



Riverkids Project
Stop Child Trafficking in Cambodia
www.riverkidsproject.org



RIVERKIDS COMMUNITY LOAN REPORT

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INTRODUCTION

Riverkids (RK) started the community loans scheme with the intention of empowering clients through the creation of microbusinesses. However, challenges were faced during repayment and RK would like to find out the reasons through case-by-case interviews of some clients.

Volunteer Arielle Yang was on site in Phnom Penh to conduct these interviews in October 2014.

ABSTRACT

The interviews were conducted with ten out of the 34 clients under RK community loan scheme. Each interviewee was asked about their current situation, the purpose of the loan and its outcome. Two out of these ten loans were for personal reasons. The remaining loans are linked to their work and the general observation is the inability to sustain their own microbusinesses. From these interviews, a revised RK community loan scheme is suggested, as well as other ideas that can be further explored.

AIMS

The purposes of the interviews are to

- investigate the outcome/effectiveness of RK community loans
- assess if repayment of outstanding loans is still possible
- propose a new community loan scheme for RK



METHOD

A total of ten clients were interviewed face-to-face with the help of an interpreter. Each client had taken up a loan from RK. Each interview lasted for at least 30 minutes and was conducted at their house, which also helped in assessing their current living conditions. The interview consisted of a list of questions to gain insights into the

- Client's current conditions
(eg: family size, monthly income, employment)
- Purpose of the loan
- Outcome of the loan
- Presence of other loans and their interest rates
- Assistance that they may need currently
- Room for improvements for RK loan scheme

(# The full interview questionnaire is found in Appendix I)



MAIN FINDINGS

- Gender: nine out of ten clients are females
- Total amount of outstanding loans by all clients: US\$2,781.09
- Amount of outstanding loans by these ten clients: \$1,519.37
- Possible repayment amount: \$213.60
- Was RK's interest rate of 6% being adhered to?
 - No
 - Differing rates of 0%, 9%, 20%

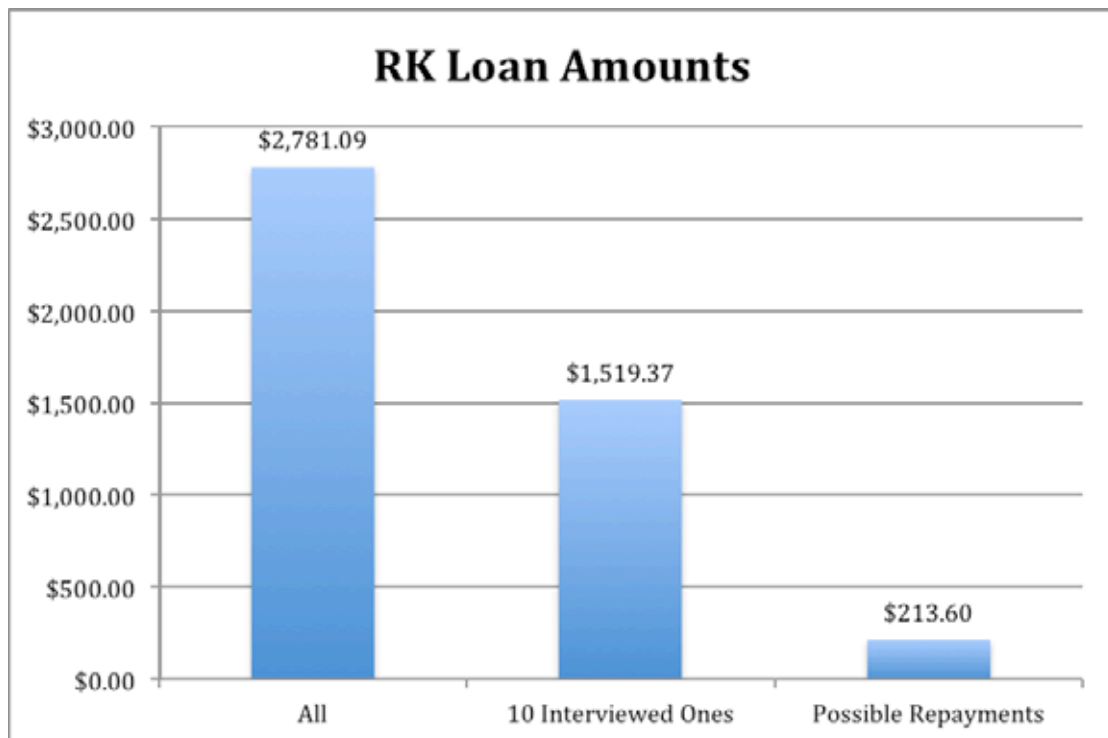


Table 1: Loan amounts given out by RK to clients

[Note: There were impromptu visits to two more clients who are also in RK Community Loan list. One has moved away (outstanding debt of \$45) and the other claimed that she had fully repaid all the loans (outstanding debt of \$35). As full interviews were not conducted, they are not reflected in this report.]



Out of these ten RK Loans:

- three were for micro-businesses
- one was to aid her current job
- two were for personal reasons
- four were sewing machine loans under Bootstraps



Chart 1: Breakdown of reasons for loan uptake by interviewed clients

(Note: Bootstraps is a program run by RK that trains women up with sewing skills. In the past, a sewing machine was loaned to participants upon graduating from this program to help start their own sewing business. Since 2014, each woman will be given a sewing machine after graduate from the program)

No. of clients with other loans currently: eight out of ten

- Range of interest rates per month: 1.6% - 55%
- Lenders: Banks, neighbours, colleagues
 - The banks are Aceda, Credit Institution, Prasac
- Loan amounts: \$50 - \$10,000



ABOUT RK LOANS

Three cases for Micro-businesses:

- Two out of the three had failed in their businesses
 - What businesses were they?
 - Alteration/Sewing services
 - Food (selling beef by foot)
 - Why did they fail?
 - Insufficient sales from their own community
- One out of the three had success in her business but had to stop due to health reasons
 - What business was it?
 - Food Stall
 - Why did it fail eventually?
 - Client has HIV, stopped business after one year due to ailing health

One case to aid current job:

- Bought a cart for her trash collecting business but it got spoilt eventually
- Daily income did increase by 50% - 100% when she has a cart
- Currently stated as a “crisis family” by RK due to drug issues in family; RK had stopped chasing repayment after she told them she has no money

Two cases for Personal reasons:

- One was to seek medical help for her gastric reflux & heartburn condition
 - She is unemployed currently due to the same health condition
- One was to buy a laptop for his son



- Son just ran away from home; was only able to repay loan when it was auto-deducted from his son's Bootstraps benefits

Four cases of sewing machine loans under Bootstraps

- All clients said RK sewing machines were faulty when they were being loaned to them
- Three resold them for a new one
 - One is now working in a garment factory
 - One is now sewing from home with orders from a middle person
 - One is not able to have enough business from her own community
- One returned the machine to RK and owns a snack stall now

(# The case-by-case interview summary of all ten clients is found in Appendix II)

REPORT LIMITATIONS

This report only reflected ten out of the 34 clients on RK Community Loan list. Two of these ten clients are HIV positive clients who may need more help instead of being burdened with loan repayments. Four out of these ten clients were under another RK program – Bootstraps.

INSIGHTS

Starting microbusinesses to service their communities usually did not turn out well. If the community is already poor, there will not be ample consumer power. And if the size of the community is small, the volume of sales will not be significant.

The success rate of chasing back repayments is low due to various reasons. For instance, some are living from hand-to-mouth and have existing loans from other sources. Issues linked to their family and health also affected their jobs and incomes. For the case of RK loaning



them faulty sewing machines under the Bootstraps program, it may be inappropriate for RK to get back the remaining loan amounts. Active reminders from RK staff may also jeopardize our relationship with them.

The occurrence of having other loans can be worrying. Clients should be advised if a loan is necessary in the first place and the impact of the interest rates being offered. There may be alternative solutions to their current reasons for a loan. Clients should also be guided to make an informed decision on whom to borrow from if a loan is needed still.

Pertaining to the Bootstraps program, most of them were not able to sustain their own sewing businesses. It has been observed that the agreed sum of monthly repayment was only successful when it was auto-deducted from the orders that RK gave them when they were still working for RK. Their sewing skills are also put to better returns when they are being employed or have ample orders from a middle person, as compared to them starting their own sewing businesses.

PROS & CONS OF RK LOANS

PROS	CONS
<ul style="list-style-type: none">- RK is an alternative for the clients over Banks with higher interest rates- Provides another type of assistance for RK clients- Empower the clients to make decisions & take up commitments to improve their lives	<ul style="list-style-type: none">- More staff efforts to chase repayments- Possibilities of bad debts- May jeopardise the relationship between RK & clients if chasing of repayments get aggressive- Success of sustaining a microbusiness from microloans is low; being an employee would be a more sustainable solution¹

(1: To read an online article on the negative sides of microfinance, refer to the website address listed under Reference 1)



MOVING AHEAD

PROPOSED NEW COMMUNITY LOAN SCHEME

STEP 1: RK should give out loans to clients **only if auto-deduction of monthly repayment** is possible. Example:

- If client is an existing RK staff
- If client is still under DCA Program (Direct Cash Aid)
- If client is currently receiving some form of monetary benefit from RK

[Why auto-deduction?

- *To ensure effective repayment without utilizing extra manpower for active reminders*
- *To preserve the relationships between RK & clients*
- *For stronger accountability to RK donors]*

STEP 2: RK to understand the **purpose of their loans**

- To walk through with clients on the purpose of the loan / if alternative solutions are available
- If the loan is for the creation of a microbusiness, RK staff must baby-sit the client for the whole planning, evaluation, education & execution process (eg: to assess if the community has the potential to provide good sales returns/cash-flow control/ simple accounting & book-keeping/ the need of savings)
- To promote loans for skills training instead of creating their own businesses to lower financial risks

STEP 3: RK to have an internal discussion to decide if the loan is still necessary. Things to look into:

- If the monthly sum given out after auto-deduction from RK is still feasible for their livelihood
- If this client is reliable in terms of character & family situation to complete their repayment



STEP 4: RK to calculate the loan amount to the client by working backwards from how much & how long they can auto-deduct

- What would be the total repayment amount after RK 6% interests?
- If a client is on DCA /is an existing staff, how much is their monthly allowance & how long more will they be receiving it?
- RK can cap the maximum loan amount & duration of auto-deduction
- RK to get client to endorse an official loan document

Example (a DCA client who is requesting for a loan):

- Requested Loan Amount: \$100
- RK interest rate: 6%
- Total repayment amount: \$106
- Duration of client's engagement with RK: 6 months
- Monthly DCA: \$50
- Monthly repayment to RK: $(\$106 / 6) = \17.67
(this amount will be auto-deducted from DCA every month)
- Balance DCA from RK to client: \$32.33 per month

ALTERNATIVES

For conditions unique to the client's situation, RK can consider

- DCA for the total amount
- Partial DCA & partial loan for the total amount
 - Repayment for the loan component will be auto-deducted from their monthly allowance as above
- Dollar-to-dollar savings matching by RK to clients
 - 50% of the loan amount will be borne by clients
 - 50% of the loan amount will be borne by RK
 - For clients to put in effort before RK chips in cash
- Interest-free loans to clients



OTHER GENERAL SUGGESTIONS

- ★ To conduct a Psychometric test on loan applicants to foresee their reliability on handling a loan²
- ★ To promote skills training over starting of their own business; the former has a better chance of a more sustainable income
- ★ RK to appoint a staff as a Job placement executive --- to scout for job openings for RK clients
- ★ RK Microloans department to work with Social Work department to identify who would need loans and are eligible for them
- ★ RK to hold movie screenings in slums to show movies that inculcate good values and healthy families, to boost morale and improve bonding through recreation
- ★ For clients that would like to/ are open to go back to their province, RK can aid in the process if it is indeed better for them there than to stay in the city slums
- ★ In the case of inter-generational debts with almost no chance of clients to repay, RK can consider a DCA to cut off this financial bondage once and for all (a slightly radical suggestion indeed but is worth considering for families who are truly pressed yet are working hard to break free from it)

(2: To read an online article on the usage of psychometric test before loan approvals, refer to the website address listed under Reference 2)



CONCLUSION

The RK Community Loan scheme was started to alleviate poverty and to empower her clients. However, time has shown that the collection of repayments have been challenging indeed. The reality of a slim success in microbusinesses propels us to re-assess the effectiveness of starting one within a poor community, as well as the need of continual assistance to ensure proper planning, implementation and sustainability of their business ventures.

The Loan scheme would be healthier if the repayment process is made guaranteed and reliable (eg: auto-deduction mode). Besides this option, a diligent follow up by RK staff would definitely be required. The preparation to write off debts would be inevitable too.

Instead of giving out loans for the creation of microbusiness, focus can be shifted to skills training & education instead to increase their chances of employability, which would fetch a more steady income for our clients in the near future.



REFERENCES

1)

Website:

www.ssireview.org/articles/entry/microfinance_misses_its_mark
“Microfinance Misses Its Mark” by Aneel Karnani for Stanford Social
Innovation Review

2)

Website: blogs.ft.com/beyond-brics/tag/microfinance/
“Psychometrics help ease the huge EM funding gap” by James Kynge
for Financial Times blog



APPENDIX I: Questions for Clients with RK Loans

(Approach: Hello! I am Arielle, a volunteer for RK from Singapore. I flew over to understand more about the Community Loans & to see how we can improve this. Please give me your honest feedback so that we can help you better. Thank you!)

Q1. How are you doing currently? (Eg: How's your health / family / job? How many members are in there in your household & what's the monthly household income?)

Q2. I understand that you took up a loan with RK, what did you plan to do with the loan then?

Q3. Did you achieve what you wanted to from the loan?

Q4. If no, what happened?

Q5. Do you have difficulties paying back the loan?

Q6. If yes, can you share with me why?

Q7. Was RK aware? Do they come & visit you monthly?

Q8. Do you have other loans currently?

Q9. If yes, how much is the loan? Who did you loan from? How much is the interest rate & repayment period? Any collateral?

Q10. Would you take up another loan in the near future?

Q11. What kind of help do you need most now?

Q12. What are your plans now?

Q13. Is there anything else which you would like to tell me?