<p>Vietnamese invaded Cambodia.</p>
7 Jan 1979	<p>Vietnamese took Phnom Penh and the Khmer Rouge fled towards Thailand. The Vietnamese installed a government with ex-Khmer Rouge cadres Heng Samrin as President and Hun Sen initially as Foreign Minister and later Prime Minister. Famine ravaged Cambodia and thousands fled to Thailand as refugees.</p>
1982	<p>Coalition formed between Sihanouk's FUNCINPEC, Son Sann's Khmer People's National Liberation Front and the Party of Democratic Kampuchea or the Khmer Rouge in opposition to the Heng Samrin-Hun Sen government. Fighting continued sometimes between the coalition parties who were never really united and also between the Coalition and the government.</p>
Sep 1989	<p>Vietnamese withdrew from Cambodia and fighting continued between the newly named State of Cambodia (SOC) government and the opposition coalition, which was internationally recognised as the Cambodian government. Nevertheless the SOC managed to keep hold of most of Cambodia's territory.</p>
Oct 1991	<p>Paris Peace Accords signed (following 3 years of negotiations spearheaded by countries such as Indonesia, France and the United Nations) leading to the establishment of a SNC comprising of representatives of all four factions and UNTAC whose mandate was to prepare Cambodia for democratic elections.</p>

May 1993	The Khmer Rouge withdrew prior to the elections, which were inconclusive with FUNCINPEC winning 58 seats, CPP 51 seats and the BLDP 10 seats.
24 Sep 1993	New government formed with two prime ministers – first prime minister Norodom Ranariddh of FUNCINPEC and second prime minister Hun Sen of CPP. Constitutional monarchy established with Sihanouk as King.
1994-8	Khmer Rouge troops and key personnel started defecting to the government. This included Leng Sary, Brother Number 3 in the Khmer Rouge hierarchy who defected in August 1996.
5-6 Jul 1997	Coup ousted Ranariddh. All new foreign aid to Cambodia stopped, Germany and the US withdrew all their development assistance and Cambodia's application for full membership into ASEAN was suspended.
15 Apr 1998	Pol Pot died.
Apr-May 1998	Two of the last Khmer Rouge strongholds, first Anlong Veng and then Preah Vihear fell to the government.
26 Jul 1998	Second elections were held and this time Hun Sen's CPP won 64 seats and Ranariddh's FUNCINPEC 43 seats. The Sam Rainsy Party won 15 seats.
23 Nov 1998	Coalition government announced with Hun Sen as first prime minister and the CPP holding 16 of the most important financial and economic ministries whilst FUNCINPEC took the social ones and Ranariddh became leader of the National Assembly. CPP had full control of the military.
Dec 1998	Most of the remaining Khmer Rouge guerrillas turned themselves over to the government and on 25 December Khieu Samphan and Nuon Chea the last two key Khmer Rouge leaders defected ending the Khmer Rouge grip of fear amongst the people of Cambodia.

Sources: Chandler (1991), Ray (2000) and Becker (1998)

4.2 Political

Cambodia achieved Independence from France on 9th November 1953 following several months of campaigning by King Norodom Sihanouk. Independence was recognised by the Geneva Conference in May 1954 and this effectively ended French control in Indochina. In March 1955 King Sihanouk abdicated the throne in favour of his father, to become a politician and in the September 1955 elections his party the Sangkum Reastr Niyum (the People's Socialist Community) won every seat in parliament. Sihanouk dominated Cambodian politics for the next 15 years, first as Prime Minister until his father's death in 1960 when no new King was appointed and he became the Head of State.

In 1970 Sihanouk was ousted in a bloodless coup and General Lon Nol took control of Cambodia (or the Khmer Republic as it was renamed). Despite assistance from the US the government were not able to fight against the indigenous communist group the Khmer Rouge who gradually took control of Cambodia taking Phnom Penh in April 1975. The Party of Democratic Kampuchea (PDK) or Khmer Rouge ruled until January 1979 when the Vietnamese took power and installed a government comprising the ex-Khmer cadres Hun Sen who was Foreign Minister and later Prime Minister and Heng Samrin as President. Following the withdrawal of Vietnamese troops in 1989, the People's Republic of Kampuchea (PRK) was renamed the State of Cambodia (SOC). The same government remained in power but there was increased fighting and political tensions as the opposition groups fought for control.

In October 1991, following more than three years of negotiations, the four opposing groups in the Cambodian conflict signed a peace agreement. This led to the establishment of the SNC comprising representatives of all four groups as only legitimate national authority in the transition to a democratically elected government.

Despite setbacks such as the Khmer Rouge withdrawing from the peace process and trying to prevent the elections with intimidation and violence, they went ahead in May 1993 with 90% voter turnout. The results were not conclusive with FUNCINPEC taking 58 seats in the National Assembly and the Cambodian People's Party (CPP) which represented the previous government, taking 51 seats. The Buddhist Liberal Democratic Party (BLDP) took 10 seats. As a result Cambodia ended up with two prime ministers,

first prime minister Norodom Ranariddh (of FUNCINPEC) and second prime minister Hun Sen (of CPP). The country was renamed the Kingdom of Cambodia and became a constitutional monarchy with Sihanouk ruling as King.

Control of the Ministries was spread over the three parties and within months there were serious complaints that the diffusion of central authority led to a situation where power lay in the hands of provincial leaders whose loyalties lay with the CPP communist style structures. Gradually prominent FUNCINPEC politicians were ousted from power. This started with Sam Rainsy the Finance Minister in 1994 allegedly for his outspoken criticisms of corruption. In 1995, Prince Norodom Sirivudh, secretary general of FUNCINPEC and former foreign minister and half-brother of Sihanouk was arrested for allegedly plotting to kill Hun Sen. Then in July 1997 first prime minister Norodom Rannariddh was ousted in a coup. This resulted in another period of isolation for Cambodia with many countries freezing or withdrawing international aid and Cambodia's entry into ASEAN was also suspended.

Elections were held on 26 July 1998 amidst opposition charges of voter intimidation and human rights abuses. This time the CPP won 64 seats, FUNCINPEC 43 seats and the Sam Rainsy Party 15 seats. Without the two-thirds majority to govern alone, there was a period of protests, riots and deaths before King Sihanouk eventually managed to broker a coalition deal announced in November 1998 this time between a weakened FUNCINPEC which agreed to govern alongside a dominant CPP. Currently the CPP holds 16 of the most important financial ministries and FUNCINPEC holds the social ones. Hun Sen became the Prime Minister whilst Ranariddh was given the less influential position of head of the National Assembly. Therefore the CPP are now firmly in control of Cambodia including the Armed Forces. The Sam Rainsy Party has no role in government and are the only effective opposition.

4.3 Economic

As mentioned above Cambodia is a country of transitions and the most significant economic transition was that from a centrally planned to an open market economy. The 1990s were therefore years of fiscal and monetary reform aimed at providing a foundation for the market economy and the creation of a legal framework to stimulate private enterprise. However the reality

'has often been a high degree of economic anarchy, with state assets being sold for private gain, the growth of activities of dubious or criminal nature, and arbitrary use of authority or force. In spite of Government efforts, the regulatory framework and its enforcement remain weak' (Hakemulder, 1997:7).

This is reflected when analysing much of the very positive economic data which has masked inequalities and the unsustainable nature of much economic activity. For example, economic growth of about 6% per year between 1991-5 and 4.5% between 1998-9 (World Bank 2001), was initially attributed to the demand created by UNTAC and the multitude of development agencies that started working in Cambodia in the 1990s (World Bank 1995). Such growth has been concentrated in Phnom Penh, in urban based construction and service sectors rather than agriculture and the rural economy upon which most of Cambodia's population depend. Similarly in terms of exports, timber followed by consumer goods and cigarettes are Cambodia's primary exports and these activities are largely unsustainable and give little benefit to the rural poor. Low import tariffs make Cambodia a profitable place for countries like Singapore, Malaysia and China to use as a base to ship goods to more restrictive markets like those in Vietnam but the benefits of such activities for Cambodia and its people are not sustainable and go to only a small minority of people. Trends like this has helped widen the gap between rich and poor and in 1997 the poorest 10% of population had 2.9% of income and consumption and the richest 10% had 33.8% (World Bank, 2001). This means that figures such as those of GNP per capita which was \$260 in 1999 (World Bank, 2001) are distorted with the majority of the population earning a lot less than this.

In terms of the importance of various sectors of the economy to GDP, in 1999 statistics reported that 51% of GDP was from agriculture, 15% from industry 15%, 6% from manufacturing and 35% from services. There has not been much change since 1990 with just a slight decrease in the importance of agriculture, and a slight increase in the importance of industry, manufacturing and services (World Bank, 2001). Within this the informal sector remains very important as only 15% of Cambodians are employed in the formal sector, and of these the majority (53%) are based in Phnom Penh with only 11% in rural areas (MoP, 2000b).

Other significant economic changes over the conflict and post conflict period have been the reduction of military expenditure as a percentage of GNP from 4.9 to 4.1% between

1992 and 1997. Inflation has also fallen as the situation has stabilised from a peak of 112% in 1992 to 3.5% in 1995 and then up to 9% in 1996 (World Bank, 1997).

In the transition period Cambodia has become very dependent on international aid. Aid has fluctuated during the conflict and post-armed conflict period. In the early 1970s, the USA provided a lot of assistance (mainly for military purposes) to Cambodia but after 1975 all aid apart from some from China was stopped. In the 1980s whilst most of the international community focused on providing relief to Cambodians in Thai border camps, it was the Soviet-bloc countries and India that began providing small amounts of humanitarian assistance. In addition some international NGOs (INGOs) provided small amounts of aid to the government to implement projects. In 1989 Vietnamese troops left Cambodia opening it up to the outside world and a great outpouring of development aid. As Cambodia has transitioned from conflict to peace, the level of international assistance has also risen. Figures show that official development assistance (ODA) increased from 3.7 to 11.9% of GNP between 1990 and 1998 (World Bank, 2001). However these figures may distort the real situation because following the coup in July 1997 many donors suspended their aid commitments. This caused a serious budgetary crisis for the government, which was unable to pay government staff for most of 1998. However in February 1999, the Consultative Group Meeting on Cambodia in Tokyo approved a three year package worth over US\$1 billion which would subsidise over half of government spending over a five year period.

4.4 Physical

Cambodia covers an area of 181,035 square kilometres and is just over half the size of Vietnam. It is bounded on the west by Thailand, on the north by Thailand and Laos, on the east by Vietnam and on the south by the Gulf of Thailand.

Almost three decades of conflict has taken its toll on Cambodia's infrastructure with many of the roads, markets, flood control and drainage structures, warehouses and water supply systems in rural areas in a state of dilapidation (MoP 2000a). A current priority of the RGC is to improve the road network although the Interim Poverty Reduction Strategy Paper or IPRSP (MoP 2000a) noted that out of 28,000 km of rural roads only 1,866 km are laterite (7.5% of roads according to World Bank, 2001 sources) and just 926 km of these are maintained on a regular basis.

Schools and hospitals were closed and destroyed or used for different purposes during the Khmer Rouge period and thereafter although they reopened there were little resources and so services did not improve greatly. Now education and health facilities are being rebuilt and re-equipped largely with international assistance.

In terms of improved water sources, only 20% of the urban population and 12% of the rural population had access to these in 1996 (World Bank, 2001). Infrastructure like irrigation which enables farmers to grow more than one crop of rice a year is also limited and has not recovered much as Cambodia has transitioned towards peace. Between 1979-91, 5.8% of land was irrigated compared to just 7.1% between 1995-7 (World Bank 2001).

Landmines hamper the access of the poor to agricultural lands and the IPRSP (MoP, 2000a) cites figures of 46 million anti-personnel, anti-tank and unexploded ordnance laid in Cambodia. Recent estimates following considerable de-mining efforts are that 3,000 square km of agricultural land remains unusable due to landmines (Hewitt et al. 2001).

4.5 Social

The population census of 1998 (MoP 1999) reported a population of 11.43 million people, in 2.18 million households, of which 25.7% are female-headed. 84% of the population lives in rural areas. Conflict has skewed the population distribution and 42.9% of the population is under 14 years and there are very low proportions of men relative to women after age 40 (MoP 2000a). It has also had other impacts on the social situation in Cambodia.

Firstly the famine and insecurity in 1979 and the 1980s caused a great exodus of Cambodians to refugee camps in Thailand. Between 1992-3 UNHCR repatriated some 370,000 refugees and UNICEF (cited in MoP, 2000a) estimates that in this period 180,000 IDPs were resettled to their native areas too. However conflict and insecurity meant that displacement continued to occur in some areas up until the late 1990s and with it general social disruption as communities and families were split and people lost assets.

Secondly conflict drastically affected Cambodia's human resource base. Not only was it the educated people such as teachers and doctors who were executed during the Khmer Rouge regime, but after this Chandler (1991) notes that about half a million skilled workers left Cambodia to settle in countries such as the USA, Canada, Australia and France (Chandler, 1991).

Thirdly, in the pre-conflict period, there was a lot of investment in education and between 1953-68 the number of primary school students increased from 300,000 to over 1 million, secondary school students from 5,000 to over 1 million and nine universities were established. Then there was almost a decade of either neglect (in the Lon Nol period) or no schools at all (in the Khmer Rouge period). By 1979 there were only about 3,000 qualified secondary teachers still alive in the country and 1.6 million children (Chandler, 1991). Efforts have been made to improve education from 1979 with an estimated 1.3 million Cambodian children enrolled at least some of the time, in over 5,000 primary schools, 300,000 secondary school students in 200 schools, and 35,000 students enrolled in eight colleges and universities. However by 1997 only 2.2% of GNP was being spent on education compared to an average of 3.3% for low-income countries and education statistics remained poor with only 51% of males and 46% of females reaching grade 5 in 1996 (World Bank, 2001). In terms of adult literacy, 43% of men and 80% of women over the age of 15 are illiterate compared with low-income country averages of 30 and 49% respectively (World Bank, 2001).

Fourthly as mentioned above conflict led to the destruction of physical infrastructure such as clinics and hospitals and a contraction in the number of skilled health personnel. Health facilities were very limited throughout the 1980s and despite receiving about \$30 million in aid from 28 NGOs in 1989, little was spent on health and Chandler (1991) notes how only three out of the 120 foreign technicians living in Cambodia were medical personnel. Nowadays 47% of the population live over 3 km from a public health clinic and there is an average of 0.3 doctors per 1,000 inhabitants although this figure is a lot lower in rural areas as most doctors are based in Phnom Penh (MoP, 2000b). Consequently health indicators remain very poor from the conflict period up to the current time, with infant mortality rates of 202 per 1,000 live births in 1980, compared with an average for low-income countries of 97. In 1998 figures were still high at 102

deaths per 1,000 live births compared with an average infant mortality for low-income countries of 68 (World Bank, 2001).

Finally, the impact of conflict on these social indicators explained above has undoubtedly impacted poverty. The Poverty Profile of Cambodia (MoP, 2000c) based on 1999 data shows 35.9% of the population living in poverty with 40% of people in rural areas living below the poverty line compared with just 10% in Phnom Penh. It notes that 90% of the poor live in rural households where agriculture is the primary source of income. Corruption feeds into poverty and it has been very much part of Khmer culture since the 19th century. Although it was virtually stopped during the Khmer Rouge and Heng Samrin-Hun Sen period, the opening up of the economy to free market forces and the US\$2 billion UNTAC mission increased opportunities for corruption and Ray (2000) quotes sources that corruption is costing the economy over \$100 million per year. A World Bank report (2000) noted that corruption was Cambodia's main problem ahead of other major problems that included weak governance, lack of safety and crime, high cost of living, unemployment, high cost of health care and education, political instability, drug abuse and trafficking.

5. FINDINGS ON WHAT ENVIRONMENTAL CONDITIONS HAVE THE GREATEST IMPACT ON MICROFINANCE

This chapter will present research findings on the environmental conditions that impact microfinance. It will first investigate the general changes in the environment over time and section 5.2 will consider the legal and political environment for microfinance. Section 5.3 will document the establishment of MFIs and section 5.4 will investigate the development of the microfinance market as a whole. Finally the chapter will end with an assessment of the role of donors, NGOs and government in microfinance following armed conflict.

5.1 Changes in the Environment over time

The research encompassed the period from the late 1960s (pre-conflict) to the present (post-conflict) and in this period the threats to people have changed from conflict in the 1970s and 1980s to insecurity in the early 1990s to banditry from 1999 to the present. The risk to poor civilians has diminished with time yet NGOs and MFIs remain a target

for bandits. It is also important to note regional differences in the impact of armed conflict and the transition from war to peace, relief to development in the post conflict period. For example during the Khmer Rouge regime, those in the south-west and east of Cambodia who had been under Khmer Rouge control prior to 1975 fared better, whilst those who had previously lived in towns and were moved mainly to the north-western parts of Cambodia suffered the most (Chandler, 1991). In the post conflict period, Phnom Penh and other urban areas recovered much more quickly than remote areas such as Banteay Meanchey where the Khmer Rouge had active military units up until the late 1990s.

Recognising that changes happened at different times within the country, box 3 summarises the key environmental changes that impact microfinance, which as in chapter four can be divided into the following periods:

A. Pre-Conflict – Sihanouk Regime (mid 1960s-1970)

People remembered this period as being happy although they were poor and relied on subsistence agriculture and selling labour if they had a shortage of rice. In many villages people used barter rather than money,

‘We didn’t really know about money at that time or coins except once when the King visited the Banteay Chhmar temples and celebrated by throwing coins to the people’ (man, 75 years who used to be village chief in Kbaltonsong).

Markets, hospitals and schools were in existence at this time but they were not really accessible to people living in rural areas due to poor or non-existent roads. There was a strong sense of community at this time and when people were in need they helped each other.

B. Conflict Phase I – Lon Nol regime (1970-5)

As mentioned above conflict emerged from two sources – internally between the Khmer Rouge and the government, and externally between the US/South Vietnam and the North Vietnamese forces hiding in Cambodia. This caused death and displacement of thousands of people that moved to provincial towns and Phnom Penh to escape the fighting and conscription into the army of the government or Khmer Rouge. For those who stayed in rural areas, agricultural activities were severely affected as people were afraid to go to rice fields that were far from the village and sometimes they left their villages and fields to escape Khmer Rouge forces.

‘We were forced to be soldiers at that time (between 1970-5) but I managed to escape. My village was affected by

shooting and bombing so we had less time to earn money and grow rice’ (man, 55 years now living in old Trapeng Thlork).

‘If the rice land is far from the village about 5 km we are not able to go because at that time (between 1970-5) they are waiting there. ... Where I lived a lot of people died because when the Khmer Rouge went into the village they would kill everyone they met. We had to escape from our village because we were afraid that they would take us away to be with them in the mountains or the forest

Death and Displacement in Lon Nol times

Thousands of people died and were displaced as conflict escalated in the early 1970s. A mother and daughter in Trapeng Thlork recount their difficulties:

Mother: ‘I felt difficulty during the Lon Nol period because my husband died in a bomb blast. I then moved to live in Bavel district in Battambang because my parents had rice land there but the Khmer Rouge came and took all my family to live in the mountains. In that time we didn’t have enough food nor even water.’

Daughter continues: ‘I helped my mother escape from this place but the Khmer Rouge followed us. At that time my mother was frightened and left us and ran away. I went back to fetch my sister and we met with the Khmer Rouge but they said no need to follow because I was still young. At that time we had 15 days without rice or water. We were in the forest and my brother and one sister died at that time because there was no food or water. We drank the dew off leaves and my mother gave her urine to me to drink so I could survive.’

where they lived. When they came we escaped and when they went we came back' (man, village chief of Trapeng Thlork talking of his native village Knach Romeas in Battambang).

At that time education was disrupted as it was not safe to go to school. Market activity was restricted especially in the rural areas due to restricted freedom of movement.

C. Conflict Phase II – Khmer Rouge regime (1975-9)

In this period people were moved out of the towns and forced into various types of agricultural work in the rural areas. Families were split up as labour camps were formed for women, men and children. A culture of mistrust was developed as people were encouraged to report on those who were not loyal to 'ankar' (meaning the organisation,

Hunger in the Khmer Rouge period

Many people died of starvation and disease during the Khmer Rouge regime and villagers in Trapeng Thlork recounted a story of a woman eating human flesh to survive:

'The woman came to visit another woman staying in the hospital at that time and she gave one piece of meat to her and then asked "is the meat tasty or not?" she said "yes what is it?" and then the woman said it was the meat of the boy who had died in hospital'

Later the woman tried to kill a boy for food, but was caught and executed by the Khmer Rouge,

'In my area I saw that people eat the meat of people. I do not tell a lie I see with my own eyes in Mr Kun's house. The boy said that the woman asked him to wait and sleep while she boiled the potato but she just boiled the water in a big pot and then cut his throat and poured the boiling water down his throat...We know clearly that the woman did like this because the boy is still alive...His name is Ahour'.

i.e. the Khmer Rouge). Schools and pagodas were destroyed as was money and the banking system,

‘After the Khmer Rouge came and asked people to go out from the town (Battambang) I threw away a lot of money because there was no use, about 2 or 3 kg of kaom and gor money¹’ (woman, 63 years now living in Chambok Meak).

D. Conflict Phases III and IV: Heng Samrin/Hun Sen regime (1979-91)

The Vietnamese controlled the country from 1979-89 and put in place a government comprising ex-Khmer Rouge cadres Heng Samrin and Hun Sen. Famine in late 1979-80 caused thousands of people to leave Cambodia for Thai border camps. Many people were left after the Khmer Rouge regime with virtually nothing,

‘we just had one thick cooking pot, one pan, a few plates and one big spoon’ (man, 50 years from Koy Meng).

Others had managed to hide away gold and in the early 1980s gold and rice, rather than money (Riel, Dong or Baht depending on the area) became the main units of exchange. A mono-banking system was established in the centrally planned economy and the National Bank of Cambodia (NBC) fulfilled both central and commercial banking functions which included mainly treasury operations, local currency issue and finance for state-run enterprises and agricultural activities.

Markets quickly re-established themselves and there was a lot of trade between Cambodia and Thailand with people travelling to Thailand to get rice from the aid agencies operating there. However travel restrictions were imposed by the government in 1982 and the increase in fighting between the government and opposition coalition at that time made such trading activities very risky but very profitable.

‘I was afraid to go far from home because of mines and shooting. The people who went to the border took risk. A lot of people die on the way to Thailand most of them are smuggler’ (woman, 59 years, market trader in Chamnoam Keut).

¹ Meaning Riel but described in terms of the pictures on the notes – in this case the notes with the pot and cow on them.

‘At that time (from 1982-91) ... I always sleep in the forest with my cow. There are a lot of robberies and the Khmer Rouge come to interrupt us. They kidnapped village chiefs and to return them would equal two sacks of rice. Some village chiefs were killed at that time. I was always scared when I heard that the Khmer Rouge came to the area’ (man, 49 years, village chief of Bour Srange).

During the 1980s the country remained largely closed to the outside world and subject to the same US sanctions that had been applied to Vietnam. Some international organisations and NGOs were present in the country working exclusively through the government on relief oriented programmes and UNICEF set up a project which involved giving credit/grants for economic activities.

In 1989 Vietnamese troops withdrew from Cambodia and fighting between the Heng Samrin-Hun Sen State of Cambodia (SOC) government and the opposition coalition which was internationally recognised as the government intensified. Although the SOC managed to maintain control over most of Cambodia, many people were displaced in the fighting,

‘At that time there was a big battle and that’s why we left from our village and lived in Kong Va camp (near Sisophon town). At that time the poorest people they went to live in Kong Va camp but some people who were rich went to the Thai Border... When the King returned to the country (before the elections) then people came to live back in their villages’ (man, mid 50s and civil servant working in Svay Chek district centre).

E. Post Conflict Phase 1 – SNC and and UNTAC (1991-3)

Following the Paris Peace Accords in 1991 the SNC was created as the legitimate authority in Cambodia and UNTAC was established to prepare the country for democratic elections. This involved repatriating over 370,000 refugees from the Thai border camps between 1992-3 so they could participate in the elections. UNHCR provided transport for the returnees and offered them a choice of resettlement packages – cash (\$50 per adult and \$25 per child) or a mix of cash and housing materials. Refugees were transported to their native provinces but many people found that their

land was already in use by people who had remained in the country or were internally displaced,

‘If we escape from the village they take the land away from us...when we come back there was nothing and we were treated as enemies as we came from Thailand’ (man, 44 years, VDC member in Trapeng Thlork).

Problems were also encountered when IDPs or returnee refugees settled on land they thought was free and cleared it for rice fields only for richer more powerful people to take it away from them claiming it to be theirs. With no land titles or developed legal system, poorer people had no power of recourse.

With no rule of law poor people are vulnerable to losing their land

People who have been displaced by the conflict either within Cambodia or as refugees have problems trying to secure land to grow rice and make a living. The villagers in Trapeng Thlork, most of whom were refugees and are poor, explained their problem in accessing land for rice production,

‘The former commune chief provided rice fields to us but when the new commune chief came to power the people from outside came to say that the land belonged to them. When they said it belonged to them the new commune chief allowed them to take it... I heard from the old person who knew well about the history that this land did not belong to anyone in the past. ... They claim the land already cleared and they say that the forest is theirs but they don’t claim it. We went to the commune chief and to the court in the province but we still lost the land’ (man, mid 30s).

‘We did not have enough money to fight the case’ (elderly woman).

In this period the security situation improved dramatically due to UNTACs presence. The economy also opened up during this period but uncontrolled monetary policy led to increasing prices and high inflation which reached 112% in 1992 (Llanto, 1998). Part of this was also due to impact of UNTAC’s \$2 billion mission which employed 20,000 foreigners thus pushing up the demand and prices for goods and services. In addition although US\$ were not an official currency in this period, UNTAC’s presence flooded the economy with US\$ and a black market developed.

Box 3: Environmental changes from the pre- to post-conflict period

Characteristic	Pre-Conflict	Conflict			Post-Conflict	
	<1970	Phase I (1970-5)	Phase II (1975-9)	Phase III (1979-91)	Phase I (1991-3)	Phase II (1993-)
Market Activity	High but localised	Limited due to restricted freedom of movement	None	Medium although restricted freedom of movement from 1982	Medium-High as economy boosted by presence of UNTAC	High as security situation improved particularly after 1998
Intensity of Conflict	Low	Increasing	High	Medium	Low	Medium and low in all areas after 1998
Movement of People	Low except for radical left wingers escaping crackdown by government	Displacement from rural areas to escape US bombs and Khmer Rouge	High – Phnom Penh and provincial towns cleared	Thousands of people left for Thai border camps in the early 1980s and late 1980s.	Refugees returned to Cambodia	Refugees continued to return and minor displacement from pockets of fighting
Banking	Banks	Banks	Banking	Mono-banking	Two-layer	Commercial banks

Characteristic	Pre-Conflict	Conflict			Post-Conflict	
	<1970	Phase I (1970-5)	Phase II (1975-9)	Phase III (1979-91)	Phase I (1991-3)	Phase II (1993-)
System			System Destroyed	system	banking system introduced – central & commercial functions split	emerge
Currency in Use	Riel, Gold, Barter	Riel, Gold, Barter	Currency destroyed	Initially rice and gold then Dong, Riel or Baht depending on location	Rice, Gold, Riel, Baht and US\$ in black market	Riel, Baht, US\$. Rice in remote areas, Gold for large purchases
Inflation	No information	No information	None	Rising	Peaked at 112% in 1992	Fluctuating around 10%
Social Capital	High	High	Low as families and communities were split and	Medium to High as people started to rely on family and community support	Medium to High	Medium to High amongst poorer people but low amongst richer

Characteristic	Pre-Conflict	Conflict			Post-Conflict	
	<1970	Phase I (1970-5)	Phase II (1975-9)	Phase III (1979-91)	Phase I (1991-3)	Phase II (1993-)
			KR tried to destroy trust	mechanisms		people who are now more individualistic
Education System	High Investment in Education	Insecurity meant many people could not attend school	Schools destroyed	Schools re-opened although inadequately resourced	Some investment in education	Education System improving due to foreign resources
Microfinance Market	Informal borrowing and lending within villages amongst relatives, neighbours, richer households,	Most borrowing and lending stopped for fear of non-repayment.	Non Existent	Informal microfinance started to grow based on trust. Formal microfinance through NBC. Relief oriented Credit/Grants	Growing Informal microfinance market, NBC stopped providing microfinance, NGOs/IOs started	Growing informal and semi-formal microfinance market. Non-existent formal market in rural areas. Rising demand due to more confidence in economy.

Characteristic	Pre-Conflict <1970	Conflict Phase I (1970-5)	Phase II (1975-9)	Phase III (1979-91)	Post-Conflict Phase I (1991-3) Phase II (1993-)
	traders and business people but at a fairly low level.			schemes through international organisations. Microfinance demanded for consumption and production	microfinance, Growing demand as economy opened up.

F. Post Conflict Phase II and III – First and Second Coalition Government (1993-present)

Following elections in May 1993, a government was established in September 1993 consisting of a coalition of FUNCINPEC and the CPP (ex-SOC). Sihanouk returned as King and Cambodia became a constitutional monarchy. UNTAC departed in late 1993 and soon after this, tensions increased between both within the coalition government and between the government and the Khmer Rouge who had withdrawn from the peace process prior to the elections. The Khmer Rouge had many military units in Banteay Meanchey province and following the elections the security situation deteriorated,

‘The Khmer Rouge disagreed with the first election and so there was a big battle after this. From 1988-94 there was a lot of shelling. Since the first election they could not shell the village but they came through the village and burnt down some people’s houses’ (man, government official in Chamnoam Keut).

By April 1994, international staff were evacuated from Sisophon the provincial centre as the Khmer Rouge which had already taken many districts to the north, east and west looked as if it was going to take Sisophon itself. They failed and gradually Khmer Rouge cadres started defecting to the government. In April 1998 Pol Pot died and then finally by December 1998 the last two key Khmer Rouge leaders defected so ending the threat the Khmer Rouge had posed to Cambodians for almost three decades.

In the period following the first election serious tensions developed within the coalition government with many FUNCINPEC members ousted from office on allegations such as treason and corruption. This came to a head in July 1997 when Prince Ranariddh the first prime minister representing FUNCINPEC was ousted in a coup. The international community responded by freezing international aid. This was very serious for Cambodia as the country was dependent on aid and consequently many government staff did not get paid in 1998. In 1997-8 this fighting and political tension caused death and displacement of people, some to IDP camps and others to different villages and districts.

Despite these difficulties the country gradually started to rebuild itself in this period. The government focused much of its reconstruction efforts on infrastructure such as roads and communications as well as in developing a legal system. Banks were established

although most of them were concentrated in Phnom Penh. A steady stream of international and Cambodian NGOs started up operations in response to the flow of donor money. Many of these programmes had savings and credit elements which attempted to get money into the hands of poor people to enable them to expand their economic activities.

In terms of currencies that were used, the great fluctuations in the Riel especially in the early 1990s meant that people preferred to use US\$ as a unit of exchange and in areas near the Thai border (such as Banteay Meanchey province), the Baht became the preferred currency. However in many remote rural areas such as Chambok Meak and Bour Srange in Pursat, rice is still the preferred unit of exchange and money is not widely used,

‘people have no habit to spend money their habit is to spend in rice’ (woman, 21 years, Chambok Meak).

The second elections were held in July 1998 and by November a new coalition government had been formed with Hun Sen as prime minister and Prince Ranariddh in the less powerful position of leader of the general assembly. Following this and the demise of the Khmer Rouge security ceased to be a big issue although with many demobilised soldiers with guns there is now a problem of banditry especially in rural areas. Following the establishment of the new government international aid returned to Cambodia and has increased every year. In June 2001 the Consultative Group Meeting on Cambodia held in Tokyo pledged US\$560 million for the next year (Phnom Penh Post of 13 June 2001).

5.2 Legal and Political Environment for Microfinance

A comprehensive legal framework for banking and business does not exist in Cambodia although the last decade has seen laws being drafted and others in the process of being approved.

All money was destroyed in the Khmer Rouge period and thus there was no need for a banking system. After 1979 money was re-introduced into Cambodia but the centrally planned economy meant that there was only one bank – the NBC – which fulfilled both central and commercial banking functions through its branches in 20 provinces. Amongst

its services the NBC provided credit to state enterprises and farmers through solidarity group lending.

In 1989 the government initiated reforms which created a two-tier banking system and also opened the economy to free market forces. The NBC no longer fulfilled a commercial banking function and this meant that credit to thousands of farmers was cut and that the NBC has tried to sell its 20 provincial branches to the private sector. In 1991 the first commercial bank was established through a joint venture between the NBC and the Siam Commercial Bank. Following this some 31 foreign and domestic commercial banks have been established in Cambodia under the supervision of the NBC. They have a licence which is issued for three years and is renewable and they can collect deposits, issues loans, handle inter-bank operations, manage means of payment and deal with securities, gold and foreign currency transactions. The commercial banks are concentrated in Phnom Penh and services are only available in 8 out of Cambodia's 22 provinces. Only six banks have offices outside Phnom Penh and out of the 17 offices in the provinces, 10 of these are in Battambang, Sihanoukville and Siem Reap. According to Uniconsult (1999), only 50% of the rural population have a commercial bank within their provinces and where branches exist they do not reach the people at or beyond the district level. As of June 1998, only 4% of the loan portfolio of commercial banks was for rural credit (Uniconsult 1999).

Many NGOs and international organisations started microfinance activities in the early 1990s and although there was no legal framework for microfinance until 2000, this did not hamper the growth of such semi-formal microfinance. However the 1990s saw some key developments in terms of the legal and political environment for microfinance.

First the Credit Committee for Rural Development (CCRD) was established in February 1995 with representatives from ministries and three NGOs (GRET, ACLEDA and CRS). The role of CCRD was to formulate strategies for rural credit to be approved by the RGC, to facilitate improved efficiency of rural credit, and to support microfinance institutions in developing rural credit programmes that they could mobilise foreign assistance for. However following the 1997 military conflict Llanto (1998) notes how the CCRD stopped functioning.

Second, in 1998 the Rural Development Bank (RDB) was established with 10 billion Cambodian Riel from the government budget. It was given a commercial licence by the NBC in June 1998 and its main objective was to promote the development of rural economic activities including agriculture as well as to act as a conduit for funds or loans from sources such as the ADB. At the beginning of 1998 the RDB's loan portfolio comprised \$15,340 to 793 farmers in Prey Veng but by the end of the year it had increased by \$500,000 and has continued to do so (Urashima, 2000).

Finally and most importantly for microfinance, in January 2000, the NBC issued a law or Prakas No. B700-006 on licensing Microfinance Institutions. Previous banking laws made no provision for MFIs so this was a measure to fill the gap. The Prakas requires that all NGOs, associations and MFIs that are involved in credit services and have more than 10,000 clients to register with the NBC. In order to register such institutions have to adhere to regulations in areas such as the calculation of interest rates and management information systems. They must submit documents demonstrating their financial viability including audited accounts, operating procedures, a business plan and their governance structure. Registered MFIs must meet minimum capital requirements set by the NBC and minimum liquidity reserves in cash and deposits. They must also be registered and incorporated as a legal entity either as a private company or as a cooperative (Uniconsult 1999). When they are registered MFIs are permitted to take deposits and to raise capital through selling shares. To date Hatta Kasekar and EMT have registered as limited companies and CRS is seriously investigating the possibility of registering as an MFI. ACLEDA bank, another major microfinance service provider, is registered as a specialised commercial bank. The impression of NGO and MFIs appeared to be uncertain about how the law would be implemented in practice and cautious that with such an underdeveloped judicial system, there would be little recourse in law if something went wrong.

5.3 Establishment of Microfinance Institutions

Microfinance Institutions only started to emerge in the 1990s and even today there are very few institutions with a sole focus on providing microfinance services. The primary MFIs in Cambodia are ACLEDA which is actually registered now as a specialised bank, GRET/EMT and Hatta Kasekar. These institutions provide finance to the poor primarily in rural and peri-urban areas.

Apart from this there are many other NGOs specialising in the provision of credit and savings services such as World Relief, CCB and World Vision. These NGOs offer microfinance as part of integrated programmes (or in the case of World Relief alongside health education) with credit often as a means of achieving organisational or programme objectives rather than as an objective in itself.

NGOs like Concern and CRS started with the vision of turning over the management of village banks to communities which through apex bodies would then be able to provide a sustainable microfinance service at village level. However primarily due to capacity constraints of village committees, it became evident that this would be impossible so such organisations then decided to go down the route of becoming an independent MFI.

The main factors that enabled the establishment of MFIs, or NGO microfinance projects which are usually the first step in establishing an MFI, are security considerations. This meant that NGOs like World Relief and GRET/EMT made a conscious decision to work in the central and southern provinces in Cambodia which were secure areas in the 1990s. For Concern, although Banteay Meanchey where it started microfinance was one of the least secure provinces in Cambodia, security considerations were of prime importance when selecting target districts.

Other considerations for NGOs starting microfinance activities which sometimes led to the establishment of MFIs, were the personal interests of key personnel. Dammers et al. (1996:35) noted that in the early 1990s, 'credit schemes are an increasingly fashionable form of development intervention' amongst practitioners and donors alike who allocated substantial funds to this area.

Personal Interests of NGO staff lead to the provision of semi-formal microfinance

One INGO staff member talking about the factors that led to the establishment of their credit programme admitted that it was mainly due to one staff member who was not really enjoying managing a relief-oriented programme and so looked at what else could be done. Although the evaluation of the first phase of the resulting credit project stated that the baseline survey had identified a major need for fertiliser, the staff member decided that credit would be a suitable intervention. Another INGO staff member noted similar reasons to explain why it started credit programmes:

‘The rationale for working in Battambang was that we started working there in health in 1991 so we know the area. There was one person working for health that started getting interested in credit, and another who was living in Battambang but wanted to return to Takeo and who was also interested. It was staff interest that led to the pilot credit projects.’

The availability of donor funds is a major cause of expansion for MFIs/NGO microfinance projects. Seilanithih a local NGO/MFI has expanded its operations from 3 credit agents to 13 in the last 7 months due to additional funds and Rufade has also been able to expand due to support from CRS.

In terms of the selection of target groups, most MFIs/NGO projects did not have specific selection criteria except that clients must be economically active. However in selecting target villages, SEADO and CAAFW noted problems in providing credit to refugees and those who have been displaced due to the relief mentality of these people who are not used to repaying loans. Concern also faced this issue when working in communities where it had already implemented relief/rehabilitation type projects. Quarterly reports from 1993 note that special meetings had to be held in some villages to explain that just because a foreigner was in charge of the project, this didn't mean that they didn't have to repay their loans.

MFI products are primarily loans as non-registered MFIs are not permitted to take deposits. Most MFIs started with solidarity group loans as this enabled them to reach people who would have no collateral to access a loan. More recently in response to demand and also the need to work towards sustainability due to donor and microfinance best practice pressure, other products such as larger individual loans have been

introduced. In terms of savings, some microfinance providers such as Concern and CRS have compulsory savings, which are kept in a village bank and re-loaned to community members as emergency loans.

In assessing the experience of MFIs to start with few organisations had ideas of achieving sustainability but now they appear to have developed through a process of trial and error and are now considering these issues. However the cost of providing semi-formal microfinance services to poor people in rural areas is very high given the damage to the communications, security, banking system as well as lack of market opportunities which means that people only want very small loans. This means that financial sustainability is a difficult goal to achieve,

Strategy of MFIs to Achieve Sustainability

ACLEDA has adopted a strategy of reducing the number of clients and increasing their loan size in order to achieve sustainability. For example in Banteay Meanchey, ACLEDA had around 10,000 loan clients before 1998 but since becoming a specialised bank it reduced its number of clients to 1,800 receiving micro Riel loans and 700 clients receiving US\$ loans which are slightly larger. Over time, ACLEDA's objectives have very much changed from building trust and peace in communities to making a profit with a single focus on microfinance.

Hatta Kasekar addresses sustainability by offering individual loans up to US\$300 but people are organised into groups to cut costs. World Relief works in areas which are densely populated near Phnom Penh in order to have more opportunity to become financially sustainable.

'Our programme is very expensive in Cambodia

as for security reasons we have to send two credit officers to the field instead of one and because there are no banks in the provinces we have to transport large amounts of money from Phnom Penh by car' (INGO staff)

'We work with the poorest people in the rural areas far away from the office so we spend a lot of time and money travelling' (MFI staff).

The Uniconsult (1999) study which formed part of the proposal for an ADB rural savings and credit project stated,

'Generally, rural credit and savings schemes are not viable due to the lack of savings and good savings services, excessive reliance on external financing in the form of grants or project financing, lack of professional management needed to handle savings and credits, lack of an appropriate legal structure and lack of external supervision.' (Uniconsult, 1999:9)

Capacity constraints at village level have also meant that as microfinance has developed in Cambodia responsibility has tended to be taken away from communities who may be managing part of the village bank activities. For example Concern's previously had a savings secretary, credit secretary and village bank president but recently reduced the village bank committee to just a savings secretary and president and gave the Credit Agent sole responsibility for managing the credit side of the village bank. Similarly EMT initially tried to give responsibilities to village bank committees but due to a lack of capacity their Credit Agent took over the cashier activities. In the words of one village bank president,

'The vice president does not do any work because she is older and cannot write but she is good at speaking. When the other members want to borrow the money they need me to draw on the board to show all the members...Since the last cycle the other village bank committee member requested to stop to work and since then we could not select anyone else because no one can read and write so now we have only two committee members' (woman, Koy Meng village bank president).

This lack of capacity at the village level but also amongst microfinance staff increases the cost of providing microfinance services in Cambodia. For example Hatta Kasekar stated that it has not been able to expand as fast as it would have liked due to staff capacity.

5.4 Development of the Microfinance Market

A. Changes in the Demand for Microfinance

People started demanding microfinance services as soon as the markets opened in the early 1980s. Initially rice and gold were the units of exchange and informal markets were established on the roadside. More formal markets like that in Sisophon which was

established in 1984 and then in 1990 it expanded and moved to a different location with about 600 to 700 stalls.

In terms of business opportunities most people were involved in agriculture in the 1980s. Other economic activities involved cutting wood to sell either as firewood or timber, fishing, making thatch and making charcoal for sale. There were also opportunities to make profit in collecting rice from the relief agencies in Thailand to sell in Cambodia and for smuggling of food stuffs and consumer goods from Thailand to sell in Cambodia although both these activities were very risky. Some people had small shops or noodle stalls but there was not much money to be made in these businesses. However the demand for microfinance was relatively low as people were afraid to invest large amounts for more profitable ventures due to the continued threat of the Khmer Rouge,

'I could not make a very profitable business then because at that time we are still fighting and sometimes the Khmer Rouge came to the village and destroyed something or bombed us. Since 1993-4 the bombing stopped so from that time up to now we came to make the more profitable business because the situation is better but in the past it was very difficult because we were afraid of fighting' (man, 58 years owner of fertiliser shop in Chamnoam Keut).

From the 1990s many areas became more secure, roads and transport improved and this made it easier to set up businesses. However at the same time competition increased and the profitability especially of setting up village shops declined,

'I had a good benefit from my business before (in the 1980s) but now there are a lot of shops so I have less benefit. Before it was only my shop and I have a lot of things because my husband goes to buy for me, but now everyone has a motorbike so can go to buy themselves' (woman, selling groceries in Chamnoam Keut market).

A survey conducted by Concern in Chamnoam commune of Mongkul Borei, Banteay Meanchey in 1992 found that people had many ideas for income generation activities but no capital to implement them. However at that time the demand for microfinance appeared to be quite low with only 20% of villagers having ever taken a loan and most people scared to do so for fear of getting into debt. Furthermore the survey found that in emergencies people tended to sell assets rather than take loans. However attitudes

tended to change and when Concern started credit activities in this area demand for credit outstripped supply and Concern had to adjust its original plan to enable more people to access its loans. Other NGOs report that people were first cautious to take an NGO loan out but after the first cycle people started to trust NGOs microfinance and demand increased,

‘Now people are more aware of what is available as during 1992-5 only a few people wanted capital for their businesses. Although people had heard about us they were afraid to come forward and they didn’t want to borrow something but now I think people are open and willing’ (INGO microfinance programme staff).

There is a general impression that since the second elections in 1998 and the collapse of the Khmer Rouge the demand for credit increased as people became more positive and hopeful for their future. This is supported by other research,

NGO Impressions of the demand for microfinance

Most NGOs felt that there was now a high demand for microfinance compared with the immediately conflict and post-conflict years.

‘Since 1998 when there was finally peace in Cambodia demand for credit has really increased. Now people have become much more positive and hopeful for their future and consumer demand has increased. For example before you could maybe only sell 5 chickens in the market and now you can sell 20. It has meant that people want large loans to expand their businesses. Our staff also seem more motivated, supportive and enthusiastic and have worked harder. Now people have started for the first time really planning for their future and there is a very positive outlook and so such feelings of optimism breed success and increased demand for our microfinance services’ (microfinance manager from an INGO).

‘The demand for credit is so high that no matter what methodology is used, people will still take credit’ (international staff of NGO implementing micro-credit)

‘Similar arrangements of borrowing and lending are also existing in the Sihanouk period though it seems from discussion that there was less of a need for credit in

earlier times. At present, with increasing food shortages, increasing need for cash, a higher number of farm and non-farm activities, there is much more lending and borrowing than in the pre-conflict period particularly of cash.' (Krishnamurthy 1999: 37).

Currently there appears to be an impression that demand for microfinance is higher than supply. A recent study by Uniconsult (1999) estimated that in June 1998, the demand for rural credit was in the range of \$75-125 million, which left a gap of approximately \$50-100 million between demand and informal/semi-formal/formal sources of supply.

It is very difficult to estimate the changing demand for savings and those made in NGO schemes provide no indication of demand as they tend to be compulsory savings. The World Bank (2001) reported that savings were 2% of GDP in 1990 and 5% in 1999 compared with 21% and 19% respectively for low-income countries as a whole. Uniconsult (1999) notes that the domestic savings rate in Cambodia is among the lowest in the world primarily due to the years of conflict, a general distrust of banks and a lack of savings facilities in rural areas. Instead of savings in cash, people appear to save in gold or assets like pigs, horses, cows, bicycles and motorbikes, and they keep cash for emergencies in bamboo or in pots in the ground.

B. Changes in the Supply of Microfinance

Formal and Semi-Formal Microfinance

The NBC was the only formal provider of microfinance in the 1980s and when it stopped providing commercial banking services, the supply of finance to these farmers evaporated overnight. Semi-formal microfinance providers started to emerge from the early 1990s and they included NGOs and other international organisations (e.g. UNICEF and ILO) that offered credit and savings services to rural people. Now there are about 90 such providers and in 1998 one of the semi-formal microfinance providers - ACLEDA - became a bank (i.e. a formal microfinance provider). In spite of these developments, the 1997 Socio Economic survey (NIS, 1997) stated that 14% of the population of Phnom Penh had to travel 5 km or more to reach a bank or credit unit and this could be compared with 27% of people in other urban areas and 56% of people in rural areas.

Most semi-formal microfinance providers focus on providing relatively short term credit (less than a year) for productive activities, although some INGOs like Concern do not specify what credit should be used for. Women tend to be targeted by semi-formal microfinance providers and virtually all CRS and World Relief's clients are women, and EMT and Concern have 80% and 72% female clients respectively. Most providers give credit through solidarity groups and Uniconsult (1999) notes how groups are often formed by occupation, which limits the scope for diversification. Compulsory savings are a common feature amongst semi-formal providers and members usually control them and lend them amongst themselves. Due to security and poor infrastructure most semi-formal microfinance providers are concentrated in the south and central provinces of Cambodia and in villages that are easy accessible and close to the provincial towns (Uniconsult 1999).

In the past few years, semi-formal providers have noted a great rise in the number of service providers and an increase in competition,

'it is more difficult now to find good clients especially in some areas where there are many credit providers. The infrastructure in Cambodia is not good so organisations only want to work where there is good infrastructure and security and so that is why now we are competing with each other' (MFI staff).

This is encouraging semi-formal providers to provide a better service so they can keep their best clients. Over time they have also become more flexible in terms of rules on how people can use loans. This has mainly been due to a recognition of the fungibility of money and the lack of control one can have on how it is used. Hence Concern no longer specifies what loans should be used for and CRS although it states that they prefers people to use loans for business does not enforce this.

Informal Microfinance

Informal microfinance services consist of credit provided by relatives and neighbours and moneylenders, which may include traders in the market. ROSCAs are in existence but usually only in urban areas. It appears that people borrow either small amounts of maybe 100-200 baht (10-20,000 riel), for short periods without interest or larger amounts (500 baht or 50,000 riel) with interest. Borrowing appears to have been in kind (rice or

productive assets) in the immediate post-war period (i.e. when people were returning from the Thai border camps)

‘We bought the saw from the people in the market as credit’(woman, Trapeng Thlork)

Now people also borrow cash and may pay in kind (e.g. wood, rice, with labour) or in cash.

‘sometimes I got loan and I pay back in labour ... when I take 300 baht I would work for them for 6 days’ (man, poorest category, Chamnoam Keut).

Informal microfinance establishes itself much more quickly after conflict than semi and formal microfinance. For example in Trapeng Thlork village returnees were able to borrow axes and saws from sellers in the commune market to enable them to cut wood in the forest to sell and make their homes. They repaid the sellers either in wood or cash from selling the wood. However there was one example again in Trapeng Thlork where a trader was giving cash credit and repayment was in firewood. Villagers noted that this form of microfinance was only a relatively new development when the trader had seen that they were living permanently in this village, that they were growing vegetables and fruit trees and that Concern had established a village bank.

In the 1980s there were virtually no other sources of finance for most people other than informal providers. This meant that moneylenders could charge high interest rates and make a large profit.

‘if we say about the lending money at that time the interest was very high interest but now it is the low interest’ (woman, 46 years, gold seller in Sisophon market)

However with increased competition particularly from NGOs and semi-formal MFIs, many moneylenders have had to decrease their interest rates for cash loans.

‘In Khrovanh before Concern came the (moneylenders) charged 30% per month, but after Concern established the village bank and charged 7% per month many of them reduced their rates to 20% per month. In Bakan before the village bank, the interest rate was about 20% per month. When Concern established the village bank the moneylenders were angry with Concern as the village bank

interfered with their business and they had to reduce their rates to just 10% and now some charge just 5% interest. Moneylenders reduce their rates as competition increases' (NGO staff member).

However despite high interest rates and cheaper semi-formal credit there is still a high demand for informal microfinance,

'People continue to borrow from moneylenders. For example we may lend 150,000 Riel but people still need more money for agricultural production. For example for rice production someone may need 10 sacks of fertiliser but we only provide for three sacks. Some people wanted to buy rice fields or move to other places so they borrow money from us but it is not enough so they borrow from relatives without interest' (NGO staff).

5.5 Role of donors, NGOs and government in Microfinance following conflict

In the early 1990s following the signing of the Paris Peace Agreements and the establishment of UNTAC and then the first coalition government in 1993, donor funds flowed into the country. First international and then Cambodian NGOs started to spring up to access these funds. As donors became increasingly interested in microfinance in the early 1990s, many of these NGOs started microfinance projects.

'Local NGOs in particular were drawn to microfinance as it was seen as a potentially sustainable form of assistance which would provide them with security' (INGO representative).

Many NGO staff had no previous experience or expertise in microfinance and this often resulted in disaster (Dammers et al. 1996).

Initially programmes tended to be relief and rehabilitation oriented and Uniconsult (1999) reports how UNICEF's rural credit project which started in 1985 and the PRASAC programme supported by the EU, both initially concentrated on relief-oriented inputs and only recently gave sustainability and institutional issues consideration.

Initially there was no NGO law and MFIs were not included in any banking laws and so the government turned a blind eye to such microfinance activities. However from 2000

and the 'Prakas' (broadly equivalent to government regulation) on MFIs, NGOs and MFIs wanting to register have had to consider issues of microfinance best practice. Donors have also become tougher when providing funds for microfinance insisting on consideration of issues such as sustainability. Microfinance activities are now under much closer scrutiny which is encouraging NGOs and MFIs to be more professional in their approach.

6. FINDINGS ON THE COPING MECHANISMS OF THE POOR FOR MANAGING HOUSEHOLD FINANCES DURING AND IN POST-CONFLICT SITUATIONS

This chapter investigates the coping mechanisms of the poor during and after conflict. Section 6.1 will document the impact of conflict on households and their livelihoods and then section 6.2 will investigate the mechanisms for coping with the opportunities and the negative impacts of conflict. The final sections will first characterise households and then characterise household coping mechanisms during and after conflict.

6.1 Effect of the Conflict on Households and their livelihoods

Conflict affects many different aspects of people's lives and Luckham et al (2000) provide a useful framework for analysing the impact in terms of the loss in various entitlements:

Market/Livelihood Entitlements include physical capital, communications, infrastructure, labour and land required for livelihoods. Conflict diminished household's access to these entitlements in several ways. Firstly, particularly in the 1975-9 period physical capital such as vehicles, factories and production equipment were destroyed or abandoned and left to rot.

Secondly infrastructure such as the road network was badly damaged particularly during the Khmer Rouge regime which meant that travel was very difficult and it was only in the 1990s with the help of international aid that roads were repaired and rebuilt. Agricultural infrastructure was also destroyed,

'In this area there is no irrigation but we have a dam at Prey Khpaos but during the war the Khmer Rouge destroy it so now we have nothing.' (man, Chamnoam Keut).

Thirdly conflict resulted in a withdrawal of labour due to death, injury and displacement caused by the fighting and insecurity. During the Khmer Rouge period a whole generation of educated people were either killed or fled the country, weakening the human resource base. In 1979 very little rice was planted in Cambodia as people spent

time searching for remaining family members and this resulted in famine, and this together with great insecurity resulted in over half a million people (Curtis, 1998) fleeing to Thailand as refugees. Some of these were subsequently forced back into Cambodia, whilst some 370,000 remained and were only repatriated in 1992-3. Others, particularly those with a skill, never returned and settled in the West. In addition, there were an estimated 370,000 IDPs (Curtis, 1998) although it is difficult to estimate the exact number as people were continually being displaced by pockets of fighting and insecurity throughout the 1980s and 1990s. Productive activities of refugees were curtailed and they had to rely on relief distributions. For IDPs the situation was also very uncertain as their productive activities were limited. Even those who were not displaced had limited business opportunities in the 1980s and early 1990s due to insecurity. Often the income earning activities that were available to all groups were dangerous,

‘The people who went to the border took risk...a lot of people die on the way to Thailand most of them are smuggler. Even people going to do fishing also died’ (woman, 59 years, market seller in Chamnoam Keut).

Others were injured and some 12.7% of disabled people are disabled due to war and 8% due to land mines (NIS, 1997). Cambodia has the highest percentage of mine amputees in the world (Hewitt et al, 2001) and Stover and McGrath (1991:59) report that over 40,000 people were severely disabled by landmines which were laid by all sides in the war from 1979. Although people were often aware of the danger of mines they often had no choice but to go in to mined areas in order to make a living,

‘I am afraid of mines ... every time but we have no choice as it is my occupation and if I do not go I cannot earn any money’ (woman, 38 years, woodcutter in Makak).

‘They have accident when they collect firewood in the forest and some people when they collect some leaves off the trees in the forest and some they go together three people and they all come back with accident – lost hand or leg’ (man, village chief of Khlempor Cheung).

Fourthly, conflict resulted in the withdrawal of land from productive use either due to landmines or insecurity. Hewitt et al. (2001) quote figures from the CMAC database which states that there are 1,616 mined areas in Cambodia covering an estimated area

of 3,000 square km of agricultural land. Insecurity has also meant that vast amounts of productive land have been abandoned in the three decades of conflict. In the early 1970s people recall not being able to grow rice in fields more than 5km from the village due to the threat of Khmer Rouge who might kidnap or kill them. Similar fears were evident in the 1980s and in Chamnoam Keut although the government provided land to families it was often not used,

‘at that time not anyone wanted to make the rice field, some of them they lacked money to make the rice field and some of them were afraid that when they make the rice field the Khmer Rouge would come and destroy all so they sold it to me’ (man, Chamnoam Keut).

‘The bombs and mines on the road meant that we could not go (to our ricefields). They put mines on the roads and on the bunds of our rice fields. That’s why all the people could not go far away from the village because they were scared about the mines. For my memory over 100 people were injured by mines, some died and some are now amputee.’ (man, talking about the situation in Chamnoam commune in the 1980s).

Even in the late 1990s following the political violence in 1997 people were still being displaced from their land,

‘After the Khmer Rouge had fighting we had to move ... they burned all of the houses including the rice. After 1997 the Khmer Rouge always came to disturb us and we always worry and have difficulty to live.’ (woman, now living in Trapeng Thlork).

Public Entitlements include the goods, services and other intangible benefits provided through the state. Conflict eroded these in several ways. Firstly from 1975-9 public services such as schools, health clinics and hospitals were closed or destroyed. Between 1970-5 and after 1979, although these services were available, they were inadequate due to a lack of finance and trained personnel. This led to a declining literacy rate and poor health. Alabastro et al. (1998) report that only one-half of the population has access to health services and low literacy levels and lack of awareness prevent people from seeking proper medical care. The impact of poor education in Koy Meng is demonstrated by the fact that one woman has had to be president of the village bank for

five cycles because there were no other women in the village bank with an adequate literacy level to do the job.

Secondly, conflict served to diminish instruments of public order including the military and police. Between 1970-5 the Lon Nol government gradually lost great areas of land to the Khmer Rouge which installed their own systems of brutal control. Between 1979-91, despite restrictions on people's freedom of movement, the government was unable to protect civilians from sporadic violence from the opposition forces. During this period village chiefs, teachers and government officials were under great threat and would often be kidnapped and killed by opposition forces,

'At night ... I always sleep in the forest with my cow. There are a lot of robberies and the Khmer Rouge interrupt us all the time.' (man, Bour Srange village chief).

Between 1991-8, public entitlements were still weak and following the departure of UNTAC the state was unable to protect the people from the Khmer Rouge. Even today when the Khmer Rouge are no longer a threat in Cambodia, one NGO staff member remarked that the weak system of public order meant that the state is still not protecting civilians from banditry which is increasing.

'Since 1998 there were improvements ... but the robberies are more now compared to before and there's kidnapping and everything. I don't want to say why there is more as that's getting into politics and I hate talking about that but I heard of many cases where people had a gun and the only people who can have a gun are those who have been in the army or the Khmer Rouge' (NGO worker).

Third the weakened legal system and the absence of a comprehensive land titling system have meant those with power and contacts can seize land. This is particularly a problem for IDPs and returnees. Many refugees returned to Cambodia in the early 1990s to find their land occupied by other people and no way to claim it back.

'Before if we had rice land no one could take it away from us but after we fled from our village and came back after many years we found our land had been taken away from us and given to someone else' (woman now living in Trapeng Thlork village).

Often returnee refugees had to move elsewhere in search of land. Throm Deikas village is composed of returnees who were unable to live in their native places because their land was either unsuitable or was being used by others. They talked about having cleared land in this new village only for people to come and claim it back,

‘They said that the land had belonged to them for a long time from their parents and we had to go to the courts to claim from the people from Thma Pouk. We spent a lot of money because we went to the courts often but finally I stopped to claim’ (man, chief of Throm Deikas village).

Civil/Social Entitlements include social capital or the ‘glue’ that binds communities together such as informal support networks between neighbours, friends and relatives, civil society and a sense of common citizenship. These were weakened from 1970-5, destroyed in the Khmer Rouge period and then started to re-emerge after 1979. Social capital was destroyed due to a lack of trust and fear instilled in the minds of the people by the Khmer Rouge that they could only be loyal to ankar. In addition displacement and impoverishment weakens social/civil entitlements and often meant that traditional extended family safety nets could not function if people were very poor. There were lots of instances of people moving to live with relatives but then having to go elsewhere as the relatives were too poor to support them,

‘In early 1980 I arrived here and I had nothing and just stayed with my sister. I lived under her house. At that time my sister was not in a good mood and she always worried about how she could earn money...I felt upset with my sister and I decided to take my family to live in the school with three other families’ (man, mid 50s, Koy Meng).

Despite this there was also evidence of how social/civil entitlements re-emerged to pre-conflict levels after 1979. This is expressed through communities such as those in Khlengpor Cheung working together to build places of worship.

‘So when we build the pagoda the monk asks all the people to contribute the timber for building and all the people they went to the forest and collected the timber...All of us helped to build the pagoda and when we had done it we still did not have a roof so some neighbours who used to live in this village but had

moved to Sisophon due to fighting came and gave money to buy the zinc roofing sheets' (man, chief of Khlempor Cheung village).

In addition in the early 1990s people returning from refugee camps were able to borrow money from other families. One man borrowed 500 baht on arriving in Throm Deikas village so his wife could make cakes to sell. He borrowed the money from someone he had known in the refugee camp. There is also a lot of evidence of families pooling resources in order to make a living.

'And my brother gave me a cow for ploughing for example he used them himself for 10 days and then gave to me for one day. At that time I exchanged the labour – I helped him and then he helped me as well' (man, poorest category Bour Srange).

Cooperative Coping Mechanisms After Conflict

A family in Trapeng Thlork described how although they were relatively rich in labour with many women and children who could work, they did not have a horse and cart or men to lift heavy loads which was required for collecting firewood from the forests. Therefore they joined forces with two other families, one who had a horse and cart and the other with men for heavy labour, and they worked together dividing the income by three.

'It means that we go to the forest together to collect firewood, transport and come back to saw it.... We cannot do individually and we need the group' (woman, poorest category, Trapeng Thlork).

There are also examples of sharing transport costs when people moved to villages and community mechanisms whereby meat was sold within the village rather than to traders which meant that both buyers and sellers benefited.

'The people from outside don't come to buy the pig so we ask everyone in the village to find out who wants to buy pig...if ten people want to buy we will cut the

pig into ten pieces...we sell only in the village as it is not easy for the people that saw the wood to get food to eat because we lack food and we live far away from the market' (woman, Trapeng Thlork).

However there is evidence especially amongst those that are richer, of people becoming individualistic. For example some wood collectors and sellers in Makak village who have

their own transport, go to the forests by themselves and do not work with any other families. Such findings of increased individualism are supported by Krishnamurthy's (1999) study of social capital after armed conflict in two villages in Kompong Speu province. She discovered that social capital was destroyed in the Khmer Rouge period but quickly re-emerged after 1979 only to be crushed again in the 1990s with the unleashing of free market forces in an immature political and legal environment which lacks safety nets to protect the poor. She noted how the gaps between rich and poor have increased and the poor often have nothing to offer except their labour for cash. Therefore many activities that used to be based on mutual help are based on cash.

Reverse Entitlements illustrate how in times of conflict, armed groups may appropriate assets of vulnerable people both directly through the power of the gun or indirectly through their ability to control markets, food and aid flows. Firstly people were forced by the power of the gun to hand over all their gold and valuables to the Khmer Rouge in 1975 (although some people managed to keep some items). Following this in the 1980s and 1990s there were many instances of armed forces seizing assets such as rice and small animals from villages. As mentioned above the village leader of Bour Srange in Pursat told of how he could not sleep at home for fear of being kidnapped by the Khmer Rouge and either killed or made to pay two sacks of rice to be freed.

Secondly, when people returned from the Thai border in the 1990s, many people talked about having to pay money to be 'protected' on the road.

'When we arrived in the village we had spent all of the money (from UNHCR) including paying for the places where they guard the road' (woman, Trapeng Thlork).

This still happens today but it is traders who are mostly taxed by various government officials and others for using the road.

'At all the check points I have to drop wood... in Pongro two bundles, Sisophon two bundles, near the railway station and near Sesen bridge on the road to Mongkul Borei' (woman, 38 years, wood seller in Makak).

Thirdly, there are many examples of land being seized by powerful people. Although the RGC (1999b) reported that although only 14.4% of households were landless following

land reforms in 1992, only 15% of returnees have access to cultivable land compared to 70% of those not displaced. The RCG (1999b) quote another report that states that since 1994, the military, local authorities or villagers have confiscated almost 15% of returnees' titled and 70% of their untitled land.

6.2 Mechanisms for coping with the negative effects of conflict and with opportunities during and after conflict

In describing the mechanisms for coping with conflict, it is necessary to look at the varying strategies of those who were internally displaced, refugees and not displaced.

A. Attitude to Risk

Following conflict people were prepared to take risks in order to survive. In the 1980s the most profitable activities for those remaining in Cambodia were to travel to the border to collect rice and other goods from the relief agencies which they then either sold or consumed. People would also buy food and consumer goods from Thai traders to sell in Cambodia. These activities were very risky as travel was restricted in the 1980s and there were landmines and fighting in the border areas. Although many people were killed in the early 1980s, this was still a popular means of livelihood. For refugees, many survived by leaving the camps to cut firewood for sale. This was also a risky activity as movement in and out of refugee camps was restricted.

Although people adopted high-risk livelihood strategies, households tended to undertake a variety of income-earning activities as detailed in table 1. However there was a strong preference for quick return, low investment activities which usually involved the exploitation of natural resources (e.g. collecting firewood, thatch materials, leaves, fishing, making charcoal and thatch). Although in most cases, those who were not displaced were allocated land for growing rice, in secure areas this was a key strategy for coping after conflict given that people could get access to seeds and tools. In areas such as Mongkul Borei district which was on the frontline between Khmer Rouge and government forces, growing rice was not so easy and if the fields were far from the village people would not use their fields.

‘At that time not anyone wanted to make the rice field some of them they lacked money to make rice field and some of them were afraid that when they make the rice field the Khmer Rouge would come and destroy all so they sold it to me’ (man, 58 years, fertiliser shop keeper, Chamnoam Keut).

B. Liquidity Preference

Following the Khmer Rouge regime (conflict phase III onwards), most people preferred to invest in liquid assets. Gold and rice were the main currencies in use the early 1980s.

People also invested in productive assets (pigs and cows) which could be easily sold in an emergency. One returnee refugee told of how she had bought a cow for breeding purposes with the resettlement money from UNHCR and described how she

‘sold some cows when we had a problem’ (woman, Trapeng Thlork).

Preference to Save at home

A shop keeper in Chambok Meak explained how she saved 3,000 Riel per day in order to repay her loans. She saved in her house and felt it was safe because no one knew where she kept the money. This appeared to her to be the safest option as she had been unable to withdraw her compulsory savings from the village bank due to mismanagement by the committee

‘I complained until the credit agent came and she said she would give back my savings. Then after a month and next month and next month I didn’t get it I really do not know why’ (woman, 63 years, Chambok Meak).

In general people prefer to save by themselves rather than in a village bank established by an NGO. This appears to be mainly to do with their preference for accessibility of savings which means that they prefer to keep them themselves and also due to a lack of trust in the village banks.

C. Change in Income and Expenditure Patterns

For refugees the main sources of income were assistance from international agencies, employment with the international agencies, daily labour doing things like portering or weaving kramars or leaving the camp to collect and sell firewood. There were few

Table 1: Economic Activities During and After Conflict (from 1979) available to refugees, IDPs, those not displaced

Natural Resources	Services	Production	Trade
Firewood ♣♦♥	Sell Labour ♣♦♥	Traps (e.g. for catching mice and snakes) ♦♥	Buying and Selling ♣♦♥
Timber ♣♦♥	Sell food ♣♦♥	Palm sugar ♦♥	Smuggling♦♥
Leaves, morning glory, water lily, thatch ♦♥	Mend fishing nets ♦♥	Charcoal♦♥	Trading goods from relief agencies♣♦♥
Snakes, Rats, Mice Fish ♦♥	Renting Land, Draft animals, palm trees ♥	Thatch ♦♥	Wood, charcoal♦♥
	Washing clothes ♥	Animal Raising ♦♥	
	Playing traditional Music ♦♥	Weaving kramar ♣♦♥	
	Lending Money ♦♥	Rice Production♦♥	
	Building/ Carpentry♥	Vegetable Production♦♥	

Key : ♣ = refugee, ♦ = IDPs, ♥ = not displaced

opportunities to save in the refugee camps and households would generally exchange their relief goods for other products and gold. Expenditure was primarily on food.

IDPs also relied on international agencies for food and for employment primarily on food for work projects to build roads and ponds. IDPs also sought the support of extended

families both in terms of shelter, food and capital for production activities, trading or services. Most other income earning opportunities centred around exploitation of natural resources. Most expenditure was on food and if there was not enough rice, it would be made into soup and supplemented with morning glory, water lilies and other weeds collected from forest areas.

For those who were not displaced there were more income earning opportunities. Some households travelled to the Thai border to collect assistance from international agencies or to buy food and consumer goods from Thai traders. There were also opportunities for production, service and using natural resources to earn income (see table 1). In addition it was common for people to pledge labour in advance for food. Cash or kind loans were common from neighbours and richer people in the community.

Income remained low during the conflict and post-conflict period and those that really became rich were people receiving money from relatives overseas or those employed in business activities and able to accumulate land from people who had no resources or were too scared to use it. Expenditure was primarily on food and treatment for those who were sick in the conflict (after 1979) and post conflict period.

D. Change in Assets and Liabilities

Land is a key asset for coping following armed conflict and when areas become secure. Returnee refugees and IDPs are therefore more disadvantaged than people who were not displaced because they tend not to have sufficient land or enough money for productive assets. Poor people especially IDPs and refugees are vulnerable to losing the land they settle on as they are unlikely to have a land title or the money to keep this land if it is very fertile and someone more powerful comes to claim it.

Labour is a key asset for coping during and after conflict and those with less labour tend to be poorer. For example as Appendix 3 shows, most of the people in the poorest category were either widowed, disabled or had large families with young children and thus not much labour.

Following armed conflict reciprocal lending is important for income smoothing. Assets are also pooled for productive activities.

In refugee camps most people (except business people) have a limited surplus to save and consequently very few physical assets although most spent their resettlement grant from UNHCR on productive assets such as bicycles and cows.

‘I had money to buy a bicycle as my husband got \$150 at this time when we left the camp’ (woman, 30 years, Makak village).

In terms of liabilities informal loans were given very soon after conflict. This was first mainly between relatives when gold might have been lent to a family member in order to set up a business.

‘I had a small amount of capital which I borrowed from my relatives and neighbours. From my sister 2 ghy, my brother 2 ghy and neighbour 1 ghy.’ (man, 58 years, Chamnoam Keut).

Throughout the 1980s informal microfinance was important particularly for those who were not displaced.

E. Role of Grants

There was limited assistance to people affected by conflict and in the 1980s people would go to the border to get food from the international agencies helping refugees,

‘From 1979 I went to the Thai border and collected the rice, some we kept some for eating and some for selling’ (man, 58 years, Chamnoam Keut).

There was slightly more assistance in the 1990s as described below,

‘The girl provided some bucket, pot, mosquito net, blanket, spoon and plate and the petrol lamp. So only one time they did like this. Then the road built in our village by Meta Karuna and other roads were built by the community with support from WFP’ (man, 55 years, Trapeng Thlork).

Refugees who returned to Cambodia were given \$50 per adult and \$25 per child by UNHCR when they were resettled. Alternatively they could choose less cash and housing assistance but everyone interviewed appeared to have chosen the cash option. Other assistance has mainly been in the form of food for work projects and provision of

small amounts of physical capital (e.g. cow banks, rice banks) usually through low interest loans.

F. Role (potential and actual) of Microfinance

Informal microfinance has an important role during and after conflict. Informal lending primarily by family members or neighbours was important in helping people start productive activities both in the early 1980s for families not displaced and when people returned from refugee camps in the early 1990s,

‘When we arrived here my wife was selling cakes and earned about 30 or 40 Baht profit per day. She got the money to buy the ingredients from another (points to house nearby) because that family came to live here first so they have enough money for them and then they know me from when we were living in the Thai border camp together.’ (man, chief of Throm Deikas village).

Small loans were important for both production and consumption and reciprocal lending even today plays a big part in income smoothing. In Trapeng Thlork neighbours lend small amounts to each other for short periods to buy food whilst waiting to sell their firewood to a trader. When they sell their firewood they repay their debts and might lend to other households.

‘If I have 100 or 200 baht when my neighbour lacks money I lend it to them. Sometimes we lend to them and sometimes they lend to us’ (woman, Trapeng Thlork).

6.3 Characteristics/Categories of Households after Conflict

Four categories of households can be identified after conflict,

Poorest households are landless or have less than 1 ha of rice land and maybe some vegetable land. They may have had land in the past but this might have been seized by people with power who claim it is theirs or they may have lost it when they were unable to repay moneylenders. Their houses are small and in disrepair and have thatch roofs. They possess very few assets and do not have animals. They depend on selling their labour for their livelihoods and foraging in the forest for firewood, thatch materials and

leaves and possibly making charcoal and thatch. They earn less than 300 Baht or 30,000 Riel per month. Most expenditure is on food and they may eat rice soup rather than rice. They may not have enough money to pay for medicine when they are sick.

This category includes households which are poor in labour such as those disabled by landmines, are sick or regularly sick and the old, families with one parent or families with a lot of children relative to working adults. Such households are very vulnerable to becoming poorer if a working household member falls sick. It includes those who are elderly with families who are too poor to support them. IDPs and refugees are likely to be in this category.

Such households usually demand loans for consumption but have to take them from neighbours and relatives. They may also take loans in cash or rice and repay in labour. Semi-formal and formal microfinance services are rarely available to the poorest households as they lack collateral or are too great a risk so people will not form a solidarity group with them. The poorest households spend the majority of income on food.

Poor households are those with 1-2 ha of rice land and possibly some vegetable land. They have a house but no other major assets. They may possess a pig or chicken but no draft animals. Their income ranges from 300-600 Baht or 30,000-60,000 Riel per month. They earn money from growing rice, which they plant once per year, possibly vegetables and small animals and also from foraging for forest products. They have many sources of income. Households will often have contacts with better off people who may be able to provide employment opportunities or finance. These households have access to both informal and semi-formal microfinance.

Medium households are those with 2-5 ha of rice land and vegetable land. They have a house and the roof will be made of CI sheets or tiles. They own productive assets such as cows, small animals and a motorbike or bicycle. Their income ranges from 600-1,500 Baht or 60,000-150,000 Riel per month. Income tend to be from a variety of sources including agriculture and business. Some of these households may have members who are employed by the government. Such households have often not been displaced by conflict. Households will have contacts with better off people and may receive financial

support from relatives overseas. They may lend to poorer households and they are aware of and exploit market opportunities.

Rich households have over 5 ha of rice land and vegetable land. They are rich in productive assets like cows, motorbikes, tractors, and might own a rice mill or other equipment/machinery. Monthly income is usually in excess of 1,500 Baht or 150,000 Riel and will come from a variety of sources including maybe formal employment, agriculture and business. Businesses often involve trading and such families would have started these activities very soon after conflict and gradually built their assets to enable them to expand. They are rich in labour, land and productive assets. Most rich households were either not displaced by conflict or if they were displaced started businesses in refugee or IDP camps. Most receive money from relatives from overseas. They usually lend money and rice to poorer people and in this way they may expand their land ownership as poorer families sell their land to repay their loans. They often employ people

6.4 Characteristics/Categories of Coping Mechanism

These can be divided into categories for coping with loss and those for managing risk of loss. The extent to which these mechanisms are open to households depend a lot on whether they were refugees, IDPs or not displaced. Refugees and IDPs tend to rely mainly on income raising and consumption modifying strategies to cope with loss and households not displaced have a wider range of strategies open to them.

A. Strategies for coping with loss:

Consumption modifying strategies include cutting expenditures on food and eating rice soup rather than boiled rice. They also involve supplementing the rice soup with water lily and morning glory leaves.

‘At that time (early 1980s) we lack rice and my older son goes to pick water lillies to mix with the rice and cook...I eat for a few times until my tears come out because it is very difficult to eat. Eat it just for surviving’ (man, around 50, Koy Meng).

Income raising strategies involve mobilising labour, which was found to be one of the key assets for coping following conflict. This may involve sending children to work and

generally working longer hours. It may also mean sending some family members to Thailand or to other places in search of profitable employment. It is also common for poor people to pledge future labour against current supply of rice or money. Secondly selling physical assets is another way of raising income. This may involve selling land or other assets like small animals, renting out rice fields or palm trees, pawning gold and consumer durables such as TVs, and selling crops (e.g. rice, palm sugar) before harvest or forest products prior to collecting them. Income may also be raised through assistance from international organisations. Often some of the assistance would be consumed and others exchanged or traded for gold, cash or other goods. Other strategies for increasing income include foraging in the forests and collecting firewood.

Personal and financial intermediation strategies involve drawing on savings and taking loans. Savings may be in physical assets (see above) or within the household in bamboo or clay pots.

‘I bought the pot for saving money and I save around 400 baht and when I lacked money to buy bicycle I broke it and spent the money’ (woman, Trapeng Thlork).

Households may also have lent to friends and neighbours so here they may claim back their loans.

‘I lend the rice to her (niece) but when I lack food I come to get it back. At that time (1980s) when someone has no food we just help each other and when they have food they just give back’ (man, Chamnoam Keut).

Semi-formal microfinance service providers also offer savings services often in village banks

Managing risk Keo Voeung is a widow living in Chamnoam Keut village and is 50 years old. She has one daughter and six sons and has always lived in the village. Her strategy to manage risk has been to diversify her income sources. When her husband died her children were still young and she survived by borrowing money from people in other villages as she was scared that people in her village would not lend to her. She made cakes to sell, sold vegetables, grew rice and sold her labour. Over the years she has gradually been able to increase her asset base which has included repairing her house, breeding pigs, buying cows to rent out to others, buying an ox cart, a radio, a boat, a bicycle and a big basket for rice. Her children are now working selling labour, collecting firewood and her daughter sells groceries. Her son went to Thailand and in order to pay for the transport she sold her daughter’s gold earrings. He then became sick and she had to borrow money from the village bank to help him return to the village.

although these may not be very accessible.

In terms of taking loans, this is a very common coping mechanism particularly from informal sources. Informal sources may involve borrowing off friends or neighbours at zero interest for short periods of time. This is often part of a reciprocal arrangement. People may also borrow from moneylenders in their village or in the market, from traders and richer people. It is common for people to borrow from land owners and pay back in labour,

‘I get loan from the family I used to work with. They come and see me and see what I need and they just give me money and never charge interest. When the harvesting time comes I work for them and sometimes for threshing I can work and pay back’ (woman, poorest category, Chamnoam Keut).

Informal loans tend to be more accessible and flexible compared with semi-formal loans although in general interest rates may be high. Most semi-formal sources require one to form a group and fill in a complex application form and possibly save money before they are allowed to save. However if people are in a village bank scheme and are regularly saving, they may be able to take money from their savings account in the bank or borrow the savings money for a short period (one to three months) at a low interest rate.

These findings are supported by other research which states that in emergencies 67% of surveyed households borrow and use savings, 22% only borrow and 10% only draw on savings. Out of those who borrow, 68% borrow from family and friends, 29% from traders and moneylenders and 3% from a pawnbroker. Out of those who use savings, 52% use cash savings, 46% use savings from agricultural produce and 13% sell jewellery or gold (Uniconsult, 1999).

B. Strategies for managing risk

Income smoothing strategies involve stabilising income and increasing income flows. These can involve diversifying income sources so people may grow rice but also gather forest products, fish in the rivers and collect crickets and small fish from the rice fields too. Even in villages such as Trapeng Thlork where people generally didn't have rice fields they supplement their income from selling firewood with raising small animals and growing vegetables. Stabilising income is often achieved by borrowing small amounts

from neighbours. It is common especially amongst communities like those in Svay Chek and Khlempor Cheung that rely on selling forest products that when one household sells products, it lends money to others who have not yet sold their products so they can buy food.

Asset building is a very important strategy to manage risk. Land is a key asset for coping and if families don't have land they will usually have a plan to clear some forest to start to grow rice. Such families are vulnerable to losing land if they don't have a land title as richer people seeing that the hard work of clearing the land has been done will use their power to claim it as their own. Nevertheless people continue to clear land for agricultural purposes.

Other types of asset building include saving cash. The village banks set up by NGOs appear to have been a good mechanism for this but people also save in bamboo and clay pots. People often save in cash in order to buy larger productive assets,

'When I have saved a lot of money I want to buy one cow' (woman in Trapeng Thlork).

As mentioned above, households also lend money to others as a way of saving.

Physical assets include housing, bicycles, horse/ox carts, draft animals, and cows, pigs and chickens for breeding. Households generally prefer to invest in the bigger assets and save money until they can afford them. Refugees returning from the Thai border camps appeared to prefer the cash (as opposed to housing) option for assistance from UNHCR and it was common for people to invest this cash in physical assets like cows and bicycles. Such assets are important so they can be sold in an emergency or to pay interest on a loan,

'I had nothing so I sold my daughter's earrings to pay interest to the organisation' (woman, Trapeng Thlork)

'I can get income from selling chicken to pay the interest' (woman, Trapeng Thlork)

Building human assets was mentioned as an important strategy by some. A man in one of the poorest households in Bour Srange stated that,

‘Although I am poor and have a low education I try to send my kids to learn at least so they can read and write. I don’t want them to be like me or for the other people to look down on them’ (man, poorest category, Bour Srange).

Social assets are built through cooperative networks of neighbours and relatives. Reciprocal lending of small amounts of money is a very important strategy for income smoothing. Also cooperative networks are important if people lack productive assets. There are many examples of people pooling assets or borrowing others assets such as bicycles or ox cart.

‘At that time we share our materials, it’s like I take a boat from my neighbour but then I will give him some thatch’ (man Chamnoam Keut).

All the informal forms of microfinance rely on social assets and relationships of trust amongst community members.

7. WHAT TYPES OF MICROFINANCE PRODUCTS ARE IN DEMAND IN POST-CONFLICT SITUATIONS?

This chapter will investigate the characteristics of microfinance products that are in demand from 1979 onwards. First the chapter will describe the traditional savings and credit mechanism prior to conflict and then it will outline the informal, semi-formal and formal products that were available after 1979, focusing particularly on the post conflict period (after 1991). Next there will be consideration of the change in demand for products as a result of the changing environment and the chapter will conclude by presenting data on the success of providers in meeting client demand.

7.1 Traditional saving and credit mechanisms

Traditionally gold or jewellery were the most common source of savings as they were high value and easy to store. People also saved in rice and for smaller amounts those near or in urban areas saved in cash, which was stored in clay pots or bamboo and hidden in the house.

People now mix these traditional ways of saving with newer forms of credit and one woman in Chamnoam reported how she saves 1 baht every day in a piece of bamboo and then breaks it at the end of the month to pay interest to the NGO village bank. In this way she always manages to pay her monthly interest on her loan and is happy.

In terms of credit, traditional sources were mainly relatives and neighbours who lent small amounts for short periods without interest.

‘This type of lending and borrowing is based on trust, mutual support, desire to help and family obligations.’ (Krishnamurthy 1999: 36).

Other traditional forms of credit were through moneylenders in the village and traders and business people who tended to give credit as an advance payment for produce. Krishnamurthy (1999) notes that from her study in Kompong Speu there appeared to be less need for credit pre-conflict compared with now although arrangements for borrowing and lending have more or less stayed the same. Even now, Bousso (1997) notes that very few Cambodian peasants are permanently indebted as they tend not to want to borrow and risk insolvency.

7.2 Formal, Semi-Formal and Informal Products Existing after Conflict

Loans and to a lesser extent savings products have been available since 1979. Table 2 provides an overview of the products in existence since microfinance first re-emerged, the characteristics of the products and their uses. Three main periods are identified:

A. Conflict Phase III and IV – Heng Samrin/Hun Sen Regime

Informal microfinance started to emerge almost immediately after the Khmer Rouge regime, when money was reintroduced and markets were re-established. Most of this was in the form of small loans (first in gold or rice and then towards the end of the 1980s in cash) from relatives, neighbours and moneylenders in the community and for production activities. Relatives and neighbours also lent rice to each other for consumption. Repayment conditions were flexible and either no interest or a very low interest rate was charged,

‘At that time when someone has no food we just help each other and when they have they just give back with no interest’ (man, Chamnoam Keut village)

‘I borrowed some milled rice from the other people and when we have the money then we brought the rice and paid back to them’ (woman, 43 years, Bour Srange)

The most important criteria for getting a loan was trust rather than collateral, and this is why most loans were provided either by relatives, neighbours or moneylenders within the community.

‘I can get a loan because I repay them (moneylenders) quickly so I can get easily from them’ (woman, Trapeng Thlork talking about surviving in Preah Net Preah village).

Semi-formal microfinance did not exist at this time but in terms of **formal microfinance**, the NBC provided agricultural loans through solidarity groups to farmers. Microfinance services consisted primarily of loan products.

Post Conflict Microfinance in Cambodia

This situation applied primarily to people who were not displaced by the conflict and the research was not able to gather details of microfinance products in IDP or refugee camps although IDPs relied mainly on support from relatives which probably involved small loans.

Table 2: Microfinance Products

Key:

š = conflict phases III and IV (1979-91)

Ñ = post conflict phase I (1991-3)

.. = post conflict phases II and III (1993-present)

Microfinance Provider	Characteristics	Uses
<p>A. Informal</p> <p>Relatives</p>	<p>Loan Products</p> <ul style="list-style-type: none"> • Short term cash, gold or rice loans with low interest. ∇ ♦ • Short term cash, gold or rice loans with no interest but must be repaid when relatives need money ∇ ♦ 	<ul style="list-style-type: none"> • Income smoothing/ consumption • Asset building for productive activities/ working capital
<p>Neighbours</p>	<p>Loan Products</p> <ul style="list-style-type: none"> • Short term, low value cash loans (less than 500 Baht/50,000 Riel) with no interest and through reciprocal arrangements ∇ ♦ 	<ul style="list-style-type: none"> • Income smoothing/ consumption

Microfinance Provider	Characteristics	Uses
	<ul style="list-style-type: none"> • Longer term, higher value cash loans (more than 500 Baht/50,000 Riel) with an average interest rate of 10% per month with interest and sometimes capital paid monthly ▽ • Short term loans in rice or cash with repayment either in rice, cash or labour, no/low interest ▽ ◆ 	<ul style="list-style-type: none"> • Asset building for productive activities/ working capital • Income smoothing/ consumption
Traders	<p><i>Loan Products</i></p> <ul style="list-style-type: none"> • Short term cash credit, repayment in natural resource products (e.g. firewood, timber, charcoal, thatch) interest rates range from 8% to 100% per month. ◆ • In kind credit (food, rice, tools), repayment in cash or kind, interest rates may be as high as 60% per month ▽ ◆ 	<ul style="list-style-type: none"> • Income smoothing/ consumption • Consumption/asset building for productive activities
Moneylenders – in community	<i>Loan Products</i>	

Microfinance Provider	Characteristics	Uses
community	<ul style="list-style-type: none"> • Low value cash loans for variable periods, interest ranging from 5-60% per month ▽ ◆ • Higher value cash loans for variable periods, require collateral (e.g. land title, gold, TV) and interest ranges from 5% - 60%, per month although they may be lower for higher loans². ◆ • In kind credit mainly in rice or fertiliser, repayment in rice/cash following harvest,. Interest rates range from 50% if loan is taken close to harvest to 200% for one year loans ◆. 	<ul style="list-style-type: none"> • Income smoothing/ consumption • Asset building for productive activities/working capital • Consumption/ Working capital
Moneylenders - outside community	<p>Loan Products</p> <ul style="list-style-type: none"> • Low value cash loans for variable periods, collateral or guarantee required, interest rates over 5% ▽ ◆ 	<ul style="list-style-type: none"> • Income smoothing/ investment in working capital • Asset building for productive

² For example in Khlempor Cheung, moneylenders charge 20% per month for loans of 100 baht and 15% per month for loans of 1,000 baht. In Koy Meng, the moneylender charged 10% interest per month for amounts up to 10,000 Baht and 7% per month for amounts of more than 10,000 Baht.

Microfinance Provider	Characteristics	Uses
	<ul style="list-style-type: none"> • High value cash loans for variable periods, collateral or guarantee required, interest rates over 5% ▽ ◆ • In-kind loans mainly in rice, repayment in cash or rice after harvest, interest rates usually 100-200% for loan period ▽ ◆ 	<p>activities/investment in working capital</p> <ul style="list-style-type: none"> • Consumption/working capital
<p>B. Semi Formal</p> <p>NGOs/MFIs</p>	<p>Loan Products</p> <ul style="list-style-type: none"> • Small cash loans (<\$100) with group collateral, low interest fixed repayment period ▽ ◆ • Large cash loans (>\$100) for individuals with collateral, low interest, fixed repayment period ◆ • Instalment loans, low interest, fixed repayment period, group/individual loans ◆ • In kind loans (rice, animals) repayment in kind, low interest ▽ ◆ 	<ul style="list-style-type: none"> • Income smoothing/ consumption, asset building for productive activities/investment in working capital • Asset building/working capital • Asset building/ working capital/ consumption • Asset building/ income smoothing/ consumption

Microfinance Provider	Characteristics	Uses
	<p><i>Savings Products</i></p> <ul style="list-style-type: none"> • Compulsory Savings ♦ • Voluntary Savings ♦ 	<ul style="list-style-type: none"> • In order to get a loan • Save for larger productive assets
<p><i>C. Formal</i></p> <p>National Bank of Cambodia</p>	<p><i>Loan Products</i></p> <ul style="list-style-type: none"> • Agricultural loans through solidarity groups 	<ul style="list-style-type: none"> • Asset building/ working capital
<p>ACLEDA Bank</p>	<ul style="list-style-type: none"> • Solidarity Group Riel loans of up to the equivalent of \$400 for a period of between 3-12 months. ♦ • Individual Riel or US\$ loans for small business, collateral is required and loans range from \$300-4,000 for a period of up to 2 years ♦ • Demand deposit in Riel or US\$ ♦ • Fixed Deposits in Riel or US\$ ♦ 	<ul style="list-style-type: none"> • Asset building/working capital • Asset building for productive activities/working capital • Saving to invest in larger productive activities/protect against risks

B. Post Conflict Phase I - SNC and UNCTAC (1991-3)

This period started with the Paris Peace Accords which led to the establishment of UNTAC and the reintegration of some 370,000 refugees back into Cambodia and the demobilisation of soldiers who then returned to civilian life. Large amounts of international aid flowed into the country some of this to NGOs who started to provide microfinance services. As the country opened up to the outside world, so did markets and there was an increase in economic opportunities.

Informal microfinance remained a very important source of finance at this time. Relatives and neighbours continued to be an important source of flexible credit. The village leader of Throm Deikas described how when he arrived in the village, he was able to get a small loan from a family he had known in the refugee camp who were settled in the community and had money to lend. This enabled his wife to set up a small business making and selling cakes made of rice. No collateral was required from such providers and trust rather than collateral appeared to be the most important determining factor in accessing an informal loan.

During this period the range of informal microfinance providers expanded and people started accessing loans from moneylenders and traders outside the community. Some of the first people to settle in Trapeng Thlork village arrived with nothing and explained how they survived,

‘We bought the saw from the people in the market as credit. We bought the axe on credit as well but we asked a trader to buy it for us and we paid to him later with firewood. We paid back for the saw in money. When we sold the firewood we paid them the money’ (woman, Trapeng Thlork).

For others it appeared that it was still difficult to access informal credit outside the village at this time.

‘Even if they wanted to lend money to us they would be afraid that we were the poorest and had no way to earn some money to pay back because we had nothing...I wanted to borrow some money 500 baht from the people in the market but they didn’t lend to me’ (woman, Trapeng Thlork).

Semi formal microfinance started during this period mainly through international NGOs that had a credit component of rehabilitation and development projects. Most credit was for groups rather than individuals with group guarantee as collateral. Loans tended to be for a fixed term with low interest to be paid at the end of the cycle or on a monthly basis. Capital was paid at the end of the cycle. Loan clients usually had to attend training sessions prior to receiving the loan and then weekly or monthly meetings. Credit was provided mainly for productive activities such as small businesses and agriculture.

Formal microfinance did not exist during this period.

C. Post Conflict Phases II and III – Royal Government of Cambodia (1993 to present)

This period started with the formation of the coalition government following the elections in 1993. Between 1993-8 there was still fighting between Khmer Rouge and government forces and many areas of the country, particularly in the north-west, were insecure. However from the end of 1998 the Khmer Rouge collapsed and fighting ended to be replaced now by banditry. There was also tension between the two parties in the coalition government at this time and this culminated in a coup in July 1997 where CPP's Hun Sen took control of the country. Much international aid was frozen as a result of this and returned only in 1998 after the elections and a new government had been formed.

Informal microfinance remained important in this period with a wide range of loan products with differing terms and conditions. One of the most important features determining the supply of microfinance remained trust between the borrower and lender. Trust is built up in a number of ways and knowing the lender either because they are a close neighbour or perhaps a previous or current employer appear to be very important.

'We are the poorest people so they (moneylenders) are not interested to lend money to us, but for me I always borrow from Mrs Chhu. She always lends to me when I lack money' (widow, 50 years, Chamnoam Keut).

'I am kind only for the people who live near by me who I know very well. ... If I was strict and didn't let them buy in credit then I cannot live with this group' (moneylender, Chambok Meas).

When a moneylender knows and trusts a borrower there is rarely a need for collateral especially for small amounts,

‘no need for collateral because in the village they know me. If I go to anywhere else besides this village and they don’t know me they don’t give any loan not even 1,000 baht’ (woman, 30 years, Makak).

‘When we trust each other no need for collateral’ (moneylender, Chamnoam Keut village).

Trust is also built up when a lender can see that the borrower is settled in the area or has assets and thus the potential to repay the loan,

‘No need for collateral because I know them very well and I trust them. I look at their assets and if they have none I trust them with a small amount because they are my neighbours in this village. ... It depends on their situation as well and if they have ability I give them a big amount but if no ability, only a small amount of money’ (moneylender, Koy Meng).

‘It is easy for me because I have some cow and pig so they don’t worry with me. They all trust me and because I am poor when I get money I pay them at once and I tell them if I have no money I never lie’ (widow, 50 years, Chamnoam Keut).

‘Now only when they (wood traders who lend money) see that we grow vegetables, fruit trees do they believe we are here permanently and when they know we have a source of income as we collect firewood and that the organisation (Concern) came here to lend money to us do they start lending us money. It means that they trust us’ (woman, Trapeng Thlork).

When there is trust between lenders and borrowers the terms and conditions of the loan are usually more favourable,

‘For this year (2001) I borrow five sacks of rice (425-500 kg) and she charges interest 400 kg of paddy rice that I pay back after the harvesting season. For me she charges low interest and for the others they borrow the same as me and she

will charge 500 kg of paddy rice'. (widow, 50 years in the poorest wealth category in Chamnoam Keut).

'We can borrow money from the lender but there is high interest until they recognise us. For example for myself they took 8 (instead of 10) baht per 100 baht' (woman, Trapeng Thlork).

When loans are larger or if people are wanting to borrow from someone outside the village, there appears to be a trend for moneylenders to get people to guarantee the loan,

'When they borrow one time 10,000 Baht I need

the people to guarantee it for me (moneylender, Koy Meng).

Role of guarantees in accessing informal loans

In Bour Srange, there are no moneylenders and people have to go to Ban Khnar 3 km away if they need money. As the moneylenders do not necessarily know the people who want to borrow money, they ask the village chief to guarantee the loans.

'If they want to borrow 100,000 to 200,000 riel I guarantee them and the moneylender will agree to lend the money. I tell the moneylender about people's rice fields and so they feel secure because if something happens they know I can help them' (village leader of Bour Srange).

Collateral also appears to be increasingly important in accessing loans especially if they are larger amounts or from lenders outside a village meaning that trust is low,

'If we borrow in the village they ask for no collateral but we cannot get much money, the big size is up to 2,000 Baht. If we borrow outside the village we can get more but they need collateral because we are poor and they are not sure that we are a permanent village' (man, leader of Throm Deikas village).

'In this village if people borrow a small amount of money there is no collateral but if we wanted to borrow the big amount of money they will need it because when we wanted a lot of money they do not trust us so they need some assets such as gold or land title. (man, Khlempor Cheung).

Thus in the absence of collateral, people may be restricted from getting the sort of informal loan that they want.

In terms of informal loan products, it is common for richer people in the village who are land owners to lend to those who are poorer and accept labour at the harvest and transplanting season as repayment of a loan which may have been in cash or rice,

'I borrow from the family who have more rice field, and sometimes my husband takes money and then pays back with the land preparation (woman, poorest wealth category, Chamnoam Keut).

When repayment of cash loans is in kind interest rates are higher. For example in Trapeng Thlork wood traders give villagers cash loans for short periods (from one week to one month) which they then pay back in firewood. Usually people may be able to sell firewood for 140-150 Baht per cubic metre but when they get money in advance (a loan) they sell it for 120-130 Baht. The interest rate ranges from 8-100% per month depending on how quickly households repay and the exact price of firewood. Examples of this were widespread with villagers in Khlempor Cheung reporting traders coming to the village and giving cash in advance for products like charcoal and thatch but at a low price. In the New Market in Sisophon, one of the researchers observed a woman purchasing a table on credit. The price was usually 500 Baht, but she had agreed to pay 30 Baht per day for 20 days (that is 600 Baht). The interest rate for this 500 Baht loan was thus 30% per month.

In rural areas it is also common for people to take loans for up to one year either for rice and food during the rice growing season or for agricultural inputs. Such loans are repaid after the harvest and interest ranges from 50-200% depending on the time they are taken. For example if the loan was taken in April interest may be 200% but in October close to the harvest in December-February it may just be 50%.

'If they want a loan for one year the interest is equal to the capital. For example if we borrow 100,000 riel for one year and then we will repay 200,000 riel. If they borrow for some months they charge 1,000 or 1,500 riel per month for 10,000 riel loan' (man, 49 years, Bour Srang).

Other variations in the terms for informal loans were found amongst the owner of the village shop in Chambok Meas where money was lent and the borrower gave portions of rice land for the moneylender to plant instead of paying interest.

Poorer households also had mutual lending schemes whereby if one household did not have money for food they could borrow a small amount (less than 500 Baht or 50,000 Riel) from a neighbour and they would then repay them when they had earned some money (e.g. from selling firewood). Similarly the household who lent money may also come into difficulties and have no money for food so they would then borrow off the first family.

‘When they have firewood but they have not yet sold their firewood because the vehicle can not get to the village due to the road condition, At that time they lack food and so they borrow money to buy rice’ (woman, from poorest wealth category, Trapeng Thlork).

In addition moneylenders may still lend to the very poor people in a village but more as a goodwill gesture. One woman in Bour Srange was very poor with few assets and depending on daily labour for income. She recounted how she was able to get up to 10,000 riel from others in the village,

‘all the people take pity on me so they do not charge me interest. Maybe after a few days I would pay back’ (woman, 43 years in Bour Srange).

In general it appears that informal providers continue to be a very important source of credit although the number of providers within a village very much depends upon the economic situation of the village. For example in Chambok Meas where there was severe flooding in 2000, a moneylender who previously gave consumption loans to the poorest people has now become very poor herself and has used all her gold reserves and can no longer access loans herself from moneylenders. In Makak, one wood trader remarked that

‘before its many but now few (moneylenders) because they are busy in cultivation so they don’t want to give loans to anyone as they need money also themselves. If we need 1,000 Baht maybe they give but if 10,000 no’ (woman, 30 years, Makak village).

Semi-formal microfinance provision has increased significantly since 1993 and there are now some 90 NGOs offering micro-credit and savings services (Walter 2001). There has also been an increase in coverage and in Khlempor Cheung village where Concern

has a village bank, one man remarked how initially there were only 50 village bank members but this has increased over the last two to three years to over 100 members. Most NGOs offer credit through solidarity group lending. Some NGOs offer credit as part of an integrated rural development strategies and others concentrate solely on credit and savings. Over time the main changes in the products offered by NGOs are that they have become more flexible. This is partly due to lessons learnt, increasing skill and expertise among NGOs and the more favourable economic and business environment.

Most semi-formal credit providers started by offering loans just for small enterprise (e.g. World Vision, World Relief) or for any productive activity (e.g. Concern). However over time many have learnt that due to the fungibility of money it is not really possible to specify what a loan can be used for. Now NGOs like Concern have altered the conditions of their products and offer loans that can be used for either production or consumption. Others such as World Vision are recognising a need for agricultural loans together with loans for micro enterprises and they are slowly introducing new longer term agricultural loan products.

As well as the shift in focus, some semi-formal microfinance providers have introduced new loan products. CRS now offers a range of different loan sizes for different periods of time and Concern introduced instalment loans from 2000.

In the late 1990s many semi formal microfinance providers started introducing savings products. Many of these are for compulsory savings into village banks but over time more flexibility has been introduced. For example for Concern, clients had to save 20% of their loan size but it was found that this was excluding the poor so it was altered to compulsory savings but of an amount agreed by the solidarity group in the village bank. World Vision has recently started piloting savings schemes and noted that before the late 1990s it was not possible to do savings as people didn't trust that their savings would be safe in the village bank.

With NGOs who have adopted a village bank model, savings are usually lent out again to bank clients. This provides an additional low cost short-term (for Concern loans are for 3 months as opposed to 1 year and for CRS for one month rather than 9 months for the village bank) form of finance. It is often used to cover emergencies and is relatively easy

Changes in Products over time

One NGO implementing microfinance explained about how their products have developed over time,

‘Our manual is now in its fourth revision...at our annual village bank summit we discuss what is working well, what problems we have and from this we make changes. For example, before we said the loan period was 4-6 months take it or leave it but now we have realised that someone may get a higher price if they sell their pig after 8 months. Another one is we have also allowed for differences in the number of meetings one must attend before we start credit. It used to be eight meetings over eight weeks in which time up to 30% of the loan amount would be saved. However there are some periods such as the planting season when people want the meetings to be all together, whilst in the dry season they sometimes want them more spread out. Another one is the frequency of village bank meetings, we used to have them every week but some people would pay the fine and not turn up because they were too busy, then we changed them to every month... The biggest changes were in terms of areas in that areas that were not open to us before were after 1998 so suddenly we had great growth’ (NGO worker).

to access at any time of day or night.

Formal microfinance did not emerge in rural areas until 1996 and now there are just three main formal microfinance providers – ACLEDA, EMT and Hatta Kasekar. They all offer a range of products including solidarity group and individual loans, savings and money transfer (just ACLEDA at present). All these providers started as NGOs with international support. ACLEDA was set up by ILO in the mid 1990s and has

recently become registered as a specialised bank. EMT was established by GRET and became registered as a limited company in July 2001 and Hatta Kasekar established by Oxfam Quebec also became a limited company relatively recently. Other commercial banks still do not provide any significant microfinance services to the poor in rural areas.

Over time as shown in table 3 one can denote a slight increase in the importance of NGO credit and a slight decrease in credit from relatives, neighbours and friends. However this needs to be taken with some caution as the figures are not strictly

comparable with the NIS 1996 figures showing the number of households borrowing from various sources and the Uniconsult 1999 figures showing the number of loans. Also people may be more likely to view loans from traders, NGOs and banks as loans rather than the small amounts given by relatives and neighbours. Nevertheless one can say with some certainty that NGOs are becoming a more important source of microfinance in terms of expanding their outreach.

Table 3: Changes over time in the source of loans

Source of Loans	1996 (NIS)		1999 (Uniconsult)	
	# Households	%	# Loans	%
Traders	54,000	8	57	29
Moneylenders	114,000	16	-	-
Relatives	400,000	57	74	38
Friends/Neighbours	114,000	16		
Banks	7,000	1	2	1
NGOs/UN/Other	71,000	10	64	33

Table 4 demonstrates this and shows how the number of borrowers and value of semi-formal loans has increased dramatically since 1996.

Table 4: Changes in semi-formal microfinance outreach over time

	1996	1997	1998	1999

Borrowers	82,000	n.a.	140,000	334,145
Value of Loans	\$4.1m	\$12.5m	\$13m	\$23m

Source: Urashima 2000:14

The increased provision of microfinance has meant more competition and this has served to reduce interest rate and ensure that microfinance providers are concerned more about the needs and demands of clients to ensure that they are able to keep their best clients and that they won't move to an alternative microfinance providers.

'Now the moneylender they reduce the interest because they know the organisation established the village bank and they charged the low interest' (man, 49 years, village leader of Bour Srange).

This situation is particularly prevalent in some of the south and central provinces of Cambodia and near provincial centres where people can easily access a range of microfinance services. In villages where there are not many microfinance services available interest rates for credit tend to be higher,

'If we borrow 1,000 Baht, interest is 100 Baht in this village, in Banteay Chhmar (the commune centre) it is 70 to 80 Baht and in Thma Pouk (the district centre) 60 Baht' (village leader of Throm Deikas).

However this appears to apply only to cash loans and interest rates on in kind loans remain very high.

7.3 Change in demand for products as a result of the developing environment

Reports suggest that the demand for microfinance is rising with Uniconsult (1999) estimating the current demand for rural credit to be somewhere between \$75 and \$125 million with an unmet demand in the region of \$50 to \$100 million. However in order to chart the changes in demand for products over time, it is necessary to look at the situation in the following periods,

A. Conflict Phase III and IV – Heng Samrin/Hun Sen regime (1979-91)

Small loans were demanded primarily for consumption or small productive activities in this period. People demanded loans in kind (rice, gold, physical capital) rather than in cash. For example the owner of the fertiliser shop in Chamnoam Keut borrowed gold to start trading activities from the Thai border into Cambodia. Another woman who lived in Preah Net Preah in the 1980s (now in Trapeng Thlork) described how she would borrow money from a moneylender to pay for labour to plough her field. Others borrowed for consumption purposes.

B. Post Conflict Phase I – SNC and UNTAC (1991-3)

At this time supply of microfinance increased but people still demanded small loans for consumption or small scale, quick return productive activities. For example one woman who lived in an IDP camp close to Sisophon during this period recalled how she used to borrow money on a daily basis to buy firewood to sell in Sisophon market,

‘I sell at 8.00 in the morning and then come to pay the capital back sometimes maybe two or three times a day.’ (woman, Khlempor Cheung).

During this time it was still common to demand loans in kind rather than in cash and as mentioned previously, families moving to Trapeng Thlork borrowed axes and saws (rather than cash) to enable them to cut firewood to construct houses and to sell or exchange for rice.

C. Post Conflict Phases II and III – Royal Government of Cambodia (1993 to present)

In this period people started to demand longer-term larger loans for productive activities and short term small loans for consumption. Loans for consumption were more important than loans for production for poor people and they demand only small amounts.

‘I just borrow from them (moneylenders usually an amount of 5-10,000 riel) for a short while and when I have money I pay them back at once because I am poor and if I am late to repay I am worried that I have nothing to repay them. I always

borrow only a small amount though they offer me a big amount I couldn't borrow because I do not expect to have any income' (woman, 43 years, Bour Srange).

During this period, people appeared to increasingly demand cash rather than in-kind loans. However in very remote rural areas such as Chambok Meas and Bour Srange in Pursat and Trapeng Thlork in Banteay Meanchey, people still demand credit in kind (mainly rice).

When choosing whether to get a loan from an informal, semi-formal or formal source, people tend to prefer providers who will be flexible especially in repayment. They tend to be nervous of getting semi-formal or formal loans because of the rigid repayment schedules,

'Sometimes I cannot pay this month and she (the moneylender) says "oh you can pay next month double' (woman in Koy Meng).

Fear of Formal and Semi-Formal Microfinance Products

Many people still fear semi and formal forms of microfinance. One woman from Makak who relies on informal loans from a variety of sources, borrowed from a microfinance institution in the late 1990s but would not take our another loan,

‘I am afraid to get more loans maybe I have to sell the land property to pay back...When I had loan from (the microfinance institution) I had to go to the forest even when it rained because I don’t have money to pay back to (the microfinance institution) at that time...If I borrow money from (the microfinance institution) I will spend time in the middle of the night to try and earn some money and I would have to leave my four kids alone in the house. There would not be anyone to cook for them and I would struggle to earn the money to pay them back.... With the moneylender we still work hard but not like when we borrow money from the organisation. When we have money we pay to the moneylender but with (the microfinance institution) we must pay monthly and we cannot delay repayment.... In this village maybe three or four people had to sell assets to repay their loan because they did not have enough income and when the date to pay interest came there was no money to pay and they were allowed to delay for one month but after the next month we must pay back to them and they come to our house every day although we still owe them only 100 baht. Some people they haven’t yet finished their loan and when (the MFI) staff come to the village all of them always escape to the forest’ (woman, 30 years, wood seller from Makak village).

There appears to be fear that the semi-formal and formal providers will take away their assets if they are unable to repay which will increase stress for their families.

‘I know that if it is not possible to pay ACLEDA they will confiscate some property from us so we are afraid. If we have any property they will take it and this is the reason why I cannot get a loan from the organisation there. But for moneylender they can accept the problem and if for this month we can not repay we can delay for a month or more. Whatever happens the moneylender does not take any property from us’ (woman, Trapeng Thlork).

The perceptions of villagers were interesting but it was found that many moneylenders had acquired land from people who could not repay their loans.

'Some people they borrow from me and then they don't pay back so I just take the land' (moneylender, 63 years, Chambok Meas).

People prefer long term loans when they are for productive purposes,

'If it is just one month or three months I am afraid that I cannot earn the money to repay' (woman, Trapeng Thlork).

If they are growing rice, borrowers find it easier if loans can be repaid after the harvest as this is the time when they will have the most income, Before harvest people tend to have limited income opportunities and so may have difficulties repaying loans,

'I feel worried about the money I have borrowed from the savings money as this period is a hard time to earn the money so I wanted to ask the credit staff will they delay the loan period for me up to harvesting If they would not allow I will borrow money from the moneylender to pay back. (widow, 50 years, Chamnoam Keut).

People prefer individual rather than solidarity group loans. This is for a variety of reasons including not being able to form a solidarity group because they are poor and nobody trusts them.

'I didn't dare to get loan from organisation as I didn't have any income and then there is no one to guarantee me (man, poorest wealth category, Chamnoam Keut)

'I formed group but they took out my name...they said that I have nothing to repay the loan even though I have idea to buy a boat for fishing and sell fish to pay monthly interest... He told me to form group but when I had a group he took my name out...he said there is nobody to guarantee me. People like to form a group with the medium or rich and they do not want to form a group with the poorest' (woman, poorest category, Chamnoam Keut).

'They do not allow us because we have nothing and we are afraid that we are not able to repay back the loan...Before they came to ask us to form a group but still couldn't get a loan because all my group members are very poor. If we are not able to repay they feel difficult to be responsible for loans with the organisation... Let's say they do not trust us and they don't want to give a loan to us' (man, Chambok Meas).

People also prefer individual as opposed to solidarity group loans as they fear group members getting angry with them if they are unable to keep up with the interest payments,

'If we take the loan from the bank we have to work hard and if we miss one interest repayment we will have a problem and someone will blame us. If I delay the repayment the trader will not blame us' (woman, Trapeng Thlork).

Accessibility is also an important characteristic of microfinance products for households.

The poorest people and solidarity group lending

The poorest people are often excluded from solidarity group sources of finance which are meant to benefit those without assets as they cannot find people to join their group. One woman who does not have any land and depends on fishing, foraging in the forest and on daily labour explained the fruitless process of trying to get a loan,

'I want a loan and the village bank committee asked me to form a group...we formed a group with three of us and went to the village bank committee and they said we must find two more people. Then after we found another two people they said that first we had to save 40 baht each. When we had done this the village bank committee said that they had not yet had any members repaying the loan so we could keep our money until somebody repaid the loan and then they would call us to get a loan. When the money arrived the two other families in our group say they don't want to guarantee the three of us because we may not be able to repay the loan as one is amputee, one is disabled and the other doesn't have occupation. Also I don't have any rice field. At that time I only wanted 1,000 Baht to buy fishing net to fish because I thought that with just 1,000 I can pay back by selling labour to harvest one ha. First time they agree to give and when the money comes they don't agree to give' (woman from Chamnoam Keut).

This usually means that they would prefer informal loans to semi-formal and formal loans even though they have higher interest rates.

‘Easier is from the moneylender as for the organisation we have to wait until the day comes and for the moneylender we can take any time from her’ (woman, Koy Meng).

‘When they want to plough their rice field they can come quickly to the moneylender to borrow money and pay for ploughing’ (man, Khlengpor Cheung).

Semi-formal finance such as that provided by NGOs takes at least one month to process for the first loan. For example, for one NGO clients have to fill in an application form and attend four meetings to learn about the village bank and the importance of repaying loans and how to repay. Home visits are also conducted to assess the situation of the client and it is only then that people can get a first cycle loan of 1,200 baht. However one advantage of many of these schemes is that the compulsory savings is lent out to villagers usually at low interest rates for periods of up to three months. Such funds are accessible at all times of day or night and are a low cost alternative to informal finance, although the demand for such finance usually far outstrips supply with people wanting such loans for consumption/emergencies.

‘when we have problem we can borrow money from the savings’ (widow, Khlengpor Cheung).

The primary reasons why people chose semi-formal finance instead of informal finance which has very flexible and more attractive terms and conditions is due to the low interest rates it offers and because it was an additional source of finance when informal supplies are exhausted,

‘We borrow money from the bank because we are afraid that we cannot borrow enough money from the trader’ (woman, Trapeng Thlork),

Low interest rates do not appear to be very important characteristic in determining which products people demand and only one person in all the focus group discussions and semi-structured interviews raised the low interest rates as an important characteristic,

‘The people like the organisation money. Though they always spend time with monthly meeting it has a low interest’ (man, 49 years, leader of Bour Srange village)

He also commented that it was only the poor who borrowed money from such sources as

‘the less poor they don’t want to borrow money from the village bank because first they spend time and second the loan size is small and not enough for them, so they always borrow from moneylender’ (man, 49 years, village leader of Bour Srange).

In terms of savings, most people save in cash first in order to buy larger productive assets. For example in Trapeng Thlork people saved money to buy cows and horses. Some people saved money in the village bank and in Trapeng Thlork one woman had saved 3,100 Baht but this seemed to be an exceptional case,

‘If I have money, I save 100 Baht per month and if I have no money I save 50 Baht...The others they save from 5 Baht to 10 Baht. It is only me that has big savings. When I save a lot of money I want to buy one cow’ (woman, poorest category, Trapeng Thlork).

Liquidity remains a very important feature of savings and people appear to prefer to lend to each other or save money in bamboo or clay pots than in the village bank where it

Other Research on savings and credit

Studies suggest that people borrow from NGO credit programmes and moneylenders for purchasing productive capital and relatives and neighbours for income smoothing, emergencies, life cycle needs and paying seasonal labour (Leang et al. 1999).

In terms of how people save, Bousso et al. (1997) reported that most Cambodian families save in gold or jewellery and keep Riel for everyday expenditure. However the Uniconsult (1999) study reports that most assets are held in buildings and land (55%), followed by cash holdings and loans within the community (28%), tools and equipment (18%), livestock (10%), household items (6%) and gold and jewellery (2%). About 60% of households reported cash savings with 8% holding savings in more than one location. Urashima (2000) explained this difference as reflecting the changing environment with more access to cash and increased confidence in cash as a means of storing wealth by the time of the Uniconsult survey.

may not be so easily accessible. The Uniconsult (1999) survey had similar findings and stated that 71% of respondents preferred self-saving.

People save for a variety of reasons including to be able to pay their monthly interest and capital on their loans,

‘I always try saving 20 to 30 baht each month because I know I borrow a big loan and so I must save every month to pay back at the end of they cycle’ (woman, Trapeng Thlork).

7.4 Assessment of the success of providers in meeting the demands of clients

Section 7.2 outlined the supply of microfinance over time and section 7.3 described the characteristics that clients demand. In comparing supply and demand it appears that the more flexible informal providers of microfinance are creating products that are meeting the demand of clients more than formal and semi-formal providers. Most people appear to demand individual loans with flexible terms and conditions which enable them to save by themselves rather than in a village bank which may be risky. Thus semi-formal and formal providers are clearly not meeting the demands of clients and clients are only using their services due to a lack of alternatives.

One indicator of whether providers are meeting the demand of clients is to look at the reasons for drop out of schemes. Cater (1997: 35) in his evaluation of the first 5 years of Concern’s Banteay Meanchey credit scheme reported that 63% of drop-outs from the village bank were connected to solidarity group lending. 27% of respondents had dropped out because group members had not repaid their loans so their group had been disbanded, and 36% reported that they had resigned as they no longer wanted to continue paying for other members who had defaulted. Interviews with other semi-formal providers indicated that with increasing competition in some parts of the country, some providers are losing their clients to those with more favourable terms and conditions. One NGO reported losing clients to ACLEDA which charged lower interest rates. Semi-formal providers have attempted to address these issues by introducing more flexible products as outlined in section 7.2 above although they still do not appear to be matching the characteristics demanded by clients.

When considering the demand of the poor and the poorest clients, semi formal providers do not appear to be meeting their needs. This is confirmed by other recent microfinance research in Cambodia which stated that there is an

‘undeniable exclusion of the poorest...whether by lack of capacity on their part (self exclusion) or from lack of willingness to include them’ (Walter, 2001:41).

Demands for sustainability especially amongst the MFIs that have become limited companies (e.g. EMT, ACLEDA and Hattta Kasekar) mean that it is not profitable to lend very small amounts that the poorest people need. Also given the damage to infrastructure and insecurity the provision of microfinance services to remote rural areas where most of the poor people reside is extremely expensive. Therefore few semi-formal providers claim that they are targeting the poor. For other providers who have a specific mandate to target the poor and the poorest, the solidarity group approach appears to exclude the poorest. Households forming a group want to join with households who have a high potential to repay loans which leaves people who are poorer with no other choice but to use very expensive informal microfinance services which may just perpetuate the cycle of vulnerability and poverty.

In addition, Walter (2001:3) challenges NGOs providing group based micro credit to consider whether by doing this they are increasing risk and vulnerability of clients and whether other financial services like savings, insurance, marriage/burial funds should not be considered as a way to manage risk. Previous chapters have outlined the risk environment in Cambodia and the way that conflict has increased people's vulnerability to deeper poverty.

8. ANALYSIS

Prior to the field research hypotheses, research questions and sub-questions were formulated to provide a framework for the research, which is outlined in Appendix 1. This section will revisit the hypotheses, and based on the findings in chapters 4 to 7 it will present theories about microfinance in post-conflict situations. These can be divided into the three areas of the research; the environment for microfinance, coping mechanisms and microfinance products.

8.1 Hypotheses Tested

A. Environment for Microfinance

Fulfilment of Doyle's minimum requirements ensures satisfactory conditions for the supply and demand of microfinance products

Fulfilment of Doyle's preferred requirements ensures satisfactory conditions of the supply and demand of sustainable microfinance

Doyle's (1998) minimum requirements for the supply and demand of microfinance products are a low intensity of conflict, long-term displacement and re-opening of markets. Experience in Cambodia indicated that re-opening of markets were the main factors for ensuring the supply and demand of microfinance products. Formal and semi-formal microfinance required a low intensity of conflict and long-term displacement. However informal finance appeared to exist where there was insecurity and amongst IDPs.

Doyle's satisfactory conditions for the supply and demand of sustainable microfinance are trust in the local currency and financial institutions, enabling legislation for microfinance, absence of hyperinflation, social capital, skilled and educated workforce, relatively dense population and functioning banking system. In Cambodia few of these conditions are in place even 10 years after the signing of the peace agreements and they don't appear to have been important considerations in the supply of microfinance.

There is little trust in the Cambodian Riel and US dollars are very popular especially for business people and Baht is the preferred currency in provinces near the Thai border.

Financial institutions are still undeveloped. It was only in 2000 that the first piece of legislation was passed for microfinance although there is uncertainty about how this will be implemented. There is evidence that social capital is declining especially in urban areas and amongst wealthier communities. In the 1970s a whole generation of skilled people was lost and this continues to have a serious impact on the workforce. In rural areas population density is very low and there is not a functioning banking system in many provinces in Cambodia. This means that MFI staff have to travel long distances to transport money. Despite this, MFIs and banks who are working in relatively accessible rural areas, amongst people who are poor but not the poorest and have business ideas are achieving some form of sustainability (e.g. ACLEDA, EMT, Hatta Kasekar and possibly other MFIs too).

However the absence of these conditions together with very poor infrastructure (e.g. transport, telecommunications, banking) and insecurity/risks of banditry mean that MFIs working with very poor people in remote rural areas find operational sustainability very hard to achieve.

B. Coping Mechanisms

Microfinance products strengthen household coping mechanisms during and after conflict

The research confirmed this hypothesis that some microfinance products strengthen household coping mechanisms during and after conflict. Informal mechanisms were most important due to ease of access and flexibility. With the exception of the agricultural credit provided by the NBC, the supply of semi-finance and formal finance was very limited due to insecurity.

C. Microfinance Products

When choosing a microfinance product clients prefer those which are flexible, convenient and give access to their money

The research found evidence to confirm the above hypothesis. Following conflict, convenience, flexibility and liquidity were some of the most important characteristics demanded in products.

8.2 Testable Propositions Created

The research attempted to create generalised propositions that could be applied to different contexts. The following propositions have thus been created for further testing:

A. Environment for Microfinance

The microfinance market will develop in different ways within a country in accordance with the different rates of transition from high to low intensity conflict, relief and rehabilitation to development.

- Relative peace and stability returned much sooner to the central and southern provinces of Cambodia, than to provinces in the north-west near the Thai border. More resources including microfinance, were directed to the areas which were most secure and this enabled them to make the transition from relief and rehabilitation to development much more quickly than the provinces prone to insecurity up until the late 1990s. Thus the microfinance market has developed differently within the country with semi-formal and formal microfinance growing much faster in areas that were more secure.
- Informal microfinance products mirror the unit of exchange. For example where people exchange in gold or rice, informal products are in gold and rice; and where people use cash, informal products are cash based.

Given functioning markets, trust is essential for informal microfinance to develop and security is essential for semi-formal and formal microfinance to develop.

- With the emergence of markets and diminishing intensity of conflict, informal microfinance establishes itself much more quickly than semi-formal and formal microfinance as it relies primarily on trust. Within Cambodia, semi-formal microfinance only emerged after 1991 when areas were becoming more secure.
- MFIs appear to have been created with little environmental analysis. They emerged as a result of the interests of NGO staff members working in the area and were influenced by development fashions and the availability of donor funds. They have developed based on trial and error.

Although formal and semi-formal microfinance provision is likely to be very high cost during and after armed conflict, it is still important in generating competition and a functioning microfinance market.

- Microfinance is very costly after conflict given damage to the infrastructure (for communications, banking etc.) and insecurity. This means that operational sustainability is very hard to achieve especially when working with very poor people in remote rural areas.
- The presence of semi-formal and formal microfinance is very important in increasing competition within the microfinance market. Competition forces suppliers of microfinance to try harder to meet client needs which leads to reduced interest rates and better terms and conditions for clients.

B. Coping Mechanisms

The household asset base determines how households cope during and after conflict

The extent to which households cope during and after conflict depends on the strength and diversity of their asset base. Assets can be financial (e.g. cash, savings, loans, gifts, pensions or other regular remittances), physical (e.g. housing, buildings, land, gold, jewellery, equipment, clothing, household appliances, bicycles), human (e.g. skills, knowledge, health, control over decisions) and social (e.g. relationships of trust, groups, networks, access to wider institutions of society).

- Land is a key asset for coping following armed conflict and especially when areas become secure. Returnee refugees and IDPs are thus more disadvantaged than people who were not displaced because they tend not to have sufficient land and they tend to lack the resources to get a legal land title so rendering them vulnerable to losing their land to powerful people.
- Labour is a key asset for coping during and after conflict.
- Following armed conflict poor people rely on cooperative coping mechanisms. Reciprocal lending between neighbours is important for consumption smoothing and the pooling of assets for productive activities.

- Extended families who are less poor provide a safety net to poorer relatives.
- The income of poor rural people is dependent upon trading activities of richer people. Connectedness to better off people enables poor people to access paid employment and informal loans.
- Most households have a limited surplus to save in refugee camps.
- Poor people save in productive assets rather than money immediately after conflict.
- Semi-formal and formal microfinance has been less important than informal finance in strengthening the coping mechanisms of households

Successful productive(AND TRADING?) activities depends upon market demand

- Trading is the most profitable (and dangerous) activity during and immediately after conflict due to high market demand. Soon after the Khmer Rouge period markets and money re-established themselves and there was a bit demand for rice and other foodstuffs. Traders travelling to the Thai border to collect rice from relief agencies or to buy food and consumer goods from Thai traders therefore became very rich.

Low investment, quick return activities are important for people during and immediately after conflict

- In uncertain environments during and after conflict where assets are vulnerable to being destroyed through fighting or when there is a risk of displacement people prefer diversified, low investment, quick return activities focusing mainly on primary industries. In such circumstances, the exploitation of natural resources is more important than sedentary agriculture which involves a high investment with returns only after several months.

C. Microfinance Products

People prefer informal microfinance products as they are more tailored to their needs than semi-formal and formal products

Informal providers tend to be closer to clients and so have a greater understanding of their needs and situations than semi-formal providers which offer relatively similar

products with slight variations in loan sizes, interest and terms and conditions. Semi-formal providers appear to make little attempt to understand the financial needs of clients and potential clients, their money management strategies or how they use financial services to meet their needs, and instead assume that they are meeting needs if people repay their loans and take out new ones. In addition most semi-formal and formal microfinance tends to be for micro-enterprise or agriculture while people may demand credit which is not tied and may be used for consumption. The following statements were developed to describe this situation:

- People choose between informal or semi-formal microfinance based on their preference for convenience or lower interest rates.
- The poorest people, who have the least predictable income flows prefer the convenience and flexibility of informal microfinance and are afraid of the assumed rigidity of semi-formal finance.
- People prefer the terms and conditions of informal loans but when they have exhausted this supply they turn to semi-formal loans.
- People may repay loans in cash or in kind (including labour) although when repayment is in kind interest rates are higher.
- People prefer individual rather than solidarity group loans and poor people may find it difficult to get someone to form a group with them especially for larger loans.
- Lack of collateral and trust may exclude people from informal finance outside the village although in place of trust and/or collateral high interest rates are charged on informal loans.
- People save money in cash first so they can purchase larger productive assets.
- Liquidity is the most important feature of savings.

Characteristics of microfinance products demanded by households change with the conflict and post-conflict environment

As the environment changes with areas becoming more secure and people becoming more confident about the future, the demand for specific characteristics of microfinance products also changes:

- Immediately after conflict, when rice and gold were the primary currencies, people demanded credit in rice or gold rather than cash. This has now changed as people exchange primarily in cash so demand credit in cash. Similarly in the early 1990s most people saved in gold or other physical assets but now people are increasingly saving in cash especially in areas close to Phnom Penh.
- Immediately after conflict people demand small short-term loans for productive activities. Now people prefer longer-term loans.
- Poor people continue to demand loans for consumption and consumption loans are more important than production loans for poor people.
- In terms of informal products, immediately after conflict trust was the most important factor for accessing loans, but as the microfinance product market and cash economy have expanded, informal suppliers are increasingly demanding collateral as well or in place of trust or collateral they charge very high interest rates.
- Semi-formal providers don't always have the skilled practitioners to adapt products to the changing **environment** and so they usually develop more on a basis of trial and error. It is often when large numbers of people drop-out of a scheme that the provider asks questions and then adapts the system to better meet the demands of clients.

9. CONCLUSIONS AND ISSUES TO CONSIDER IN BETTER PRACTICE

The research presented in this report aimed to contribute to the body of understanding on microfinance in post conflict situations. It has documented the experience of microfinance in Cambodia from the pre- to the post-conflict period and this has involved looking specifically at the environment for microfinance and household coping mechanisms and how these feed into the microfinance demand.

It has been found that within a country the impact of conflict and the rate of transition from war to peace, relief and rehabilitation to development is very different and this means that the microfinance market will develop differently according to the environment. Informal microfinance appears to develop much more quickly after conflict than semi-formal or formal microfinance as it requires just a functioning market and trust and can operate in situations of insecurity.

The demand for microfinance during and after conflict very much depends on household coping mechanisms. The research found personal and financial intermediation to be one important coping mechanism that people employ. However the extent to which people can cope with shocks is very dependent upon their assets, and the research found that returnee refugees and IDPs were least able to cope during and after armed conflict due to their diminished asset base. In terms of livelihood activities, during and immediately after conflict people preferred low investment, quick return activities often involving the unsustainable use of natural resources rather than sedentary agriculture which brought returns only in the long term. Trading activities were also found to be very profitable if they were responding to market demand.

The research investigated the characteristics of microfinance products that people demand and found that they change over time as they are related to the coping mechanisms and types of economic activity employed by people. The most important characteristics of loan products appeared to be the flexibility and accessibility offered by informal providers, rather than the low interest rates of semi-formal and formal providers. The desire for flexibility reflected the uncertainties both during conflict and after conflict, with poor people in rural areas subject to many risks from displacement and injury during conflict to sickness or natural disaster post-conflict.

The findings of the research have highlighted a number of issues to consider in better practice in microfinance. Firstly MFIs/ NGOs implementing microfinance need to monitor the changing environment during and after conflict as the sooner they enter the microfinance market, the more competition there will be and the better it will be for clients. Secondly, MFIs/NGOs need to understand the nature and impact of a particular conflict as this will determine the cost of microfinance provision and the potential for sustainability. Thirdly, microfinance product design requires an in-depth understanding of the environment and potential clients and their coping mechanisms. This leads on to the fourth point that flexible products are important in uncertain environments such as those affected by armed conflict. Fifthly, micro-credit should not be restricted to micro-enterprise and agriculture as it may play a very important role in income smoothing and building social and human assets. Finally, it was found that many semi-formal microfinance programmes were established by people with little experience in microfinance let alone microfinance in post-conflict situations. This led to mistakes being made and development of microfinance services being based on trial and error, which was costly and wasted resources. Therefore adequate technical support is essential for the effective provision of microfinance.

Cambodia offered a wealth of information about microfinance in post-conflict situations. It uncovered the diversity and importance of informal microfinance mechanisms during and after conflict and the challenges formal and semi-formal providers encounter in offering sustainable microfinance services to poor people. Further research is needed but it is hoped that this represents a starting point from a field perspective in understanding post conflict microfinance and the challenges NGOs and MFIs face in doing this.

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APPENDIXES

Appendix 1 - Framework For Research

Question	Hypothesis	Sub-questions
1. What are the coping mechanisms of the poor for managing household finances during and in post-conflict situations?	Microfinance products strengthen household coping mechanisms during and after conflict	<p>What formal sources of finance are used during and after conflict and why?</p> <p>What informal sources of finance are used during and after conflict and why?</p> <p>Who do the poor turn to for finance and for relief? Who do the slightly better off turn to?</p> <p>What are the traditional methods of savings, loans and insurance?</p> <p>Which are the preferred sources of finance?</p> <p>When repayment of loans is due which creditors are repaid first (i.e. which are most highly valued?)?</p> <p>How does household behaviour change with regard to finance during and after conflict?</p> <p>What coping mechanisms are employed with regard to labour, production, trading, assets, liabilities, consumption and expenditure?</p> <p>How do households begin to regenerate income?</p>
2. What environmental conditions have the greatest	Fulfilment of Doyle's minimum requirements ensures	<p>How has the environment changed?</p> <p>How has the supply of microfinance services changed?</p> <p>What environmental factors are important in deciding when to start microfinance?</p>

<p>impact on microfinance?</p>	<p>satisfactory conditions for the supply and demand of microfinance products</p> <p>Fulfilment of Doyle's preferred requirements ensures satisfactory conditions for the supply and demand of sustainable microfinance</p>	<p>when to start microfinance?</p> <p>How has the demand for microfinance services changed?</p> <p>What environmental factors are important in determining the demand for microfinance services?</p> <p>What were the conditions when MFI was established?</p> <p>How has the MFI developed since its inception in response to the changing environment?</p> <p>What have been the strengths and weaknesses of the MFI from its inception?</p> <p>Would things have worked better if the MFI had started later/earlier and why?</p> <p>What could have been done better and why?</p>
<p>3. What types of microfinance products are in demand in post-conflict situations?</p>	<p>When choosing a microfinance product clients prefer those which are flexible, convenient and give easy access to their money³</p>	<p>How does demand for in-kind and cash products vary?</p> <p>How does demand for production and consumption loans vary?</p> <p>What productive activities were/are chosen?</p> <p>Do they prefer loans with compulsory savings or loan products that are not linked to savings?</p> <p>Do they prefer instant access or forgo for higher interest rates?</p> <p>What is the preferred loan period and conditions? Why?</p>

³ Based on discussions at the PCM Committee meeting on 7 June 2001.

		What interest rate and fees will be tolerated?
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Appendix 2 - Data Sources

A. NGOs involved in Microfinance, MFIs and Banks

Semi Structured interviews were conducted with representatives including Country Director, Microfinance Programme Manager, Branch Manager, Area Manager and Credit Agent in the following NGOs

Phnom Penh: Catholic Relief Services, Concern Worldwide, EMT, World Relief/CREDIT, World Vision

Banteay Meanchey: ACLEDA, CAAFW, Concern Worldwide, Khmer Family Development, Rufade, SEADO, Seilanithi

Pursat: Concern Worldwide, Hatta Kasekar

B. Community Members

Semi structured interviews were held with 42 people (24 women and 18 men) in nine village, five districts within two provinces. Focus group discussions were held with three groups, in three villages in two districts within two provinces. Further details of the sources of data are outlined below. Transcriptions of interviews are available on request.

Banteay Meanchey Province

Mongkul Borei District

Semi Structured Interviews

Gender	Age	Refugee/IDP/Not Displaced	Wealth Category	Other
Chamnoam Keut Village, Chamnoam Commune				
1. Man	58	Not displaced	Rich	Sells fertiliser, also moneylender

Gender	Age	Refugee/IDP/Not Displaced	Wealth Category	Other
2. Man	-	Not displaced	Rich	Vice Commune Chief
3. Woman	50	Not displaced	Poorest	Widow
4. Woman	-	Not displaced	-	-
5. Woman	-	IDP	Poorest	-
6. Man	-	IDP	Poorest	Ex-soldier now amputee
7. Woman	-	Not displaced	Poorest	7 children between 2-19 years
8. Man	-	Not displaced	Poorest	Sick
9. Man	-	Not displaced	-	-
10. Woman	-	Not displaced	Poorest	5 children
11. Woman	59	Not displaced	Rich	Chamnoam Market Trader
12. Woman	30s	Not displaced	Rich	Chamnoam Market Trader
13. Boy	12	Not displaced	-	School boy
Koy Meng Village, Koy Meng Commune				
14. Man	50	IDP	-	Demobilised soldier
15. Woman		IDP	-	

Gender	Age	Refugee/IDP/Not Displaced	Wealth Category	Other
16. Woman	-	-	-	Moneylender
17. Woman	30	-	-	Village Bank Committee Member

Thma Pouk District

Focus Group Discussions:

- **Trapeng Thlork village, Banteay Chhmar Commune** – discussion held with approximately 20-30 people in village leaders house.
- **Kbaltonsorn village, Banteay Chhmar Commune** – discussion held outside the village shop with about 10 people.

Semi Structured Interviews:

Gender	Age	Refugee/IDP/Not Displaced	Wealth Category	Other
Trapeng Thlork Village, Banteay Chhmar Commune				
18. Woman	Old	IDP	Poorest	Widow
19. Woman	-	Refugee	Poorest	Disabled
20. Man	-	Refugee	Poorest	Recently bitten by snake so can't work
21. Woman	-	Refugee	Poorest	
22. Man	-	Refugee	Poorest	Blind in one eye, weak so difficult to work

Gender	Age	Refugee/IDP/Not Displaced	Wealth Category	Other
23. Man	-	Refugee	-	Village Chief
Throm Deikas Village, Banteay Chhmar Commune				
24. Man	-	Refugee	-	Village Chief

Sereisophon District

Semi Structured Interviews:

Gender	Age	Refugee/IDP/Not displaced	Wealth Category	Other
Makak Village, Makak Commune				
25. Woman	30	Refugee	-	Wood Trader
26. Man	38	-	-	Wood Trader
Sisophon Market				
27. Woman	46	Not Displaced	-	Gold seller and moneylender
28. Woman		Not Displaced	-	Gold seller and moneylender

Svay Chek District

Semi-Structured Interviews:

Gender	Age	Refugee/IDP/Not Displaced	Wealth Category	Other
Khlempor Cheung Village, Taben Commune				
29. Man	-	Refugee	Medium	Village Chief

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30 Woman	About 50	IDP	Poorest	Widow
31. Man	Old	IDP	-	Government Employee
32. Man	-	IDP	-	Disabled – had gun shot wounds
33. Woman	-	IDP	-	-

Pursat Province

Bakan District

Focus Group Discussions:

- **Chambok Meak village, Snam Preah Commune** – discussion held in a squatter area of the village. Participants included one soldier, one demobilised soldier and four women one of whom used to be a moneylender before the floods wiped out her crops and wealth last year.

Semi Structured Interviews:

Gender	Age	Refugee/IDP/Not Displaced	Wealth Category	Other
Bour Srang Village, Trapeng Chaung Commune				
34. Man	49	IDP	Rich	Village Chief
35. Woman	43	Not Displaced	Poorest	7 children and cares for elderly, sick mother
36. Man	-	Not Displaced	Poorest	Demobilised Soldier
37. Woman	55	-	Poorest	Separated and lost home and land trying to save her son who recently died
Chambok Meas Village, Snam Preah Commune				
38. Woman	63	Refugee	Rich	Moneylender and shopkeeper
39. Man	74	Refugee	Rich	Moneylender and Shopkeeper

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Gender	Age	Refugee/IDP/Not Displaced	Wealth Category	Other
40. Woman	21	Not displaced	-	Worked in a garment factory in Phnom Penh
41. Woman	-		-	Works in the family shop