



Microfinance Index of Market Outreach and Saturation

# Cambodia

## Multiple borrowing and loan sizes

Special Circular June 2016

**Copyright 2016 by the MIMOSA Project.**

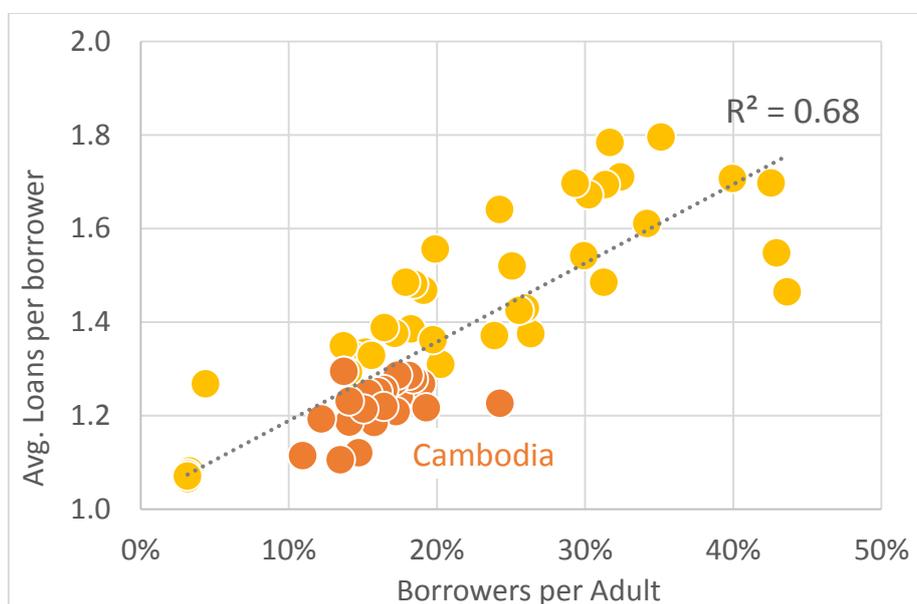
We believe in sharing information. For this reason, this report is being made available free of charge to the Cambodian Microfinance Association and its members, the Credit Bureau of Cambodia, the National Bank of Cambodia, members of the Government of Cambodia, and students and researchers based in Cambodia.

All other parties should acquire this report by subscription. If you are reading this report and are not a subscriber and not among the above-listed parties, you are undermining the long-term sustainability of this project. The world of microfinance is small. We will find out and will not hesitate to publicize your violation through social media and other venues. So don't do it. It's not worth it.

To subscribe or request permission to cite this report in any publication, please contact us:  
[info@mimosaindex.org](mailto:info@mimosaindex.org).

Since we first began our MIMOSA work in Cambodia (which itself was the first MIMOSA report!), one mystery has never ceased to bother me. After one too many questions, I decided to dig deeper to see if we might find the solution.

The mystery is this: given its high level of loan penetration (i.e. large number of adults who are active borrowers), Cambodia seems to have a relatively low level of multiple borrowing. Indeed, one of the key findings of the MIMOSA research has been a surprisingly strong link between penetration and multiple borrowing – as the number of borrowers increases, so does the average number of loans per borrower, i.e. multiple borrowing. That is, while in theory it ought to be possible to have high penetration with low multiple borrowing (lots of borrowers, but few borrowers having more than one loan), in practice this doesn't seem to exist. Cambodia is well below the pattern seen in other countries:



Sourced from credit bureaus in: Bolivia (national, 2008-14, regional 2013), Cambodia (regional, 2014), Kyrgyzstan (national, 2011 & 2014), Morocco (national, 2008-13), Peru (regional, 2014)

The chart shows this clearly – all but one province in Cambodia falls below the trend line, many by a substantial margin. Why is this so?

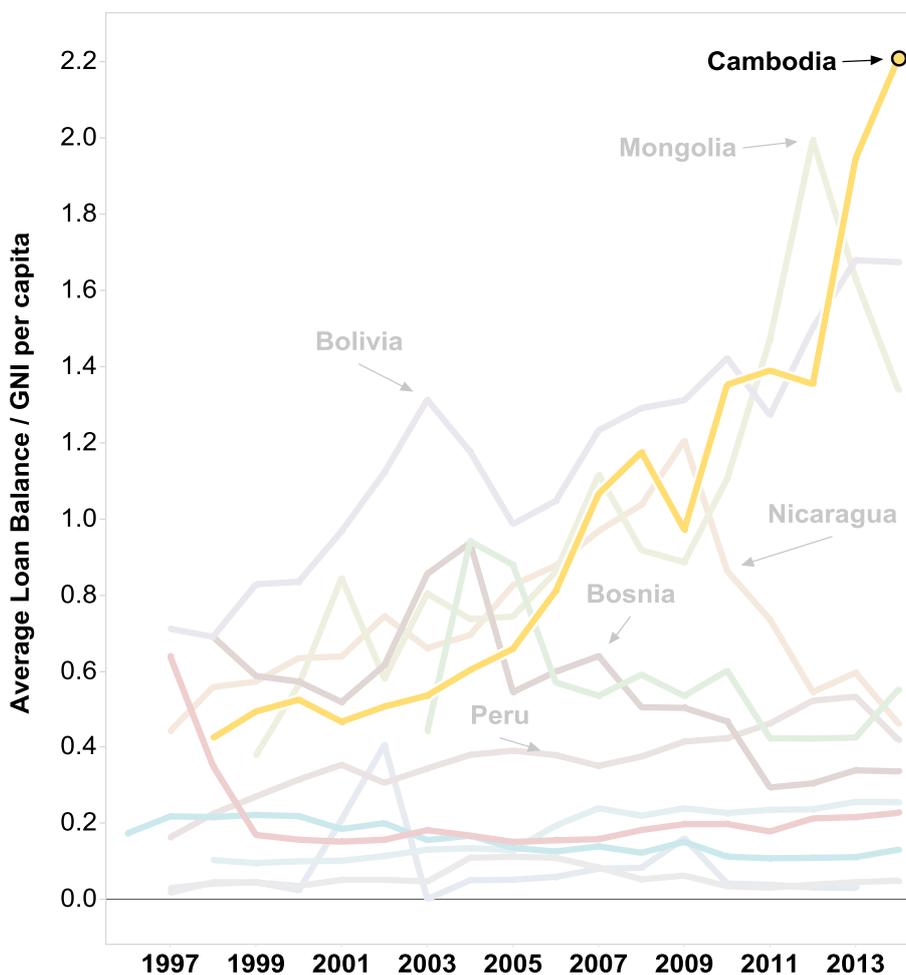
To understand the apparent mystery, consider the traditional mechanism by which multiple borrowing grows. In saturated markets with high competition, a loan officer will increasingly come across potential clients who already have one or more loans from other lenders, and many of them may seem (or even actually be) good customers, with demonstrated good repayment history and often with sufficient capacity to repay an additional loan. So the loan officer approves the loan. As competition heats up, it becomes ever more difficult to find new clients – those who have no loans at all – whereas the number of clients with existing loans will continue to grow. So multiple borrowing increases.

Why isn't this happening in Cambodia as much as in other countries? Part of the reason is that MFIs in Cambodia have strong controls against lending to customers with existing loans (and especially those with 2 or more loans). But in a saturated and highly competitive market, the number of new clients is limited. That pushes competing MFIs to take another route – to “buy out” customers of other MFIs by offering to lend a larger amount if the customer agrees to repay her existing loan to the incumbent lender. Incumbent lenders

can likewise offer clients larger loans, thus making their customers “skip” to competing lenders. Whichever the process, the result is the same – growing loan sizes.

The evidence in Cambodia strongly suggests this to be at least part of the answer. In Cambodia, a typical microfinance loan has grown from 0.54 of per capita GNI in 2003 to 2.2 per capita GNI in 2014. In other words, loan sizes have grown four times faster than client incomes. This notably stands out from other major microfinance markets, including those that have experienced crisis before or which are seen as saturated:

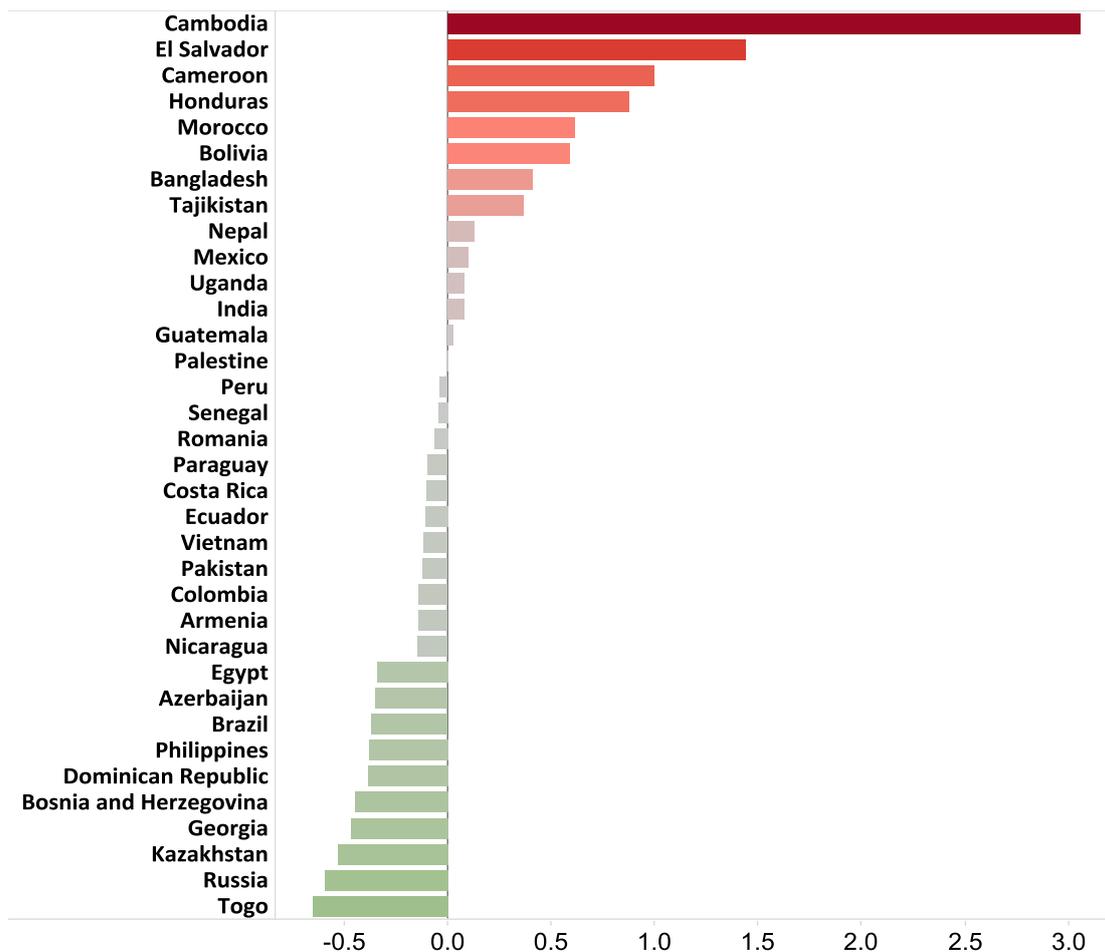
#### Average Loan Balance / GNI per capita



Source: MIX Market; average calculated by weighting number of active borrowers

Yet as with everything, that's not the whole story. If we try to compare the growth in loan size directly to other countries during the period of 2004-14, Cambodia turns out to be an even greater outlier:

Change in Average Loan Balance / GNI per capita 2004-14 (%)



Source: MIX Market, change calculated for MFI panel using each MFI's average loan balance during 2004-14, then aggregate average calculated by weighting by number of active borrowers in 2014; only countries with a panel of at least 4 MFIs are included.

When it comes to growth in loan sizes, there is simply no country that comes even close to Cambodia. Interestingly, countries that have high multiple borrowing, such as Peru and Mexico have seen little to no change in loan sizes relative to per capita GNI during the same period (though growth could have occurred earlier, especially in a mature market like Peru). That data certainly supports the hypothesis that multiple borrowing in Cambodia has been kept low by rapid growth in loan size.

And what about this loan size? Where exactly does Cambodia stand? This is a more difficult question. The problem with loan size comparisons – even after standardizing relative to a country-appropriate indicator, such as GNI per capita – is that it doesn't say anything about who is borrowing. In a country like Mexico or Azerbaijan, the typical microfinance client is among the country's poorest, probably in the bottom 10% income

bracket. In India, the typical client is more likely to be come from middle slice of the population – not the wealthiest but also not the poorest.

So what about Cambodia? Given the number of borrowers in the country, it seems likely that they come from all or nearly all segments of society. To get an idea, consider this breakdown of the country's loans<sup>1</sup>:

Loan size range (US\$)	Avg Amount	Number of loans	% of adult population	Major lenders
>\$10,000	~\$15,000	240,000	2.3%	ACLEDA large loans, other banks
\$3,000-10,000	\$3,657	574,182	5.4%	ACLEDA small loans, Sathapana, HKL
\$1,000-3,000	\$1,859	853,893	8.0%	PRASAC, AMRET, CREDIT
<\$1,000	\$581	1,029,652	9.7%	AMK, LOLC, VisionFund

Source: Cambodian Microfinance Association, MIMOSA estimates

For reference, Cambodia's GNI per capita in 2014 was \$1,020. For the wealthiest quintile, it's \$3,630 and for the bottom quintile, it's \$820.<sup>2</sup> In other words, 2.3% of Cambodia's population holds loans four times the average income of the country's wealthiest 20% (quintile). Another 5.4% of the population holds loans that are at or above the annual income of that same top quintile. Considering that we're counting adults, not households, this pretty much implies that nearly every household among Cambodia's richest 20% has a loan, often larger than their annual individual income.

At the bottom end, we're left to assume that nearly 9.7% of the country's population holds a loan that's at least half or more of the average person's annual earnings. If, as is likely, many of these loans are held by the poorer segments of the population, then the loan sizes probably approach or even exceed the annual income of the borrowers themselves.

This data isn't conclusive. Average loan sizes at the institutional level (as used here) can be skewed upwards by a relatively small number of large loans. The impact of large loan tenors must likewise be taken into account. It's impossible to look at the above table and reasonably estimate how many households in Cambodia may be overindebted. However, it seems challenging to distribute the above loans in such a way that they can all be held by households with sufficient earnings to afford them.

Even without multiple borrowing, a path to overindebtedness is very plausible in the Cambodian market.

<sup>1</sup> Specifically, these represent average loan size for each institution

<sup>2</sup> World Bank, Atlas method (current US\$)