Unfolding Realities of Microfinance

Stories of Struggle and Choice from Gojo's Cambodia Financial Diaries

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Introduction

As practitioners or enthusiasts of microfinance, we *want to believe* that microfinance creates *a positive impact* on the lives of clients. We imagine that impact is created when a client takes a loan to develop her business, sees significant business growth, and improves her financial stability and quality of life. We also imagine microfinance institutions (MFIs) changing lives by offering emergency loans as a helping hand during a crisis. While these use cases are not entirely impossible, field reality is often more nuanced. This report aims to unfold the reality of the lives of microfinance clients in Cambodia through stories from participants in Gojo's financial diaries project.

Between October 2021 and October 2022, 149 diarists (not specifically Gojo clients) across Phnom Penh, Kampot, Kandal, Kampong Cham, and Kampong Speu maintained detailed records of their daily inflows and expenses. Through the diaries, we captured over 220,000 transactions amounting to over $2.6 million, segmented into 141 transaction categories. To gain a deeper understanding of these transactions and their lived experiences, we visited several diarists after the data collection period. We have strived to present their stories without imposing our interpretations, allowing you, the reader, to draw your conclusions. Towards the end, we have also shared our suggestions on what MFIs could do in light of these findings.

Read on to learn about stories such as the day labourer who purchased a $300 speaker, the young lady who believes she has successfully tricked MFIs, and the couple who survived COVID-19 with support from a private lender.


Diarist 149 and family

Diarist 149

They are a family of seven who survive on $20 a day. Part of their income comes from owning a rice field, while the husband works as a daily labourer in an agricultural field, carrying bags of rice and loading trucks. The wife occasionally fishes and sells the rice they harvest, but often, their earnings are spent on fuel costs for their agricultural equipment, leaving them with no profits.

The data from their financial diary revealed that they held a significant wedding in May 2021 and took out an MFI loan during that period. This caught our attention. Turns out their 19-year-old daughter was to be married in a traditional Cambodian wedding ceremony with 450 guests. The couple gleamed and showed us the beautiful wedding picture.

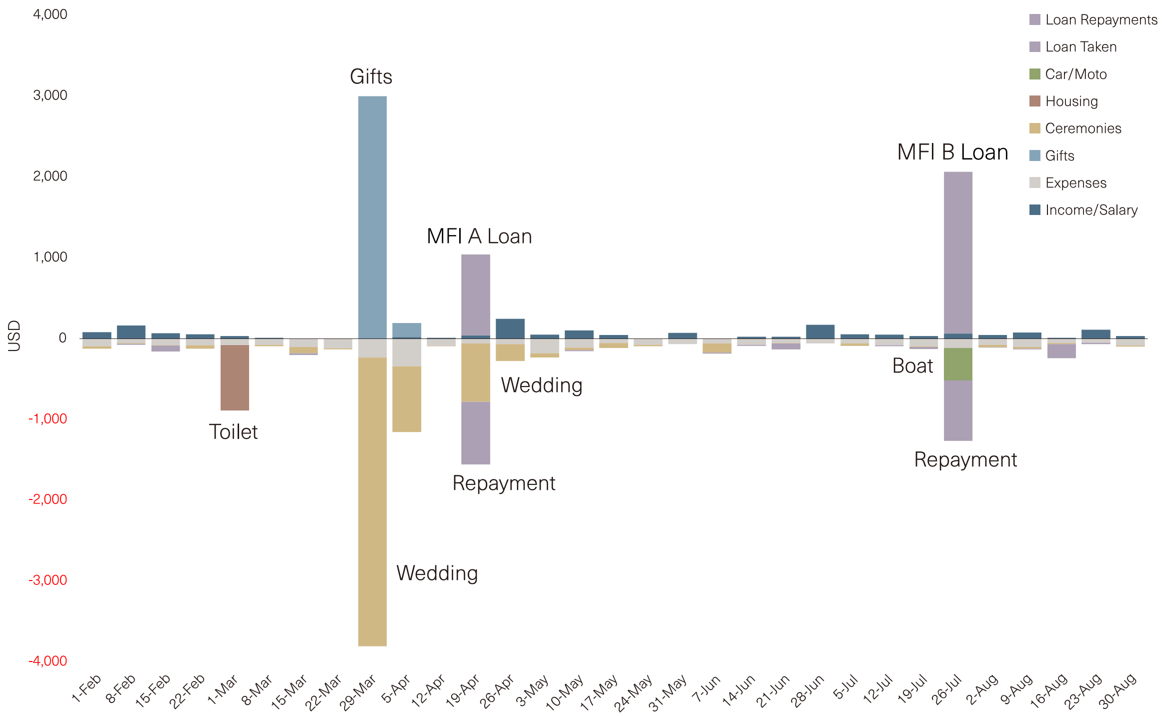

Figure 1: Cashflow of Diarist 149

For a household that earns less than $20 a day, this naturally begs the question of how they managed to finance it. Although the couple had a rough budget in mind, they could not arrive at a specific amount that they would like to spend on the wedding. In Cambodian cultures, families receive *gifts* from the guests at the wedding that allow them to finance the wedding. Additionally, the groom's side is expected to offer *dowry*[1] to the bride and after the wedding, the groom is supposed to come live in the bride's house. The gifts and the dowry are typically used to meet the wedding expenses. In the case of this couple though, they had to use MFI loans in addition to these sources to finance their daughter's wedding.

In Figure 1, we see that the couple took two MFI loans—a $1,000 loan from MFI A and a $2,000 loan from MFI B, a few months later. The stated purpose of the $1,000 loan was to buy agricultural equipment, but it was used partly for their daughter's wedding expenses, especially to complete the construction of a toilet in their house.

At the time of taking the loan from MFI A, the couple was confident that they would be able to repay it after the wedding from the gifts and dowry. The amount of dowry that can be secured often depends on how rich the bride's family is and whether they own any assets. In the diarist's words, *'If I had property I could have asked for $4,000-$5,000. Rich people ask more. But since I'm poor and do not have property, I could ask for only $3,500. First, they gave $3,000 and then I asked for $3,500 because we had to manage everything for the wedding.'* As for gifts from the guests, the diarist reported that they had no way of predicting exactly how much they would receive in gifts.

In a normal case, the couple should have been able to repay this loan after the wedding with the gifts received from guests. Unfortunately, around 100 guests did not join the wedding because her husband printed his nickname on the wedding invitation, which people did not recognise. In the end, the diarist said they fell short of about $1,000 after the wedding. It was to make up for this loss and settle the accounts of the musicians at the wedding that they had to borrow from MFI A.

Then to repay MFI A, they had to take a second loan of $2,000 from MFI B, but the official purpose of this loan was to buy a boat for fishing. Although they did buy a boat with a portion of that amount, they repurposed the rest to repay their debt to MFI A.

MFIs typically aim to fund income-generating activities, and a wedding does not fall under this category. When we asked if she told the MFIs about the wedding, the diarist blushed and cheekily said she hid it from them. She did not tell them about the wedding, the toilet construction, or the refinancing that she did. She just showed them the agricultural equipment and the boat that she bought as per the formal purpose she cited. She also reported that the loan officers did not ask her what exactly she spent the money on. In her words, *'They don't care much about what I spend the money on. I just have to repay the loan and interest, and then I can go to the next cycle.'* She still believes that the loan officers do not know about the wedding or all the other ways she used the loan amounts.

1 In Cambodia a man pays dowry (usually money) to the parents of the woman he marries. The size of the dowry demanded by the woman's familiy may depend on their financial standing and is a demonstration of the man's ability to care for his wife.

Diarist 50

Diarist 50, like Diarist 149, had a wedding during the data collection period too. It was the son's wedding and they had to pay a dowry to the bride's family for the wedding.

Similar to the household of Diarist 149, the diarist took a loan from an MFI stating the purpose as *buying land*, but she bought no land and instead used it to repair the house, build a toilet, and pay a dowry of $3,500.

The wedding was a big ceremony with 500 guests. It cost $10,000 in total, she recalled. Since the wedding was organised by the bride's side, the bride's family took care of most of the management. However, unlike typical practice, the new bride came to live with her son and her in their village after the wedding. So to introduce the bride to everyone, she organised another function for her villagers. During this function, she also received gifts from the guests in her village.

Diarist 50 in front of her house

Mostly, people offered $12-$25 in gifts, and overall, the cost of this function was covered by the gifts.

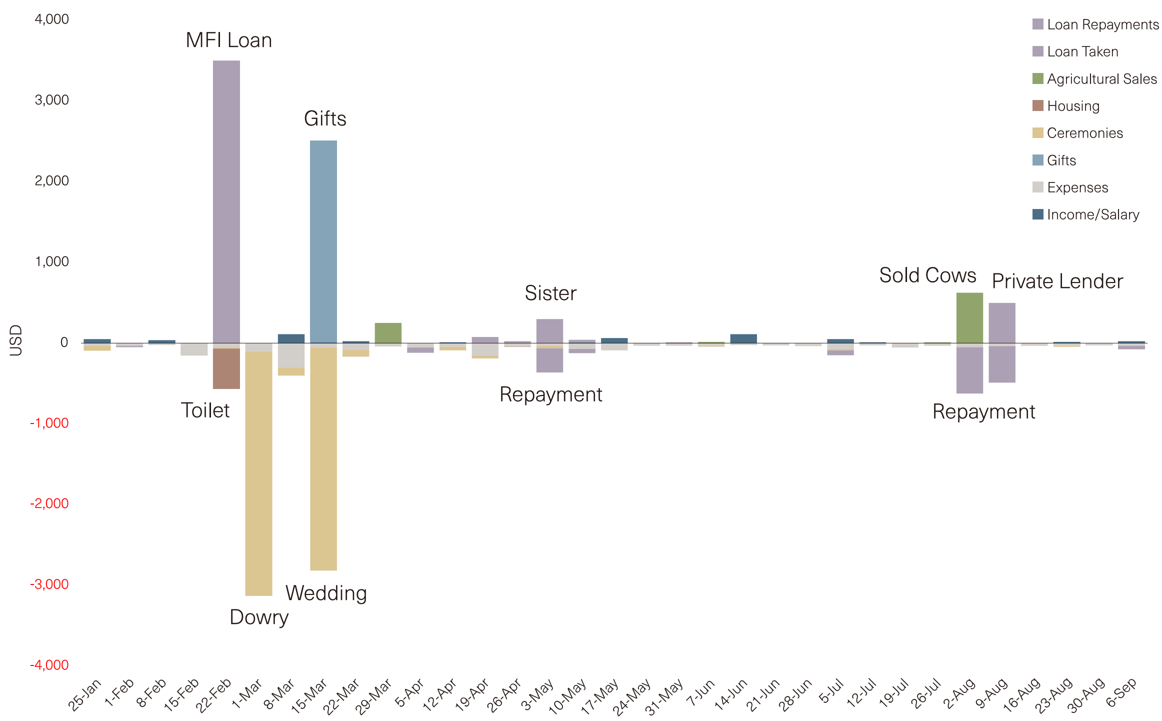

Figure 2: Cashflow of Diarist 50

When we asked where she learned that she could take a loan to buy land and use it for different purposes, she replied, *'No one told me but I heard someone discussing. I just heard that they will not investigate if I repay properly. It's not a secret in this village!'* She admitted that it is indeed scary to think of a possibility where the MFIs ask how she used the loan, but she said that even when she was late to repay, the loan officers just gave her a grace period and did not ask her how she used the loan or how she plans to repay. Since her earnings are scant, she also had no choice but to repurpose the loans this way.

By May 2021, she had borrowed money from her sister, and by August, she had sold two cows to meet the loan repayments. Such livestock sales often act as a form of savings among the financial diaries participants. She also borrowed money from several wealthy villagers to refinance her loan. If the MFIs have too many conditions to lend, she prefers to borrow from a private lender who charges higher interest rates but won't take legal action if she defaults on her payments. The lender is quick to offer funds and is flexible with the repayment terms. In terms of collateral, some lenders ask for land certificates while some don't.

Toilet constructed by Diarist 50

At the time of our visit in December 2023, she had five outstanding loans—three loans from a private lender and two MFI loans. Currently, all her assets are tied up—her land certificate is with the money lender, and her rice field is with the two MFIs. When asked how she is managing so many loans, with all her assets tied up, sustaining the family with just her son's seasonal income from working in construction, she replied with a straight face, *'I don't know how I'm surviving'*.


Diarist 13's husband and son

Diarist 13

The first two diarists we saw repurposed loans to organise wedding ceremonies. This diarist, however, handled two weddings in 2021, for his son and daughter, using a different tactic.

The daughter's wedding expenses were covered with the dowry they received. However, for the son's wedding, the dowry asked was $8,000 and had to be paid in two instalments. While they could comfortably pay the first instalment during his engagement, they struggled to pay the second instalment at the time of his wedding.

They relied on a ROSCA programme (Rotating Savings and Credit Association), locally known as a *Tong-tin*, to pay his dowry. This ROSCA group comprised about 40 members, each contributing a fixed amount of money each month. One member would receive the entire sum each month, rotating in turn until all members receive the amount in one of the months. The group would hold an initial meeting to get introduced to each other, but subsequent collections were often handled by a designated collector.

While this family saved in the ROSCA for a rainy day, they ended up using their savings for their son's wedding. However, they expressed a strong preference for ROSCA and indicated their intention to continue participating. Their reasons were that:

- The monthly payments are relatively small.
- The amount received in return is substantial.
- There is a good return on investment (the longer you wait, the larger the amount you receive).
- Members know each other and the ROSCA organiser well. The head of the ROSCA is also running only one group, which means he has less cash in hand to run away with. Both factors reduce the risk of fraud.
- They are not particularly fond of MFIs, and their savings are not enough to deposit in a bank.

Diarist 13's story tells us why ROSCA remains a popular and trusted financial tool in their community.


Diarist 245 weaving

Diarist 245

Diarist 245 shows us another productive use of the ROSCA. This household presents a unique case where the husband and wife manage their finances separately. The husband works in roof construction, handling the finances for his business, while the wife manages the household expenses with the earnings her husband occasionally contributes. This arrangement posed some challenges for the financial diaries project, as our primary interviewee was the wife, leaving gaps in our understanding of the husband's business investments and expenses. Despite this, our interviews with the wife revealed some interesting insights.

They regularly saved in a ROSCA and during the data collection period, they received $2,200 from the ROSCA, which they used primarily to purchase a $2,500 plot of land to use as a rice field. The wife's father is a farmer, who uses the land to cultivate rice and sends some to her after harvesting. Although her father is using the land, the couple purchased it primarily as an investment. This demonstrates how they effectively utilised the ROSCA to save and convert their savings into tangible assets.

When asked about their experience of using loans, the wife expressed a preference against MFIs. She recounted an instance when a loan officer from an MFI visited their home and persistently urged them to take out a loan. Reluctantly, she borrowed $50, which was her only transaction with an MFI.

Diarist 381's inactive snack stall (green) near the local Pagoda (temple)

Diarist 381

Diarist 381 was another participant in a ROSCA programme, and they were known for saving very frequently. However, during the data collection period, their ROSCA transactions suddenly stopped, which puzzled us. When we visited for an interview, we discovered a rather unfortunate incident.

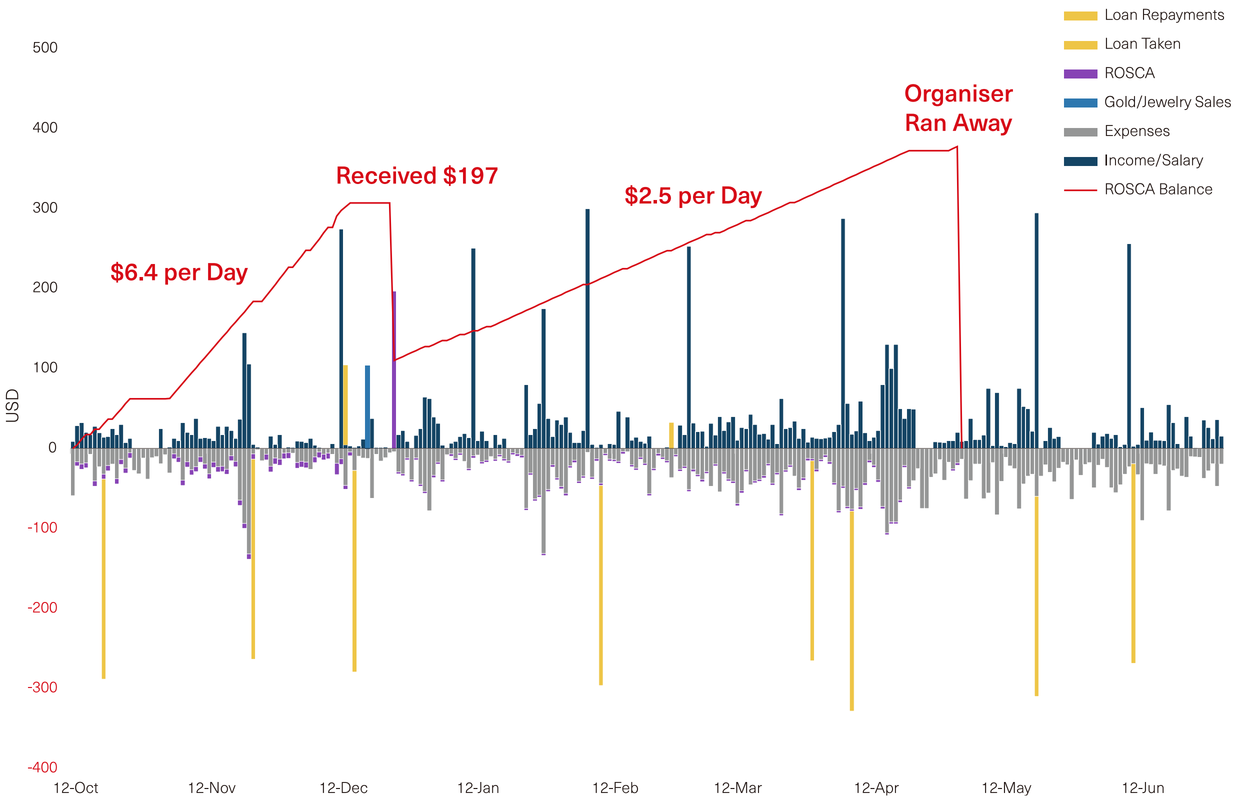

Figure 3: Cashflow of Diarist 381

The diarist had been making continuous payments to four different ROSCA programmes almost daily. All four ROSCAs were organised by the same person, and each group had around 150 participants. She liked ROSCAs because they were easily accessible, with collectors coming to her daily. Unlike MFIs or banks, ROSCAs did not frown upon small transactions. Additionally, she appreciated that the later she received the payout, the larger the amount with better interest.

However, in April 2022, the organiser suddenly disappeared with a large sum of money, leaving no trace. This was why she stopped making deposits into the ROSCA.

Typically, in a ROSCA, the money collected in each meeting is immediately given to one member, leaving no funds to be stored, which usually prevents such embezzlement. This feature is supposed to be one of ROSCA's strengths. To understand the details of this particular case, we inquired further.

It turned out that the large number of ROSCA members did not know each other well. The wife mentioned that she had never met most of them. Moreover, they did not hold regular meetings; instead, a collector came daily to collect the money. The funds, which were supposed to be distributed to someone, were not being given to anyone.

She expressed that she would never participate in a ROSCA again. It was unfortunate that she did not have the opportunity to learn the lesson shared by Diarist 13, who emphasised that knowing the members and the organiser as well as ensuring the organiser does not have many ROSCAs helps reduce the risk of fraud.


Diarist 136 with his speaker

Diarist 136

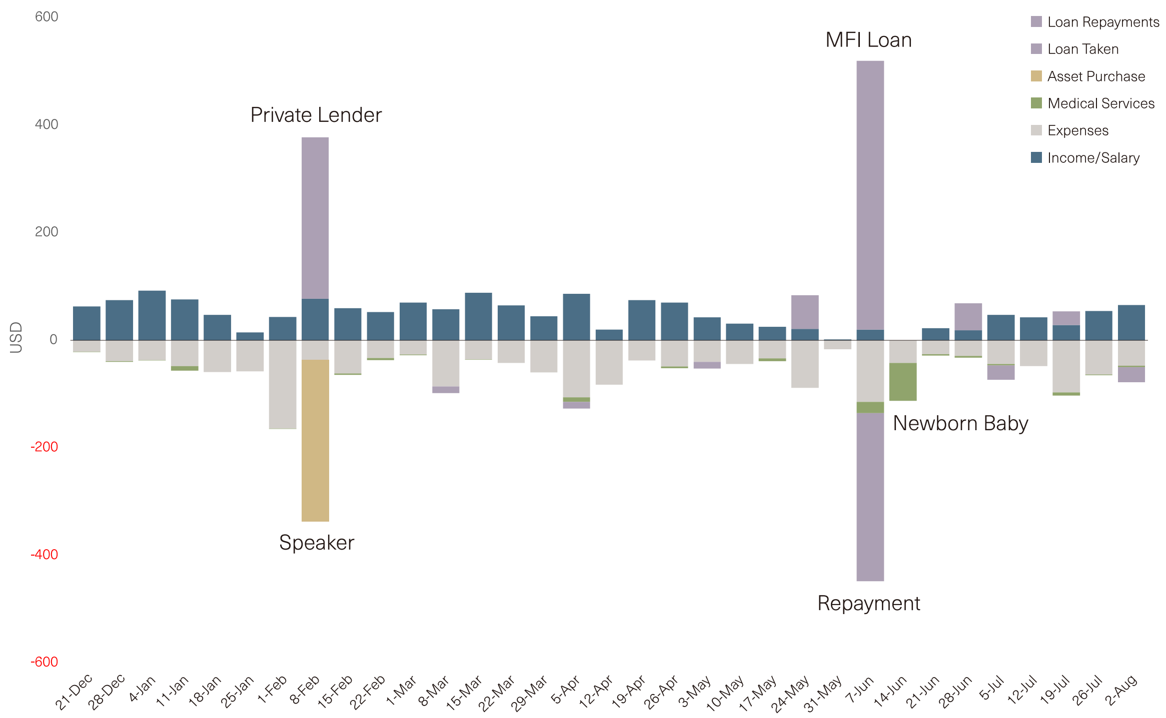

Figure 4: Cashflow of Diarist 136

Before we visited Cambodia, we were eagerly anticipating the chance to interview Diarist 136. According to the financial diaries records, they were one of the poorest households among the diarists. Despite this, they had borrowed money to purchase a speaker, a very significant expense for them.

'I saw the cars going around the village making announcements in these big speakers and I really wanted it,*'* said the young head of the household, an agriculture labourer. His wife was angry at his impulsive decision, but she had no power to veto this decision because he was the breadwinner of the family. He quickly arranged $300 from his boss, despite the boss's initial reluctance to support his decision, and bought the speaker.

Four months later, he borrowed $500 from an MFI as a *consumption loan*, claiming that it was for his grandmother's funeral. Although he partially used it for the funeral, he also repaid the loan from his boss and bought essential items for their newborn baby.

The speaker was used two to three times a week, especially during Khmer New Year celebrations, where they play loud music and all the children gather around to dance. Although the microphone function has since broken, the speaker itself still works. They had a warranty, but they could not put together $30 to send the speaker for repair. So they make do with it as it is.

At the time of the interview, he was still repaying the $500 MFI loan. While the initial excitement has gradually faded and the frequency of use has decreased, the husband's smile when he said he did not regret the purchase was quite memorable.

Diarist 244

Diarist 244 and her husband in their home

In November 2021, Diarist 244 faced a major crisis when her husband contracted COVID-19. His condition worsened, but they could not take him to the hospital in Phnom Penh. Instead, a health worker from the medical centre visited and gave a few tablets. They isolated him in the kitchen of their wall-less house for recovery. Fortunately, his health improved, but he was prescribed a month of bed rest at home. The couple was then presented with a $550 bill, leaving them shocked and unsure of how to cover the expense.

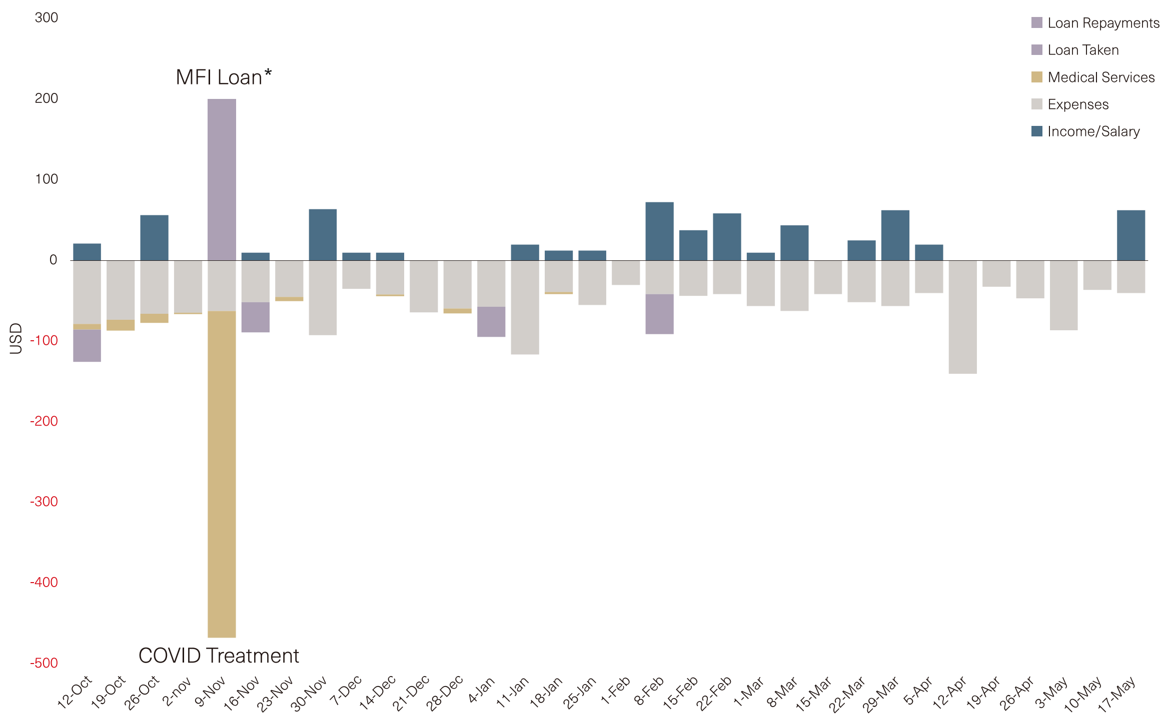

Figure 5: Cashflow of Diarist 244

*The enumerator recorded "MFI loan" in the data, but in the interview, the diarist said it was from a "well-known villager" and not an MFI.

The wife quickly devised a plan to manage the situation. She secured a quick loan of $300 from a villager whom *everyone knows* in the community. Additionally, she borrowed $200 from her daughter, which allowed them to pay the medical bill.

When it came to repaying the loans, they prioritised repaying the villager first, leaving the daughter's loan for later. This is a common strategy, as people often repay the more demanding creditors first.

When asked why they chose to go to the private money lender over an MFI, the lady said, *'I will never dare to. I'm afraid that my husband cannot make enough money to repay. He works as a day labourer to chop wood or clear grass in the field. The private lender says I can repay whenever I want. Conditions are flexible.'*

They added that they didn't have to wait long for the loan to be processed, there were no cumbersome procedures (important since neither spouse can read nor write), and they trusted the villager. Although they were aware of the high interest rate, they felt they had *no other choice*.

Their overall living conditions are very challenging. Out of their seven children, four are involved in drugs or crime, with some currently incarcerated. The couple is unable to commit time to more profitable long-term weaving work as they are forced to rely on immediate, cash-in-hand day labour for their survival. They are beneficiaries of the Cambodian government's IDPoor programme[2], and they mentioned they have no capacity for savings or participating in a ROSCA.

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2 The Identification of Poor Households Programme (IDPoor) is part of the Government of the Kingdom of Cambodia's ongoing efforts to reduce poverty. Targeting pro-poor measures in the country, the programme provides regularly updated information on poor and at-risk households to a large number of Government and non-governmental agencies to help them target services and social assistance. Source

Diarist 142 and husband

Diarist 142

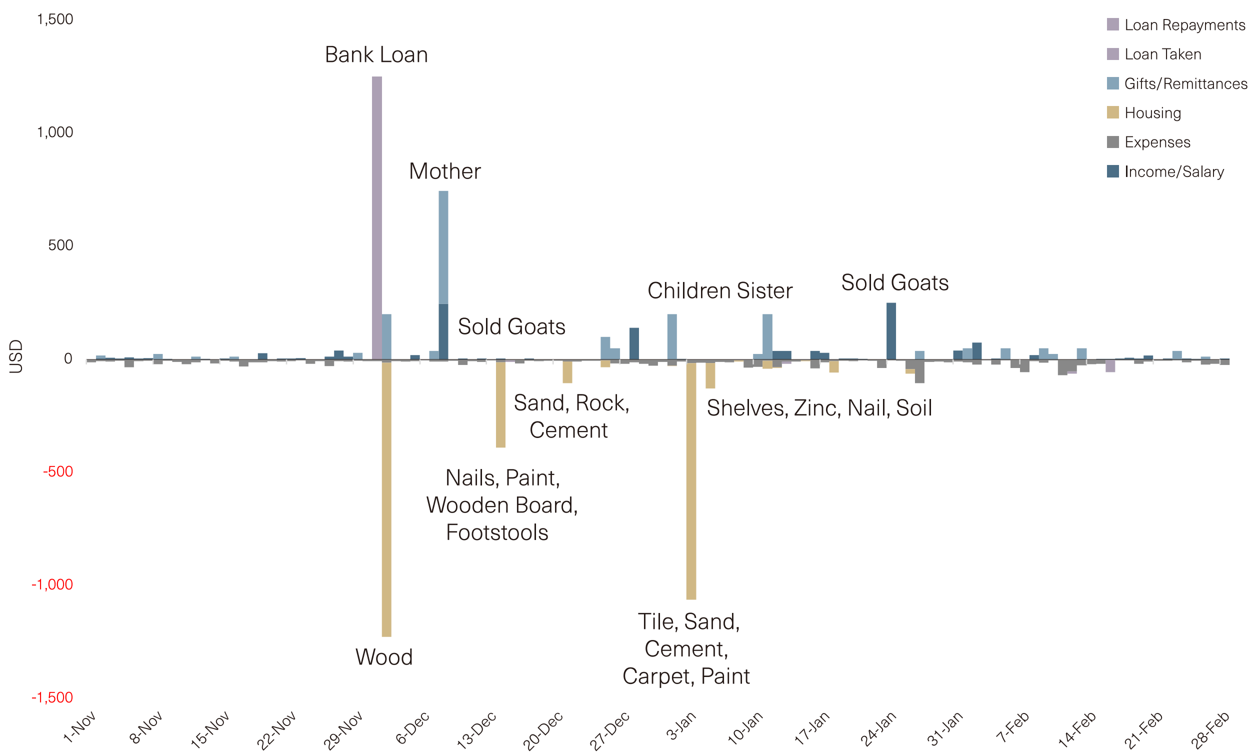

Figure 6: Cashflow of Diarist 142

When we visited Diarist 142, we were surprised by the well-maintained surroundings and the vibrant houses lining the area. The couple who welcomed us were particularly enthusiastic when we inquired about their house construction project, which we had noted in their financial diary data. The husband, in particular, spoke with great enthusiasm.

This was their third house construction project. The first two houses were built for their children and grandchildren, while this third house was for themselves. Besides these personal projects, the husband had extensive experience with various construction projects through his work at the village office and community association. Naturally, he devised the construction plan for their house himself.

When asked if the actual construction went according to the plan, he simply replied, *'It was perfect.'* Managing the procurement of appropriate materials, hiring skilled carpenters, and overseeing the overall project, including the financial planning, seemed challenging. Yet, he assured us that everything proceeded exactly as intended.

Regarding the financial planning, which particularly interested us, he explained, *'There were five sources of funds.'* These included 1) a bank loan, 2) money contributed by their children (it was unclear whether this needed to be repaid), 3) a gift from his mother (which he intended to repay), 4) a loan from his sister (also to be repaid), and 5) the sale of their goats.

Figure 6 shows the detailed management of these funds based on daily data from their financial diary. The bank loan, the largest source of funding, triggered most of the financial movements. It seems that other actions were contingent upon this loan. The very next day after receiving the loan, they purchased wood, and within the week, they secured a gift from their mother and sold some goats to buy nails, paint, sand, rock, and cement. With additional funds from their children and sister, and occasionally selling more goats, they procured the necessary materials as the construction progressed. This did not seem like an easy task.

The husband appeared to be very adept at managing finances and large-scale projects. When asked about this, he mentioned that he planned how to use the five sources of money and what to do at each stage of the project. He even budgeted for their house-warming ceremony, which was done at the end of the construction. They also used a savings box, regularly setting aside money from their daily cash transactions. In addition to goats, they occasionally bought and sold cows or gold, effectively using these assets like bank savings.

He added that he enjoyed participating in the financial diaries project. Reflecting on his daily transactions and reviewing the detailed monthly reports we provided helped them cut unnecessary expenses. At the end of the interview, we boldly asked whether he thinks others can manage their finances and housing projects as well as he did. After a brief moment of hesitation, he smiled and replied, *'We might be an exception.'*

Diarist 436 and husband

Diarist 436

In the final story of this report, we delve into the details of an MFI loan taken out by Diarist 436. This loan appeared to be one of the few *impactful* loans among the 120 households monitored in the financial diaries project over a year, resulting in a noticeable increase in income. However, the exact mechanisms behind this were unclear from the data.

We didn't know what they specifically used the loan for, especially since their finances seemed to be in good shape, indicating no immediate need for the funds. We suspected we might have missed some critical data regarding their investment or possibly misinterpreted their seemingly stable financial condition.

Upon visiting their relatively well-off home and greeting the couple, we were immediately impressed by their sharpness. They were the only couple among our interviewees who were both literate, and they told us that during the data collection period, they meticulously noted down their daily sales and purchases for the financial diaries project. Despite discussing events over a year old, their memories were sharp, extending even to past events.

Before the data collection period, they had taken out large loans from four different MFIs. When asked about these loans, they promptly explained that the funds were used to buy a motorcycle and a trailer for their coal business, the construction of two houses, and investing in their water purification business. Satisfied with this information, we then inquired about the $1,000 loan they took from an MFI in December 2021. Here, things took an unexpected turn. There was a moment of silence as the couple exchanged puzzled looks, as if trying to remember. After a brief pause, the husband, somewhat uncertainly, said, *'I think we used it to buy inventory (charcoal) to sell,'* a stark contrast to their previous confident responses.

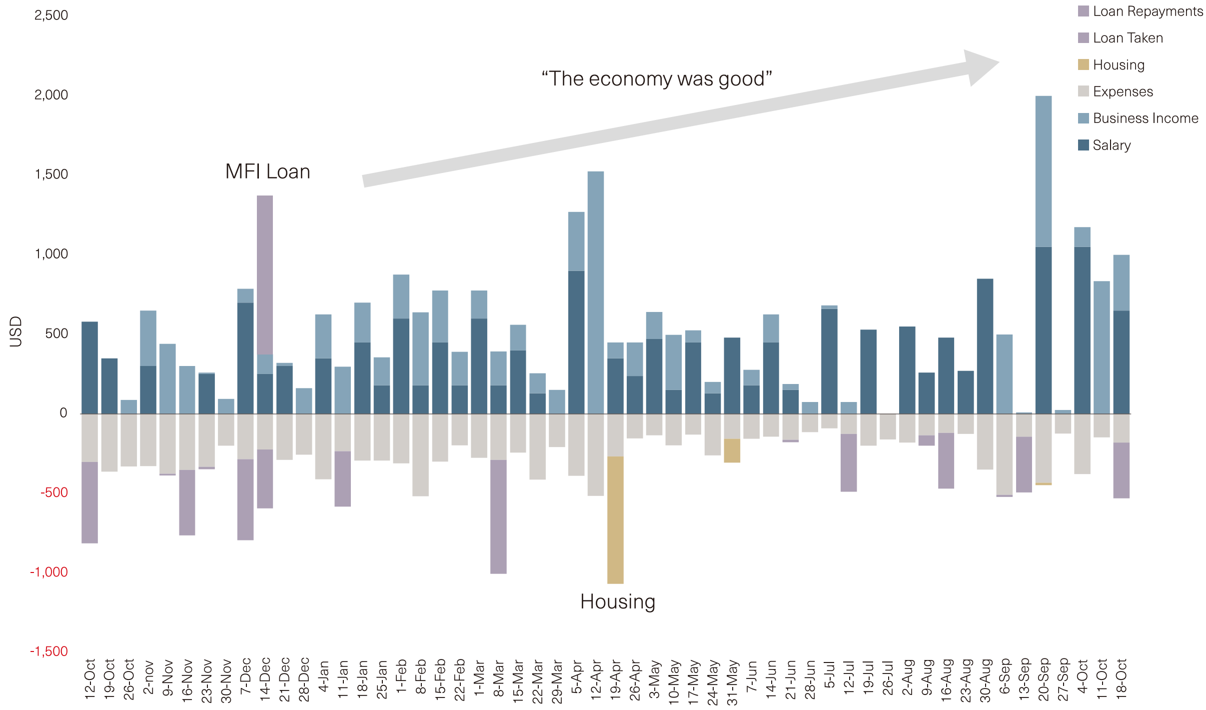

Figure 7: Cashflow of Diarist 436

We decided to try a different angle. We asked if they considered themselves *good clients* of the MFIs. They replied *'yes'*, and added that the loan officers had told them so. We also asked if they had ever been encouraged to take out a loan by the MFI even when they didn't need it. Again, the answer was *'yes'*.

This raised the question of why their business thrived despite taking a seemingly unnecessary loan and not making any significant investments. Their answer was simple: *'The economy was good at that time. We could easily sell coal then and make $300 every two days.'* It felt as though the *impact* we were searching for was slipping away. The loan was just a small factor among many influencing their business.

When asked how the coal business is today, to which they replied that it has slowed down since people prefer gas or electricity for cooking over coal. The macroeconomic environment, specifically the high demand for coal, had played a significant role in their flourishing income, and once the customer demand declined, their business slowed compared to that period.

Trailers once used for Diarist 436's thriving charcoal business

When asked how they would cope if their business struggled or if an emergency arose, they said they would borrow from an MFI. Being *good clients*, they believed they could secure a loan in such situations. However, they expressed reluctance to participate in ROSCA as they were aware of scams.

Conclusion

We have aimed to present to you assorted stories from our Cambodia financial diaries that reveal to us, the reality in the field. We saw stories of diligent microfinance clients, a speaker lover who lied to get a loan, a household facing COVID-19 with support from a private lender, families managing weddings with MFI loans, and innocent clients being scammed by ROSCA leaders. These stories challenge simplistic assumptions about microfinance and its impact, revealing the complex and often intertwined nature of financial decision-making.

The golden expectation that microfinance might uplift people from poverty rests on a central assumption that people will use it for income-generating purposes. But as we have seen in the many examples above, this completely depends on the client and often, the cultural and social influences on them. Do we think these clients were *wrong* to use MFI loans for other purposes, or are they great money managers adept at managing multiple financial tools to meet their needs?

In cases where we see an increase in the income of households, it is possible that it was because of an improvement in the economy. Such external factors make it harder to assess the impact of MFI loans. How challenging is it to attribute the positive changes clients experience to MFI loans, and would it be possible for MFIs to measure *their impact on clients?*

We also saw how often informal tools such as private money lending or saving in ROSCAs are double-edged swords. Despite the risk of scams or exorbitant interest rates, clients tend to choose these riskier alternatives because of their convenience and flexibility. As we saw in the stories, informal tools are sometimes the saviours of their lives, helping them organise a wedding or cope with a health emergency.

These stories reveal the intricate tapestry of financial lives in these communities. They remind us that financial decisions are rarely made in isolation and are deeply entangled with cultural norms, social networks, and access to resources. The challenge before us is not simply to provide financial products but to provide thoughtful client-centric financial products with an understanding of the complex realities of how people manage their lives with all its challenges and opportunities.

So, what can MFIs do?
For households desiring to smoothly manage major family events like weddings, it is only natural to use all the financial tools (i.e. loans, savings, gifts) at their disposal. On the other hand, MFIs prefer to lend for business purposes rather than for consumption. Our interviews revealed cases where financial transactions took place with little or inadequate communication between borrowers and lenders.

If lenders had a better understanding of the borrower's situation—for instance, knowing at the time of applying for a loan that it would be used to finance a wedding and that repayment is expected to come from wedding gifts—perhaps they could have offered more flexible repayment terms to prevent the borrowers from having to take an additional loan to repay their loan. Similarly, suppose borrowers strongly believed they could secure a loan simply by masking their consumption needs as business purposes.

In that case, they may be over-confident in their ability to host an extravagant wedding and make timely loan repayments, only to discover later they cannot do so because of unexpected challenges. If there is open communication, lenders could play the role of a trusted financial advisor and educate borrowers about the financial challenges arising from a large wedding and help them make more informed decisions on financing the event.

Traditional tools like ROSCAs can be highly effective in household financial management when the circumstances align. However, from the perspective of a ROSCA scam operator, collecting small amounts of money daily and providing a convenient, deposit-like service was likely done to eventually abscond with the collected funds. If a well-regulated financial institution were to replicate the aspects of ROSCAs that people find useful, it would have to find a safe, efficient, and low-cost method to enable saving small amounts frequently and conveniently.

Could financial institutions take on the role of the boss to whom an employee turns when enamoured by a speaker demonstration? That boss is already familiar with the worker's performance, salary schedule, and financial situation. A financial institution, which lacks such familiarity, would likely need to charge higher interest rates or impose slight delays for screening. Even so, if the borrowers had information readily available on loan terms, such as knowing what loan amounts and interest rates they are qualified for or the conditions required to borrow, it could allow them to make a more informed choice between borrowing from their boss or opting for an MFI loan.

A quick loan from a well-known local villager helped one household cover COVID-19 treatment costs. Naturally, as the lending villager was more familiar with the household and community than the MFI itself, he was able to make a quick loan disbursement. If it were possible to have such villagers act as MFI agents, then MFIs could make it easy for remote borrowers to access a quick / emergency loan when in dire need.

In contrast to the above examples, those with strong financial or project management skills may find it easy to work with MFIs. Those with the capability to budget and manage labour / resources for large projects such as house construction may effectively use MFI loans and make timely repayments as per the schedule. Likewise, seasoned micro-entrepreneurs who recognise when lenders are eager to issue loans but are willing to take the loan even when they don't necessarily *need* it to utilise it to their advantage, such as by increasing their inventory to meet rising demand in the market, may find it beneficial to work with MFIs.

Understanding who finds it difficult to access MFI loans, and how they manage to work around these challenges, is key to making gradual improvements to financial products. As this report has demonstrated, the financial diaries approach, which closely observes people's financial lives, works as a great tool to uncover deeper insights and enhance client-centricity in microfinance.