

Microfinance Alert in Cambodia: Real Issues or Scaremongering?



M-CRIL advisory on the implications – 1

In August 2019, a Cambodian NGO, LICADHO (Cambodian League for the Promotion and Defence of Human Rights) published a damning report on the conduct of Cambodian MFIs towards their borrowers. The report, titled: **COLLATERAL DAMAGE: Land loss and abuses in Cambodia’s microfinance sector**¹, accuses Cambodian MFIs of reckless lending by offering loans to clients who could not afford to repay them and then pressurising the clients into repaying loans through “coercive land sales or other unethical measures”. The report has set off a storm of debate, particularly amongst detractors of microfinance, not only about Cambodian microfinance but also about microfinance generally.² There have even been calls for an international commission to establish the extent of land loss by Cambodian microfinance borrowers and other abuses of human rights by MFIs in Cambodia.

M-CRIL has developed a set of **two notes** to consider

- **Note 1: The evidence for the allegations made and the likely scale of the problem**
- **Note 2: The action that MFIs and the international community need to take to mitigate and prevent the abuses alleged by the LICADHO report.**

Note 1: Evidence for the allegations made and the likely scale of the problem

We start by summarising the main content of the report.

The report is based on a set of in-depth interviews undertaken by LICADHO in 10 communes of 4 provinces situated in the southeast of Cambodia and in Phnom Penh city. Over a three week period, LICADHO’s researchers identified and interviewed “28 households whose members had suffered multiple and/or serious human rights abuses as a result of MFI debt.” Its findings are summarised in the box below.

“Of these 28 households, 22 had experienced a coercive land sale; 13 had engaged in child labour; 18 had a family member migrate due to debt; and 26 had eaten less or lower quality food in order to make loan payments; 20 households had taken out at least one additional loan [from another MFI] to repay an existing MFI loan, and 22 households had borrowed from a private lender while also borrowing from an MFI, indicating that MFI loans and informal private loans are used in tandem, forming a cycle that drives clients further into debt.” Licadho Report, Executive Summary, *page 1*.

¹ http://www.licadho-cambodia.org/reports/files/228Report_Collateral_Damage_LICADHO_STT_Eng_07082019.pdf

² <https://www.khmertimeskh.com/50632531/cambodias-microfinance-a-growth-engine-not-a-debt-trap/>

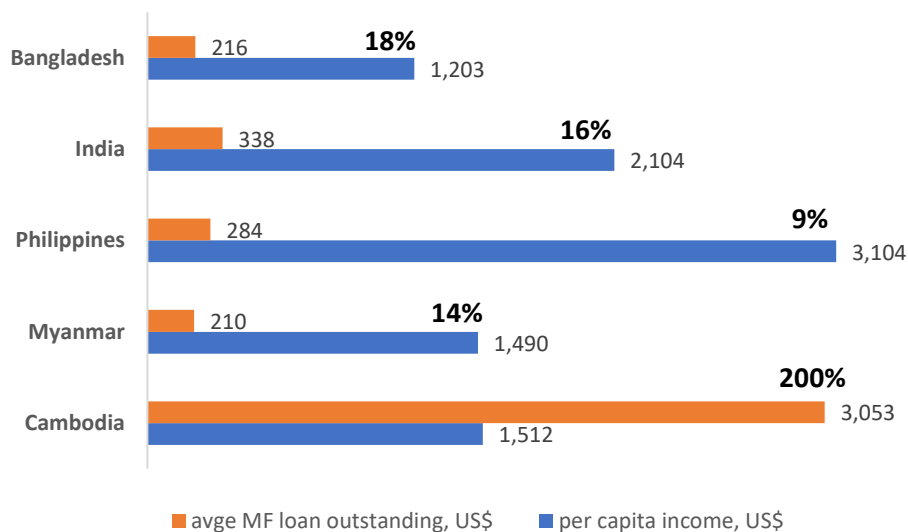
1 Are the alleged abuses possible? Yes, microfinance clients in Cambodia are over-leveraged

The LICADHO report rightly points out that Cambodian microfinance has grown to become a substantial part of the lives of low income households in the country. To update the information provided in the report, at the end of June 2019, Cambodia had

- Microfinance borrowers 2.5 million
- Loan portfolio outstanding US\$ 9.1 billion
- Average microfinance debt US\$ 3,640, approx.
- GDP per capita, December 2018 US\$ 1,538

Thus, the average microfinance debt outstanding is well over twice Cambodia's GDP per capita and close to the median disposable income for rural Cambodian households in 2017 (about \$3,900). A comparison of this level of outstanding microfinance debt per borrower or leverage relative to per capita income with that of other countries in the region with large microfinance sectors (**Figure 1**) shows the extent to which Cambodia is different from others in this aspect. Outstanding microfinance debt per borrower in all of these countries. Bangladesh, India, Philippines and Myanmar is less than \$350 amounting to 9% to 18% of GDP per capita of these countries – 1/20 to 1/10 of the high level of leverage in Cambodia.

Figure 1 Microfinance borrower leverage in Cambodia compared to other Asian countries with large microfinance sectors – average loan outstanding/per capita income (bold)



Within Cambodia there is variation in the leverage resulting from the activities of the 9 largest MFIs. A comparison of these shows that the ratio of average outstanding loan size to per capita income (leverage) resulting from the activities of 4 of the 9 MFIs with the largest portfolios (but also numbers of borrowers served) is substantially in excess of the 200% country average; only for 3 MFIs is it significantly below the average and only for one MFI is it well below 100% (just 0.5). Indeed, as pointed out by CMA in its response to the LICADHO report, a majority of loans continue to be of size less than \$1,000. It is the relentless push to individual lending of large loans by a few MFIs that has created this situation.

Nevertheless, it is apparent that large numbers of Cambodian microfinance borrowers **have substantially greater leverage than the very high country average. This indicates a degree of over-leveraging where abuses such as those alleged by the LICADHO report could occur.**

2 What is the scale of the problem likely to be? A very small number suffered abuses while large numbers are likely to have derived substantial benefit from microfinance

The LICADHO report begins with a prominent disclaimer, “This research is not intended to be statistically representative of Cambodia or of all MFI clients in the country. It seeks to highlight issues that researchers discovered in target areas...” However, it comes after the rather dramatic title that sets the reader up with a presumption of guilt vis-à-vis Cambodian MFIs.

The LICADHO interviews were undertaken in 10 communes across the four provinces of Kampong Cham, Kandal, Prey Veng and Tbong Khmum, in addition to the city of Phnom Penh. The report does not specify the 10 communes covered but that does not significantly affect the analysis presented in **Table 1** (below). Essentially, LICADHO had

- **sought out borrowers who faced repayment difficulties** rather than discover what proportion of the total actually faced repayment difficulties and what those difficulties were to obtain a statistically valid assessment of the scale of the problem.

On the basis of the analysis in **Table 1**

- It is apparent that **the proportion of those borrowers with repayment difficulties who were actually interviewed is very small** – less than 0.2% (2 in 1,000) of the total number of loans in the study area. If, as shown by the research of M-CRIL and by MFI research departments we assume multiple borrowing by around 40% of the borrowers, the number of borrowers in extreme stress identified by the LICADHO team becomes 0.27% (1 in 370)

Table 1 Coverage by LICADHO of borrowers with overdues

Cambodia	US\$ amounts
Population, persons in 2018	16,250,000
Households in Cambodia, average size = 4.6	3,532,600
Study region	
Households in 4 provinces + PP in survey	1,324,600
Number of loans, study provinces, Assuming 7 loans for every 5 households (40% multiple borrowing), number of borrowers	795,300 568,100
Borrowing households, % of total	43%
Study area	
Communes in the study provinces, number	549
Households per commune	2,413
10 communes covered by study, households	24,127
Borrowing households in 10 communes	10,380
Coverage by LICADHO study	
Interviewed by LICADHO team, number	28
proportion of total number of borrowers	0.27%

Since the LICADHO team specifically sought out borrowers in extreme stress, the fact that a large proportion (22 out of 28) of such borrowers did, indeed, face difficulties – such as loss of land – and the rest suffered other forms of distress is **not meaningful in itself.**

It could be argued that 22 out of the 28 interviewed borrowers facing loss of land in those 10 communes means that **out of nearly 10,0 borrowers** (estimated to live in the 10 communes) **just 1 in 370 faced serious difficulties** while the rest were able to get by and

most are likely to have **derived substantial benefit from their loans given that poverty in Cambodia fell from 47% in 2007 to 14.5% in 2014** according to World Bank data.

So, our conclusion...

Note 1, Conclusion

It is not the purpose of this note to minimise the seriousness of the issue for households in extreme stress; rather the purpose is to recognise that while the issue of abuse exists it is not as alarming as suggested by the LICADHO report.

Nevertheless, if microfinance results in the loss of livelihoods or becomes a cause of distress or abuse even for a single borrower, it is a cause of concern.

The **second note**, which follows immediately, sets out possible mitigations for the problem.

M-CRIL is a responsible development research and analytics firm with around two decades of experience in Cambodia and a substantial record of analytics in international microfinance including client protection assessment and certification as well as microfinance ratings, programme evaluations and focused management training and capacity building support for MFIs.