# Everyday Financial Strategies: The Microstructure of Impact in Cambodian Households

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# Contents


Introduction ..... 3

Cash Flow Summary ..... 4

All Loans ..... 5

Loans from financial institutions ..... 6

Did the financial institution loans generate income? ..... 7

Outcomes of loans taken ..... 9

Home Construction ..... 9

Investment ..... 12

Ceremonies ..... 14

Other uses of loans ..... 15

Suitability of loan product design ..... 21

Conclusion ..... 23

# Introduction

The impact of microfinance is often measured in terms of outreach, such as the number of low-income customers or the percentage of female borrowers. While these metrics are important, they may not fully capture the effectiveness of microfinance in households' daily lives. There may be cases where borrowers are unable to use the funds effectively, leading to an impact that is limited, or different from what is expected by the lender, which is typically use of microfinance for income generating investments. For example, sometimes they may use the money for consumption, or borrow without a clear purpose and end up not being able to utilise it effectively.

To address this gap, in 2021, Gojo & Company and Japan International Cooperation Agency (JICA) jointly launched a financial diaries project in Cambodia, which aimed to learn what is happening in households by collecting the details of their income, expenses, and financial transactions. By understanding diarists' daily lives, we hoped to understand and evaluate the collective impacts of each loan taken over time, leading to a better understanding of the overall impact of microfinance.

In this paper, we present the findings of the Cambodia Financial Diaries, which surveyed 149 low-income households in Cambodia. The daily data collection started in October 2021 and continued until October 2022, covering 141 transaction categories with more than 220,000 transactions and a total amount of over USD 2.6 million. The survey was conducted in five provinces in Cambodia: Kampong Cham, Kampong Speu, Kampot, Kandal, and Phnom Penh.

The data reveals diverse uses of loans from financial institutions, ranging from business investments to personal consumption and emergency expenses. Our analysis shows that while some households experienced an increase in income after taking loans, the correlation was not particularly strong. Loans were often used for purposes beyond income generation, such as home construction, ceremonies, and other significant life events. These findings highlight the need for microfinance products to be better tailored to the specific needs of borrowers, emphasising the importance of flexible loan products that align with the timing and purposes of borrowers' expenditures.

By providing detailed insights into the financial lives of low-income households in Cambodia, this report aims to deepen the understanding of the real impact of microfinance and suggests ways to improve financial services to better meet the needs of the poor. Although Financial Diaries uses quantitative data from daily financial transactions and qualitative data from interviews to understand the stories behind the household's cash flow, the methodology lacks any rigorous attempt to ascertain the attribution of impact. We can only observe the impacts of loans on households by piecing together narrative stories with data analysis, but not make claims on what exactly created a certain impact. That said, we invite you to observe these diarists' stories with us.

# Cash Flow Summary

The total cash flow amount in each category is shown in Table 1. The top left summarises income, the bottom left shows expenditure, and financial and asset transactions are listed on the right side.

The top left section reveals that “Business income” was the largest source of income for households in the project. It needs to be considered in relation to “Business expenses” in the bottom left section, which also has a high transaction amount. “Salary” is the next largest source of income, followed by “Agriculture (in),” which also needs to be considered in relation to “Agriculture (out).” “Remittances” from family members living elsewhere, and various “Gift (in)” are also significant.

| Income | # | USD |
|---|---|---|
| Business income | 9,730 | 434,178 |
| Salary | 2,915 | 297,605 |
| Agriculture (in) | 4,390 | 126,530 |
| Remittances | 1,490 | 79,681 |
| Gifts (in) | 416 | 59,004 |
| Government/NGO | 1,183 | 17,357 |
| Property rental (in) | 47 | 1,485 |
| Others (in) | 33 | 1,099 |
| total | 20,204 | 1,016,939 |

| Expenditure | # | USD |
|---|---|---|
| Business expenses | 8,034 | 364,111 |
| Food | 98,881 | 273,629 |
| Ceremonies | 6,902 | 163,652 |
| Agriculture (out) | 2,826 | 63,341 |
| Unknown uses | 20,376 | 58,706 |
| Transportation | 18,166 | 57,278 |
| Housing | 280 | 49,529 |
| Medical services | 3,688 | 49,126 |
| Education | 15,141 | 29,799 |
| Alcohol, Cigarette, Entertainmen | 9,580 | 24,677 |
| Utility | 4,646 | 21,057 |
| Clothing | 2,177 | 13,673 |
| Phones, Internet services | 3,731 | 11,333 |
| Gifts (out) | 569 | 10,862 |
| Grocery | 1,798 | 5,848 |
| Others (out) | 161 | 2,799 |
| total | 196,956 | 1,199,418 |

| Financial Inflow | # | USD |
|---|---|---|
| Loan from institution | 19 | 65,823 |
| Loan repayment received | 231 | 25,236 |
| Land sales | 5 | 23,825 |
| ROSCA (in) | 27 | 10,081 |
| Loan from individual | 55 | 4,975 |
| Other asset sales | 74 | 4,323 |
| Loan from relatives | 34 | 3,828 |
| Gold/Jewelry sales | 7 | 2,008 |
| Car/Moto sales | 3 | 950 |
| Savings withdrawal | 2 | 500 |
| Loan from others | 2 | 200 |
| Business equipment sales | 1 | 100 |
| total | 460 | 141,847 |

| Financial Outflow | # | USD |
|---|---|---|
| Loan repayments | 984 | 151,698 |
| Car/Moto | 39 | 25,189 |
| Home construction | 42 | 21,210 |
| ROSCA (out) | 561 | 13,699 |
| House equipment | 786 | 12,899 |
| Loan to others | 40 | 12,673 |
| Agri equipment | 4 | 10,615 |
| Other asset purchase | 88 | 4,254 |
| Gold/Jewelry | 32 | 4,147 |
| Business equipment | 17 | 2,104 |
| Savings deposited | 13 | 1,138 |
| total | 2,606 | 259,625 |

Table 1

In the bottom left section, “Business expenses”, which refer to business stock purchases, are naturally the largest. “Food” is one of the largest expenses, with the highest number of transactions, followed by “Ceremonies,” including weddings, funerals, and religious rites. “Agriculture (out)” also needs to be considered in relation to “Agriculture (in).” “Unknown uses” refer to expenses that were handed over to other family members by the diarist for various purposes. Examples of this include giving money to spend for one’s husband going to work, or a child going to school. “Transportation,” “Housing,” and “Medical services” follow.

In the top right section, inflows from financial and asset transactions are large, exceeding 10% of total income. “Loans from financial institutions” dominate in terms of size, while loans from relatives or individuals occur more frequently. “Loan repayment received” includes the collection of payments for sales made on credit by households engaging in business, and is also frequent and substantial. "Land sales" are less frequent, but the amount per transaction is significant. Additionally, "ROSCA[1](in)", called Tong-Ting locally, is also popular among some diarists.

Outflows from financial and asset transactions are dominated by "Loan repayments." This includes repayments to financial institutions, relatives, and individuals, as well as payments for credit purchases. "Car/Moto" and "Home construction" represent significant expenditures, although evaluating the marketability or saleability of these assets is not easy. Additionally, households not only borrow from relatives and neighbours but also lend money to them.

## All Loans

Figure 1 presents all loans taken by diarists during the survey period, in order of size, including 20 loans from financial institutions, 32 loans from relatives, and 56 loans from other individuals.

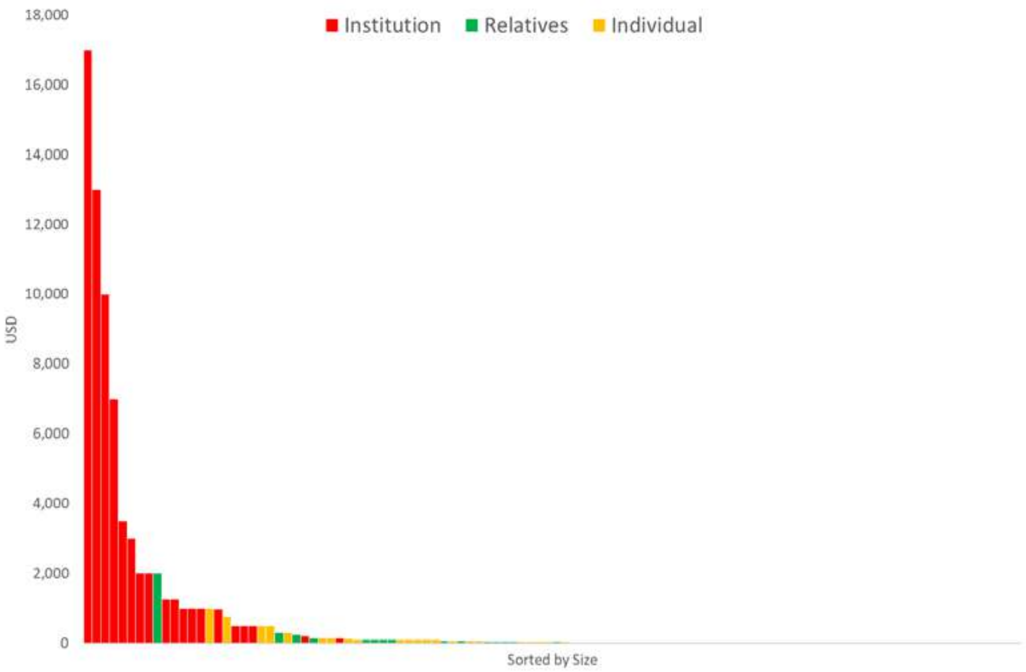


Figure 1

However, Figure 1 can be challenging to read since the larger loans from financial institutions overshadow the smaller ones from relatives or individuals. To address this issue,  Figure 2 uses a logarithmic axis instead, making it easier to identify the smaller loans.

1 Rotating Savings and Credit Association

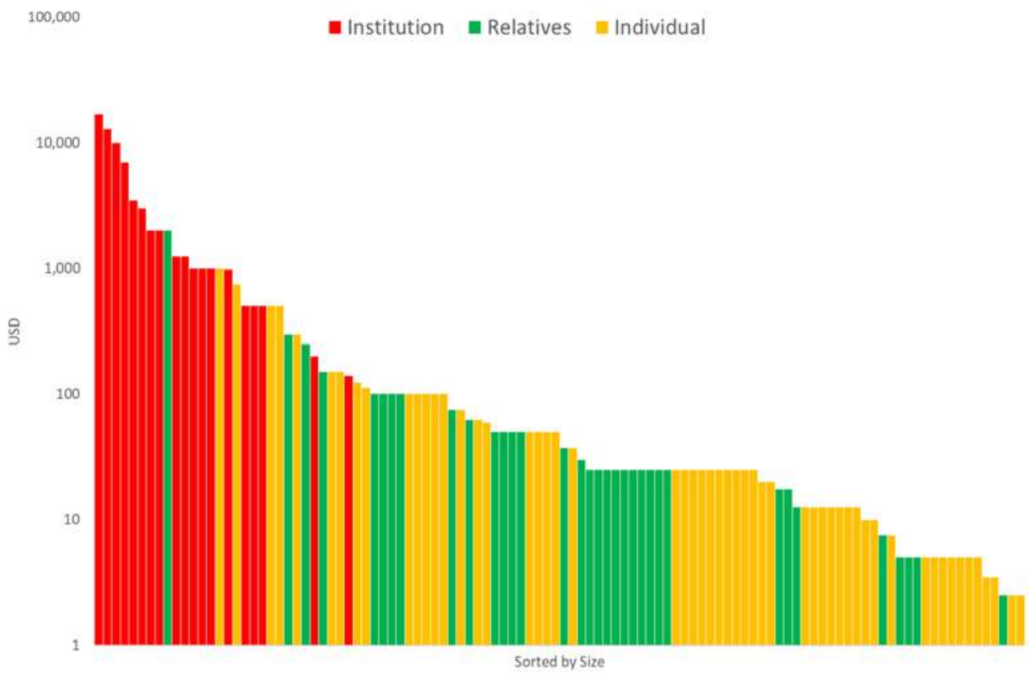


Figure 2

The left side of the graph, where loans range from $1,000 to $10,000, is mainly dominated by loans from financial institutions. The loans below $100, from the middle to the right side of the graph, are examples of traditional financial tools commonly used worldwide. Loans above $10,000 are closer in size to conventional bank loans rather than micro-loans. This paper will focus on examining the uses and impacts of loans taken from financial institutions in particular, to learn whether and in what ways these loans helped to increase diarists' access to finance and better outcomes.

## Loans from financial institutions

Table 2 presents the list of all loans disbursed from financial institutions during the project period.

| Diarist | Date | Province | Institution | Amount | Enumerator Note |
|---|---|---|---|---|---|
| 50 | 2022/2/28 | Kampot | Bank | 3,500 | |
| 113 | 2022/7/25 | Kampong Cham | MFI | 983 | Buy a bracelet of 1900000 Riel |
| 119 | 2022/4/12 | Kampong Cham | Bank | 17,000 | |
| 120 | 2021/12/3 | Kampong Cham | MFI | 13,000 | Spent $10000 to buy a harvester |
| 135 | 2022/6/14 | Kampong Cham | MFI | 1,250 | 5000000 Riel |
| 135 | 2022/7/21 | Kampong Cham | MFI | 1,000 | 4000000 Riel |
| 135 | 2022/9/28 | Kampong Cham | MFI | 500 | 2000000 Riel |
| 136 | 2022/6/9 | Kampong Cham | MFI | 500 | 2000000 Riel |
| 142 | 2021/12/1 | Kampong Cham | Bank | 1,250 | (Riel) |
| 149 | 2022/4/25 | Kampong Cham | MFI | 1,000 | 4000000 Riel and repay for the goods at the amount of 2730000 Riel |
| 149 | 2022/7/27 | Kampong Cham | MFI | 2,000 | |
| 175 | 2022/7/13 | Kampong Cham | MFI | 3,000 | |
| 235 | 2021/11/30 | Kandal | MFI | 7,000 | |
| 244 | 2021/11/9 | Phnom Penh | MFI | 200 | |
| 245 | 2022/7/26 | Phnom Penh | MFI | 10,000 | |
| 316 | 2022/10/7 | Kandal | unknown | 140 | Don't know the name of the microfinance |
| 319 | 2022/1/26 | Kandal | MFI | 2,000 | |
| 324 | 2022/1/24 | Kandal | unknown | 500 | |
| 436 | 2021/12/16 | Kampong Speu | MFI | 1,000 | (Riel) |

Table 2

Out of 19 loans labelled as from financial institutions, two loans (taken by diarists No.316 and No.324) were excluded from further analysis as they were reported to have been taken by other family members, but no details were available regarding the name of the institution or the use of funds. The remaining 17 loans were obtained by 14 households, of which one household took two loans (No.149) and one household took three loans (No.135). Notes were provided by the enumerators on some of the loans, which recorded the loan size in local currency or intended use of funds, among other details.

## Did the financial institution loans generate income?

Assessing how household income changed before and after loans were taken is often regarded as an essential aspect of impact assessment in microfinance. In the Cambodia Financial Diaries, we can evaluate this aspect within the survey period using the detailed data recorded on the timing of loans and household income. In this section, we present the changes in income for each household before and after receiving the loan disbursement from financial institutions.

To analyse the data, we counted the following categories on the top left part of Table 1 as "income":

- Salary
- Business income
- Agriculture (in)
- Property rental (in)

These were selected as the items that are expected to increase with the loan and accompanying investment.
In other words, we did not count the following as "income":

- Remittances
- Gifts (in)
- Government/NGO
- Others (in)

as they are not expected to increase significantly as a result of loans. Financial Inflows (in the top right section) are also not counted.

These 17 line charts in Figure 3 show how income changed before and after each loan was taken. Please note that households No.149, which took two loans, and household No.135, which took three loans, have multiple graphs with the same shape but different execution timings. We encourage readers to observe, based on the graphs, whether income increased after the loans were taken out. Some graphs, such as those for households No.244, No.319, and No.436, appear to show a trend of increased income after the loans were executed. However, it is not evident that the loans from financial institutions contributed to the trend of increased income after execution. Daiju Aiba, a JICA researcher who jointly managed the Cambodia Financial Diaries together with Gojo, has also performed quantitative evaluations on this topic and did not find a strong relationship between the loans and increased income[2].

2 https://www.jica.go.jp/english/jica_ri/publication/booksandreports/1535053_24204.html

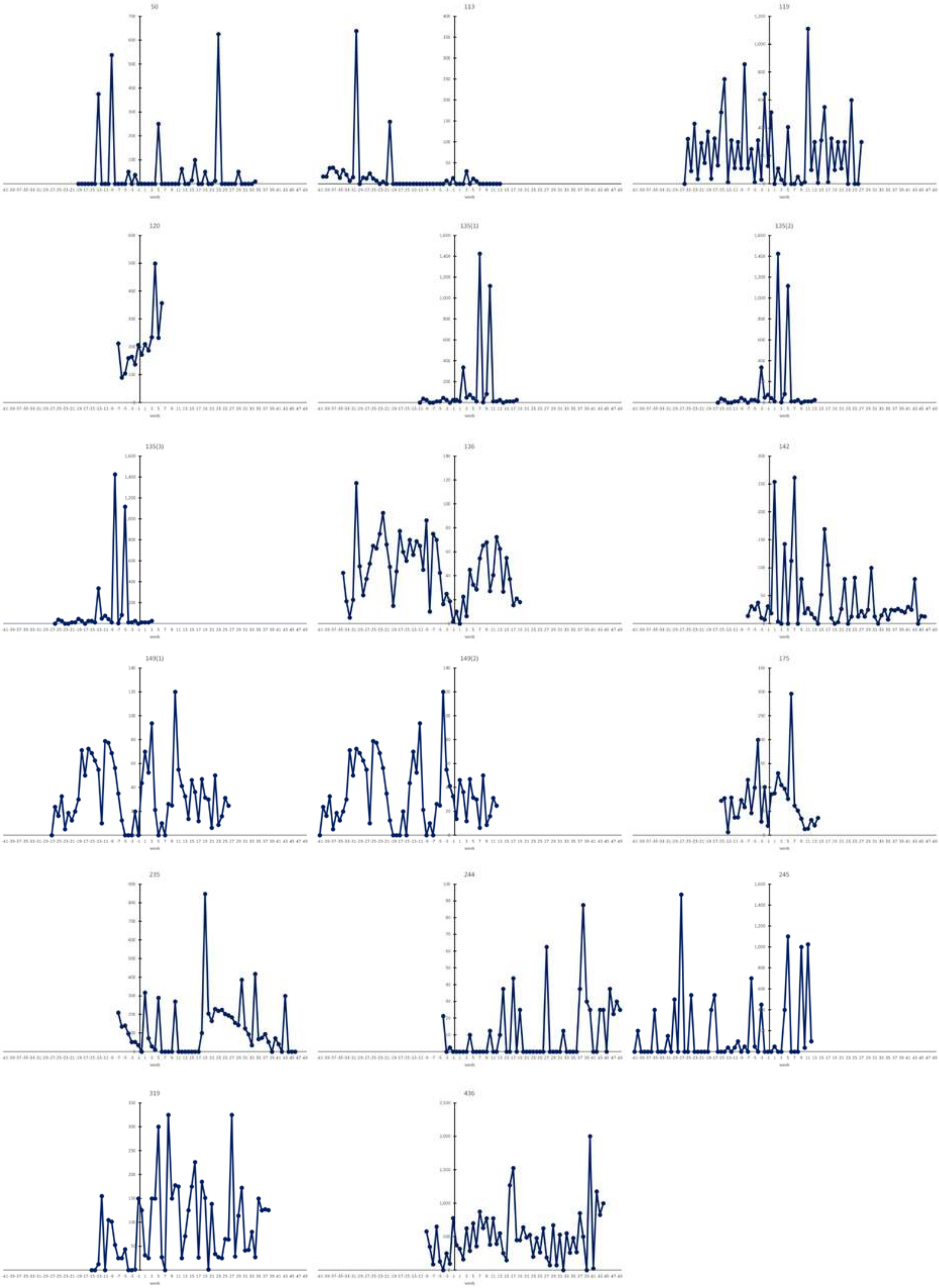

Figure 3

## Outcomes of loans taken

Understanding the impact of loans from financial institutions on household well-being requires us to look beyond income growth. While it is not clear whether loans contributed to increased income, households that take loans have specific reasons for doing so which may not be related to income generation. Thus, to explore how loans helped households to achieve their goals, we examined the inflows and outflows in chronological order of all 14 households that took out loans from financial institutions during the survey period.

Using the detailed data from the Cambodia Financial Diaries, we identified the use of loan funds and classified them into categories. Using graphs to visualize the data revealed that it is generally easy to identify the use of loan funds. Let us look at some examples.

## Home Construction

Of all the loans, five were used for home construction, one of the most common usages we see in the diaries.

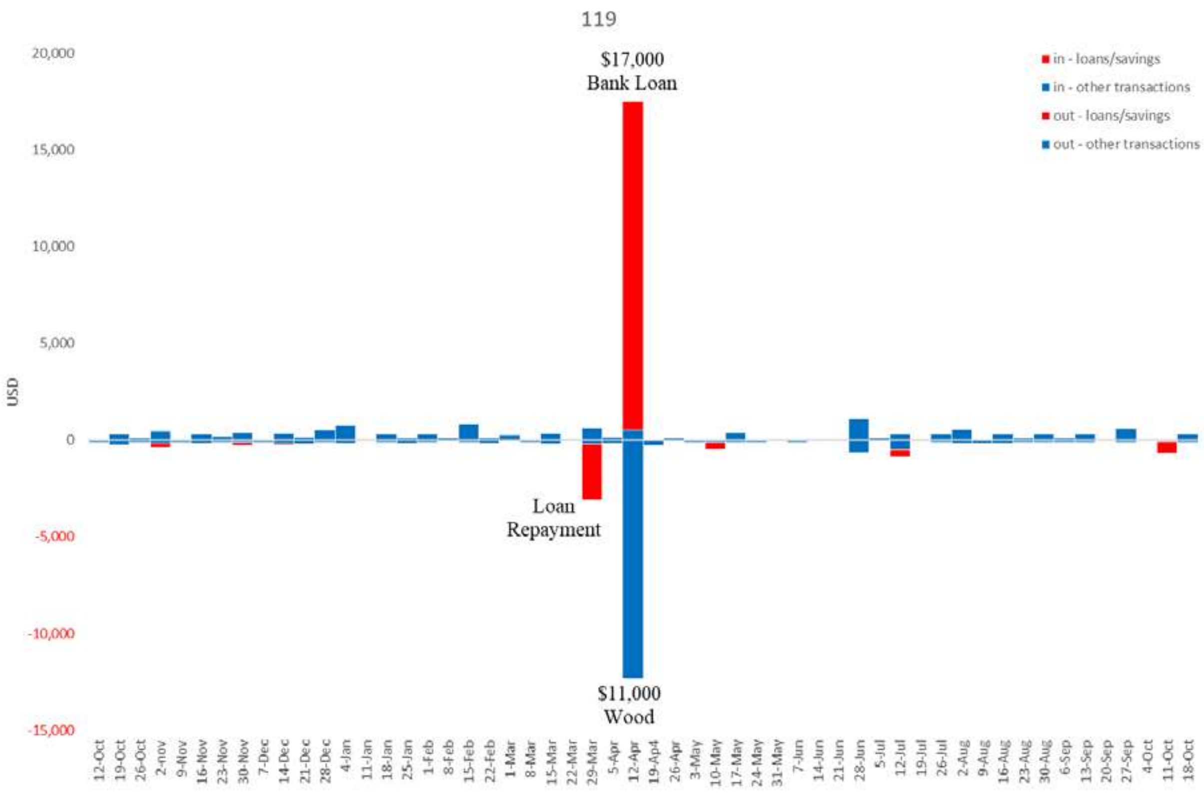


Figure 4

Diarist No.119 (Figure 4) took a loan of $17,000, the largest loan in our sample, and used $11,000 of the funds to purchase wood for home construction the following day. The enumerator reported that the diarist kept the remaining $6,000 as cash in their home. While home construction or repair does not directly increase income, improving one's living environment can contribute significantly to health and happiness.

The outcome we may expect from a loan varies depending on the purpose the loan was used for. If a loan is used to purchase a business asset, we might hope or expect to see increased sales as a result. If a loan is used for home improvement, we might expect to see increased satisfaction with one's living conditions as an outcome. Many microfinance companies tend to offer one or two generalised loan products (e.g., "group loan" or "individual loan") without differentiating their loan products by the purposes for which they are used. To evaluate the impact of generalised loan products it may help to first segment clients by their actual usage of their loans and from there, to understand the specific outcomes achieved.

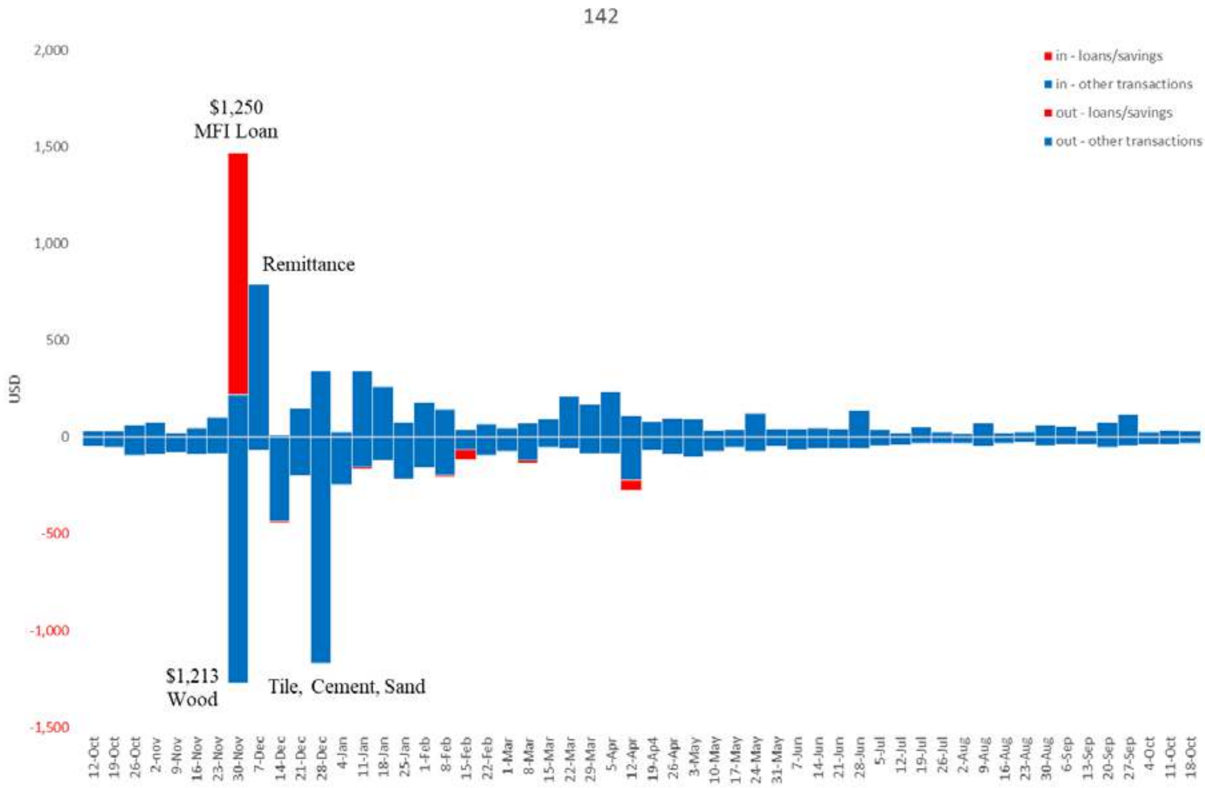


Figure 5

Diarist No.142 (Figure 5)  took a $1,250 loan from a microfinance institution and also used it to purchase wood for their home construction project. Afterwards, this household received remittances from family members abroad while continuing their housing project by purchasing other materials such as tiles and cement over several weeks. Such examples of home construction or repair, where the purchases and work take place in several phases, can often be seen in other households. The standard methodology employed by households may be first to plan, then raise funds and purchase materials in several rounds, while in parallel hiring workers, and supervising the site.

In another similar example, Diarist No.175 (Figure 6) took a $3,000 loan from a microfinance institution and began purchasing materials such as tiles, doors, and windows from the following week.

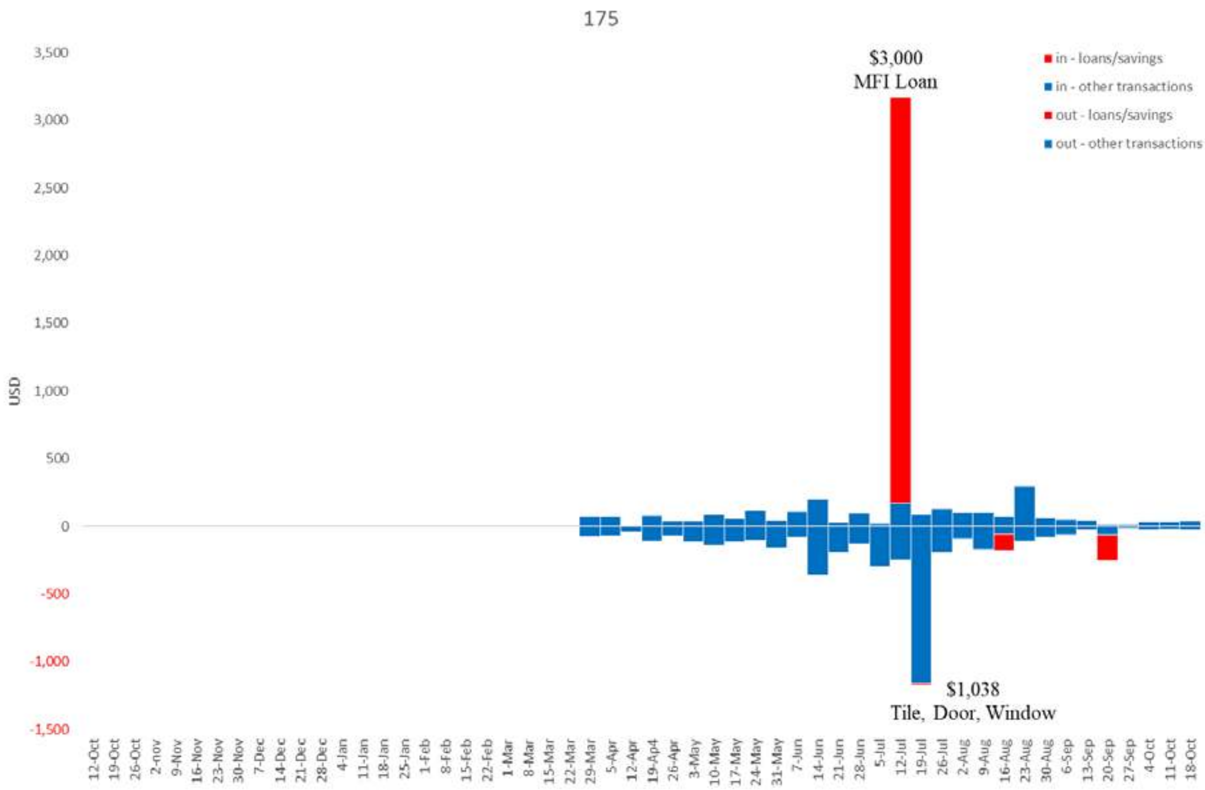


Figure 6

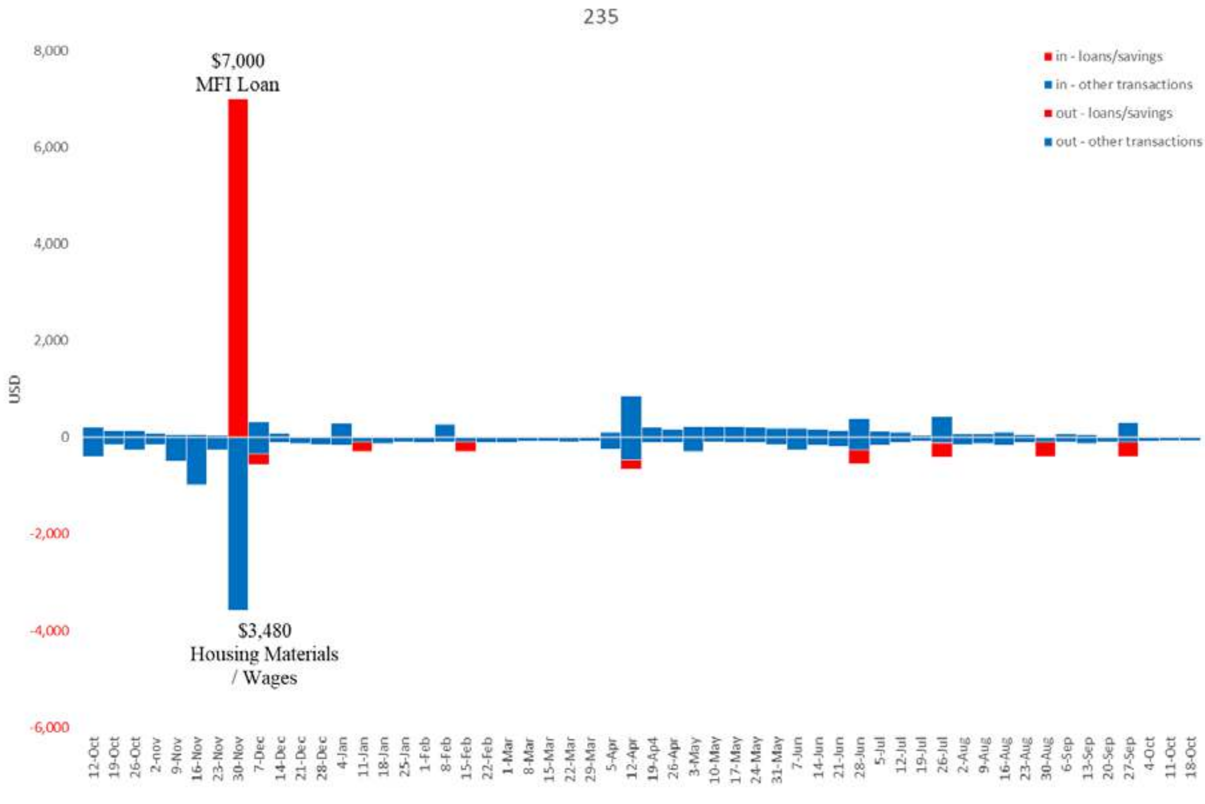


Figure 7

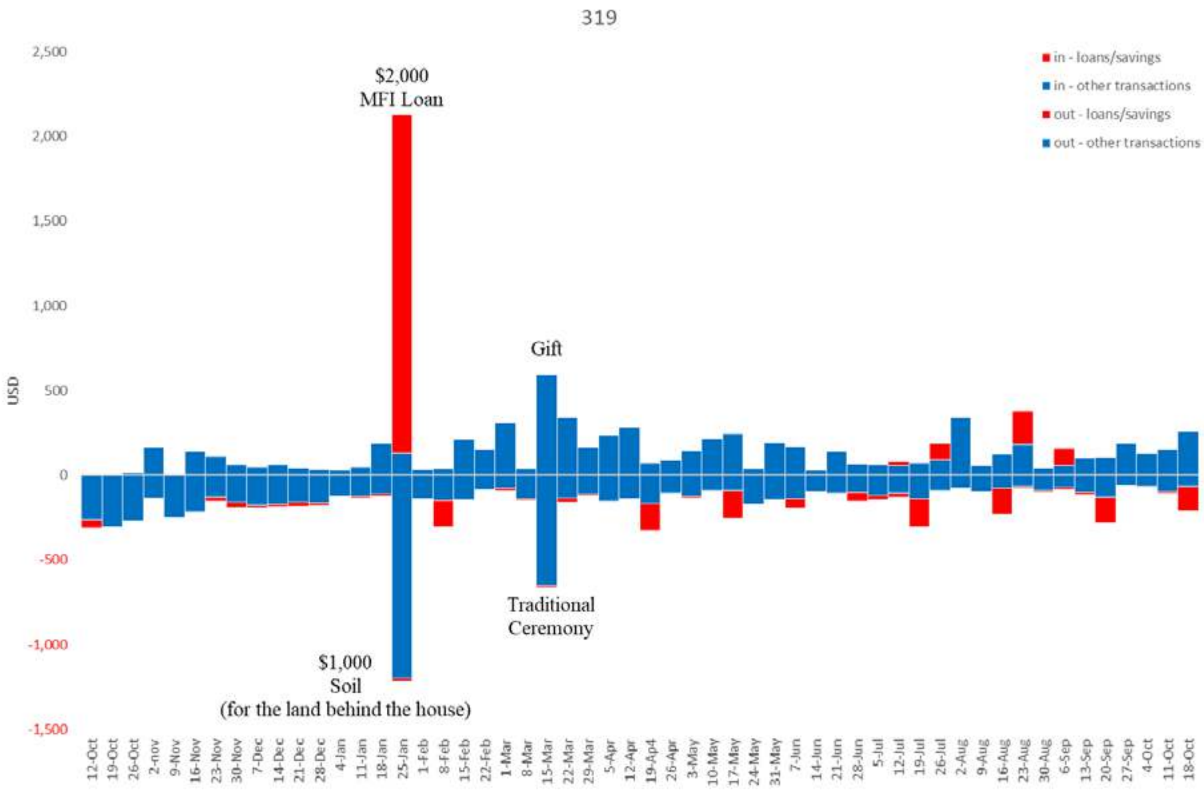


Figure 8

Finally, Diarist No.319 (Figure 8) recorded using their $2,000 loan from a microfinance institution for soil, not for agricultural land, but for land behind their home. They used the soil to prepare the plot of land for building an extension of their house.

## Investment

While there were five cases where loans were used for housing-related purchases, there were only two cases in the project where loans were found to have been used for investment, and may therefore have been expected to generate income. Still, due to the small sample and the fact that Diarist No.120 dropped out of the project shortly after their investment, it is difficult to draw any conclusion about the impact of loans used for asset purchases on income.

Diarist No.120 (Figure 9) took a $13,000 loan from a microfinance institution and on the same day, used $10,000 to purchase an agricultural machine, a harvester. Their intention may have been to improve the efficiency of farming and help family members to have more time to engage in additional work, or perhaps to pursue larger profits by expanding the scale of their farming. Unfortunately, the household dropped out of the survey shortly after this purchase. Looking at their income in Figure 3, it may appear to be increasing, but it is not easy to evaluate due to the short period of observation. For example, if agricultural equipment was purchased just before the harvest, it is natural for sales to increase afterward, and it may not be attributable to the contribution of the equipment.

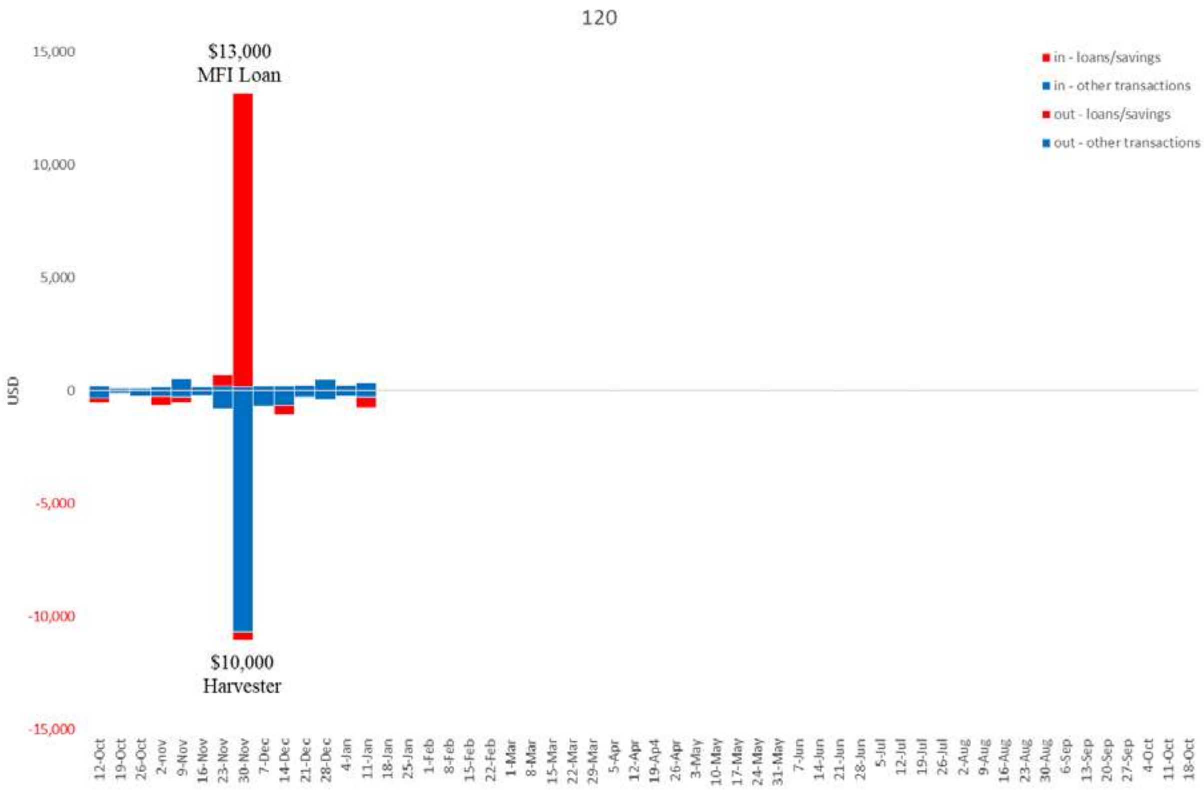


Figure 9

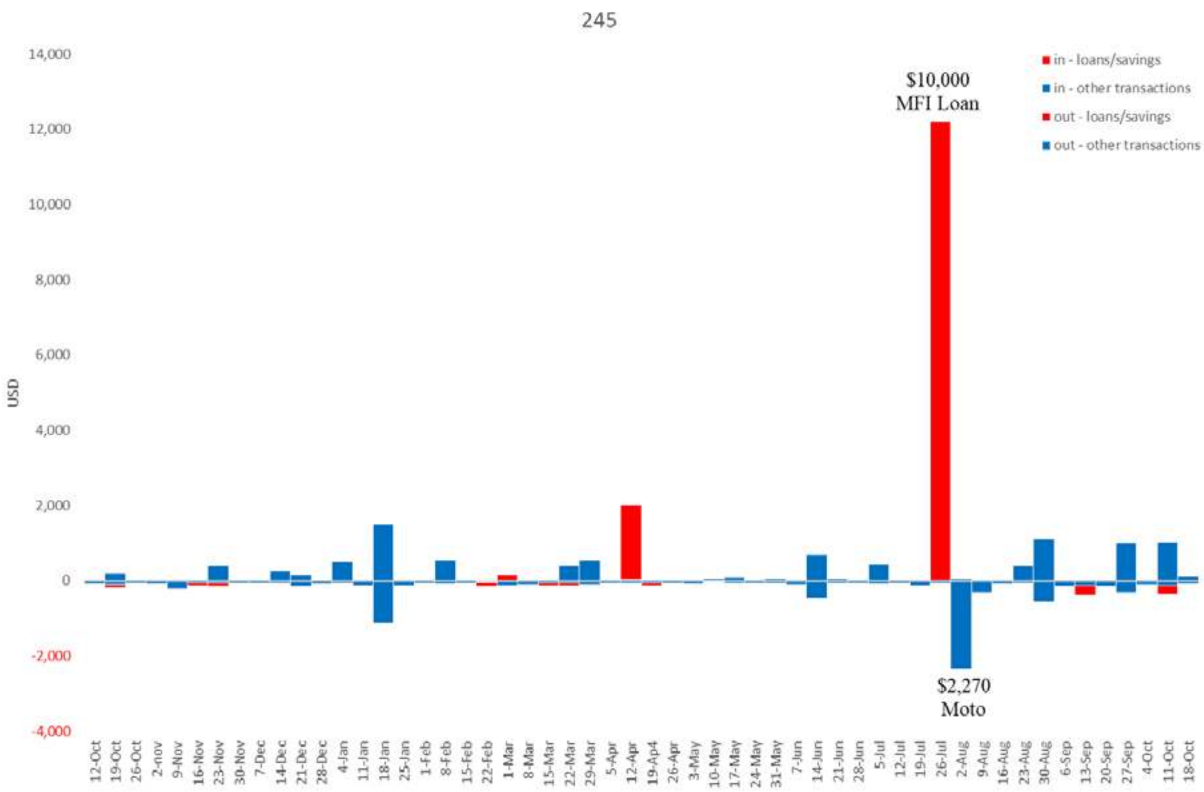


Figure 10

Diarist No.245 (Figure 10) took a $10,000 loan from a microfinance institution and purchased a motorbike the following week. Notes from the enumerator indicate that the loan was taken to expand their business. On the other hand, it seems that a large amount of cash was left over after purchasing the motorbike, but the details of what they did with this are unknown. It also appears that the investment might be contributing to the subsequent increase in income, but the execution of the loan was towards the end of the survey period, making it difficult to evaluate. The relatively large earnings of $1,000 each in weeks 47, 51, and 53 are recorded as earnings from the diarist's welding work.

## Ceremonies

Two loans were used for wedding ceremonies. Although weddings are happy events and may also serve as motivation for the future, they are not expected to result in increased income.

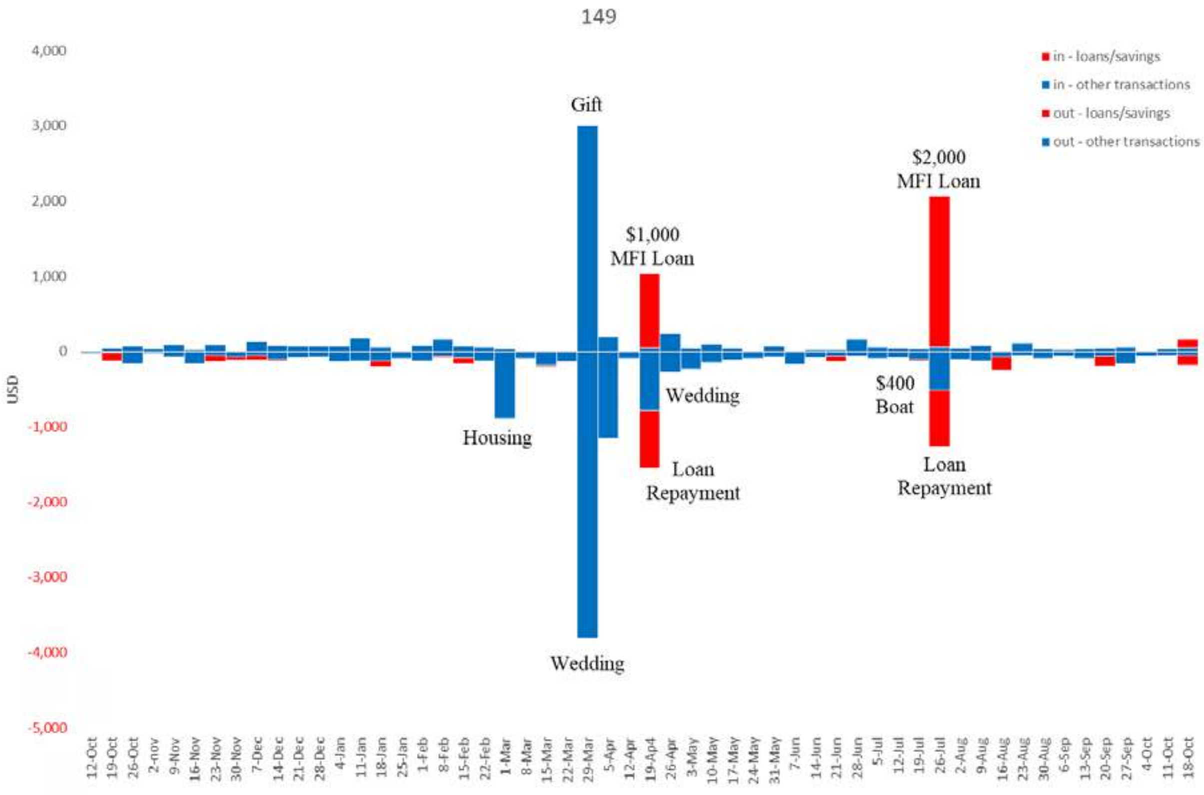


Figure 11

Diarist No.149 (Figure 11) conducted a slightly complicated transaction three weeks after their wedding. They first repaid the loan they had already borrowed from a microfinance institution, and borrowed a larger amount from the same institution to cover some of the wedding expenses. We may infer that this transaction was necessary because the number of outstanding loans one person can have at a time is limited by regulations in the country. Five months later, the household took a $2,000 loan from another microfinance institution to purchase a $400 boat and also repaid part of the difference to the same institution immediately. It is unclear why they did not take a smaller loan instead. Possible reasons could include the boat being cheaper than expected, or the loan officer or the borrower simply wanting to disburse or borrow a large amount at the time.

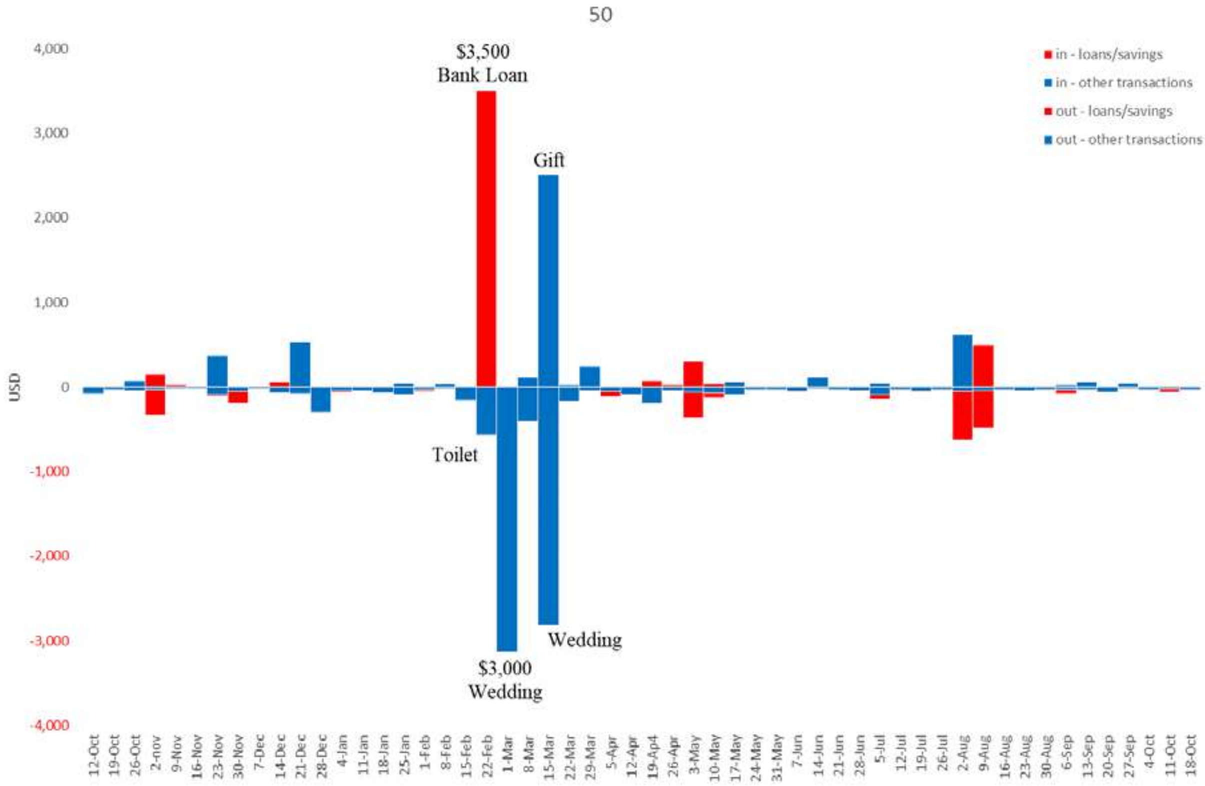


Figure 12

Diarist No.50 (Figure 12) is a household consisting of a mother and son who took a $3,500 loan from a microfinance institution and used it for the son's wedding the following week. A relatively large expenditure on toilet renovations was also found just before the wedding, which we may infer was part of their preparations for welcoming the bride.

## Other uses of loans

For the five households whose loan usage we classified as "Other", each case is very interesting and deserves a detailed investigation.

Diarist No.135 (Figure 13) is a rather unusual household that took three loans from microfinance institutions during the second half of the survey period. During the period, they were very active in trading cows and motorbikes. Their main source of income is agriculture, so these trades could be considered adjacent to their main business.

Let's follow their timeline. In the 29th week of the project, they made a relatively large expenditure to purchase cows. Then in the 32nd week, they sold a motorbike and obtained cash. In the 36th week, they took a $1,250 loan from a microfinance institution and bought another motorcycle, almost for the same price. In the 38th week, they exchanged the motorcycle for another (cheaper) one and made a profit. In the 41st week, they took another loan of $1,000 from a different microfinance institution, and in the 43rd week, they combined a loan from a private lender with their proceeds from selling cows, and purchased another cow. In the 45th week, they partially repaid a loan, and in the 46th week, they sold a cow, and then in the 48th week, they partially repaid a loan again. In the 51st week, they took another loan of $500 from yet another microfinance institution, and in the 52nd week, they sold a motorbike, and in the 54th week, they partially repaid a loan again.

It is undoubtedly true that the loans this household took from microfinance institutions were directly linked to their income, or at the very least, they could have expected them to contribute to their income earning potential ex-ante. However, it is probably not quite accurate to say that these loans are what microfinance institutions call "income generating." Often, the "impact" claimed by microfinance institutions may implicitly assume a steady increase in income brought about by the investment. On the other hand, the way Diarist No.135 used the loans was more like working capital for a trading business.

Asset trading is not in itself an unwise or ineffective use of money. However, different loan product features may be required for working capital loans than those of the existing loans provided by most microfinance institutions, which are usually intended for capital expenditure.

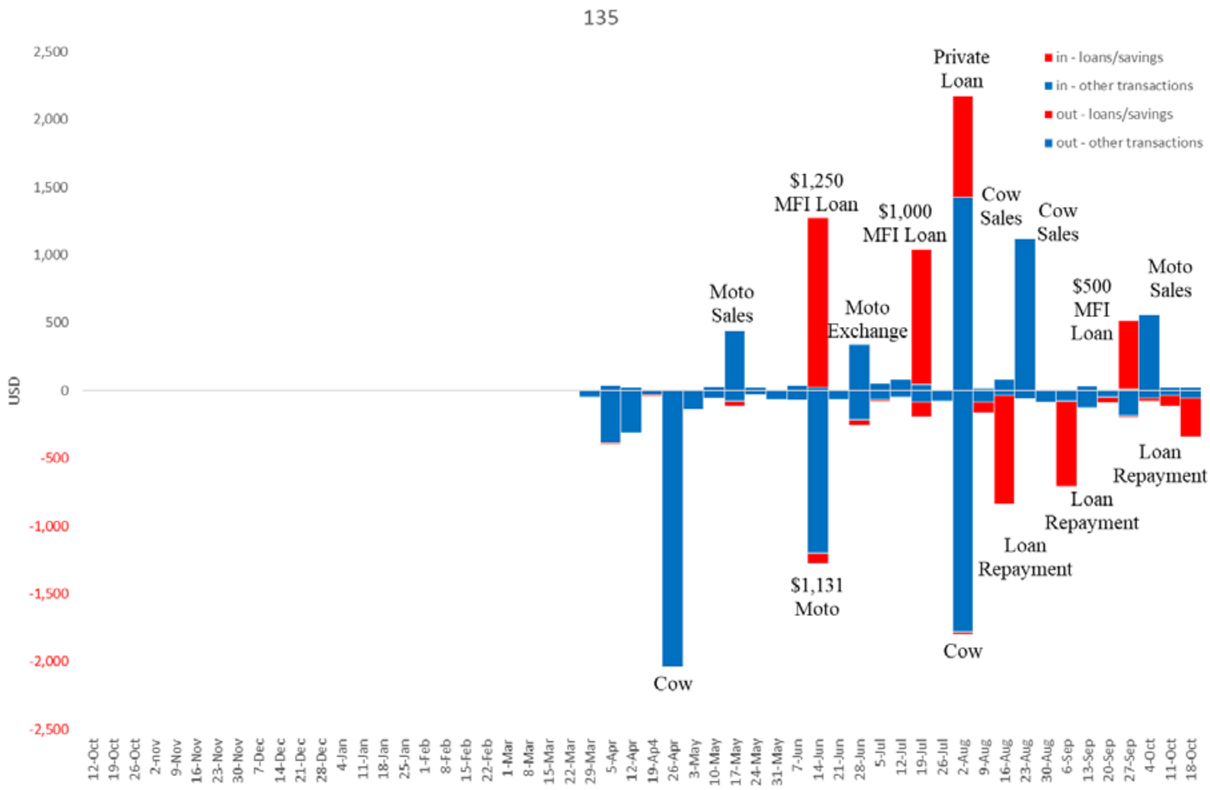


Figure 13

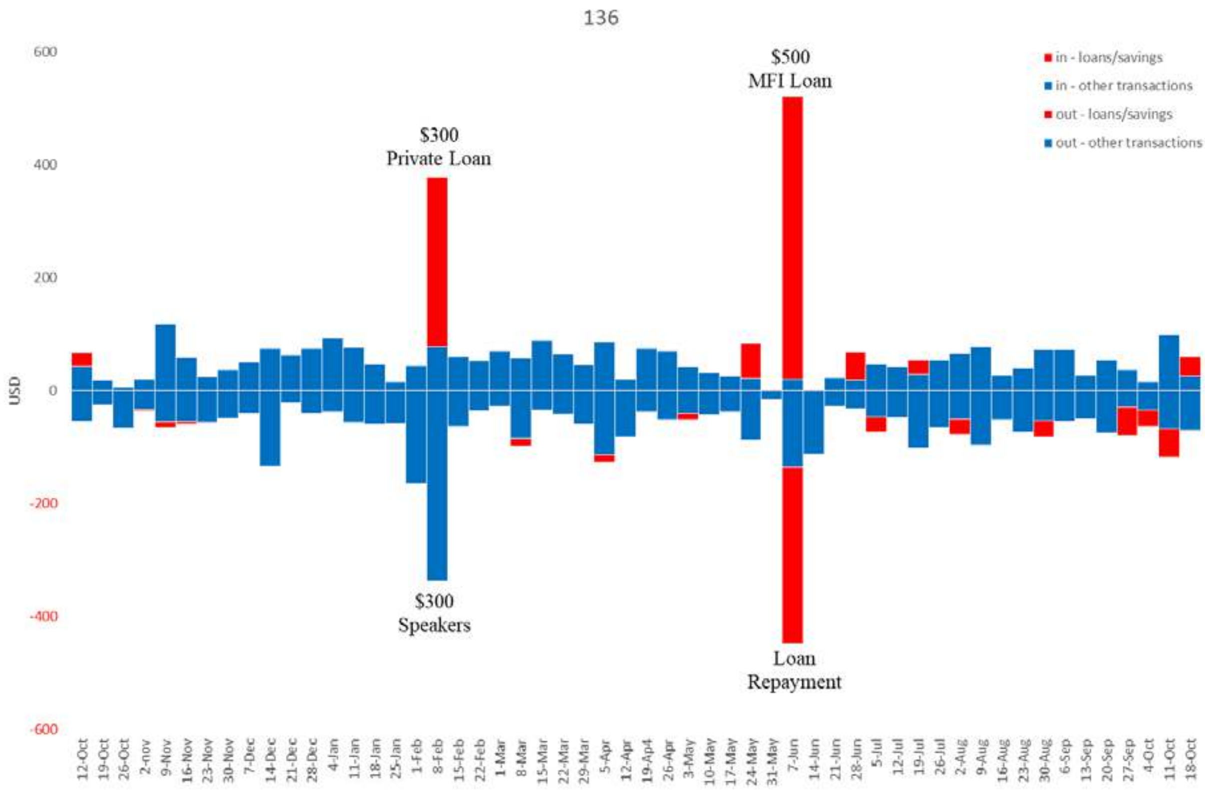


Figure 14

Diarist No.136 (Figure 14) took a relatively small loan of $300 from a private lender and immediately used it to purchase a pair of audio speakers of the same value. It is uncertain whether the speaker is for personal enjoyment or for use in festivals, but either way, it can be classified as a consumption expenditure since there is no record of income from music or anything related in their transaction records.

Microfinance institutions generally do not prefer loans to be used for consumption. This may be because it goes against their stated social mission or because they are concerned about the possibility of lower repayment rates compared to income-generating loans, which are associated with more reliable cash inflows. For example, using money for alcohol consumption is generally not desirable from a societal standpoint. However, upon closer examination of this household, the purchase of the $300 speaker is one of their largest expenses during the one-year research period. Five months later, they took out a loan from a microfinance institution to refinance, which we may interpret as a way of managing their money. Details of the exact use of the speakers are unknown, but it is easy to imagine that this purchase, as their most significant expenditure of the year, was important and long-awaited for them. Stories like these from the financial diaries prompt us to consider the extent to which the restrictions placed on clients' usage of loans are reasonable or truly inclusive. As long as the client has the repayment capacity for the loan, does it matter whether they are using the funds to invest in their business or to purchase something for their own pleasure and comfort?

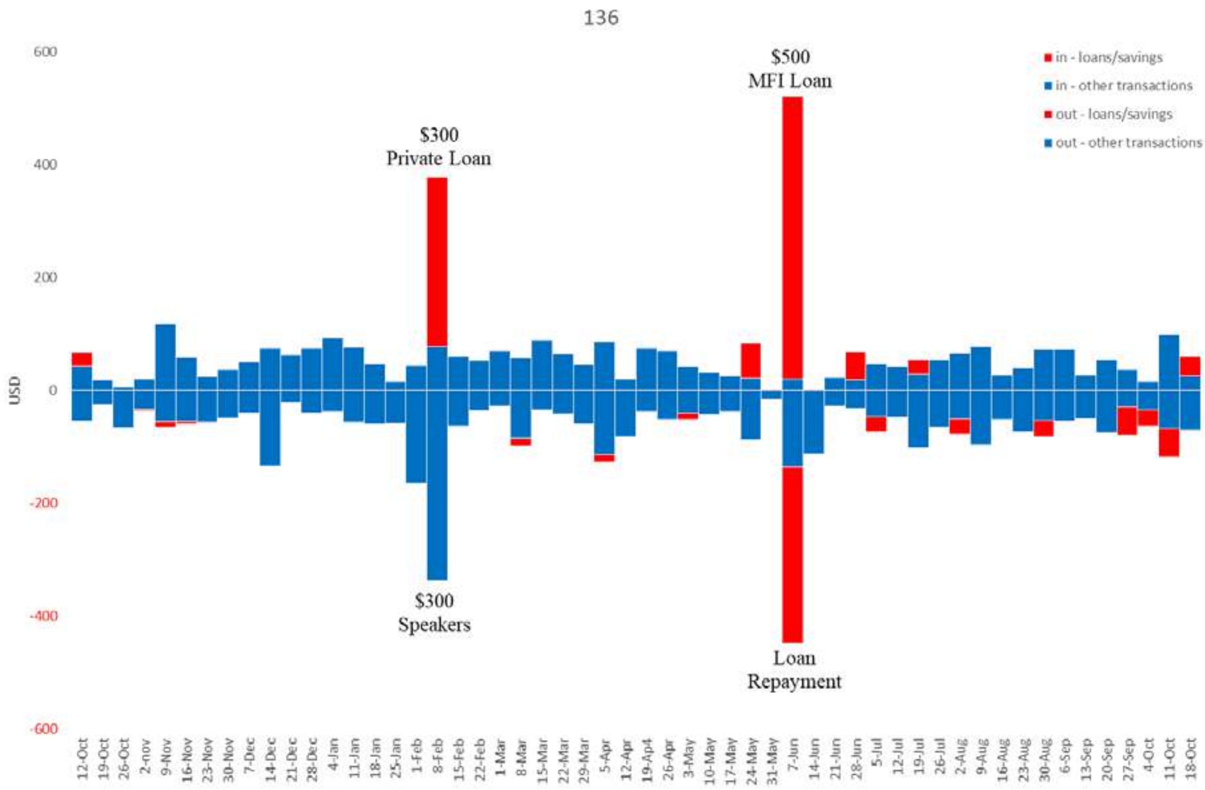


Figure 15

Diarist No.113 (Figure 15) took a loan of $983 from a microfinance institution and purchased a bracelet worth $475. This household believes that holding assets in the form of a bracelet is more secure than keeping cash, and feels it is relatively easy to sell jewellery if they need money quickly. They habitually accumulate assets in this way and previously bought gold using agricultural income six months ago.

Although a loan from a microfinance institution invariably requires the client to pay interest above and beyond the principal, the value of jewellery purchased using the loan funds may fluctuate, and the asset does not generate cash flows of matching value to the interest that needs to be paid. This household seems to have made a relatively expensive choice to hold assets instead of using bank deposits to build up reserves. Possibly they may feel bank deposits are inconvenient or somehow inaccessible, but in any case it appears that they want to hold assets as a buffer in case of an emergency, even if it means having to pay a relatively large margin in terms of interest rates.

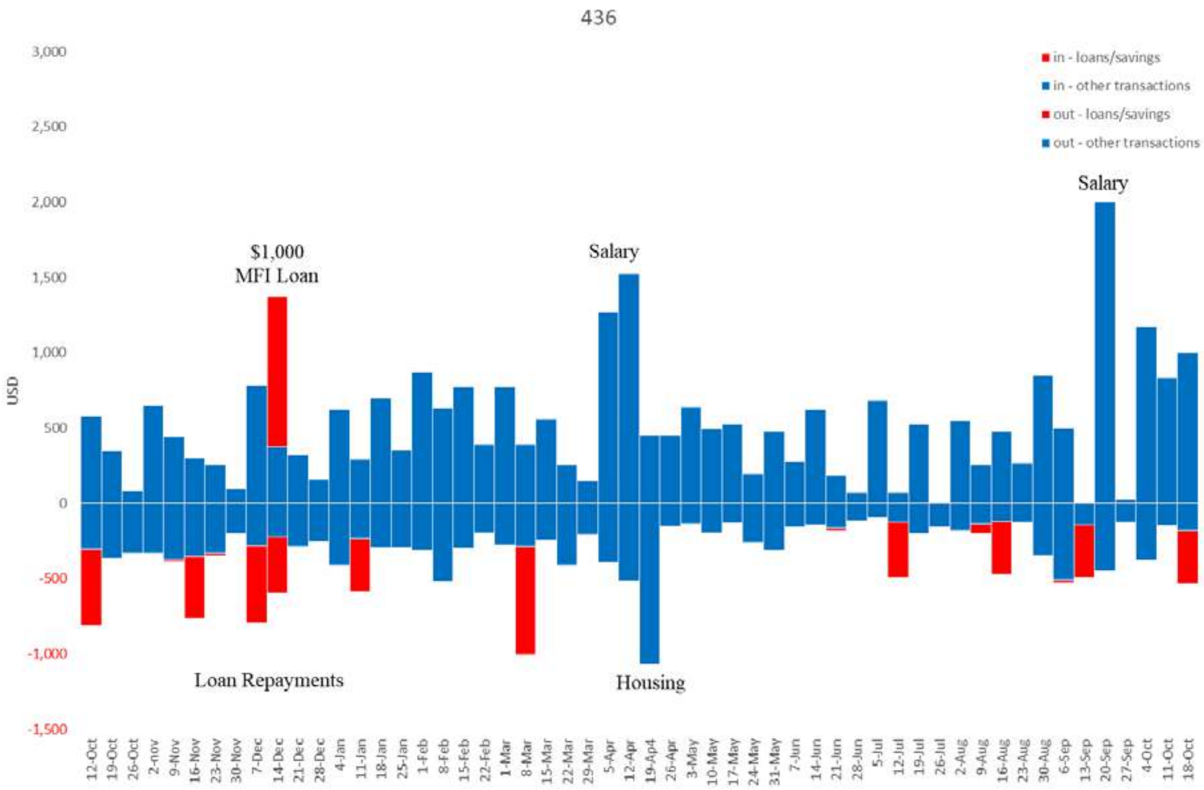


Figure 16

Diarist No.436 (Figure 16) took a loan of $1,000 from a microfinance institution, but unlike other households, no specific expenses corresponding to the loan could be found. They were already making regular loan repayments to other microfinance institutions, which they may also have used the loan to make. However, during the period before and after the loan, relatively stable income was observed, and they did not seem to be struggling or living on the edge.

From the perspective of impact evaluation, the example is noteworthy because the household is one of the few cases where income appears to have increased after they took the loan. It goes without saying that “results” such as changes in income are not necessarily caused solely by financial services. In other words, even if the loan does not necessarily help the household, there are certainly cases where income increases anyway due to their business prospering or a good economic environment.

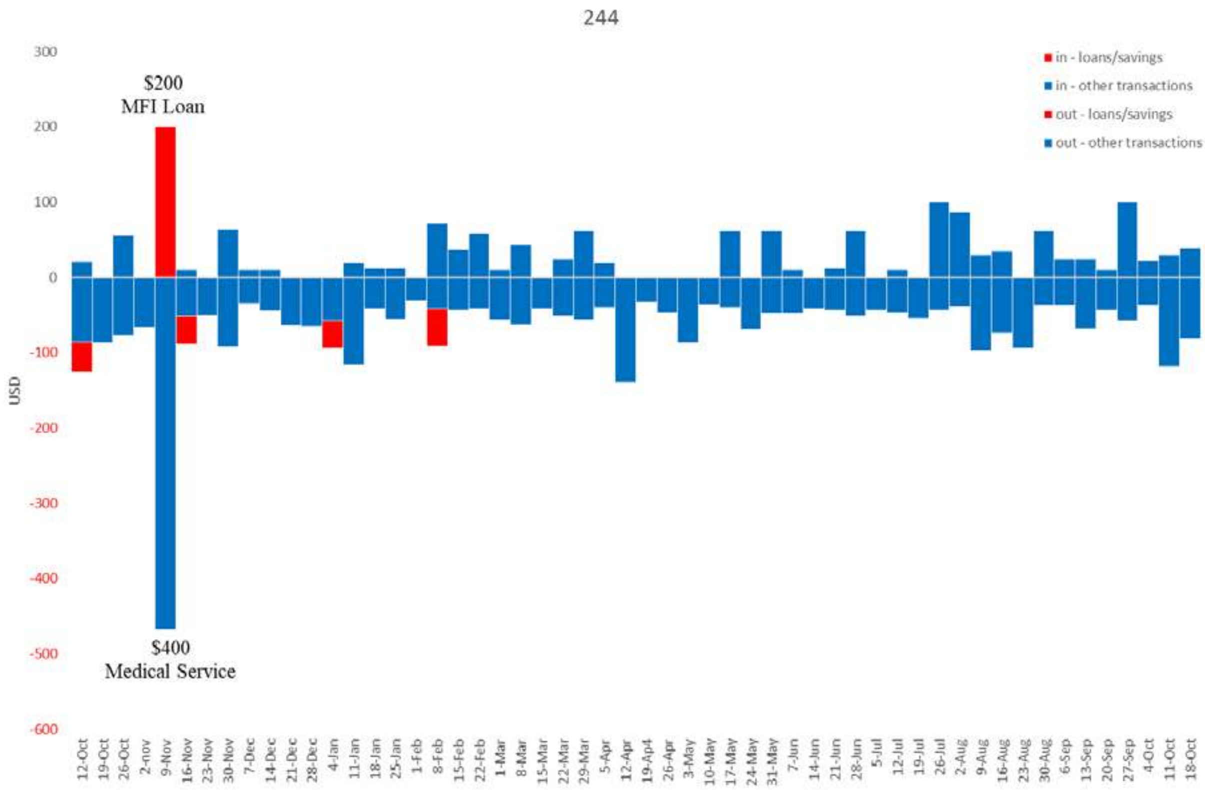


Figure 17

Diarist No.244 (Figure 17) took a loan of $200 from a microfinance institution on the same day they were hospitalised for COVID-19 treatment. This loan is a new loan product which is relatively small-sized and quickly disbursed. It is unlikely that the usual loan application process that takes several weeks would have been feasible for COVID-19 treatment.

In other words, the introduction of this new loan product seems to have opened up a slightly different type of demand from the usual microfinance loans we can see in the sample. If, as a result of a loan, a client receives medical treatment and is able to recover from an illness more quickly than they would have otherwise, this is certainly a social impact attributable to the loan. In terms of income, we might be able to think of this loan as having prevented a more prolonged loss of income due to illness by potentially facilitating a speedier return to health.

In summary, as you can see in the cases introduced above, considering income increase as the sole "impact" created through microfinance is too narrow of a statement. Rather, there is a wide spectrum to which loans are being utilised, such as housing, ceremonies, consumption, medical emergencies, and so on. Even when it is used for income generation purposes, it is not always spent for business investments, but for working capital as well. This may raise a question on the possibility of increased delinquency, such as "when the loans are not used for income generation and merely for consumption, is it still likely that the customers can repay?" The reality is that customers do manage to repay in most cases, as loan assessment is typically conducted based on the current level of income rather than anticipating income growth in future as a source of funds for repayment. On the flip side, repayment struggles can occur any time for many different reasons even if the loan is used for income generation purposes.

# Suitability of loan product design

How can financial services improve their suitability for borrowers to achieve better impact? As we have seen so far, the use of loans in poor Cambodian households is diverse, including relatively straightforward investments as well as other more complex use cases. In this final section, we consider the potential for improving the quality of services and the possibility of evaluating it[3].

In home construction projects, people in countries such as Cambodia or Sri Lanka often buy construction materials, hire workers, pay wages, and complete a part of the construction or repair before moving on to the next part of the project. If they try to cover the ongoing costs in successive phases by obtaining a large amount of money through a loan at the beginning of the project, this will naturally cause difficulties in managing funds and the risk of carrying the funds until they are all spent. Also, naturally, there is generally a difference between the estimated budget and the actual funds used, which will lead to either surpluses or shortages of funds for the next phase of the project. In interviews, when we ask people how they handle this, we see that a typical response to dealing with a shortage of funds during a project is to simply suspend it.

What if home construction loans were instead designed as shown in Figure 18, with the maximum amount based on the total project budget, and with funds disbursed step by step at different timings as the project progressed? This could reduce the hassle and risk of storing cash inside the house and make it easier for people to adapt to surpluses or shortages of funds over time. There would be significant benefits to aligning the timing of loan disbursement with the timing of project payments.

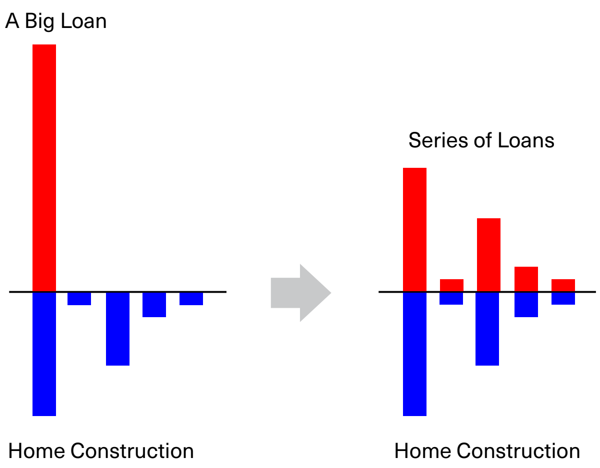


Figure 18

For weddings, we see cases where loans are disbursed a few weeks after the celebration, and the borrower then uses those funds to retrospectively pay or refinance the costs of the wedding. In these cases, it may have been that the timing of the loan disbursement and the wedding did not match up well.

3 https://gojo.co/introducing-the-fit-factor-a-new-impact-measure

Generally, weddings are planned and prepared for in advance. Since the wedding date is likely to be fixed some time in advance, with some small process adjustments and effective marketing, financial service providers may be able to help borrowers finance the costs of weddings in a timely way. For instance, a lender could let it be known that they will pre-approve a loan disbursement on a fixed date if borrowers apply several weeks in advance, as shown in Figure 19. This could help borrowers to reduce their out-of-pocket expenses for big events while avoiding the mental burden of having to keep a large amount of cash on hand in advance. Aligning the timing of disbursement with the timing of significant fund movements can even help to prevent crimes that aim to take advantage of such timing.

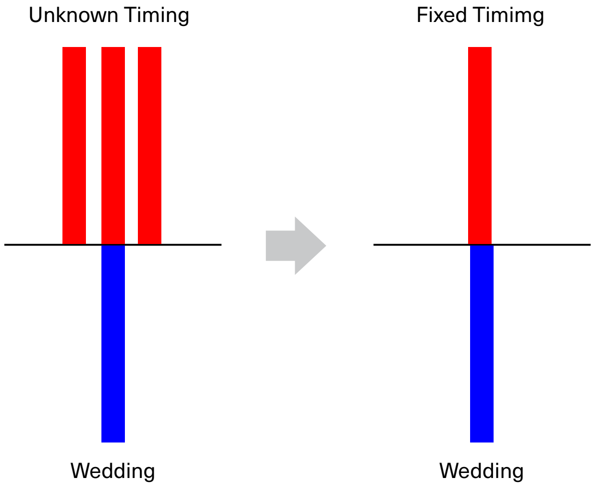


Figure 19

As for loans that are used for working capital, such as active trading of assets such as cows or motorbikes, it may be possible to design the loan screening process to focus specifically on the value of the assets the borrower plans to trade. Alternatively, designing loans for such purposes as a sort of credit line may improve their suitability for borrowers, as it may be difficult for borrowers to predict the timing of good trading opportunities in advance.

In cases where assets are held in the form of precious metals or when a specific use for funds cannot be found, it can be assumed that they are being prepared for "just in case" situations. To address these needs, while having savings on hand is ideal, it could be helpful to have loan products which support fast disbursement for emergencies up to a certain amount. The small, quick loan which was used by a diarist for Covid treatment is one such example of an effective emergency loan.

In general, one key way to improve the suitability of loans for borrowers is to better align the timing of loan disbursement with the expenditure the borrower wants to make. Alternatively, aligning the timing of loan repayment and the emergence of financial leeway in household finances, although relatively small in size, could also improve convenience and suitability.

# Conclusion

Although the number of loans taken during the one-year period of the financial diaries project was not large, the data we were able to collect provides a valuable insight into how Cambodian households use loans.

We see that diarists often combine borrowing from formal lenders with money from other sources such as asset sales and private lenders to achieve their goals, which suggests either that the amount of money they are able to borrow from formal lenders is insufficient for their projects, or that other sources of funds offer benefits which formal lenders do not, such as increased flexibility or lower interest rates.

We also see that frequently, there is not a clear one-to-one relationship between the loan disbursement and the borrower's expenditure in terms of either the timing of large expenditures, which can take place before or after loan disbursement, or the amount of the expenditure relative to the loan. It seems to be a common practice for households to take loans that are larger than needed and keep extra cash on hand, which they may subsequently spend bit by bit in small amounts. These practices lead to increased volatility in household cash flows, which diarists may have experienced as various inconveniences, such as the inconvenience of managing large amounts of cash and keeping it safe, or the inconvenience of having to pay out-of-pocket for a large expense while being uncertain of when they might receive funds from a loan.

These inconveniences experienced by diarists could potentially be reduced if diarists had more confidence that they would be able to borrow the amount that they need at the time when they need. As we have suggested above, there are things that lenders may be able to do to provide this additional confidence and convenience to borrowers through better product design and marketing communications.