

Credit Unions Rebuild Trust in Rural Cambodia

by Valerie Breunig

Framed by the ruins of an ancient temple, Wat Ed Phnom—a modern day Buddhist temple—is one of many that dot the Cambodian landscape.





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“In the time of the killing fields, the Khmer Rouge separated children from their families, and I didn’t see my mother for two years.”

So began the story of Meas Thon, operations manager of the Cambodia Community Savings Federation (CCSF). He started telling the story as the car passed over the Chak River, reminding him of his near drowning there when he tried to escape during the wartime years of his youth.

A flood of memories came back to Thon, and in the ride home from visiting credit unions, he made history come alive by recounting his very personal story of how the Khmer Rouge takeover of Cambodia during the 1970s affected his life.

“I was told my father—along with many other men from our village—was herded to the local temple and killed,” Thon said. More than two million Cambodians were killed over three years by the brutal Khmer Rouge regime. The communist regime’s goal was to move intellectuals, religious leaders and opposition back to farms in an effort to make all people equal. Anyone who resisted was starved or killed.

Separated from his five siblings and mother, 11-year-old Thon was placed in group housing with other boys his age. He was forced to quit school after second grade and was assigned to kill the rats and mice that infested the rice fields. The boys given this task were required to turn in the tails to prove they were doing their jobs, but they could eat the bodies if they wished.

“The older boys who were supposed enemies of the Khmer Rouge were not given any food by the ruling government in an attempt to starve them. We sometimes tried to share the rats we found with the older boys, or when we were so hungry we ate the rats and shared their skins. Anyone caught sharing with the older boys was severely punished. It was horrible to see the food go to waste when people were starving in front of our eyes,” Thon recalled sadly as he looked over the rice fields he had formerly guarded against rodents.



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CCSF staffers trained by federation leaders like Meas Thon go to rural communities and organize new credit unions. They train volunteers in the basics of accounting, financial management and lending so they can grow their credit unions.

As he grew, Thon was assigned jobs requiring a higher level of responsibility, such as scaring birds from the cornfields and later digging ditches. Eventually he escaped across the border to Thailand to find refuge with distant relatives. He became a Buddhist monk for the next ten years, returning to his studies to complete twelfth grade.

Stories like Thon's are all too common among credit union staff and members in Cambodia. Their struggle to increase employment, build businesses and grow the local economy is hampered by a general mistrust of financial institutions. But credit unions, re-established in 1998, are growing.

Today, 85% of Cambodia's 13.8 million people live in rural areas, and an estimated 78% of the population lives on less than US\$2 per day. The Khmer Rouge regime had abolished the use of money during its rule, effectively wiping out the financial sector. Lax regulation and supervision after the fall of the regime led to bank failures and corrupt local schemes in which depositors lost their savings repeatedly.

The 17 banks in the country operate in the capital city of Phnom Penh and stick to the major provincial

towns. There are virtually no bank branches in the rural areas where credit unions (generally called savings banks in Cambodia) have begun to open, staffed largely by volunteers and operating out of private homes.

People are joining the small credit unions, but the legacy of lost savings runs deep. They are afraid to put more than a small part of their savings in a financial institution. Even members prefer to build wealth in rice, cattle or gold jewelry. The general lack of trust makes it difficult for credit unions to generate sufficient savings to make loans and grow their institutions.

The feeling of optimism is palpable as people pool their savings and loans to grow their micro and small businesses and work together to rebuild their communities out of the post-communist economy. In a country torn apart by decades of civil war and repeated bank failures, people have embraced the cooperative model as a financial institution they might trust.

Before credit unions were established, villagers could only access loans from wealthy neighbors who lent



Fruit seller Sim Chenda works 15-hour days on the road near Khum Chrey. She uses credit union loans to buy fruit from local growers and to continue expanding her business.



Lacking trust in financial institutions, Cambodians hold the majority of their savings in goods such as rice, cattle or jewelry. Permanent buildings will help build trust in credit unions.

Until they can afford to construct permanent buildings, credit unions are run out of members' homes. Volunteers take loan applications and deposits during set hours each week.

at rates around 10% per month. Today, credit union members borrow at 3% per month. Even non-members benefit, as the credit union competition forces down the rates of local moneylenders and other microfinance institutions to around 4%.

Preh Netpreh Savings Bank is an example of the growing success of the credit union movement in Cambodia. Formed by organizers going door to door in 1998, the credit union now boasts 1,600 members. Two-thirds of the members are women.

It operates out of the home of a director with four file cabinets, a desk, safe, bench and white board. Preh Netpreh's largest fixed asset is a piece of land on which it plans to construct a building in the next few years. A permanent building will help the credit union build trust among neighbors and attract the new savings it needs to grow.

Preh Netpreh's strategic goals are to grow to 3,000 members, construct the brick and mortar building and—if and when electricity reaches the area—migrate from a manual to computerized accounting system.

The credit union's growth strategy is to offer better rates than the for-profit microfinance institutions that serve the rural areas. Also, it is the only local institution to offer insurance products. The credit life-and-death benefit pays double the member's savings upon death.

During local funerals, when other creditors come knocking to collect, the credit union is there to present the insurance benefit.

World Council and the Credit Union Foundation of Australia (CUFA) have established a joint program—funded by the credit union system of Australia and WOCCU Supporters—to help credit unions like Preh Netpreh rebuild trust in their communities. The program will support credit unions with solid growth potential so they can construct buildings and attract new members with savings to deposit. As savings grow, the credit unions will be able to expand their lending portfolios to provide more people with the financing they need to create jobs and increase income-generating opportunities.

Thon would like credit union people everywhere to see how hard people in Cambodia work just to survive. He says he finds his work rewarding because credit unions are focused on helping people find employment and rebuilding the community that had been so brutally destroyed during his childhood. ■

Valerie Breunig is the Worldwide Foundation funds manager. For information on how to support the WOCCU-CUFA Cambodia Building Trust Program, contact her at vbreunig@woccu.org.