An impact assessment of microfinance in Cambodia

Final Report

November 2023

for
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Disclaimers

1. Our services were performed and this report was prepared in accordance with the contract with the **Cambodia Microfinance Association** (CMA), dated **21 October 2022**, subject to the terms and conditions included therein.
2. The information used for this Report is based on the documentation and information collated from various public sources or collected from a household survey of microfinance borrowers (*with borrowers' consent*). The findings contained here are limited to the extent of the procedures conducted by M-CRIL till 31 March 2023, which are described in this document. Accordingly, changes in circumstances or information newly available after this date could affect the findings outlined in this Report.
3. We are dependent on the information reported to us by household respondents and in no circumstances shall we be liable, for any loss or damage, of whatsoever nature, arising from information material to our work being withheld or concealed from us or misrepresented to us by any person to whom we make information requests.
4. The findings contained in this Report are limited to the extent of the procedures performed by M-CRIL, which are described in this Report. The findings, which are hearsay in nature, should not be construed as an opinion, legal or otherwise, on the rights and liabilities of the Company or any other third party that may be, directly or indirectly, concerned with the findings in this report.
5. All the information presented in this Report from market sources, or third parties are the personal perceptions of the sources. Wherever possible, we have corroborated the information provided to us with the information that may be available in the public domain.
8. This Report provided by us is solely for the information of the Cambodia Microfinance Association (CMA) Board and management, which had requested M-CRIL to undertake the engagement. **This final report is for the use of the Board and management of the Cambodia Microfinance Association (CMA) and should not be used, circulated, quoted or otherwise referred to either wholly or in part except with the permission of CMA.**
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Abbreviations

CGAP	Consultative Group to Assist the Poor
CMA	Cambodia Microfinance Association
FGD	Focus Group Discussions
FI	Financial Institution
FL	Financial literacy
GDP	Gross Domestic Product
HH	Household
HVA	High Value Assets
IAS	Impact Assessment Survey
IDI	In-depth Interview
IGA	income generating activities
MDI	Microfinance Deposit-Taking Institutions
MFI	Microfinance Institution
MHH	Male Headed Households
NBC	National bank of Cambodia
NGOs	Non-Governmental Organization
NIX	Network Information Exchange (database used in Cambodia)
NPL	National Poverty Line
PPI	Poverty Probability Index
SDG	Sustainable Development Goal
SPS	Simple Poverty Scorecard (previously known as PPI, now rebranded)
SPTF	Social Performance Task Force
UNCDF	United Nations Capital Development Fund
WASH	Water, Sanitation and Hygiene
WHH	Women Headed Households

Acknowledgements

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The field study was coordinated by M-CRIL's Branch Office in Cambodia led by Shayandeep Chakraborty, Country Manager. Recruitment and supervision of the field team was by Sengdy Khiev, our Cambodian analyst based in Phnom Penh. Methodology, questionnaire development and data analysis were by M-CRIL's research team in India with Ms Ratika Kathuria playing a leading role along with advice from Ujjwal Dadhich and expert inputs from Ms Frances Sinha, Director and co-Founder of M-CRIL. Others deeply engaged in data analysis and support were Arpana Gone, Rejoice Parackal and Shwetangi Raj. MFI level data was compiled and analysed by Charlene Samuel. Ratika also led the training of the field team and spent time with the team during the field survey to support quality assurance and to understand the perspectives of survey respondents. Shahanur Al Arif, our Senior Executive, IT and Administration played a key role in the production of the report (including designing the cover).

Finally, and importantly, we would like to thank Dr Thun Vathana, President, Preak Leap National Institute of Agriculture, for his advice on methodology and field perspectives as well as for permission to use the facilities of the institute for the training of the field team. His research team also made a valuable contribution to the qualitative feedback obtained from microfinance clients.

Sanjay Sinha, Co-Founder & Managing Director, M-CRIL – team leader for this study.

Executive Summary

This independent impact assessment study was commissioned by CMA and undertaken by M-CRIL against a background of the high growth rates of Cambodian MFIs over an extended period of time whereby not only did the number of borrowers served in Cambodia grow exponentially (if somewhat variably) from roughly year 2001 onwards, but the outstanding loan size also grew at a rapid pace. CMA states in its Call for Proposals for this study that

"The impact assessment aims to assess the success and overall impact of the microfinance sector since the start-up of the microfinance program up to present. This assessment also aims to understand how microfinance contributes to the improvement of clients' living standards, community development, children's access to school, and contributes to poverty reduction and economic growth."[1] CMA reports that it plans to undertake such studies on a regular basis from now on.

The approach of this study is to provide carefully considered conclusions on the performance of the sector rather than quick, headline-grabbing anecdotal evidence from purposive field visits.

The survey used for this analysis consisted of responses from 3,262 sample households spread over ten provinces. Some characteristics of the sample are

- About one-fourth of the sample households are female headed while the national average of female household heads is 31%.[2] Nearly all adults work.
- Households have at least two income sources usually and are able to earn a median income of US$550 on a monthly basis.[3] The largest income sources (in terms of number of households engaged) are **casual labour** and **grocery shops/petty trading**; these are also the primary income sources of 37% of the sample.
- About half (48%) of the sampled adults have access to at least one formal financial service (savings account, credit or microinsurance). Some 43% of adults (18+ years old) have accessed loans. However, the penetration of formal saving services among adults is low overall; just about 12% have a savings account.
- Clients take three loans on average within a five-year period. Loan size increases with years of association with microfinance service providers. The size of a typical disbursement is US$5,167.
- Just about a quarter of microfinance clients have signed up for microinsurance; such low numbers indicate (possibly) an inadequate understanding of the benefits of microinsurance or simply lack of expectations from the service due to lack of familiarity with insurance processes.

[1] CMA, Call for Proposal: Impact Study of Microfinance in Cambodia, July 2022.

[2] Cambodia Demographic and Health Survey Report 2021-22. p.21, table 2.8.

[3] This corresponds to an average income of $1,055 indicating the high income disparity between micro and large borrowers and is 1.8 times the mean of income in Cambodia emerging from CSES 2021 at KHR 2,334,000 or US$584 (@ KHR 4,000 = $1).

The proportion of households (HH) likely to have incomes below the National Poverty Line (NPL) in the sample using the simple poverty scorecard is 11.6%, compared to the 18.3% poverty rate for Cambodia as a whole (as indicated by official data).[4] It confirms that, as in other countries, while microfinance service providers do work with the poorest sections of the population (below NPL) these are not necessarily served to a greater extent than the proportion of very poor households in the population as a whole. Using a wider poverty definition of 150% NPL, increases the proportion of poor households served by microfinance to 38.7%.

There are 5.3 persons on average in a poor household – 1.18 times more people than in a non-poor household which have 4.3 persons on average. The median incomes of poor households are around 34% less than that for non-poor households. Probable below NPL income households earn a living from a limited set of activities like agriculture and casual labour while the non-poor have a more diverse set of activities (including regular employment in garment factories). The poor receive smaller disbursements and are less able to manage loan transactions than the non-poor. Crucially, the number of years that borrowers are associated with microfinance does not seem to affect their poverty status (based on the data from this survey). The proportion of poor households is similar (~11-12%) within old and comparatively new client segments. Within poor households, the size of disbursements is the highest for clients with more than 15 years of borrowing history. A poor household receives ~US$3,206 in a typical loan cycle, this is half of the amount received by non-poor households on average. This is, perhaps, further reinforcement of the now well-established international understanding that, for the poorest households, provision of finance is not enough for them to graduate out of poverty. Graduation requires skill development, asset building and value chain support as well as financial support.[5]

Analysis of survey data from a gender perspective shows that the number of female borrowers is higher than male borrowers (46% vs 41% of adults interviewed). **Most of both men and women do not have a savings account**. Overall, women are less likely to be earning incomes than men with the real difference being in employment outside the home; twice the proportion of men (37%) are engaged in both regular wage employment and non-domestic casual labour than women (18%). Without major differences (and a tendency to report joint decision making), women are generally more likely to take saving decisions and manage financial transactions better while men are more likely to be confident in borrowing decisions and operating deposit accounts with financial institutions (MDIs/banks). There is also a difference in the ownership of mobile phones with nearly 1.5 times more male ownership than female. In engaging with a rapidly digitizing sector like financial services this could be a constraint for women in the short to medium term.

According to a **measure of financial awareness** constructed as part of this study, **there is a moderate-to-good level of awareness** amongst the respondents of the household survey [sample average 5.25 out of 8 and the highest frequency of respondents between scores 5

[4] % households with ID Poor status are available at https://app.idpoor.gov.kh/public-data-query#publichouseholddata.

[5] The well known Bangladeshi international MFI BRAC has an internationally acclaimed graduation programme for very poor clients that operates in multiple countries around the world. This programme has been extensively supported by CGAP over the years. www.brac.net/program/wp-content/uploads/2020/02/Graduation-Overview.pdf

and 6]. The province-level average scores range over 4.8 to 5.7 increasing broadly from the western to the eastern part of Cambodia (Siem Reap to Mondul Kiri province). This apparently paradoxical finding is related to the poverty status of microfinance clients amongst the provinces – highest in the former province and lower than expected in the latter province. This study shows that those with higher awareness scores are more likely to invest productively than those with lower scores.

The international discourse on Cambodian microfinance assumes a high level of sporadic repayment stress amongst microfinance borrowers. The findings of the assessment indicate that while there is a degree of such repayment stress (more so among poor households), **there is stress for around 24% of borrowers**, the concern that this results in many of them losing their land (even implying landlessness and destitution for large numbers of borrowers) is over-stated. **There is loss of some land in about 0.5% of cases in the past 6 months and perhaps up to 6% over a five-year period** (that included the effects of Covid). This type of loss entails the sale of small plots of land, any cases of landlessness that may result are rare and this study did not discover any. **Most borrowers faced with repayment stress coped with the situation by** borrowing from relatives/friends/associates followed by borrowing from moneylenders. Less frequent are the sales of high value assets (mainly motorbikes or other household assets) and (of greater concern) the temporary lowering of food intake. Land sale is the last resort. While there is some FGD input in this report that indicates distress, it is the extreme cases (real or hearsay) that remain in borrowers' minds and not necessarily always the benefits. The real possibility of the loss of some assets resulting from their borrowing is acknowledged by borrowers in the sample for this study.

In consideration of impact,

- **Some two-thirds of the sample reported improvement in their lives in the last five years. Amongst them, 31% reported substantial economic benefit and life improvements** while another 36% report some improvement.
- **The lives of nearly 25% of sample households have deteriorated.** The remaining 8% gave mixed responses – "somethings have improved, while others have worsened."
- **However, less than 20% of the sample attributed any change in their lives directly to loans. About 13% said that borrowing helped in improving their lives and 5**% attributed deterioration directly to credit.

Furthermore, **while nearly 6% reported some sales of land over the past five years, 20% reported purchases of some land.** Neither did many of the former attribute land sales exclusively to "too many loans" nor did many of the latter report "access to credit" as a crucial factor in the purchase of land. In both cases credit was one factor **cited by some responding households.**

Life is complex; there is no straightforward correlation with financial services. And there is no general environment of distress amongst microfinance clients. Nevertheless, some lives have been directly affected by a vicious cycle of debt. This happens in any financial services activity, whether from lending by microfinance service providers or by the regulated commercial banking sector. It happens in every country in the world whether with low income or high-income populations.

At the same time, there are some misguided elements in the microfinance sector. FGD input shows that these could be loan officers being excessively aggressive in managing overdue in their operational areas or, in a few cases, managements of microfinance service providers allowing such behaviour through implicit approval. As socially conscious institutions, microfinance lenders should address the issues that affect households who become enmeshed in a vicious cycle of debt and work to ameliorate the conditions of those affected as well as to minimize the recurrence of distress.

SDGs and Microfinance: The contribution of microfinance to the SDGs in the context of the lives and livelihoods of low-income families **can be substantial when viewed in conjunction with other facilitating conditions like economic growth** (as in Cambodia over the past 15 years) **and policy-stimulated support for social services and social change**. A total of 58.6% of the sample of microfinance borrowers covered by this survey belong to poor or vulnerable groups. To the extent that microfinance has supported substantial or some life improvements for 67% of the sample over the past 5 years (including 50% of very poor households) it has a positive effect on incomes. Some 26% of the overall sample attributed changes in their life situation to microfinance.

In the relatively limited number of situations where microfinance is not deployed successfully due to changing conditions in the economic or physical environment (as in the case of Covid) **it can also have negative consequences and can undermine progress to the SDGs**. In such circumstances, the creation of ameliorating processes for supporting lives and livelihoods of unsuccessful borrowers in extreme distress (by microfinance service providers themselves) is the key to ensuring positive net effects on the welfare of families who must survive with limited resources.

Risks and mitigation strategies: Based on the conclusions above, it is apparent that some action is needed from all stakeholders to ensure that the social mission of the microfinance sector is re-emphasised and its reputation as a sector dedicated to ameliorating the conditions of poverty is restored. The key points to be considered here are

1. Clearly some of the problems of the sector are caused by **fast expansion and growth of loan sizes** to levels that are well beyond both inflationary impact and economic growth effects on borrowers' needs. This has been caused partly by the **well-intentioned action of the regulator to keep the price of micro-credit (interest rates) under control**.
2. The leading institutions in the sector are now completely owned by **international investors, *some of whom are more conscious of the social mission of microfinance than others***. It is worth noting that while average returns on equity of some of the largest service providers have declined from 20% to around 12% over the past 15 years, a few of the large providers have maintained returns on equity at the 25% level. **A more intensive and knowledgeable effort by the regulator, CMA and the international community to rein in the cost of micro-credit** would not only be beneficial to borrowers but would also reduce the incentive to push up loan size relentlessly and to refinance loans. This has been done in other countries without necessarily limiting the availability of loans to those who need such a facility.

3 Overall, this can only be managed by **creating an environment of social responsibility** in which CMA, the international community of concerned institutions (CGAP, SPTF, the European Microfinance Platform) along with international impact investors join the regulator in controlling rampant growth. A focused effort by the regulator on the returns earned by investors in the sector would also be beneficial; client protection training for MFI managements and Boards will help but it is only one part of the set of measures needed. **The aim would not be to penalise efficiency or to stifle investment but rather to maintain returns at levels that have proven to be adequate for some institutions (even in Cambodia) but have been substantially surpassed by others. MFIs that earn high rates of return should consider contributing to clients' welfare as part of corporate social responsibility (CSR) or should set up a fund to support clients in extreme distress.**

4 The MFIs themselves need to focus on maintaining their social responsibility through **close monitoring of the welfare of their clients**. Since an environment of refinancing of loans of other MFIs has taken hold in Cambodia, there is the tendency, perhaps, not to regard any particular borrower as an MFI's own client. For this reason, CMA (rather than individual MFIs) may need to take the initiative to obtain information from its members on all those borrowers whose collateral is expected to be seized – particularly those who could possibly be compelled to sell land or other high value assets**.** **An MDI/MFI sponsored team** (as an independent agency created for the purpose) **could monitor the status of borrowers in distress** and work with the principal lenders to those borrowers to understand the problems faced by the client. The solution could be the restructuring of loans or other non-financial support to individual borrowers to bolster their ability to generate income (or to recommend write-offs in a limited number of cases). **Such an agency, not the local police and law courts, should be the first resort for MFIs with defaulting clients**. [A proactive initiative of this type would also be good for the image of Cambodian microfinance but that is far less important than the welfare of borrowers in distress].

Table ES.1 Impact Assessment: Some key statistics

Impact assessment study – Indicators	% of households unless otherwise stated
Sample numbers	
Households covered by the sample Period of recall for impact Number of loans taken over a five year period Loans outstanding at the time of the survey	3,262 in 10 provinces, 450+ villages 5 years 3 4,959
Poverty rate	
Likely below national poverty line households (SPS) - borrowers - national poverty rate	 11.6% 18.3%
Loans with sample households	
Number of loans taken over a five year period Average amount of loan disbursed by MFIs to sample borrowers	3 $5,167 (median $2,510)

Impact assessment study – Indicators	% of households unless otherwise stated
Average amount outstanding with sample households	$6,174 (median $3,000)
Repayment stress	
Repayment stress, past six months	24.1%
Sale of some land to cope with repayment stress, - over the past six months - over the past five years (including Covid)	 0.5% 6.0%
Land transactions over the past **five years** (credit availability/indebtedness reported as one of multiple factors) - purchases of some land - sale of some land	 20% 6%
Impact (not necessarily attributed to borrowing)	
Change in household well-being over the past 5 years - substantial improvement - some improvement - mixed effects - deterioration (including Covid)	 31% 36% 8% 25%
Attribution of impact to credit (as one of multiple factors) - improvement - deterioration	 13% 5%

Introduction to this study

What is it about, how was it done?

The microfinance sector in Cambodia has grown exponentially over the last decade. It started out as a donor-driven intervention but has since professionalized into a financially sustainable economic sector making a significant contribution to the Cambodian economy. Starting with about 50,000 clients and a total loan portfolio of over US$3 million in 1995, the microfinance sector has grown steadily, providing loans to a total of 2.1 million households (excluding the microfinance portfolios of banks), with a portfolio of US$9.4 billion by the end of 2022. This is over 30% of Cambodia's estimated GDP of $29.96 billion in 2022.[6] Assuming a 35% average return on capital on microfinance loans (since effective interest rates alone are in the range of 23-25%) this amounts to a microfinance contribution of nearly $3.3 billion (~11%) to the Cambodian economy.

Although the microfinance sector in Cambodia has made a significant contribution to economic growth, until now there has not been any comprehensive study of the impact of microfinance on clients served by the sector. This report was commissioned by the Cambodia Microfinance Association as part of its mandate to contribute to public information on the practice of microfinance in the country.

Nevertheless, this study was undertaken against a background of adverse news reports that generated an **international view of Cambodian microfinance suggesting that it is highly stressed**, that MFIs in Cambodia lend indiscriminately (regardless of their clients' ability to repay) and then use coercive practices including confiscation or forced sale of clients' landholdings (pledged as collateral) culminating in landlessness, "food insecurity, and loss of livelihoods for hundreds of thousands of borrowers".[7] This study takes this perception into account and the analysis here attempts to throw some light on the matter.

Resulting partly from this view, international investors and supervisory agencies have, in recent years (roughly 2016 onwards), been keeping a close eye on Cambodian MFIs through the Lending Guidelines for Cambodian MFIs and by requiring adherence to lending limits such as those in the international Client Protection Standards set by the Social Protection Task Force. This **global standard** specifies that the monthly loan repayment instalment for microfinance borrowers should not exceed 70% of the household monthly income of low-income clients.[8]

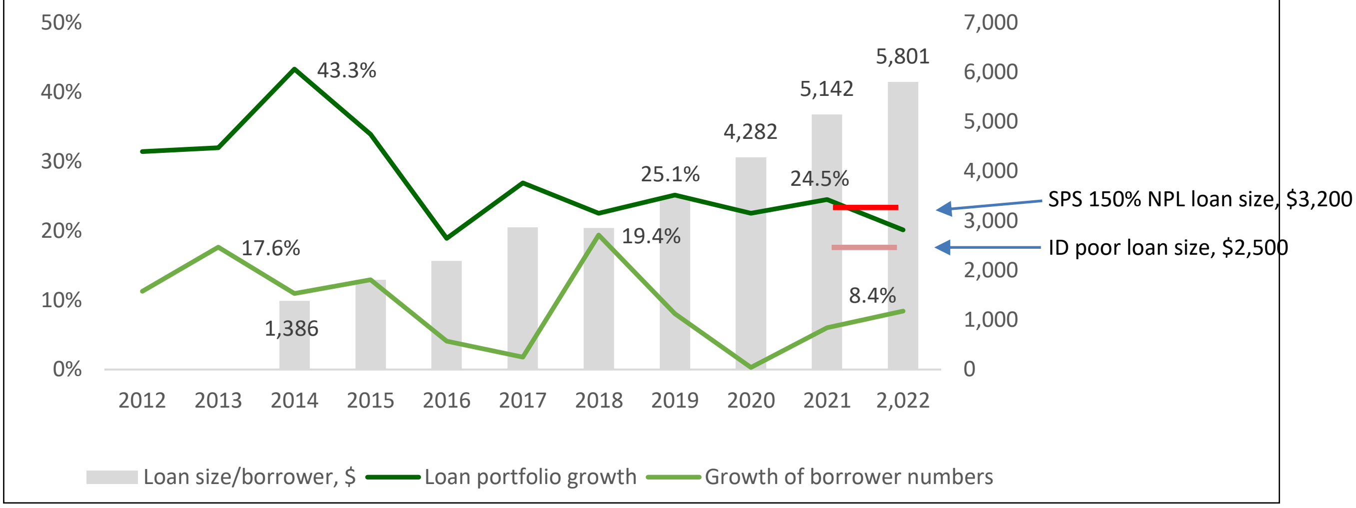
[6] https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=KH

[7] https://www.business-humanrights.org/en/latest-news/cambodia-three-ngos-file-complaint-to-oecd-national-contact-point-against-dutch-investor-oikocredit-investor-responds/. The controversy was sparked partly by an earlier publication by a Cambodia human rights NGO, LICADHO, in August 2019, https://www.licadho-cambodia.org/reports.php?perm=228.

[8] https://sptf.info/images/RC_4a_Avoidance_of_Overindebtedness_May2021.pdf page 12-13. This is a standard set for international microfinance and not specifically for Cambodia. Most of the international investors in microfinance expect their investee MFIs to apply and adhere to the SPTF standards.

Cambodia has reported high growth rates of MFIs over an extended period of time whereby not only did the number of borrowers served in the country grow exponentially (if somewhat irregularly) from roughly year 2001 onwards, but the outstanding loan size also grew at a rapid pace. Recent data on the growth of loan portfolio and growth of the number of borrowers served by 9 of the large microfinance service providers in Cambodia is presented in **Figure A.1**. It shows a high if slightly declining growth rate of outstanding loan portfolio (around 20-25% per annum in the past few years) with the number of borrowers registering much slower growth rates. This means that the size of loans outstanding with borrowers has also risen fast (though the growth of loan sizes provided to the poor is less with average loan size to the poor in 2022 being 43% for ID poor and 55% for 150% NPL of the overall loan size).

Figure A.1 Growth of 9 of the largest mf providers in Cambodia



The following data from CMA provides additional context to the loan size; at the end of August 2023, though the portfolio in loans greater than $10,000 (Tiers 3 & 4 in **Figure A.2**) was 59% of the total, this was distributed over just 14% of the outstanding loan accounts of CMA member institutions (**Figure A.3**).

Figure A.2 Loan tiers – Outstanding balance distribution, August 2023

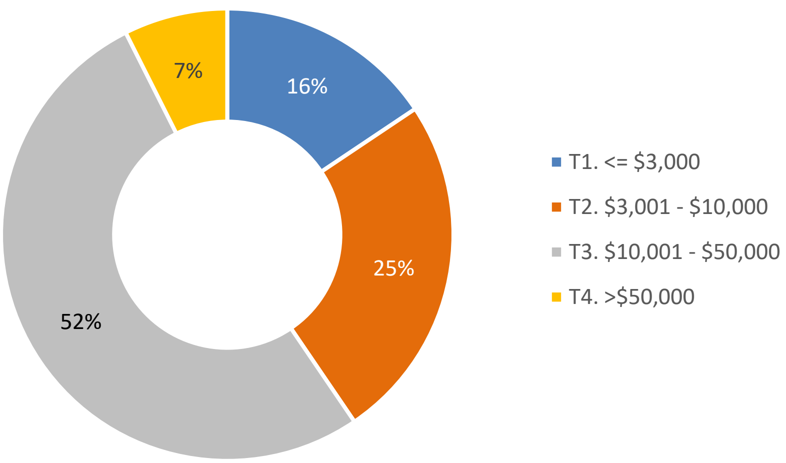
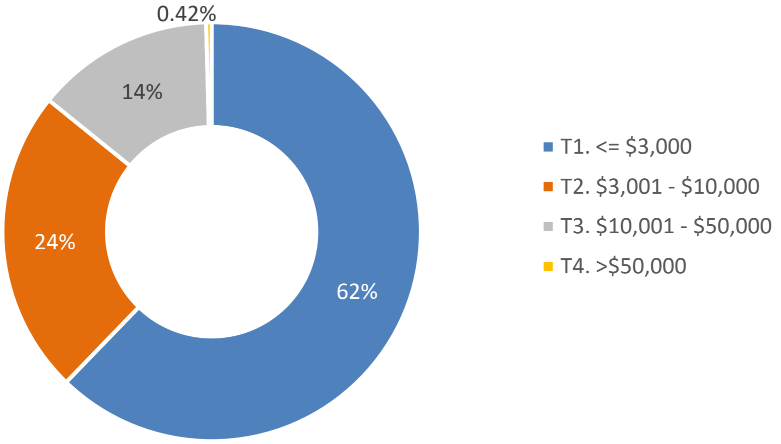
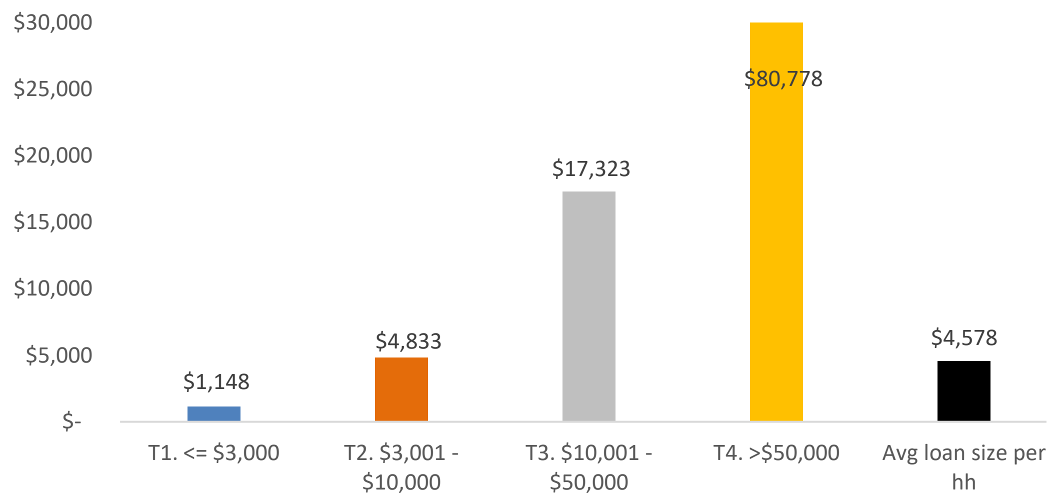


Figure A.3 Loan tiers – number of outstanding loan accounts, August 2023



CMA data shows that the average amount of loan outstanding per household for Tier 1 (below $3,000) was just $1,148 and the overall average loan outstanding per household was $4,578.

Figure A.4 Average loan size per household, August 2023



The analysis in this report uses loan size as one of the key segmentation criteria along with gender of the head of household, location by province and household (where appropriate).

M-CRIL's impact assessment study

An important aim of this study is to enable CMA to monitor the progress of the microfinance sector and to document the effect of microfinance services on the lives of its borrowing customers. M-CRIL was commissioned by CMA in 2022 to undertake a first-of-its kind impact assessment of the Cambodian microfinance sector on low-income borrowers. This study is an attempt to assess the overall impact of the microfinance sector beginning with feedback from the M-CRIL survey (January-February 2023). The key feature of this assessment is to understand how microfinance affects clients' living standards, contributes to community development, children's access to school, and to poverty reduction and economic growth. The findings of this report also aim to contribute to providing a more complete perspective on the issues arising from international concern about coercive lending and indebtedness than is provided by superficial investigations of dramatically negative events.

Objective and research questions

The overall objective of the assignment as mentioned in the ToR is to design and undertake an assessment of the impact of microfinance in Cambodia on the welfare of its client households based on all the Sustainable Development Goals 1 to 10 incorporating the following SDGs set out in **Table 1**.

Table 1 Sustainable Development Goals addressed by various aspects of this study

SDG 1 No poverty	***SDG 2 Zero hunger***	***SDG 3 Good health and well-being***	***SDG 4 Quality education***
SDG 5 Gender equality	***SDG 6 Clean water and Sanitation***	***SDG 7 Affordable and clean energy***	***SDG 8 Decent work and economic growth***
	SDG 9 Industry, innovation and infrastructure	***SDG 10 Reduced inequalities***	

The key research questions addressed by this study are

1. What are the impacts of microfinance on its client's welfare?
2. What are the risks associated and what are the possible mitigation strategies to address the risk to ensure the healthy growth of the industry?
3. What should be the role of MFI, regulators, investors, and CMA in this fast-growth sector?

Approach and methodology

The methodology for the study entailed a survey of 3,262 randomly sampled microfinance households/borrowers – including 4.5% exit (inactive) households – in a representative sample of over 450 villages within 100 communes in 30 districts across 10 provinces in Cambodia (see below). The aim was to select a sample representative of microfinance operations using multistage sampling. CMA and M-CRIL jointly selected provinces for the study and M-CRIL interviewed microfinance clients based at lower administrative levels taking into account client concentration as well as geographical accessibility. Client households were included in the survey if they had borrowed at least once from a financial institution recognised by CMA before 2018, that is, took their first formal loan at least five years ago. A total of 10 financial institutions supported the study directly by providing details of their clients in the selected provinces for sampling. These included 2 microfinance-oriented banks, 5 Microfinance Deposit Institutions (MDIs) and 3 MFIs. But, of course, the questions on financial services captured associations with both participating and non-participating FIs. The sample included both group and individual loan borrowers. Clients with disbursements up to US$100,000 were targeted for the survey, however, given the unrestricted nature of lending, the sample has a minute (<0.1%) proportion of households whose recent loan sizes exceeded the upper limit. Portfolio quality was not considered for sampling. The survey was administered using SurveyCTO software.

Primary respondents for the survey had to be a client of a financial institution – ideally the person who is listed as an existing client with at least one FI or who is the main user of the loan. A maximum of two household members could participate in the study. A secondary respondent could answer interview questions on behalf of the primary respondent if the primary respondent could not answer by herself/himself. Survey respondents were selected by borrower households themselves once they understood the objective of the proposed interview.

In addition, the study team undertook 21 focus group discussions (FGDs) in all in the ten provinces covered by the survey and 25 in-depth interviews (IDIs) with borrowers who the survey identified as having interesting stories to tell.

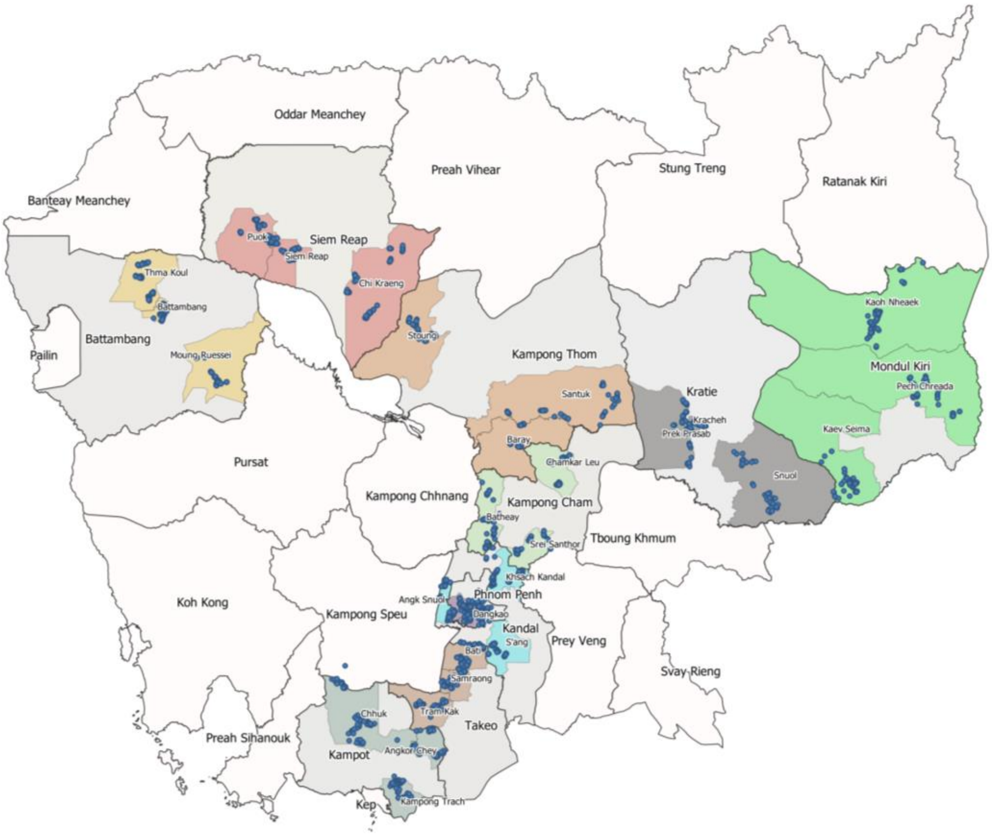
- FGDs consisted of respondents of household surveys primarily and their immediate neighbours/friends who voluntarily agreed to participate in discussions around providing a balanced view on the socio-economic lives and changes brought about by microfinance services and other developments in the community and the local economy.
- IDIs were organised with clients whose lives have improved a lot or worsened a lot since taking the first loan, and also with a couple of inactive clients. IDIs were an attempt to dive into clients' lives and understand their journeys. Based on

enumerators' assessments of the client household situation, two to three households were shortlisted in every province for IDIs.

The M-CRIL core team as well as senior field researchers, experienced in qualitative data collection, engaged in FGDs and IDIs. Following the established practice in Cambodia, M-CRIL offered souvenirs to households as a token of appreciation for their participation in the study and for sharing their knowledge.
The survey was undertaken by a team of 23 enumerators and 5 supervisors overseen by M-CRIL's Cambodian analyst, Sengdy Khiev, and Ratika Kathuria, Senior Analyst (now Assistant VP), Research and Evaluation, based in India. The survey team was trained in the process of administering the survey (including obtaining informed consent) by the M-CRIL team at the Prek Leap National Institute of Agriculture in Phnom Penh (see photos below) in two phases between November 2022 and January 2023 and the survey was undertaken in January-February 2023. The quality of the collected data was supported by adopting best practice in questionnaire and checklist design, enumerator training and supervision, respondent engagement and data cleaning and analysis.

Details of the sample and its profile are presented in **Section 1** of this report and an analysis of the gender implications of participation in microfinance is presented in **Section 2**. A poverty analysis of the sample **Section 3** is followed by an analysis of the contribution of financial literacy to the changes that have taken place (**Section 4**). An analysis of the key issue of repayment stress amongst Cambodian microfinance clients is undertaken in **Section 5**. The impact of microfinance has resisted rigorous measurement through multiple studies internationally over many years. M-CRIL has not attempted to add to the large volume of studies on the subject; what we have done in **Section 6** is to report on borrower perceptions of changes in their lives over the previous five years along with the factors that they felt were responsible for those changes; for those reporting improvements the role of the availability of credit is covered while for those reporting decline in their conditions the contribution of too many loans is discussed.

Sample distribution map (generated using QGIS)


Oddar Meanchey
Preah Vihear
Stung Treng
Ratanak Kiri
Banteay Meanchey
Siem Reap
Puok
Siem Reap
Chi Kraeng
Stoung
Thma Koul
Battambang
Battambang
Moung Ruessei
Pailin
Kampong Thom
Kratie
Kracheh
Prek Prasab
Koah Nheaek
Mondul Kiri
Pech Chreada
Kaev Seima
Snuol
Santuk
Baray
Chamkar Leu
Pursat
Kampong Chhnang
Kampong Cham
Batheay
Srei Santhor
Tboung Khmum
Khsach Kandal
Koh Kong
Angk Snuol
Phnom Penh
Kampong Speu
Dangkao
Kandal
S'ang
Prey Veng
Svay Rieng
Bati
Samraong
Chhuk
Tram Kak
Takeo
Preah Sihanouk
Kampot
Angkor Chey
Kep
Kampong Trach

Training of enumerators and supervisors for the impact assessment field survey at the Prek Leap National Institute of Agriculture, Phnom Penh

Section 1 Profile of the household survey sample

Client sample distribution: **~330 per province in 10 provinces** resulting in coverage of 3,418 respondent households

Rejections due to inconsistent data remaining after quality checks and revisions – 156. **Sample** used for this analysis: 3,262 respondent households including 5% exit clients.

The average household size of the sample is 4.49 persons, higher than the national average of 4.1. About one-fourth of the sample households are headed by women while the national average of female household heads is 31%. Nearly all adults work if they can. Households have at least two income sources usually and are able to earn US$550 on a monthly basis. The largest proportion of clients are those who earn through casual labor and grocery shops/petty trading and these two activities are also the primary income sources for 37% of the sample. An estimated 11.6% households are likely to be living below the National Poverty Line based on the simple poverty scorecard (SPS). Some 24% of households are in the ID Poor lists of the government. A 20% overlap with below NPL according to SPS means just 4.8% of ID Poor households are likely to be poor according to the SPS definition. Kampong Thom has the highest proportion of likely SPS poor microfinance client households – as well as the lowest median income. Nearly all households have a residential land title and half of the sample owns agricultural land; the median landholding size of those with farmland is 1.5 ha.

Some 48% adults have access to formal financial services and around 43% have borrowed once, however, the penetration of formal saving services is very limited. As expected, Phnom Penh has the highest proportion of households with savings accounts and the numbers are the lowest in the provinces farthest from the capital city. A typical loan disbursement in the last five years was of US$5,167 and the average debt at the household level for the same time period was US$12,892. The average loan size outstanding with sample households covered by the M-CRIL survey is of the order of US$6,000. Client borrowing history determines the size of a typical disbursement as credit history develops and FIs develop trust in clients' ability to repay though it also depends on client requests vis-à-vis loan size.

Just about a quarter of microfinance clients have signed up for microinsurance; such low numbers coupled with qualitative insights indicate (possibly) a limited understanding of the benefits of microinsurance though lack of familiarity with the insurance companies and their processes also perhaps limits clients' willingness to accept the cost of the

Figures 1.1 and **1.2** below show the sample distribution by sex of the household head and client location. **Figure 1.1** has been sliced further to show the bifurcation of male and female survey participants from households headed by both women (WHH) and men (MHH). Inner slices are subsets of the pie outside. Female household heads in the sample are 24% compared to the national average of 31%.[9] Women make up 79% of the respondents; 23% come from WHHs and 56% from MHHs.

Figure 1.1 Sample distribution by sex of HH head (WHH & MHH) and respondents (women & men)

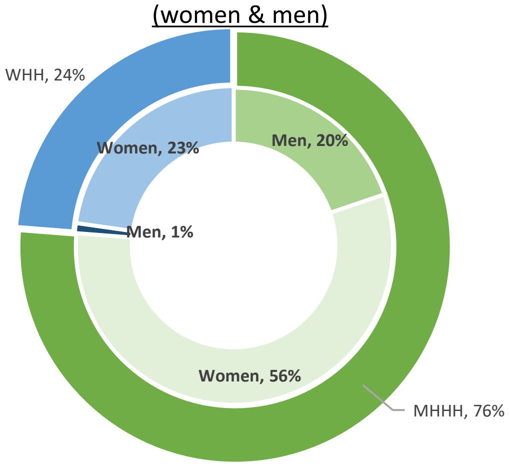
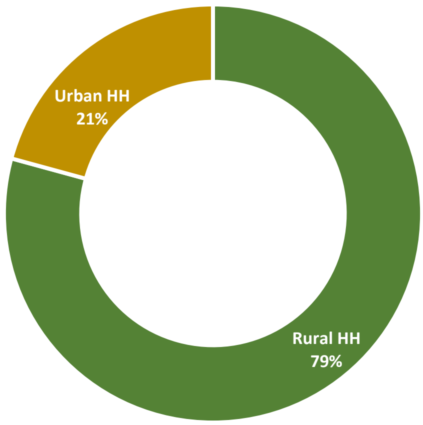


Figure 1.2 Sample distribution by location



Half of household members participate in income generation; nearly all adults work (see **Figures 1.3** and **1.4**).

Figure 1.3 Household size and composition

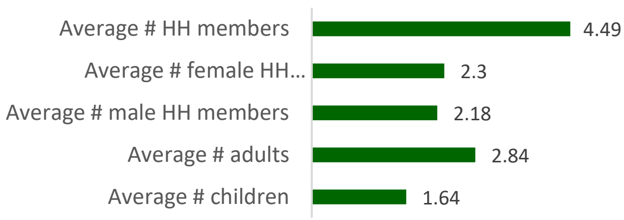
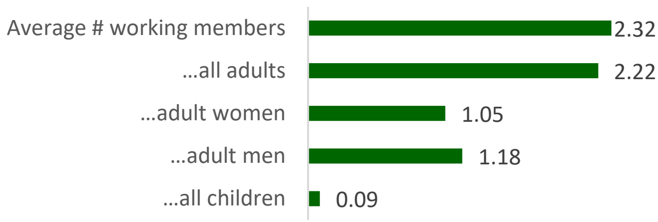


Figure 1.4 Composition of HH working members



At least three-fourths of the sample are not poor based on the methodology for both ID poor and SPS. Some 24% of households hold ID Poor cards. An estimated 11.6% of sampled micro-borrowing households were likely to be below the National Poverty Line (NPL) at the time of interview based on the simple poverty scorecard (SPS).[10] However, one-fifth of ID Poor are likely to be below NPL 100% based on the SPS definition. The two methods for assessing the proportion of people living in poverty has yielded visibly different cohorts of poor households in the sample with 20% overlap (so 4.8% of the sample have ID poor cards and are below NPL based on SPS). **Figure 1.5** below shows the proportion of income poor households based on various poverty lines. Some 36% of the sample is likely to be living below 150% of the NPL based on the simple poverty scorecard and 58% below 200% of the NPL income level.

Microfinance borrowers are less poor than the national average following the SPS methodology. The headcount poverty rate (based on the National Poverty Line, NPL) for the sample based on the simple poverty scorecard is 11.6% while the poverty rate for Cambodia as a whole is 18.3%. Using possession of ID poor cards as the basis for determining poverty,

[9] Cambodia Demographic and Health Survey Report 2021-22. p.21, table 2.8.
[10] Mark Schreiner's simple poverty scorecard, no longer referred to as PPI due to branding/copyright issues.

results in microfinance borrowers being much poorer than using the simple poverty scorecard at 100% NPL as the poverty criterion, since there are 23.8% ID poor households and 32.2% poor individuals in the sample based on ID Poor card holding. This exceeds the 18.3% and 18.9% figures for poor HHs and individuals published by the Government of Cambodia following the ID Poor scorecard.[11] There are clearly variations in the definitions of poverty but the random selection of the sample for this study can be taken to represent the level of poverty amongst microfinance borrowers.

Figure 1.5 Proportion of poor households across different HH segments

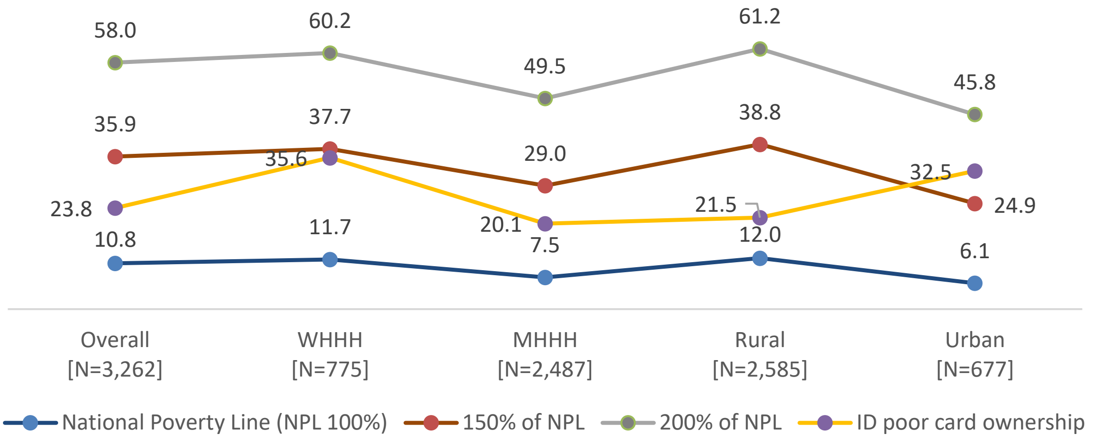


Table 1.1 Sample distb'n

Province	N
Battambang	323
Kampong Cham	335
Kampong Thom	321
Kampot	307
Kandal	331
Kracheh	304
Mondul Kiri	303
Phnom Penh	344
Siem Reap	357
Takeo	337
Overall	**3,262**

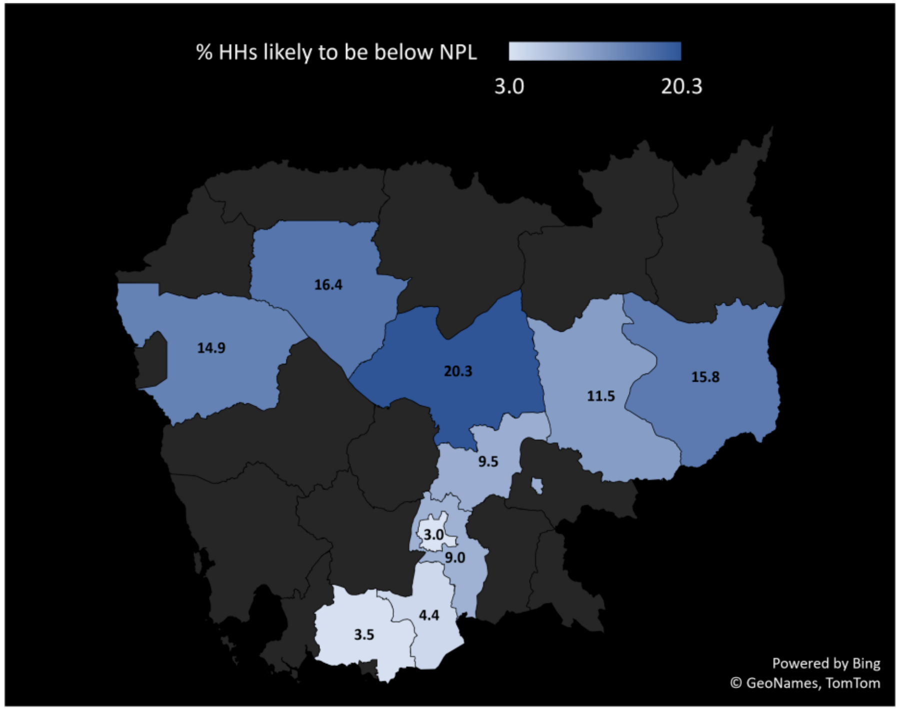
The sample data suggests that Kampong Thom has the most microfinance borrowing HHs likely to be living below the poverty line. At province level, sample households in Kampong Thom have very low median income (US$458 comparable to Mondul Kiri's US$450), the highest proportion of poor HHs (20.3%), and one-fourth of the sample with ID poor cards. Among other provinces, poverty is more prevalent among borrowers in Siem Reap and Mondul Kiri. Both provinces have borrowers with low median monthly incomes and comparable poverty rates (16.4% and 15.8% respectively). Siem Reap also has a significant number of households with ID Poor cards (39%) but a negligible number reported income from the government ID Poor subsidy. See **Figure 1.6** below.

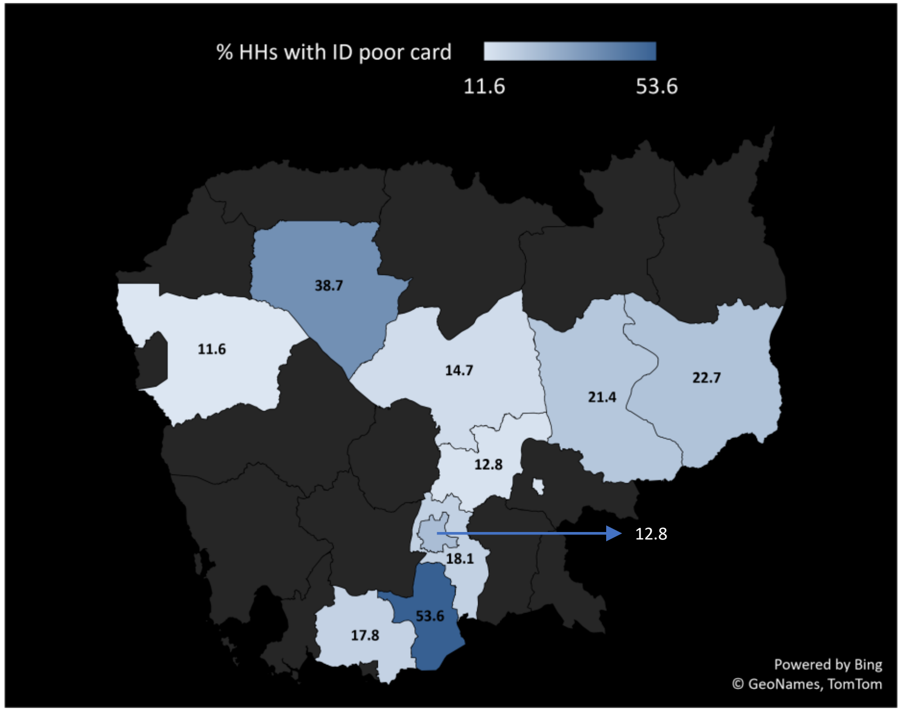
In the case of Battambang, median monthly income matches the overall sample average for this study and SPS scores suggest that 14.9% of sampled borrowers are likely to be living in poverty, higher than the sample average. Notably, 54% of the sample possess ID poor cards and ID-poor financial support is one of the income sources

[11] ID Poor scorecard is a comprehensive guide to estimating poverty and taking pro-poor measures in Cambodia. % households with ID Poor status are available at https://app.idpoor.gov.kh/public-data-query#publichouseholddata. ID Poor questionnaire can be accessed at https://idpoor.gov.kh/en/idpoor-questionnaire/. The simple poverty scorecard used for this study to assess % households likely to be living under poverty is a modified version of the ID Poor questionnaire, developed by Mark Schreiner and accepted by CMA. The % of households living in poverty is the average of poverty likelihoods from the household survey sample.

for more than one-third of households. Government data suggests that 31.3% households in Battambang are classified as ID poor which is not matched by the poverty ratio of the sample used for this survey. These anomalies may be due to increase in expenditure on assets by clients (affecting their SPS scores) since the last ID-poor survey or, more likely, due to inaccurate reporting, too low to the government in order to quality for the ID Poor card (or too high to our enumerators in order to justify their eligibility for loans).

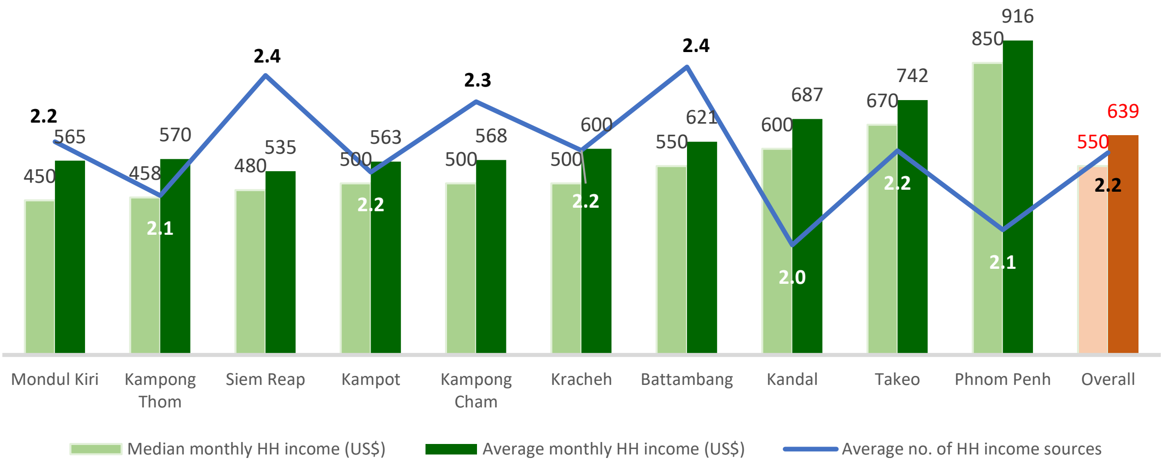
Figure 1.6 Distribution of NPL 100% (left) and ID Poor (right) microfinance clients by provinces





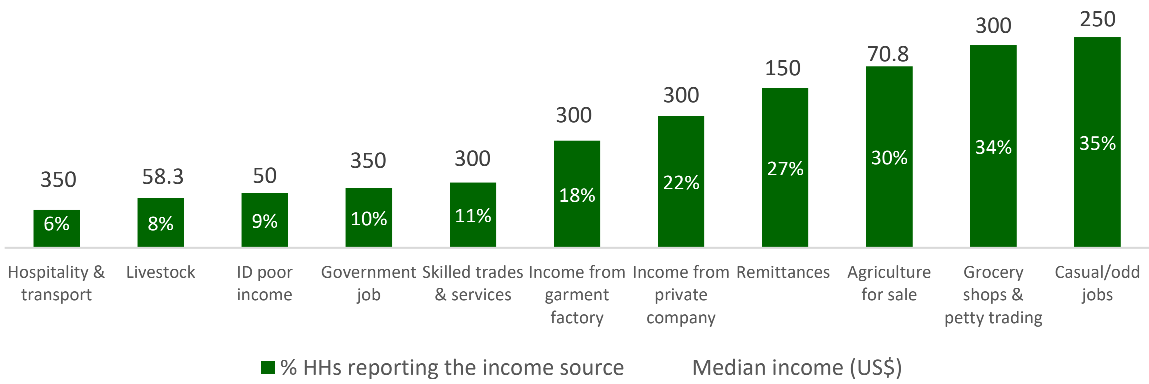
About 8 out of every 10 HHs rely on at least two income sources; one-third of the clients are likely to have more than 2 income sources – **Figure 1.7** (below).

Figure 1.7 HH income by provinces



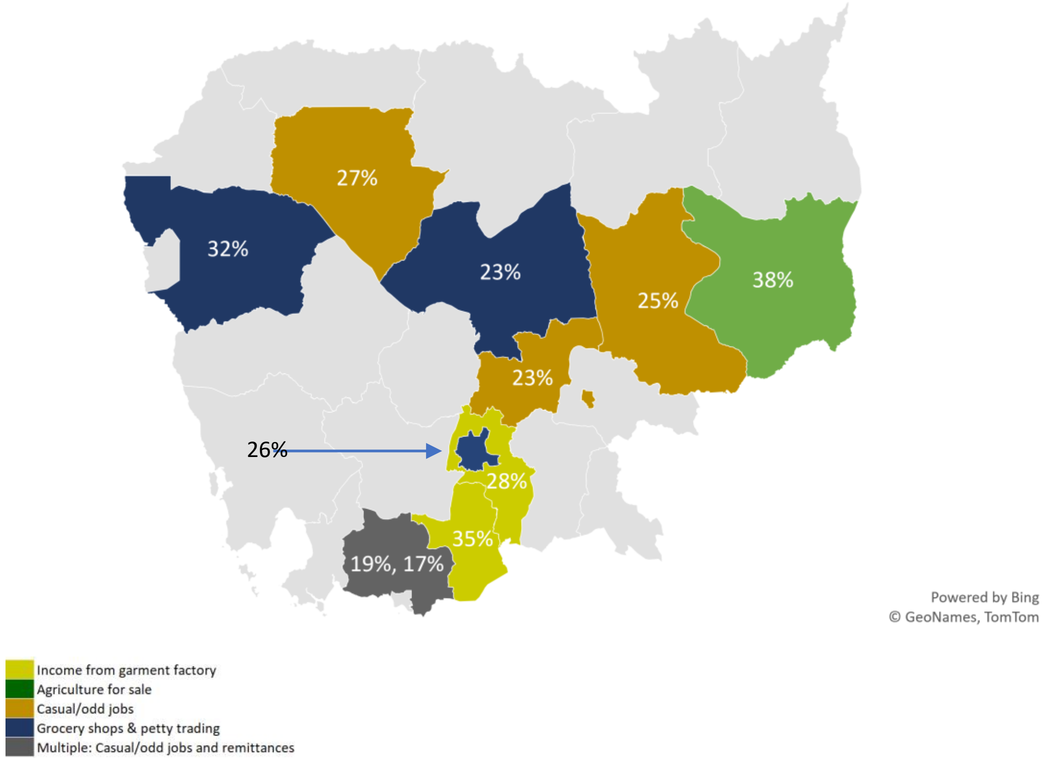
A large proportion of microcredit borrowing HHs rely on (i) casual, odd and seasonal jobs including agricultural labour, construction work, waiting at tables, (ii) non-farm self-employment sources like neighbourhood shops (grocery and stationery), petty trading, selling seafood, money exchange counters, sale/resale of recycled products, and (iii) agriculture for income. Remittances follow closely (it is one income source for 27% of the sample) – see **Figure 1.8** below.

Figure 1.8 Most common income sources among sampled HHs (multiple responses)



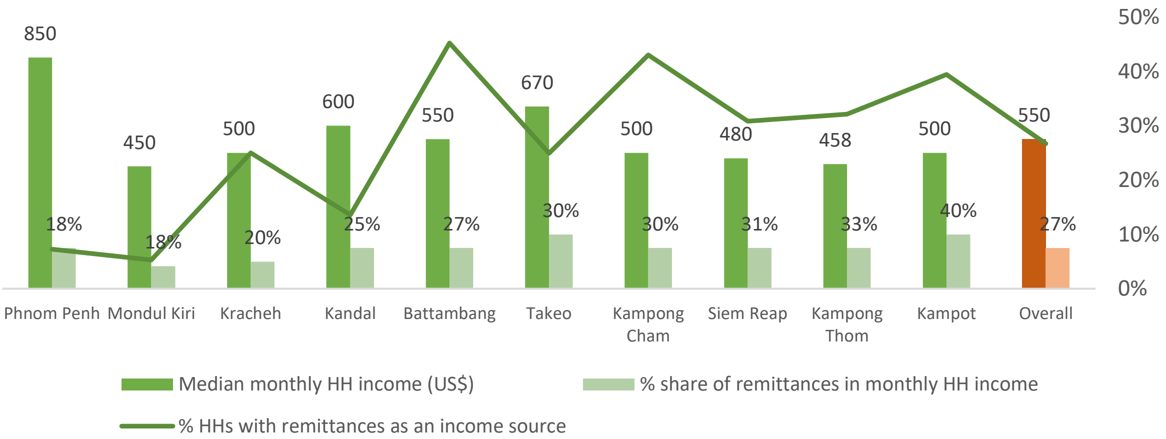
Non-farm sources listed above and casual/odd jobs are also the primary sources of income respectively for 19% and 18% of the sample but are the second/third income sources in Kandal, Mondul Kiri and Takeo. Wages from garment factories are the main income source in Kandal and Takeo while Mondul Kiri clients primarily rely on agriculture (see province map – **Figure 1.9** below highlighting the primary sources of income and the proportion of the sample for each province reporting that occupation as the primary source).

Figure 1.9 Primary income sources by provinces



Since remittances contribute 27% on average to household income, it is worth considering the level of migration; it is most common in Battambang (at least one migrant member from 45% of households) and Kampong Cham (43%). Remittances respectively from 2.1 and 1.7 family members on average contribute about 30% to household income in these provinces (**Figure 1.10**). The ratio of remittance income to monthly income is the highest for Kampot where remittances from 2.1 family members on average contribute 40% to the median monthly income for the 40% of sampled households that depend on it. Remittance income may be received online or in cash, but a majority of households rely on agents for transactions.

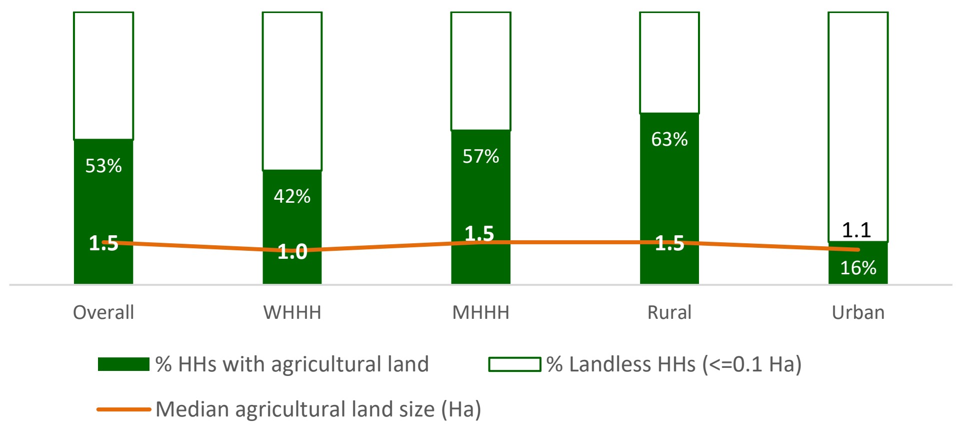
Figure 1.10 Household dependence on remittances - by provinces



Just over half (53%) of the sample households have some agricultural land. These are mostly smallholders with median agricultural landholding of 1.5 ha (**Figure 1.11a)** of which about 1 ha is cultivable.

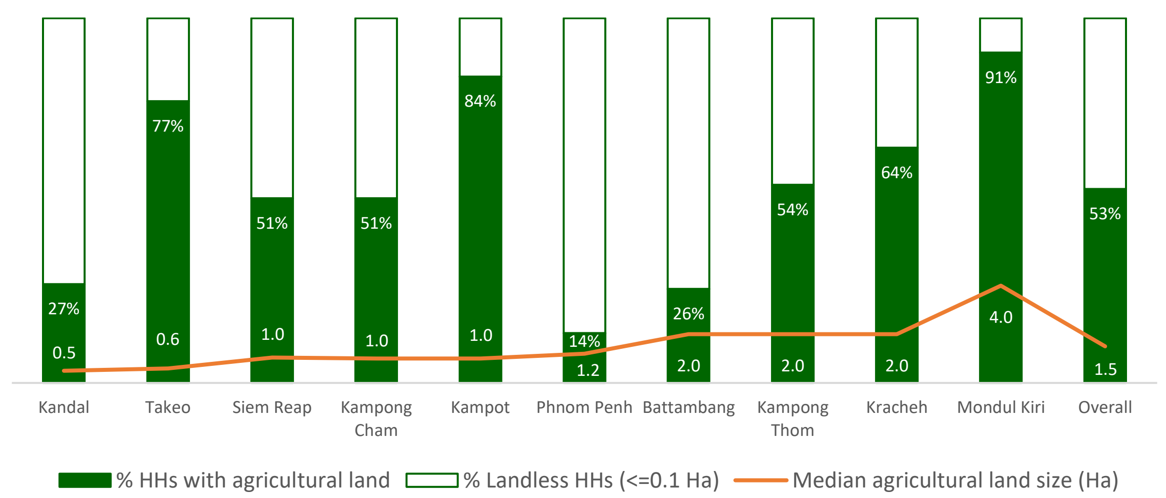
The median landholding size of rural microfinance client households is also 1.5 ha; the national average is 1.3 ha.[12] Nearly all clients in Mondul Kiri have agricultural land and the median landholding size is the highest at 4.0 ha whereas it is between 0.5 and 2.0 ha for other provinces in the sample – **Figure 1.11b below**. The figures about landlessness for this study relate to households with no agricultural land and those with agri-land of less than 0.1 ha.

Figure 1.11a Agricultural land holdings for different HH segments*



*N values for % HHs with agricultural land and landless HHs excludes HHs that did not share the size of their land holdings. Overall: 3,209, WHH: 763, MHHH: 2,446, Rural: 2549, Urban: 660.
N value for median agricultural land size includes HHs that reported land holding >0.1 Ha. Overall: 1,705, WHH: 320, MHHH: 1,385, Rural: 1601, Urban: 104.

Figure 1.11b Agricultural land holdings by provinces~



~N values for % HHs with agricultural land and landless HHs excludes HHs that did not share the size of their land holdings. Battambang: 318, Kampong Cham: 326, Kampong Thom: 317, Kampot: 306, Kandal: 325, Kracheh: 301, Mondul Kiri: 296, Phnom Penh: 337, Siem Reap: 352, Takeo: 329, Overall: 3209.

[12] Cambodia Agriculture, Natural Resources, and Rural Development Sector Assessment, Strategy, and Road Map. p.6.

N value for median agricultural land size includes HHs that reported land holding >0.1 Ha. Battambang: 82, Kampong Cham: 165, Kampong Thom: 171, Kampot: 256, Kandal: 90, Kracheh: 195, Mondul Kiri: 273, Phnom Penh: 41, Siem Reap: 174, Takeo: 258, Overall: 1705.

While a partial sample owns agricultural land, nearly all (99.7%) hold residential land titles. About half of the sample owns both residential and agricultural land titles. The median size of residential land is 638 square meters. There are 4 households that neither own farm nor residential land.

Based on the sample, 48% of adults (18 years and above) have access to at least one formal financial service (savings account, credit or microinsurance) while the 2021 United Nations Capital Development Fund (UNCDF) report said that formal financial services are being used by 67% of adults in Cambodia. A larger proportion of women have access to financial services compared to men (51% vs 45%).

Some 43% adults have accessed loans – there are more women borrowers than men (46% vs 41%). However, the penetration of formal saving services among adults is very limited. Just 12% of adults have at least one savings account; there is no difference by gender.

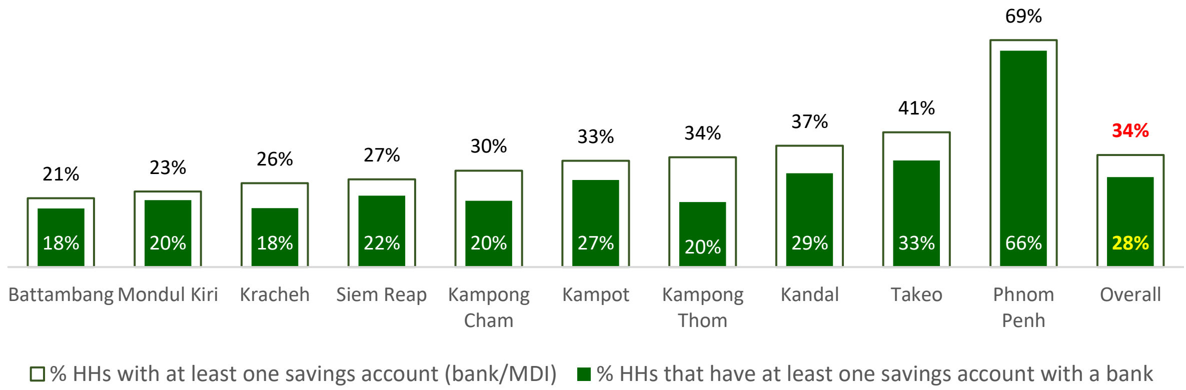
There are 1,961 customer savings accounts for 9,287 adults in the sample. There is one savings account for every five adults and some adults may have more than one savings account. Based on the NBC Annual Report 2022, there were 14.3 million customer deposit accounts in 2022. It is not clear whether this data was collected for adults only using the age group definition applied by M-CRIL. Therefore, no comparison can be made on this aspect between the sample and country statistic. While it may be argued that a savings or a draw down account is opened for every microfinance borrower to facilitate smooth deposits for repayments anytime, such low sample statistics suggest either a lack of knowledge amongst microfinance borrowers about their functioning deposit accounts (opened by FIs), or non-recognition of deposit accounts opened for repayments as 'savings accounts'.

Just 9% of adults have microinsurance and 6% use mobile money services. Again, there is

As **Figure 1.12** shows, just one-third of the sampled households said that they have at-least one savings account (with a bank/ MDI/both bank and MDI).[13] Some 28% have an account with a bank and 10% have an account with an MDI (non-exclusive). Around 12% of households have more than one savings account. For a cohort with more than 2 working members per household and a SPS poverty likelihood below NPL that is less than 11% this seems very low outreach of financial services.

[13] The questions on access to financial services were applicable to each adult member (18 years and above) in a household. A household is said to have access to a specific financial service if at least one adult member can access it.

Figure 1.12 Historical access to formal savings institutions - by province



Analysis by province shows that, as expected, Phnom Penh has the highest proportion of households with savings accounts and the numbers are the lowest in the provinces farthest from the capital city. Battambang, with a median monthly income of US$550, has the lowest proportion of households with at least one savings account meaning it is likely to have the highest cash dependency of the provinces in the sample. Recall that 45% of the sample in Battambang has significant remittance income facilitated by agents. In terms of savings account ownership, MDIs seem to be the most active and have the highest share of clients in Kampong Thom (17% of HHs report holding MDI accounts) and in Takeo (15%).

Each borrowing household took three loans on average in the last five years and the average debt during this time was US$12,892. The average loan outstanding with sample households is US$6,174 (median US$3,000). Currently, the amount of credit obtained per cycle averages US$5,167. This study includes responses from clients who have been associated with financial institutions for as many as 30 years. Most of the sample shares a formal borrowing history of about 14 years (see **Figure 1.13** below). Client seniority (number of years over which they have been borrowing) does not affect the number of disbursements but determines the amount disbursed in a particular loan cycle (**Figure 1.14b**). The longest borrowing client households have taken the largest amount of credit on average in the last five years (**Figure 1.14a**).

Figure 1.13 Clients' borrowing history dates back to...

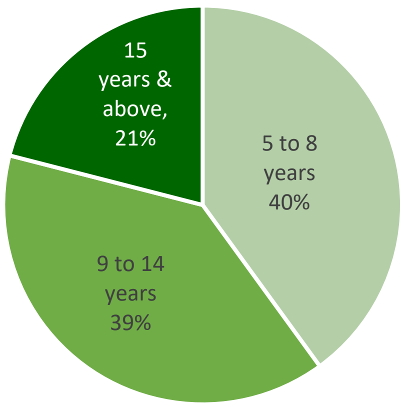


Figure 1.14a Average household debt (US$) for the last five years is the highest for the senior most client households

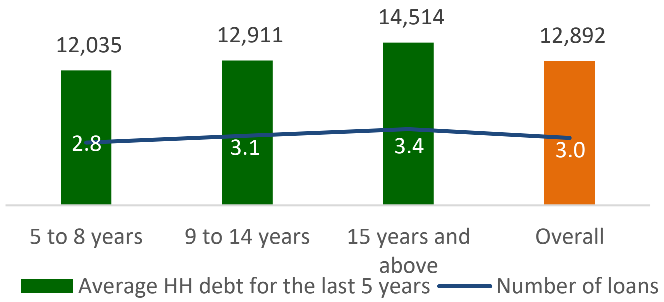


Figure 1.14b Average size (US$) of a typical loan in the last five years is correlated with seniority of clients

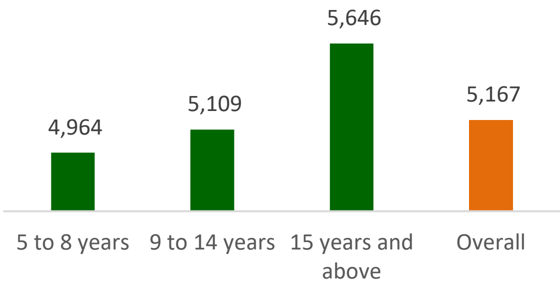
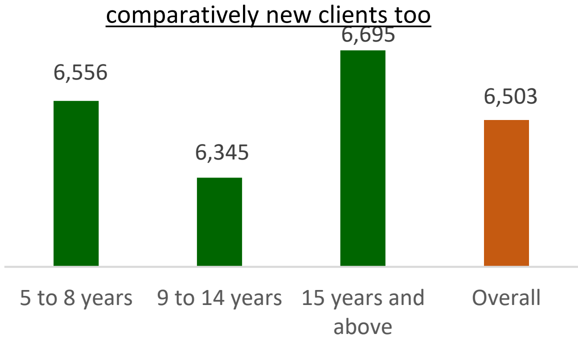


Figure 1.14c Average size (US$) of most recent loans are similar for old & comparatively new clients too



One-tenth of the overall sample has access to all three types of financial institutions – banks, MDIs, and MFIs (rust bar in **Figure 1.15**).

Figure 1.15 Historical access to formal lending institutions among sampled households

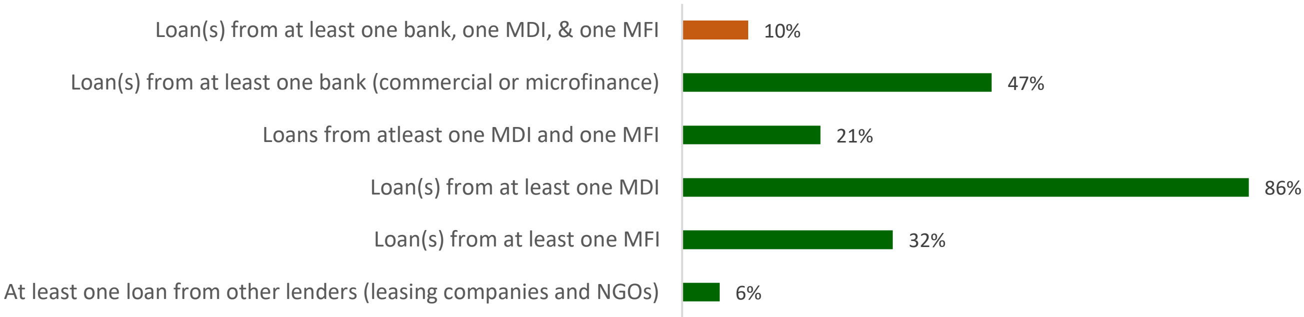
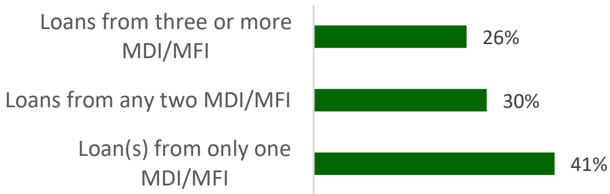


Figure 1.16 Historical access to MDIs and MFIs among sampled households



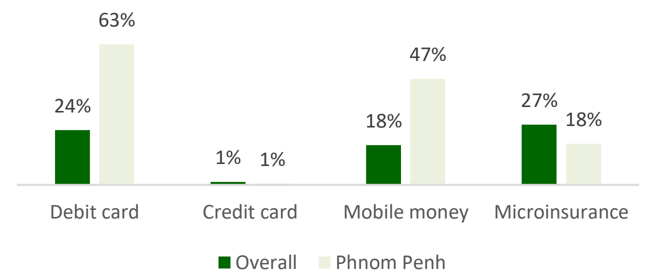
Almost all households (97%) are clients of at least one MDI or MFI conveying high activity and dominance of these institutions in Cambodia's microfinance space (sum of green bars). In fact, **Figure 1.15** shows the dominance of MDIs in the sample (at 86%). But NIX data indicates that a much smaller proportion (51%) of clients are associated with MDIs. MDIs are overrepresented in this sample because client lists for the study were provided mainly by such institutions.

Provincial analysis shows that

- About two-thirds of the sample in Mondul Kiri has access to bank loans, followed by Kampong Cham (62%) and Siem Reap (54%).
- About two-thirds of households in Phnom Penh either repeatedly borrow from only one MDI/MFI or move to banks after borrowing from an MDI/MFI (instead of borrowing from multiple MDIs and MFIs). This seems to be the case for slightly more than half of the clients in Kandal too.
- Leasing companies, rural credit operators, and NGOs attract the greatest number of borrowers in Siem Reap (16%).

Apart from access to savings accounts and loans, the survey data shows that one-quarter of the sample uses debit cards, about 20% holds a mobile money account, and slightly more than a quarter (27%) have a microinsurance product. Credit card use is negligible (**Figure 1.17**).

Figure 1.17 Access to cards, mobile money and microinsurance



As expected, debit card use is the most common in Phnom Penh (63%) and falls to less than a quarter in other provinces except in Takeo and Kandal where 30% and 25% of households have reported ownership of debit cards. Takeo has the most clients with microinsurance (43%) while its uptake is the lowest in Phnom Penh, Battambang and Kracheh. This could be related mainly to the other provinces having greater activity of MDIs/MFIs that encourage microinsurance; it is apparent from FGD feedback that there is a long way to go before clients will accept microinsurance as a useful service facilitated by MFIs.[14]

FGD feedback on microinsurance: *"Loans and savings are helpful but insurance is not; insurance is like spending money for nothing. Around 80% of insurance products are not used by clients."* [FGD with predominantly female clients, Kampong Cham]

But a smaller proportion of clients understand that insurance provides some financial respite in times of household distress:

"*Insurance can assist with treatment fee when we fall sick, though it may not be a big amount. Further, if someone with a micro-insurance-linked loan passes away, the loan would be written off."* [FGD comprising predominantly of farmers, Mondulkiri]

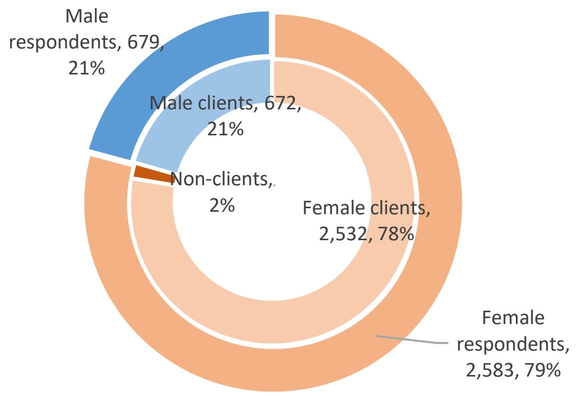
[14] Based on discussions of microinsurance at 6 FGDs where participants in 3 FGDs were in favour of microinsurance while in 3 FGDs participants were not in favour.

Section 2 Gender analysis

Analysis of survey data in this section **from a gender perspective** shows **relatively small differences between women and men using the financial services of the microfinance sector in Cambodia**. Overall, women are less likely to be employed than men with the real difference being in employment outside the home; twice the proportion of men (37%) are engaged in both regular wage employment and non-domestic casual labour than women (18%). Without major differences (and a tendency to report joint decision making), women are generally more likely to take saving decisions and manage financial transactions better while men are more likely to be confident in borrowing decisions and operating deposit accounts with financial institutions (MDIs/banks). There is also a difference in the ownership of mobile phones with nearly 1.5 times more male ownership than female. In engaging with a rapidly digitizing sector like financial services this could be a constraint for women in the short to medium term.

The gender analysis presented in this section draws on the responses provided by female and male respondents with access to microfinance, particularly microcredit. Ideally, survey respondents should have taken a loan at least once in their lifetime but in two percent cases, non-clients (but main users of the loans) represented their households. Therefore, the sample size for comparative analysis in this section is 3,204 (2,532 women and 672 men), as shown in **Figure 2.1**.

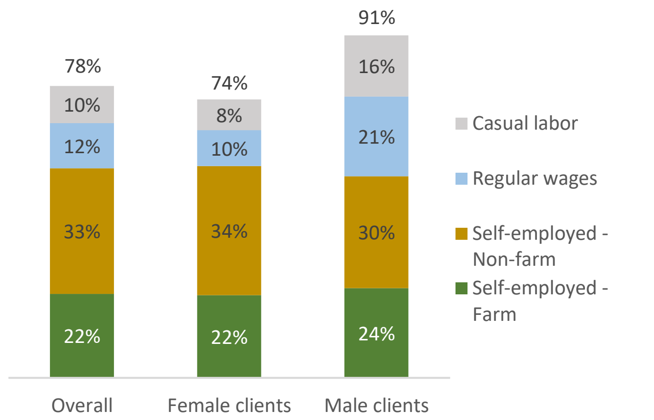
Figure 2.1 % respondents who are microfinance clients



An overview of the profiles of respondents who are also micro-borrowers from a gender perspective is presented in the following pages.

At least three-fourths of clients were employed and the remaining one-fourth were not working at the time of survey. More men than women participate in paid work.

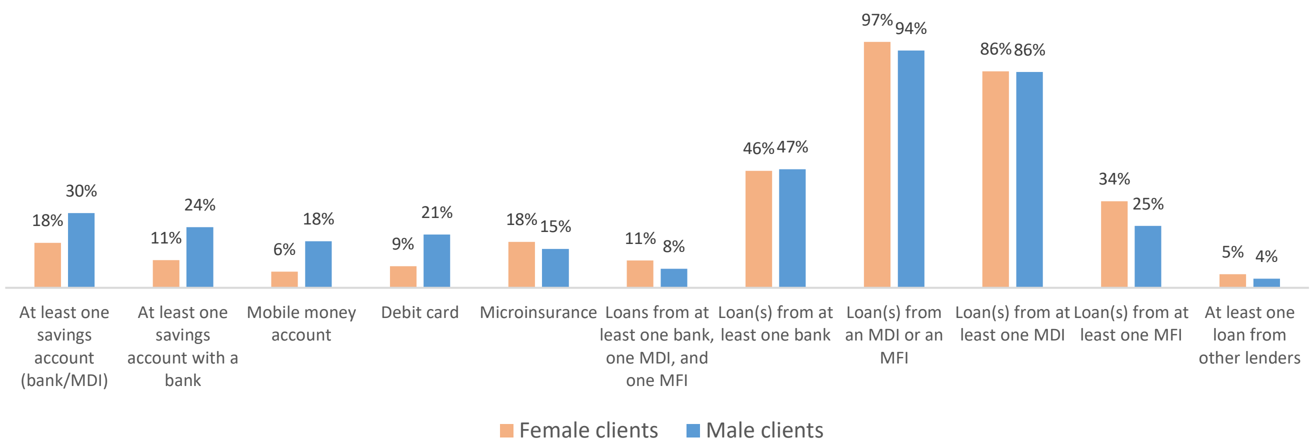
Figure 2.2 Occupational profile of microfinance clients – more men are employed than women



- More than half of the clients (including female clients) are **self-employed**.
- Many of the female clients (one-third) earn through their **non-farm enterprises**.
- A slightly larger proportion of women are self-employed in non-farm enterprises compared to men (34% vs 30%); while a much larger proportion of men than women work as **regular employees and casual labour**.

Access to financial services – Both women and men borrow from all kinds of formal credit providers (**Figure 2.3**). Savings (deposit services) and digital finance are available and used by a significantly smaller proportion of women clients compared to men.

Figure 2.3 Access to and use of financial services



Seven out of every ten clients do not save. Monetary savings (savings as cash) are reported by a relatively small proportion of clients (29%) – which may also be a reason for not having a savings/deposit account. Among those saving the proportion of women clients is somewhat lower than men (**Figure 2.4** below). Clients may choose to save at home and/or with MDIs or banks but saving at home is the most likely choice for both men and women

Figure 2.4 Where are cash savings accumulated by clients?

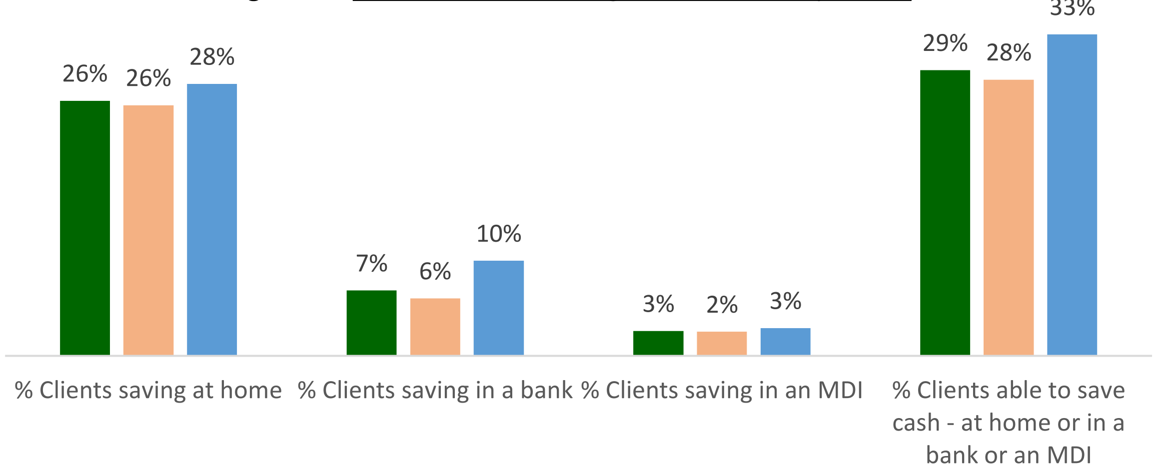
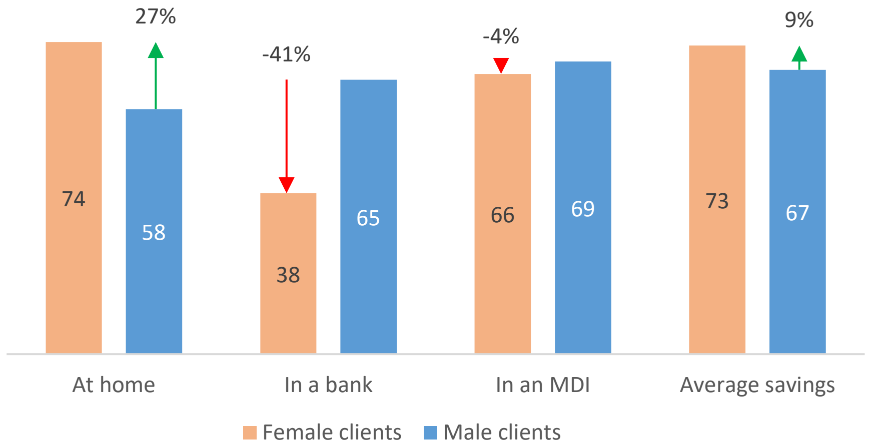


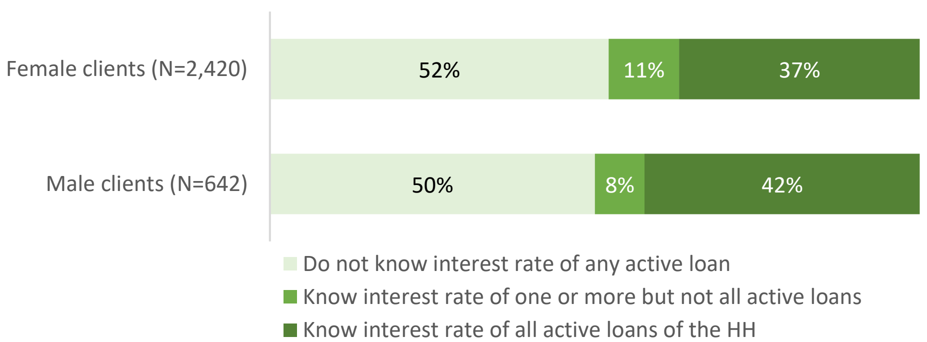
Figure 2.5 Average current savings reported



Women have more current savings on average and, particularly so at home (**Figure 2.5**); men had saved more with banks/MDIs at the time of the survey. The savings patterns of women and men vary between informal and formal institutions. Overall, women have reported 9% more savings than men on average (US$73 vs US$67).

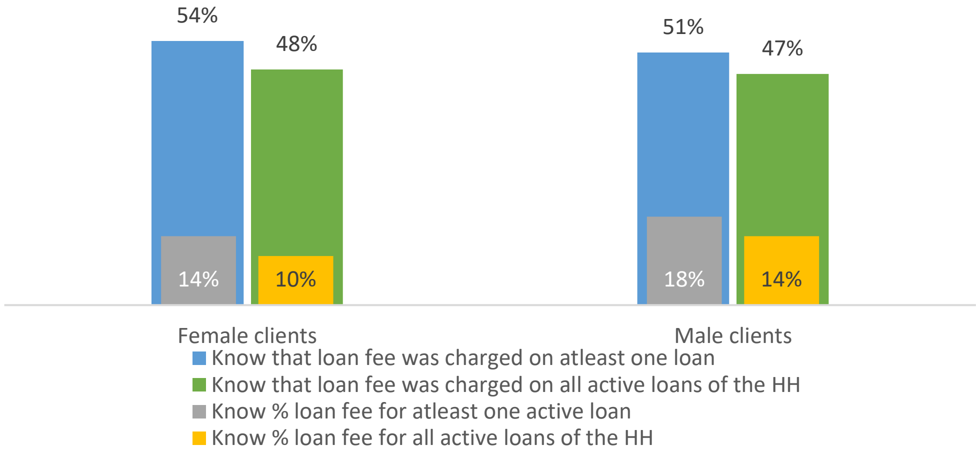
Figure 2.6 below shows the levels of knowledge/awareness of interest rates charged by financial institutions among clients. About half of the clients of both genders know the interest rates on at least one loan. But women are less likely than men to know the interest rates for all active loans (including those taken by other household members).

Figure 2.6 Awareness of interest rates on loans taken by the household



A similar proportion (about half) of both female and male clients know that FIs charge a loan processing fee – there is no difference by gender. But less than 20% of men and an even smaller proportion (14%) of women were able to cite the level (%) of the fee charged. The chances of women not knowing the loan fee are higher than for men.

Figure 2.7 Awareness of the loan fee charged by FIs



Comparative analysis of microfinance client financial capabilities in **Figure 2.8** & **2.9** show that

Figure 2.8 Likelihood of seeking financial advice

Almost 90% of both female and male clients need financial advice related to 'whom to borrow from' but the chances of women seeking advice on potential lenders are slightly higher.

Conversely, male clients are more likely seek advice on "where to save" and "how much money to save" compared to female clients.

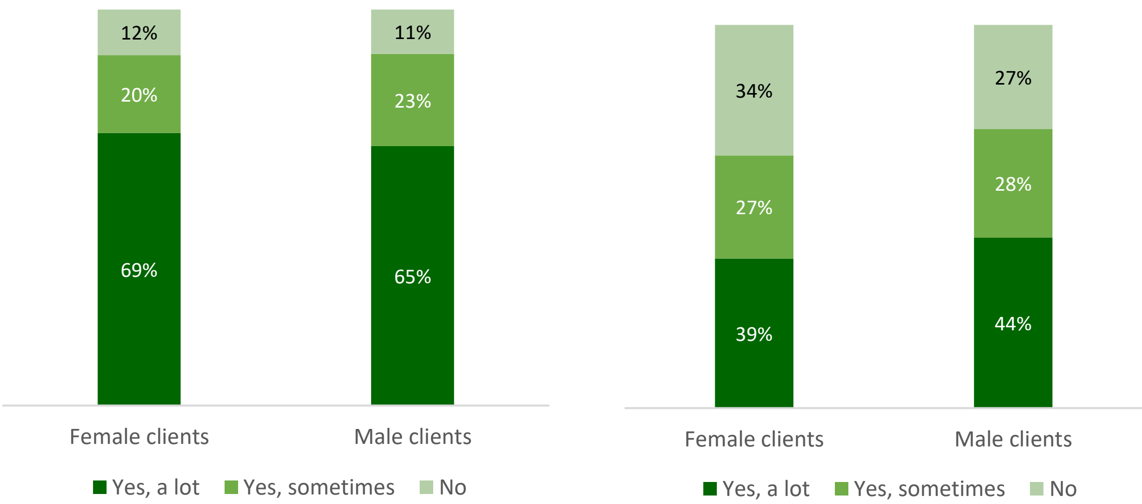
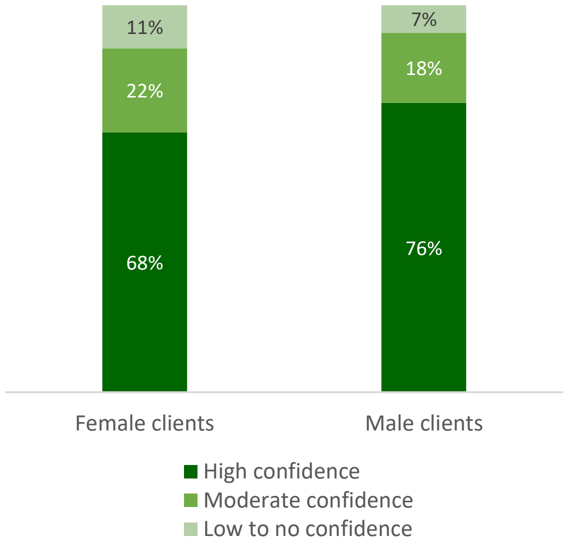


Figure 2.9 Ability to manage financial transactions

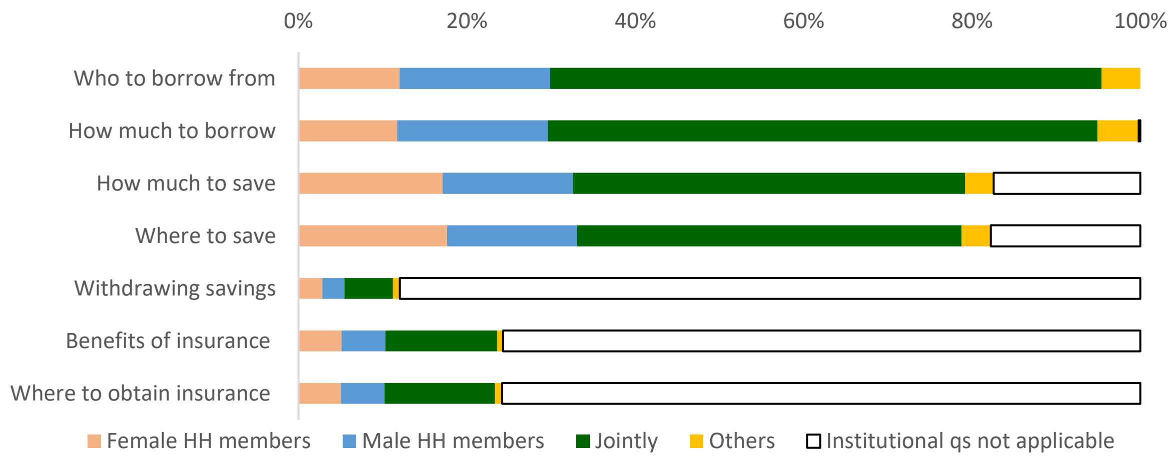
More than 90% of clients feel confident in managing loan transactions. A larger proportion of men are likely to be highly confident in borrowing matters than women



The proportion of female clients exhibiting confidence in making savings transactions is significantly lower than male clients, meaning that men are more likely to be confident than women in savings matters/ transactions

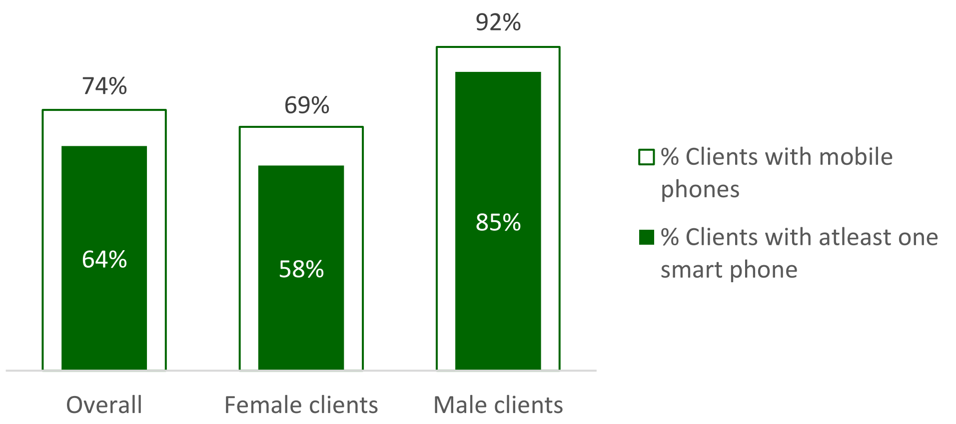
A comprehensive analysis of feedback on household decision-making on financial matters indicates equal opportunities for both women and men (spouses or household members) to discuss and take decisions (**Figure 2.11**). Predominantly, decisions related to financial matters are reported to be taken jointly. A marginally larger proportion of women take decisions on their own related to savings while men seem to have more say on credit matters in some households.

Figure 2.10 Household decision-making on financial matters



Access to mobile phones – now increasingly important in microfinance, as in all spheres of life – continues to be greater for male clients than female clients: for every four male clients, three female clients have a mobile phone. This form of communication is now available to nearly three-quarters of clients with two-thirds having smart phones (**Figure 2.11** below).

Figure 2.11 Ownership of mobile phones



Section 3 Poverty analysis of the sample

11.6%, the proportion of poor households in the sample for this study, that is those likely to be living with incomes below the NPL (according to the simple poverty scorecard), and 24%, the statistic for ID poor, compares with the 18.3% of the poverty rate for the population of Cambodia as a whole (as indicated by official data). It confirms that, as in other countries, while microfinance service providers do work with those living below the poverty line they do not necessarily serve the poor to a greater extent than their composition in the population.

The 5.3 persons that make up poor households are 1.18 times the size of the households likely to be non-poor and their median incomes are around 34% less than those for non-poor households. The proportion of non-poor households engaging in more diverse set of activities (including regular employment in government, private jobs and garment factories) is higher compared to poor. The poor receive smaller disbursements and are less able to manage loan transactions than their counterparts. Crucially, the number of years that borrowers are associated with microfinance does not seem to affect their poverty status (based on the data from this survey) – this is a factor that needs to be considered by MFIs in terms of their missions to reduce poverty and improve lives.

The origins of microfinance lie in the desire to serve the poorest sections of the populations of low-income countries to enable them to invest, earn and, thereby, enhance their incomes. It has emerged over the years that as microfinance has evolved into a for-profit (even a lucrative activity), in practice, microfinance service providers serve the need for financial services of low-income segments of the population but not necessarily the poorest segments. And so it is in Cambodia…

By comparison with the national poverty level of 18.3% as measured by the Cambodia National Poverty Identification System, in the 3,262 microfinance borrower households covered by this survey, the estimated proportion of sampled households that are likely to be poor (incomes at or below NPL) is 11.6% while 24% are ID poor (**Figure 3.1 and 3.1a**). The 11.6% estimate is based on the application of the new 2022 simple poverty scorecard (using 2019-20 CSES data) and estimates those likely to be living below the NPL at 380 households (**Figure 3.1**) as well as better off categories (884 HH between 100-150% NPL, 648 between 150-200% NPL and 1,350 above 200% NPL); **over 41% are in the non-poor category** (likely to have incomes >200% NPL).[15] This section presents a comparative analysis of households likely to be living below and above various multiples of NPL using socio-economic data generated by the survey including their financial profile, their resilience and their credit-supported investments. The same analysis has also been presented for ID poor households where disaggregation enabled meaningful analysis.

Figure 3.1 Segmentation of the sample by poverty likelihood

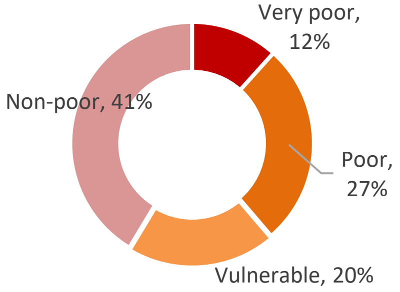
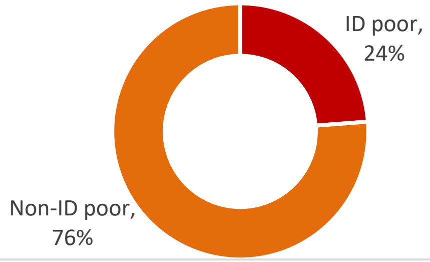
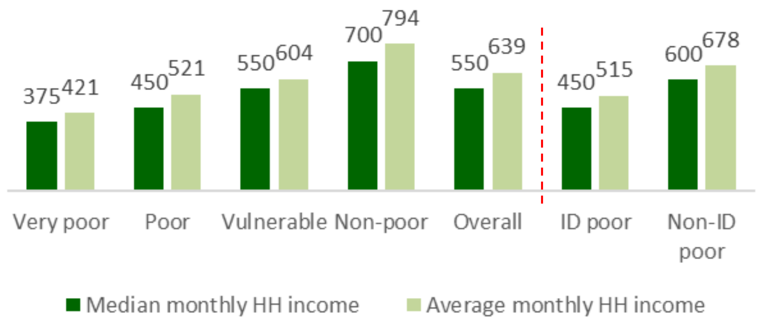


Figure 3.1a Segmentation of the sample by ID poor status



Preliminary analysis of poverty data based on the four segments presented in **Figure 3.2** shows that there are significant differences between the characteristics of "very poor" (up to 100% NPL) and "poor" (>100-150% NPL) segments, on the one hand, and vulnerable (>150-200% NPL) and non-poor (>200% NPL) on the other.

Figure 3.2 How much do poor households earn?



The increase in monthly income is sequential; lowest for "very poor" households classified using simple poverty scorecard and the highest for the "non-poor" category. The median monthly income for ID poor households is estimated at US$450, 25% less than the monthly income of non-ID

[15] The SPS scores the probability of households being below a given poverty line. Probability is seldom 100% but the higher the poverty likelihood, the lower the score. Specific cut-off scores are selected for segmentation (as for targeting). Taking, for example, a cut off score of 27 for very poor, the SPS scoring tables (Schreiner Figure 19) show 84% (not 100%) of all households with scores up to 27 are below the NPL. Hence, households with a score of 27 number 380 which is 11.6% of the sample. This is slightly higher than the 10.8% below the NPL based on probability across the range of scores. A similar degree of variation applies for all segments. See Annex to this Section for more details.

In the rest of this section, therefore, households with incomes likely to be below 150% NPL have been classified as **poor** and those with likelihood >150% NPL as **non-poor**. The median income of poor households (using the proposed classification) is 34% lower than that of non-poor households (US$425 versus US$650). The study team found that analysis of all four segments at the same time causes the creation of very complex tables and graphs with limited gains in terms of analytical results.

Figure 3.3 Household size and composition

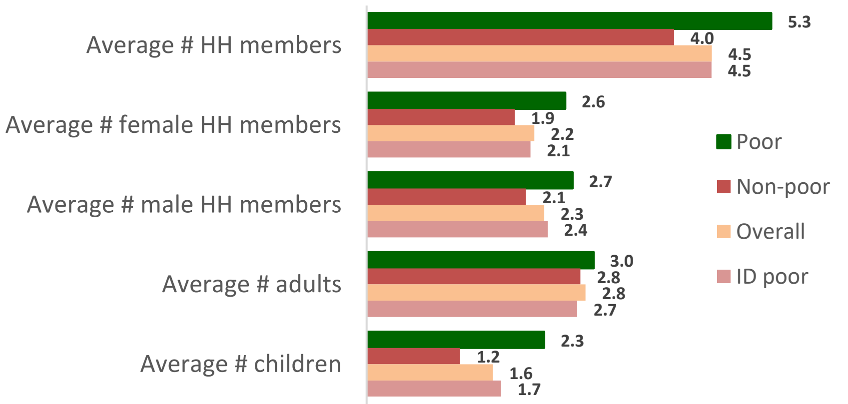
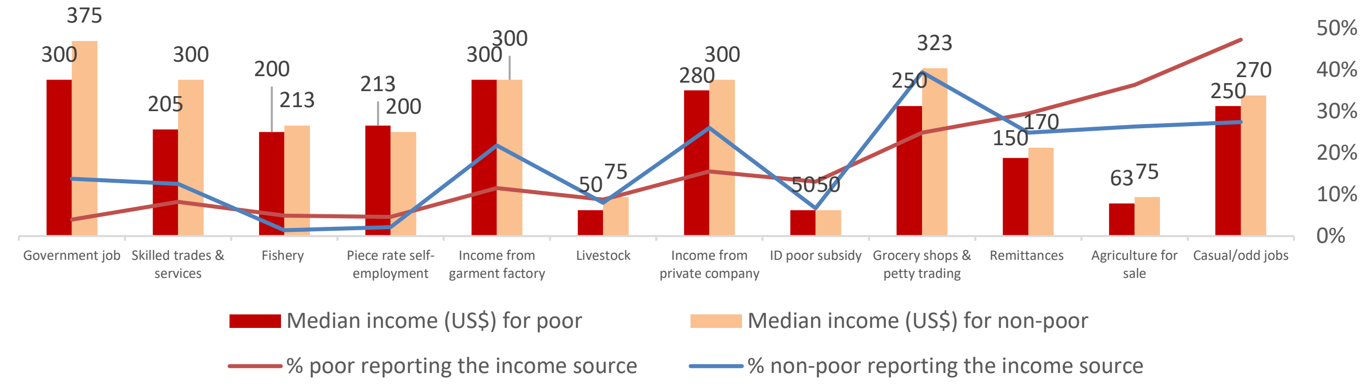


Figure 3.3 shows the variations in household size and composition between poor, non-poor and ID poor households. The average size of a poor household is much larger, nearly 1.18 times the average for other households.

Poor households have at least two income sources, and casual/odd jobs are likely to be one of the two in nearly 50% of cases. More than 25-35% of these poor households also earn through agriculture, remittances, and grocery shops/petty trading. These four are the most reported income sources for households likely to be poor and also for the non-poor. There is not a substantial difference in income (except in government jobs, skilled trades & services and grocery shops from which poor households may earn up to US$100 less than the non-poor). The proportion of poor households reporting incomes from formal employment (in government and private sectors), garment factories and grocery shops/petty trading is significantly lower than the non-poor (**Figure 3.4**).

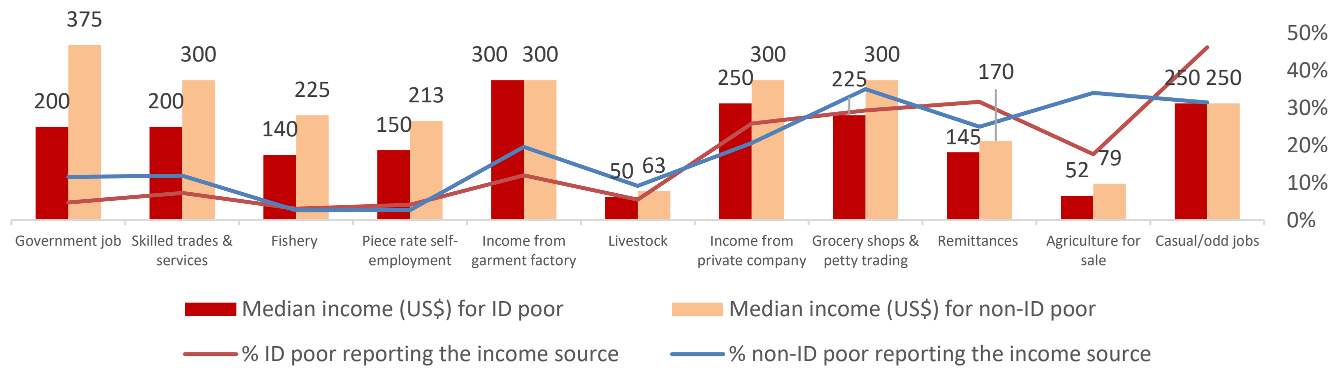
Figure 3.4 How do poor households make money - and how much? (multiple responses) (not exhaustive)



Thus, a larger number of non-poor households generally work as regular employees (in garment factories, private companies, as well as with government) and run their grocery shops. Notably the income pie of households likely to be non-poor is more diverse, that is, it is more common for the non-poor than the poor to engage in a wider set of activities.

There is a stark difference in earnings from government jobs between ID poor and non-ID poor households – ID poor earn 45% less than non-ID poor. Casual/odd jobs are likely to be one of the two income sources for nearly 50% of ID poor households. There is a proportionately greater difference in earnings between ID poor and non-ID poor of those working in the government sector, garment factories, running grocery shops and agriculture than for those in other forms of employment (**Figure 3.4a**).

Figure 3.4a How do ID poor households make money - and how much? (multiple responses) (not exhaustive)



About half of poor HHs own some agricultural land. The proportion of households likely to be non-poor with agricultural land is somewhat lower than the proportion likely to be poor. On the other hand, the proportion of ID poor households in possession of agricultural land is significantly lower at 29% compared to 59% of non-ID poor households. Median landholding size indicate that both poor and non-poor borrower households with agricultural land are small farmers. The difference in landholding size (**Figure 3.5**) is quite limited.

Figure 3.5 Agricultural land holdings

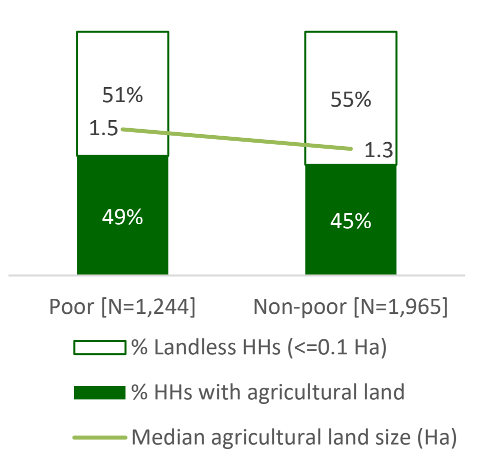
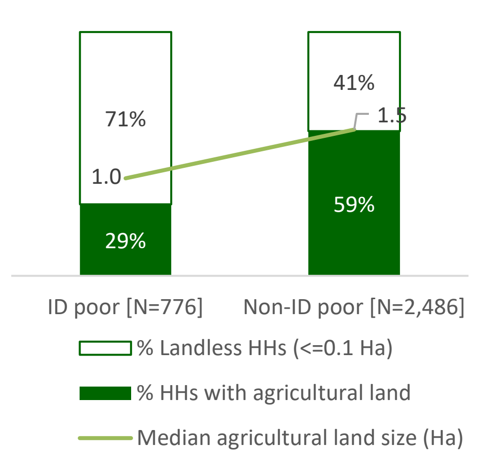
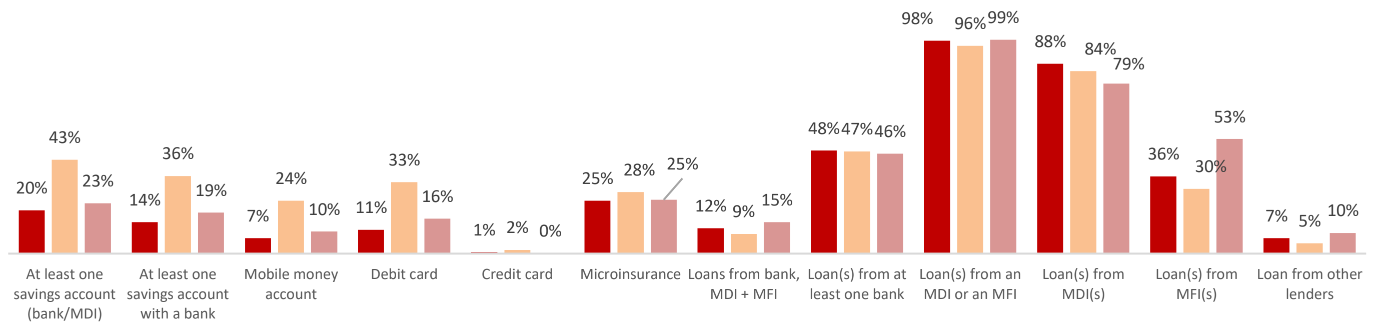


Figure 3.5a Agricultural land holdings



Access to financial services like savings accounts, digital and microinsurance products is available to a significantly smaller proportion of poor (as well as ID poor) households compared to non-poor households (**Figure 3.6**). Both poor and non-poor households borrow from all kinds of formal credit providers.

Figure 3.6 Household access to and use of financial services



A higher proportion of senior clients are likely to be poor following the SPS as well as categorised as ID poor based on the Cambodia National Poverty Identification System than comparatively new clients (40% vs 36%; also 26% vs 20%). Senior microfinance clients, therefore, may not have graduated out of poverty. This is a general finding in international microfinance impact studies and demonstrates the fact that the availability of finance is an enabling but not a sufficient condition for poverty reduction. Graduation requires skill development, asset building and value chain support as well as financial support.

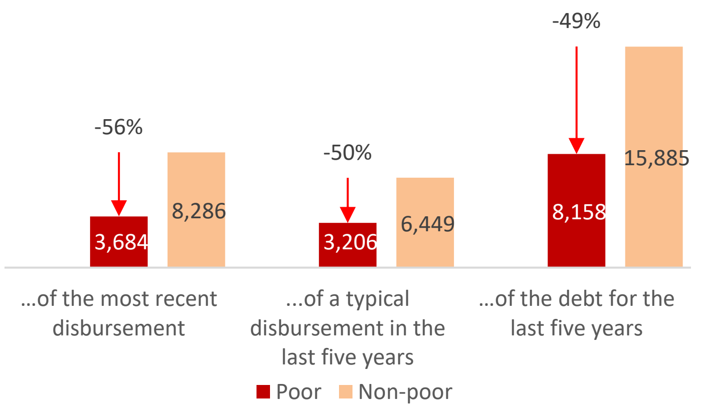
Years of association	% Poor*	% ID poor
5 to 8 years	36%	20%
9 to 14 years	41%	26%
15 years and above	40%	26%

Table 3.1 Poverty by seniority

*below NPL 150%, using simple poverty card

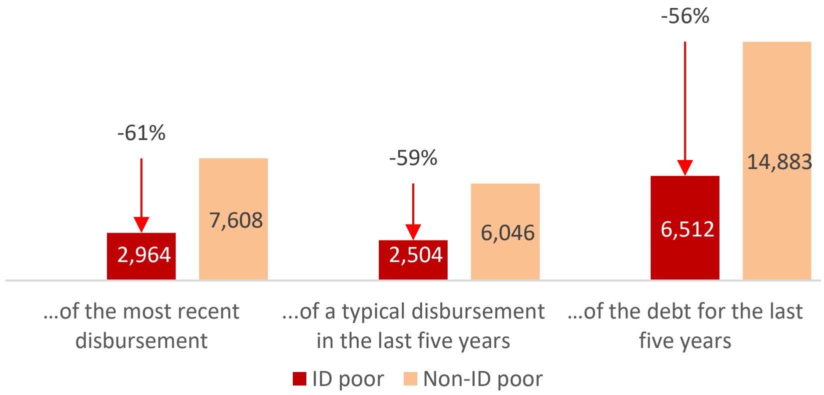
Poor households (as well as ID poor households) borrowed 3.3 times on average in the last five years while the likely non-poor took 3 loans in the same period. The difference is in the size of disbursements with the poor receiving less than 50% of the amount lent to the non-poor (**Figure 3.7**). The difference in the size of disbursements widens when ID poor ownership is used as a segmentation variable (**Figure 3.7a**).

Figure 3.7 Average size (US$)



The average loan size for a poor client is US$3,200 – and for ID poor clients is US$2,500. Poor households borrowed ~US$8,000 in the last five years through 3.3 loans while non-poor households borrowed nearly US$16,000. This indicates that CMA members do take note of income differences in providing loans, though there may still be questions about the size of these loans in the context of the loan to GDP per capita ratio.

Figure 3.7a Average size (US$)



Within poor households, clients with up to 14 years of borrowing history have disbursements of similar sizes. However, the seniormost clients (with more than 15 years association) received disbursements of significantly higher sizes. Average loan size for the oldest clients within the very poor segment (sub-set of the poor in this discussion) is US$3,842 compared to the sample average of US$2,742 – 30% more.

The survey data shows that a significantly higher proportion of poor households (78% vs 62% non-poor) are not able to save cash. Among those saving, almost all reported an increase in
deposits in the last five years (**Figures 3.8** & **3.9**). Households may choose to save at home and/or with MDIs or banks but saving at home is the most likely choice for both poor and non-poor households (**Figure 3.10**).

Figure 3.8 Household ability to save cash, last 5 years

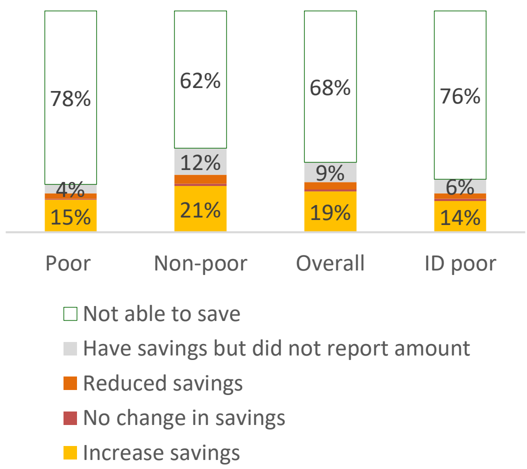
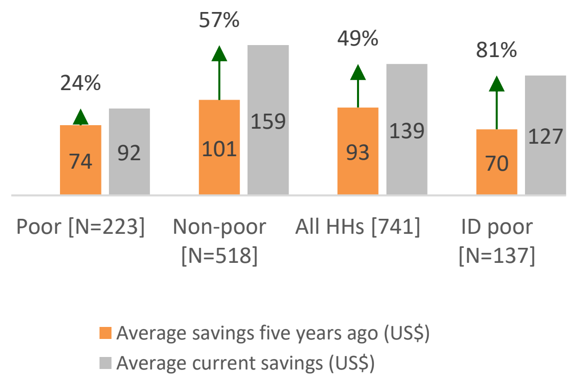


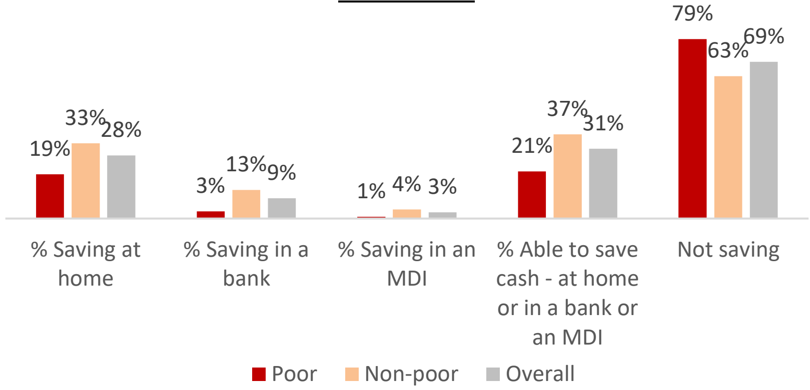
Figure 3.9 Deposit growth over the last five years for those who were able to save and reported the amount saved



In the overall sample, the proportion of households reporting an increase in deposits is small (just one in every five); a slightly higher proportion of non-poor households have been able to increase their savings in the last five years compared to the poor (21% vs 15%, **Figure**

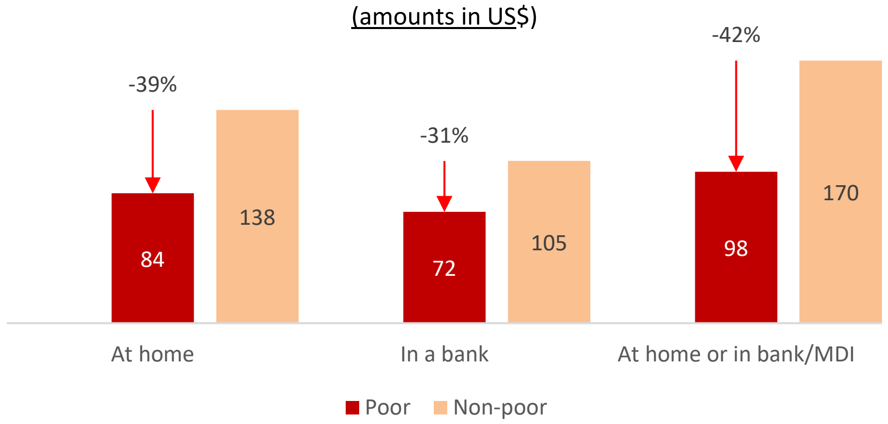
3.8). On average, deposits of non-poor households have grown by 57% while those of the poor that are saving grew by 24%. The savings reported by poor households currently are still less on average (adjusted for inflation) than the amount that was being saved by the non-poor five years ago (**Figure 3.9**).

Figure 3.10 Where are cash savings accumulated by households?



The poor are likely to have smaller deposits compared to the non-poor at any given time. Currently their savings are 42% less than non-poor households (**Figure 3.11**).

Figure 3.11 Comparison of household's average current savings (amounts in US$)

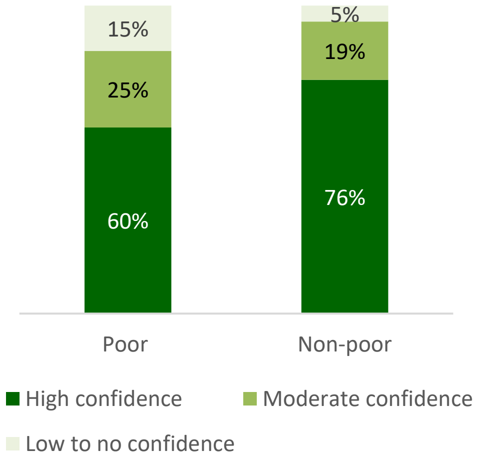


*The number of households for **Figure 3.11**: Poor HHs saving at: home - 138, bank - 8, home or in bank/MDI - 60; non-poor HHs saving at: home - 857, bank - 236, home or in bank/MDI - 761.

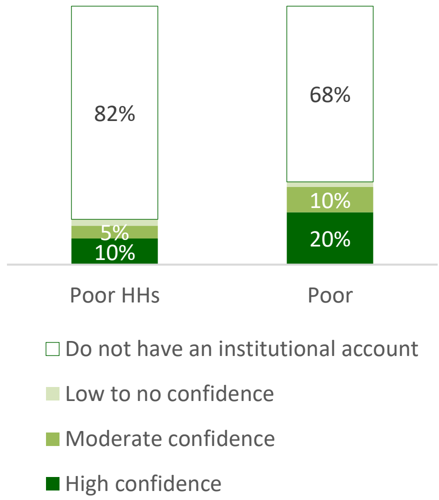
Comparative analysis of the financial capabilities of microfinance clients in **Figure 3.12** show that a considerable proportion (~85%) of poor households have some degree of confidence in managing loan transactions. A larger proportion of non-poor households are likely to be highly confident in managing institutional savings transactions compared to poor households. smaller proportion of likely poor HHs compared to likely non-poor HHs are report 'high confidence' in making transactions through institutional savings accounts they have access to.

About half of the respondents belonging to both poor and non-poor households are aware of the interest rates charged by financial institutions. Likewise, half of clients from poor and non- poor HH know that there is a loan processing fee. But just about 15% of non-poor and an even smaller proportion (10%) of poor clients were able to cite the level (%) of the fee charged. The chances of poor HH not knowing the loan fee are higher than for non-poor HH.

Figure 3.12 Ability to manage financial transactions of clients belonging to



Ability to manage institutional savings



A comparison of the pattern of investments using microfinance loans

The proportionate distribution of the sample by utilisation of loans taken in the last five years is summarised for (likely) poor segment and non-poor segment of households in **Figure 3.13**; average investment in various activities using microfinance loans for both segments is presented in **Figure 3.14**. The proportionate distribution of investments made in the past five years using microfinance loans is summarised for poor households in **Figure 3.15a** and for non-poor households in **Figure 3.15b** (on the following pages). These show the importance of **investment in houses (as well as land and gold)** and in income generating activities (IGA) for poor households while **for non-poor households, house and other high value assets** is the largest single investment category. Loans for house repairs and borrowing on behalf of relatives (not part of the household) are also significant categories – around 14% and 10% respectively for both income segments.

More than half of both poor and non-poor households invest in IGAs and the share of investment in IGA is marginally higher among poor households than the non-poor (20% vs 17%). Loans could be used for farm or non-farm IGAs.

Poor (likely below 150% NPL) households are also more likely to use new loans to settle previous debts with financial institutions and moneylenders. Half of the poor spent up to 16% of total borrowings [6.9% + 8.2% + 0.8% in pie chart] to settle debts while 38% of non-poor used 12% [2.5% + 7.9% + 1.1%] of total credit. Poor households are more likely to rotate debt between lenders. As might be expected, non-poor households borrow more to invest in gold/land/**house purchase/construction** (25.3% vs 18.4%) or in **purchase of other high-value assets** like motorbikes or household appliances and furniture (14.3% vs 8.5%). Overall, clients of CMA members invest significantly in building up assets (residential property and income generating activities). This apparently reflects the needs of the low-income segments of the population in the country.

Figure 3.13 Household borrowing in the last five years for...

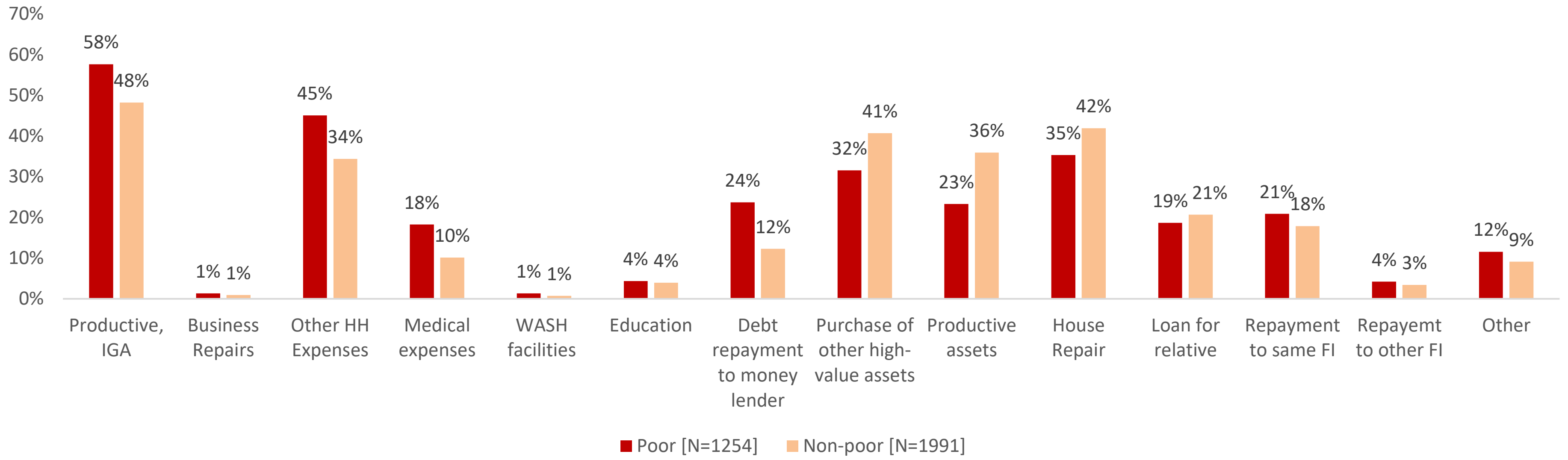


Figure 3.14 Average size of credit-linked investments made by households in the last five years, US$

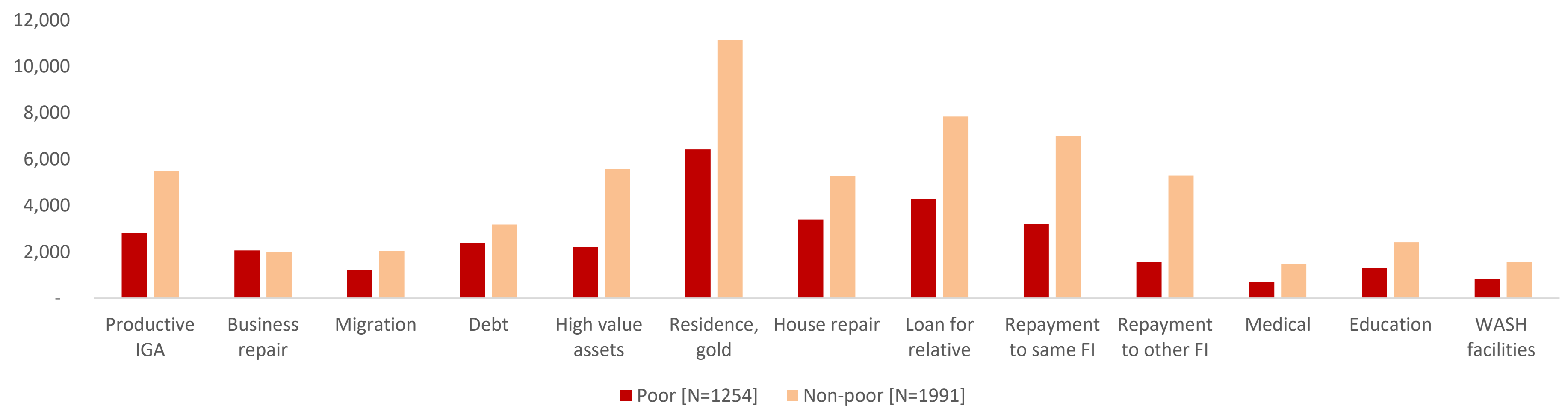


Figure 3.15a % share of credit (US$ 10.2m) in investments among poor HHs (N=1,254)

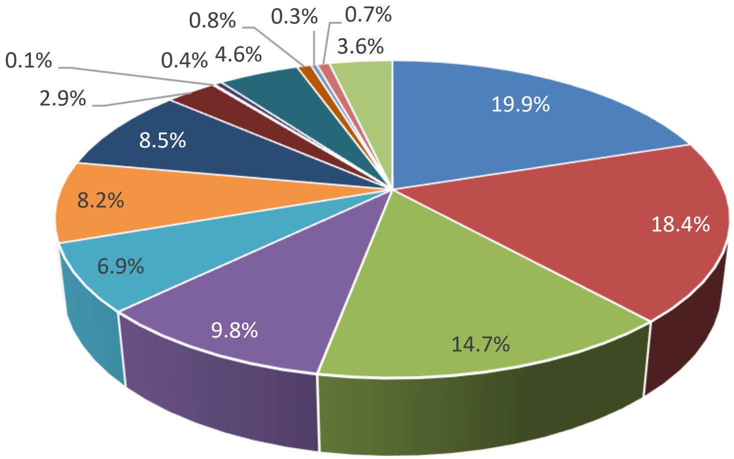
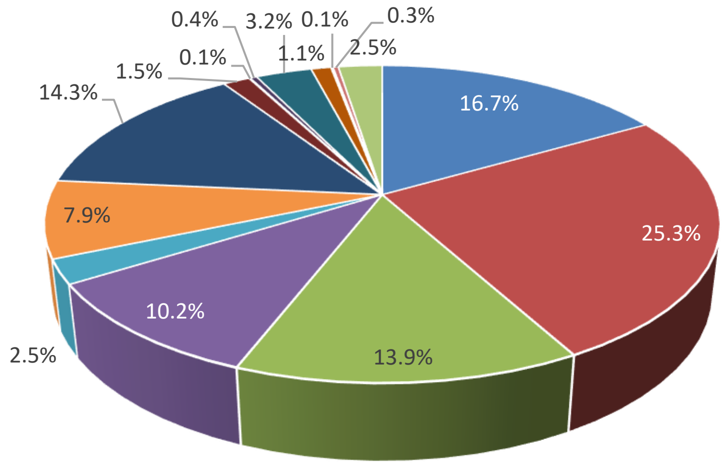


Figure 3.15b % share of credit (US$ 31.5m) in investments among non-poor HHs (N=1,991)



- Productive, IGA
- Productive, purchase/construction of HVA - land, house, gold
- House repair
- Loan for relative/family member living in another HH
- Debt repayment to moneylender
- Repayment to same FI
- Purchase of other high-value assets
- Medical
- WASH facilities
- Education
- Other HH expenses
- Repayment to other FI
- Business repairs
- Other
- Not reported

Key, clockwise

Based on the ToR, microcredit portfolio is spread across both domestic and productive spheres; one-third is reported as used for household purposes and two-thirds for income activities. The distribution is 33% for household consumption, trade and commerce, 22%, agriculture 19%, services 14%, transportation 6%, construction 4%, manufacturing and other is 1%.

The sample suggests quite a different loan portfolio – 17-20% for income activities and the remaining for household consumption, debt repayment, social investments, purchase of high value assets and others. The approximate share of investments across economic sectors is as follows: trade and commerce 4%, agribusinesses 9%, services 0.4%, transportation 1%, construction 0.5%, manufacturing 0.9% and others 1.5%.

Note: In the above figures, productive IGA refers to starting/expanding/managing agriculture and allied and non-farm income generating activities (IGAs), also called enterprises; household expenses include payments (food, clothing, electricity/water bill) and migration expenses; purchase of other high-value assets include TV, refrigerator, mobile phone, two wheeler, tricycle, four wheeler; "other" category includes expenditure on gambling, levelling of land for house construction, social investments (festivals, marriage, funeral), loan fee, debt repayment for relatives, insurance purchase, land deed registration, Pagoda construction, election campaigning, driving lessons, redemption of household members from prison.

Investment in high value assets (land, house, gold) is the largest single investment category for ID poor as well as non-ID poor households. Both of them also invest in income generating activities and house repairs (**Figures 3.16a and 3.16b**).

Figure 3.16a % share of credit (US$ 5.0m) in investments among ID poor HHs (N=770)

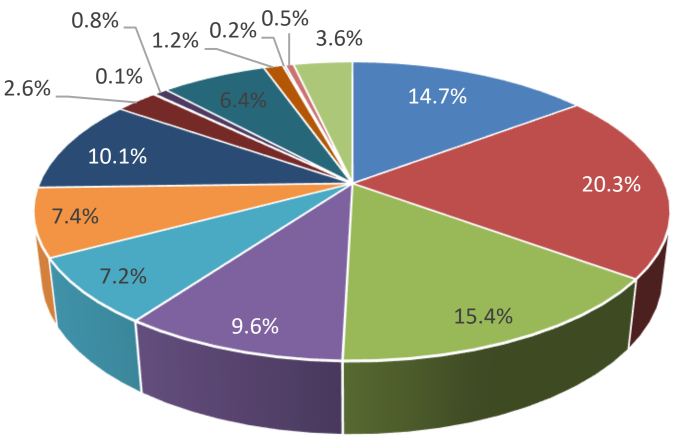
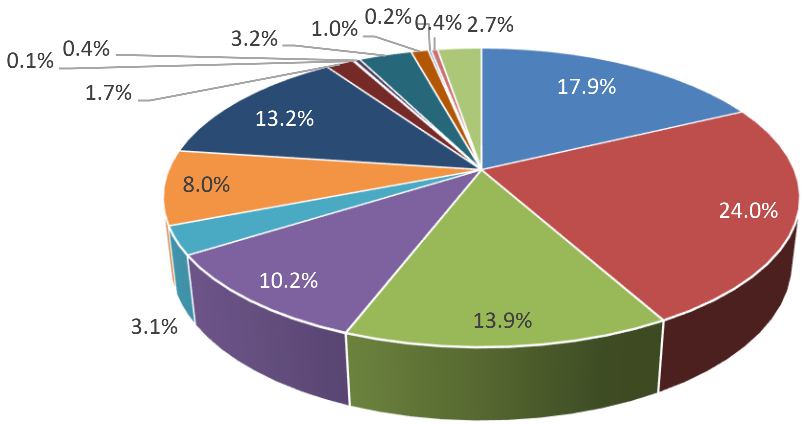


Figure 3.16b % share of credit (US$ 36.8m) in investments among non-ID poor HHs (N=2,475)



Annex to Section 3.1

More detail on poverty segmentation used in this section

Based on SPS scoring for probability and segmentation

The SPS scores the probability of households being below a given poverty line. Probability is seldom 100% but poverty likelihood is higher, the lower the score. Specific cut-off scores are selected for segmentation (as for targeting). Taking, for example, a cut off score of 27 for very poor, the SPS scoring tables (Schreiner, Simple Poverty Scorecard Tool Cambodia, Figure 19, p.55) show 84% (not 100%) of all households with scores up to 27 are below the NPL. Hence, households with a score of 27 number 380 which is 11.6% (rounded off to 12%) of the sample. This is slightly higher than the 10.8% (rounded off to 11%) below the NPL based on probability across the range of scores. A similar degree of variation applies for all segments.

	% HHs below different poverty lines	Implied # of HHs in the sample	SPS cut off score used for this poverty level	Number of HHs with this score	% of sample with this score
National Poverty Line (NPL 100%)	11%	352	27	380	12%
150% of NPL	36%	1170	38	1265	39%
200% of NPL	58%	1892	44	1913	59%

Based on segmentation of poverty categories

As discussed above, based on the SPS scoring, 10.8% of the sample (or 352 households) is likely to be below the national poverty line, that is, they score 27 or less. The count of 352 is the probable poverty outreach but in fact 380 households come below the cut off score. Outreach numbers and percentages are different from segmentation numbers and percentages because probability is variable and for data segmentation specific scores are used, which resulted in a different number of HHs below the cut off scores for each segment. Furthermore, the table also shows the ID poor results for different SPS scoring segments.

Poverty segment	Poverty line class segment	% HHs below different poverty lines	Implied # of HHs in the sample	SPS cut off score used for this poverty level	Number of households with this score	% of sample with this score	% HHs with SPS cut off score in possession of ID poor card
Very poor	Below NPL 100%	11	352	27	380	11.6%	41%
Poor	100%-150% NPL	25	818	38	884	27%	34%
Vulnerable	150%-200% NPL	22	721	44	648	20%	24%
Non-poor	Above 200% NPL	42	1370	89	1350	41%	12%

Some 24% of the sample hold ID poor cards. A segmented analysis of this group shows that ID poor does not capture all households likely to be below 100% NPL.

Number of households with ID poor cards	% below 100% NPL	% below 150% NPL	% below 200% NPL
776	20%	59%	79%

Section 4 Financial awareness of the sample & its implications

According to a **measure of financial awareness** constructed as part of this study, **there is a moderate-to-good level of awareness** amongst the respondents (microcredit borrowers) of the household survey [sample average 5.25 out of 8 and the highest frequency of respondents between scores of 5 and 6]. The province-level average score ranges from 4.8 to 5.7 increasing broadly from the western to the eastern part of Cambodia (Siem Reap to Mondul Kiri province). This apparently paradoxical finding is related to the poverty status of microfinance clients amongst the provinces – highest in the former province and lowest in the latter province. As expected, those with higher awareness scores are more likely to invest productively than those with lower scores.

4.1 Constructing a measure of Financial Awareness

For elaborating on the profile of the sample, the study team has constructed a rough financial literacy (or financial awareness) index using the relevant indicators that provided coherent results from the survey. This index covers the awareness and confidence of respondents in terms of awareness about household loans and their use. The index uses two constructs of awareness and confidence for exploring respondents' perceptions (see **Table 4.1** on the following page).

Table 4.1 Indicators and scoring for the measure of financial awareness

Indicators		0	1	2
1	**Awareness**			
1.1	If the loan is active, do you know the interest rate and operating fees?	Do not know/No response	Knows interest rate or operating fees for 1 loan	Knows both interest rate and operating fees for at least 2 loans
1.2	How much does the household pay towards monthly repayment to the FIs for active loans? (US$)	Do not know/No response	Knows monthly repayment for 1 loan	Knows monthly repayment for > 2 loans
2	**Confidence**			
2.1	How confident do you (the primary respondent) feel about managing financial/transaction matters related to borrowing	Not at all confident + marginally confident	Moderately confident	Quite confident +very confident
2.2	What is the most important financial goal you are trying to achieve right now?	Do not have any financial goal	Pay off debt	Increase in investment + home renovation + increase in savings + purchase asset + start a business
Maximum score possible		**0**	**4**	**8**

A three-point scale from 0 to 2 has been used for scoring the responses. A score of 0 is given if respondents are either not aware of the specifics of a particular financial service or (where relevant) are not confident in their response on the matter. Conversely, a score of 2 implies that respondents are aware of all the required details of the financial service and/or are relatively confident in their knowledge of the service. These scores and index provide insight into the financial awareness and consciousness of respondents in relation to their financial behaviour and its use of services. This does not purport to be the sophisticated means of measuring financial literacy that might emerge from a well considered study that focussed on the matter of financial literacy; it is simply a broad indicator and should not be seen as more than that.

The four indicators with coherent information used here for the measure of financial awareness (rather than a financial literacy index) have been scored done out of 8 points – a maximum of 2 points for each indicator.

4.2 Findings and trends from Financial Awareness scores

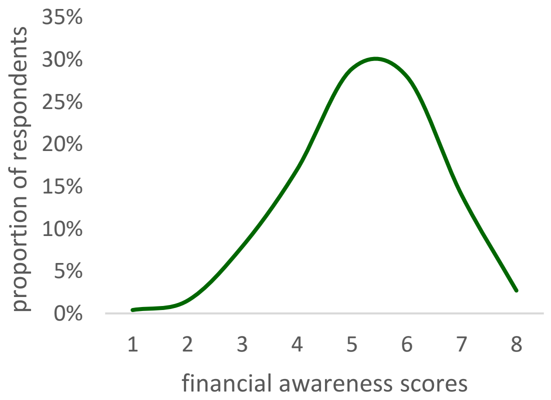
Overall, 73% of respondents have scored more than or equal to 5 out of 8 points indicating that most respondents have fair levels of financial awareness

Findings at the sample level: As shown in **Table 4.2**, most of the respondents have fair levels of financial literacy indicating that respondents are quite aware of the loan details, and its use and are confident in managing their loans and household financials. The table presents the financial literacy (FL) scores along with the frequency and proportion of respondents. **Figure 4.1** shows a skew towards a higher score indicating a moderate-to-good level of awareness. Only 9.8% of respondents have scored <=3.

Table 4.2 Frequency of respondents by awareness scores

FL Scores	Frequency of respondents	% of respondents
1	11	0.4%
2	48	1.9%
3	245	9.8%
4	530	26.8%
5	900	55.7%
6	865	83.5%
7	430	97.3%
8	84	100.0%
Total	**3,113**	

Figure 4.1 Frequency distribution of scores



Note: The study sample is 3,262 respondents but out of these 3,113 respondents had active loans at the time of the survey and have been used to analyse awareness.

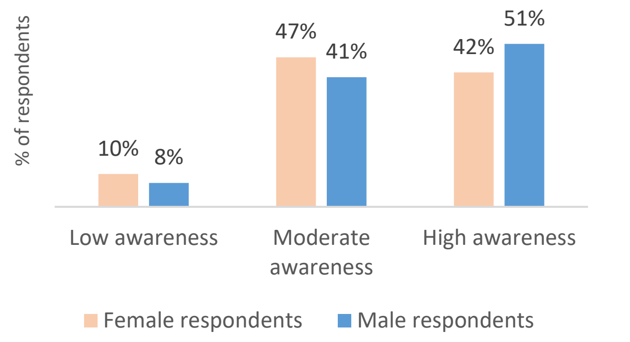
Table 4.3 presents the scores in groups of indicating low, moderate or high financial awareness. The analysis in the following sections is based on this grouping scheme.

Table 4.3 Grouping of financial awareness scores

Scores	Grouping	Frequency of respondents	% of respondents
1 to 3	Low	304	10%
4 to 5	Moderate	1,430	46%
6 to 8	High	1,379	44%
Total		**3,113**	**100%**

Awareness by gender: The FL scores of male respondents are significantly higher than those of female respondents (0.00* significance level, independent t-sample test). As such, a higher proportion of male respondents are in the high awareness category than female respondents (**Figure 4.2**). Interestingly, this finding contrasts with other recent studies such as Samretha & Aibab, 2022 in which no gender gap in financial literacy was observed in Cambodia.[16] This difference is mainly because of the difference in the scope of the studies; the study cited above is specifically about financial literacy while here only a rough indicator of awareness has been used. Nevertheless, there is some difference and it bears consideration.

Figure 4.2 Awareness levels by gender



Awareness by provinces: By provinces, the awareness scores increase from west to east of Cambodia as presented in **Figure 4.3**. Siem Reap province has the lowest score of 4.8 and Mondul Kiri the highest at 5.7. Also, all the provinces except Siem Reap have an awareness score upwards of 5.0 indicating moderate to good levels (as stated above). The reasons for the exceptionally low awareness score in Siem Reap (and high in Mondul Kiri) could be related to the poverty levels of microfinance clients in those provinces.

Following from the above the average awareness scores, Mondul Kiri and Kracheh have a higher proportion of respondents with high scores, and Siem Reap and Kandal have a larger proportion of respondents with low scores (**Table 4.4**).

[16] Samreth, S., & Aiba, D., 2022. *Financial Literacy Among Microfinance Borrowers: Findings and Policy Implications from a Household Survey in Cambodia*.

Figure 4.3 Average awareness scores by provinces

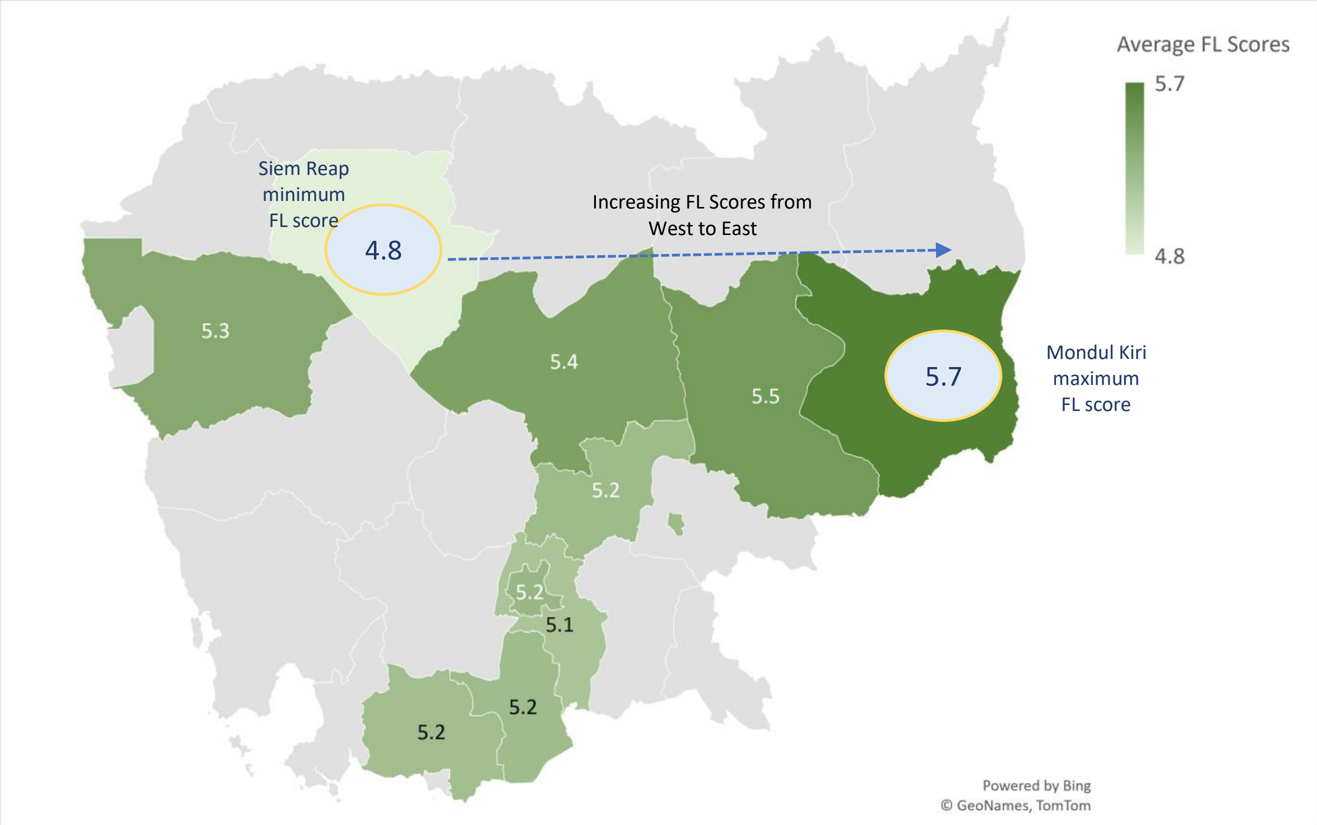


Table 4.4 Grouping of awareness scores

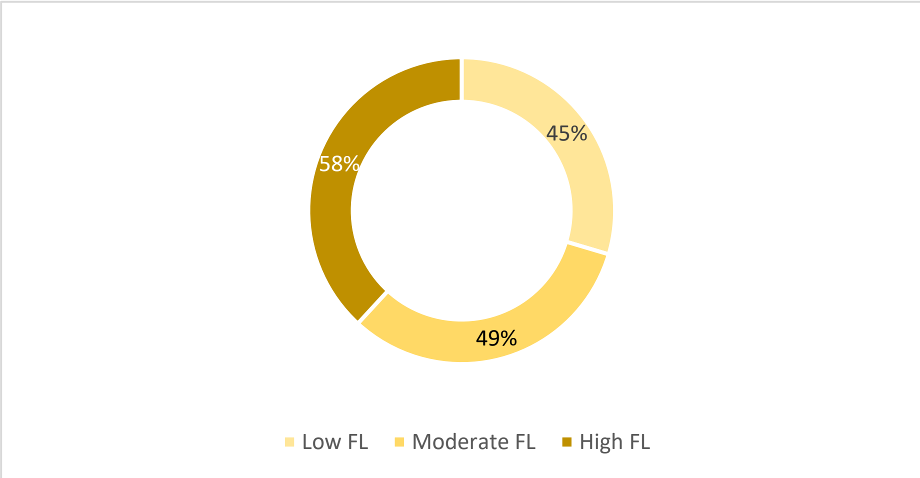
Provinces		Sample (N)	Low	Moderate	High
1	Siem Reap	337	18%	53%	29%
2	Kampong Cham	328	7%	53%	40%
3	Kandal	317	16%	44%	40%
4	Kampot	297	12%	45%	42%
5	Phnom Penh	328	7%	51%	42%
6	Takeo	337	8%	50%	42%
7	Battambang	263	6%	45%	49%
8	Kampong Thom	310	8%	42%	50%
9	Kracheh	296	8%	40%	52%
10	Mondul Kiri	300	6%	35%	59%
	Total	**3,113**	**10%**	**46%**	**44%**

4.3 How is financial awareness related to productive investments & potential stress

A significantly larger proportion of consumers with high awareness scores use loans for productive investment

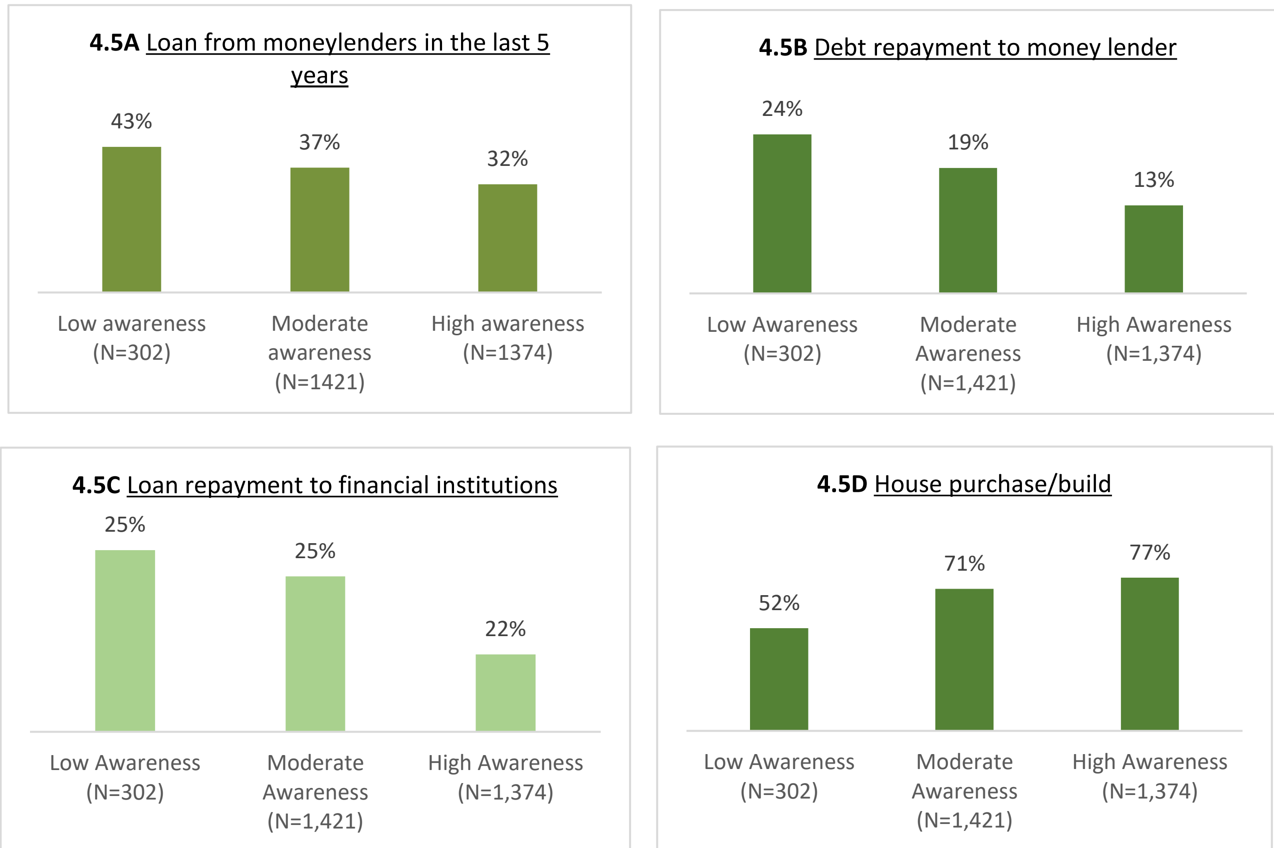
The proportion of consumers using loans for productive investments correlates with awareness scores; in **Figure 4.4** the group with the highest scores has the largest proportion of consumers using loans for productive investment while those with both low and medium awareness scores are less likely to use loans for productive investments.

Figure 4.4 Proportion of consumers using loans for productive investments by awareness scores

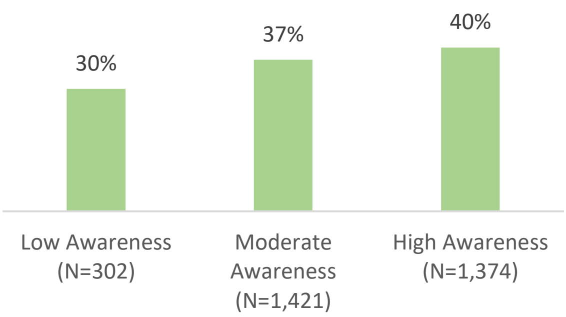


Awareness scores and use of loans: The use of loans for debt repayment or productive activities, presented in **Figure 4.5**, corresponds to the awareness scores. More respondents with low scores use loans to repay debts to moneylenders and financial institutions, whereas the proportion of respondents with higher scores using loans to build/repair houses and/or purchase assets is much greater. These trends show the important role played by borrowers' awareness and planning in channelling the use of loans by households. See **Caselet 4.1** (at the end of this section) for the benefits of good financial awareness.

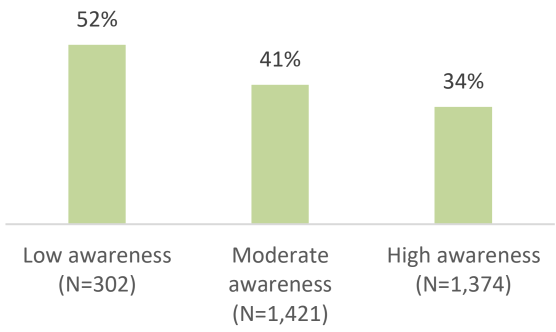
Figure 4.5 Use of loans by respondents segregated by awareness scores



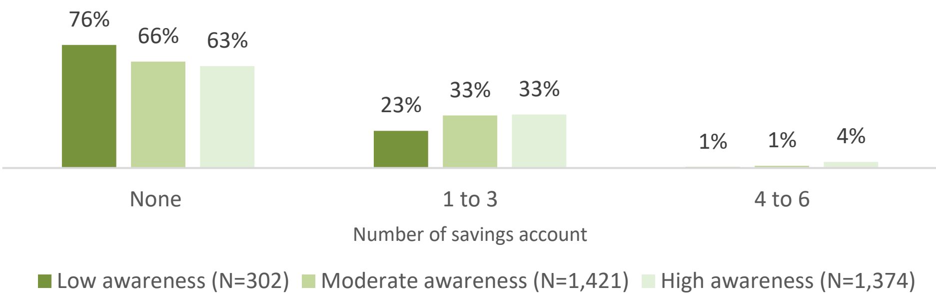
4.5E Vehicles and HH asset purchase



4.5F Proportion of SPS Poor households



4.5 G Proportion of households by number of savings accounts



Caselet 4.1 Urban, non-farm, MHH (based on IDI) – ***financial literacy, access to loans = prosperity***

Cham Pal, 37, has been an MFI client for over 10 years. He lives in Krasang commune in Phnom Penh. He first migrated to Phnom Penh to work in a factory. Very soon he realized that the income from factories wasn't enough to provide adequately for his family and decided to become a Tuk-Tuk driver. He took his first loan of US$2,000 from a FI to buy a Tuk-Tuk. Since then, he has been able to earn enough to feed his family and has built up savings in his bank account. Some time ago his daughter fell ill and he used his savings for her treatment. That is when he realized the importance of an emergency savings fund. He remarked that savings are essential, especially when there is no insurance to meet emergency expenses.

When his Tuk-Tuk bookings reduced during Covid-19, Cham Pal started working as a food delivery partner with Grab to stay afloat. He understands that diesel and food prices are increasing rapidly and are eating into his savings. He has one active loan and is not too keen on taking more loans; he would prefer to increase his savings so that he can buy a house soon. He says that he will finance up to 20% of the value of the house through a formal loan.

Section 5 Repayment Stress in Cambodian Microfinance

The international discourse on Cambodian microfinance assumes a high level of repayment stress amongst microfinance borrowers. For this reason, an important focus of M-CRIL's impact assessment has been on this issue. The findings of this assessment indicate that while there is a significant degree of repayment stress, **occasional stress for around one-fourth (24%) of borrowers**, the concern that this results in many of them losing their land (even implying landlessness and destitution) is over-stated. **There is a reduction in landholdings in about 0.5% of cases in the past 6 months and perhaps up to 6% over a five-year period** (including Covid), it entails the sale of small plots of land but any cases of landlessness resulting from such sales are rare and this study did not discover any. Most borrowers faced with repayment stress have coping strategies like borrowing from relatives/friends/associates or from moneylenders. Less frequent are the sales of high value assets (mainly motorbikes or other household assets) and (of greater concern) the temporary lowering of the intake of (protein/vitamin-rich) foods. While FGD input quoted in this section is sometimes alarming, it is the extreme cases (real or hearsay) that remain in borrowers' minds and not necessarily always the benefits. The real possibility of the loss of assets resulting from their borrowing is acknowledged by borrowers. The net result of this process is discussed further in the next section on the

In the context of concerns about over-indebtedness and its effects on microfinance borrowers in Cambodia, this section presents an analysis of the survey data related to the degree of stress and the coping strategies of Cambodian microfinance borrowers.

The key concern of domestic and international observers is that microfinance clients in Cambodia are subjected to excessive pressure to subscribe to multiple loans with substantial amounts of outstanding debt that is beyond their means to repay. This section first examines the issue of multiple loans; this is followed by a consideration of repayment stress resulting from over-indebtedness.

5.1 How much repayment stress is there for microfinance borrowers?

Not quite as many loans outstanding per household as detractors fear

Traditionally, the number of loans outstanding per household has been a primary area of concern. Of 3,262 respondent households with usable data from the sample, nearly **87% have either one or two loans**. The number that could cause particular worry (4+ loans) is 2.1% of the sample, 60 borrowers; when applied to the overall borrower number of 3.3 million in the CMA database (end September 2022) this extrapolates to around 69,300 MFI borrowers.

Figure 5.1 Number of outstanding loans of surveyed households - proportion of households in the sample

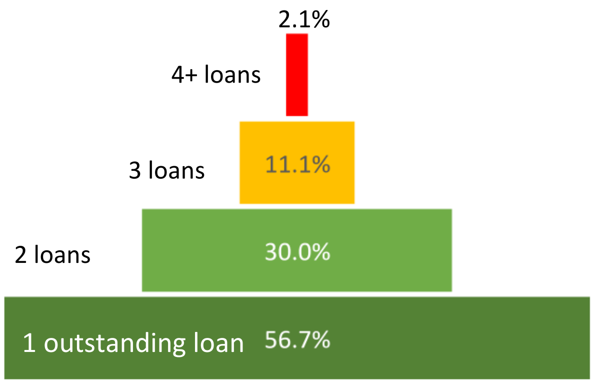
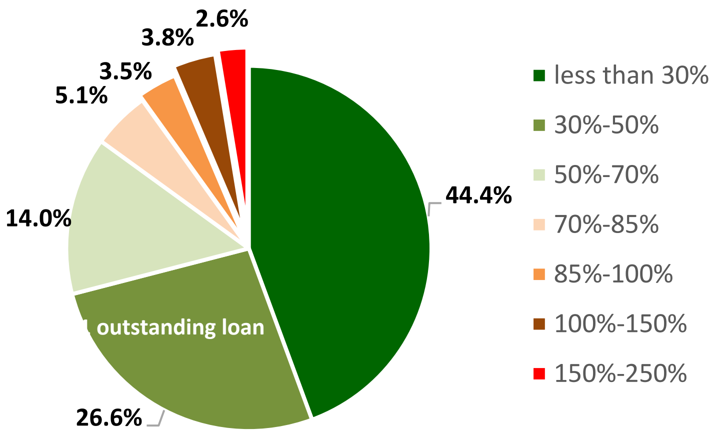


Figure 5.2 Proportion of households – monthly repayment obligations as % of household monthly income (N=3,004)



Or is this a red flag?

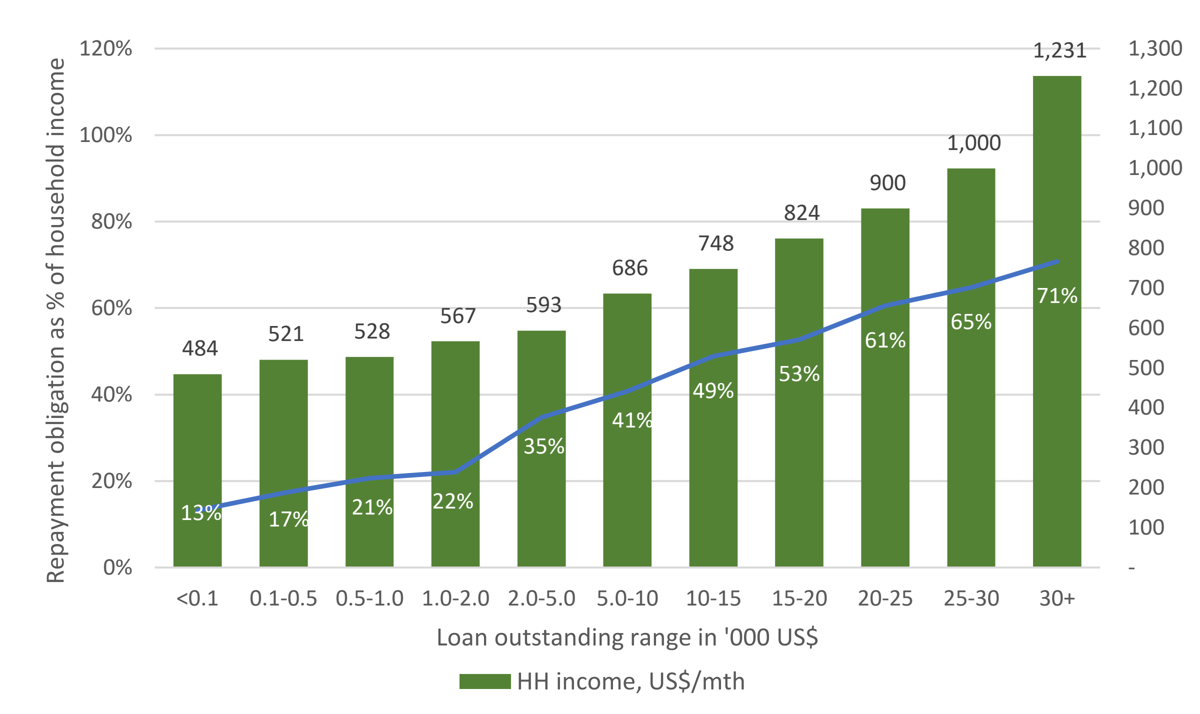
– 85% of sample households are below the internationally stipulated stress threshold for Cambodia of 70%, but 6.4% are above 100%.

(based on quantitative survey data on monthly income and repayment amount)

Perhaps not, since the stress level appears broadly manageable

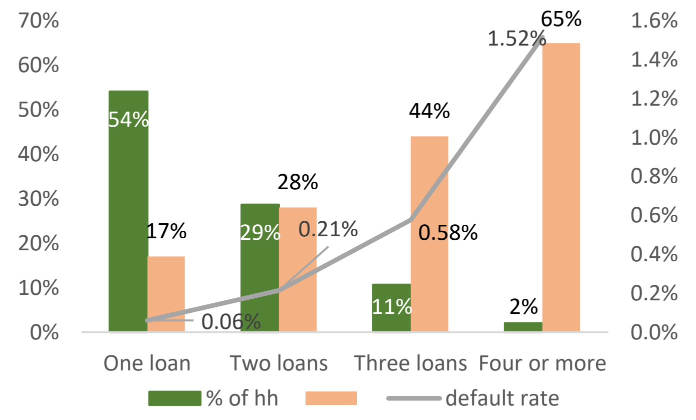
The average stress level of households with outstanding debt in the ranges shown in the figure below (**Figure 5.3**) is well below 70% of average incomes for borrowing households up to quite high levels of debt, the $25,000-30,000 range. It is only for those 64 (of 2,064 for which accurate loan outstanding data was available) households in the highest range above debt of $30,000 that the average stress level crosses 70% of household income.

Figure 5.3 Average stress levels of sample households relative to monthly income*



*Horizontal axis - Class intervals for outstanding loan amount (in thousand US$).
Primary vertical axis - % share of income spent on monthly repayment, average income to repayment ratio for each outstanding loan category mentioned within bars.
Secondary vertical axis - Household income range, average for each outstanding loan interval shown outside the upper edge of bars.
Clients with bigger outstanding debt report larger incomes on average. Income to repayment ratio goes up as outstanding loan amount increases (see blue trendline).
The ratio crosses the critical stress threshold of 70% of average incomes for clients with outstanding amount above US$30,000. Such clients make up 3.1% of the sample.

Figure 5.4 Repayment stress by number of outstanding loans



Or perhaps yes, since the average stress level varies with the number of outstanding loans

- It goes up sharply to 44% and 65% of borrowers with respectively 3 and 4 outstanding loans
- though such households are just 11% and 2% of the sample.

The average stress level varies within each loan outstanding range, it is over the 70% internationally stipulated norm for 24% of the overall sample.

The average income to repayment ratio for different outstanding loan ranges is shown in **Figure 5.3** above. The average stress level of households with outstanding debt in the ranges shown in the figure is well below 70% of the average income amount. However, within each range, there is a subset of clients experiencing stress, their proportions are displayed in **Figure 5.5**. below (orange segments of bars).

The proportion of clients experiencing stress is directly related to the outstanding amount. A smaller proportion of clients (4 to 10%) at the lower end of the spectrum (up to US$5,000 outstanding) report stress. This proportion consistently increases with loan outstanding amount and is in the range of 26-44% for outstanding loans exceeding $10,000."

These upper strata (income $750-1,250 per month) households are 6.2% of the overall sample with 68% of their borrowings for house construction and enterprise investment. While some of the upper strata may get into trouble they are not the real cause of concern since they also have substantial asset holdings.

Figure 5.5 Proportion of sample households in each loan outstanding range with instalments >70% of HH income

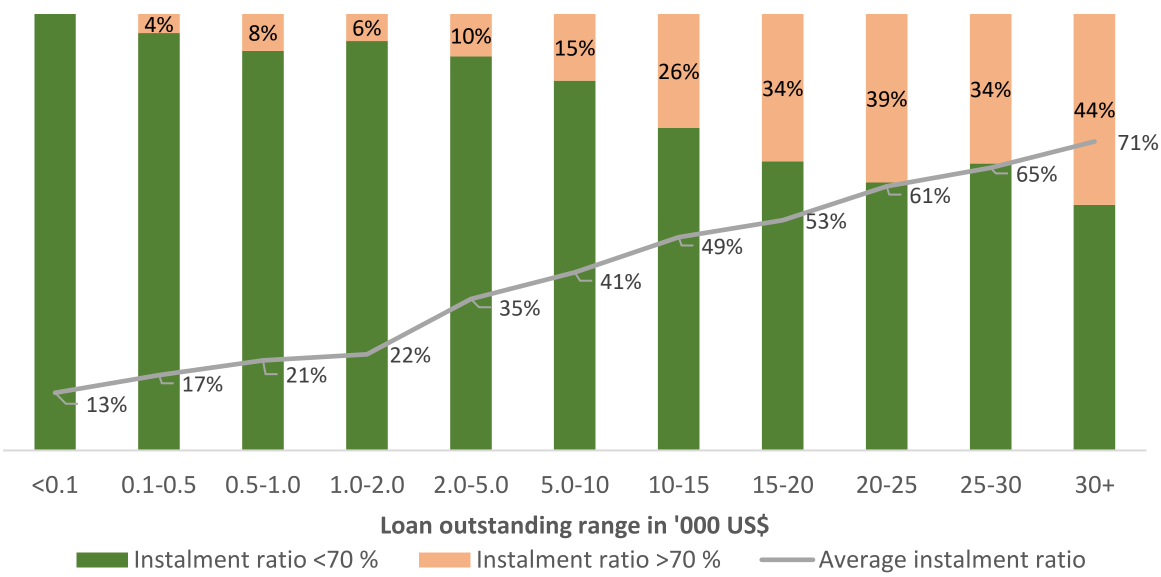


Figure 5.6 Reporting repayment stress

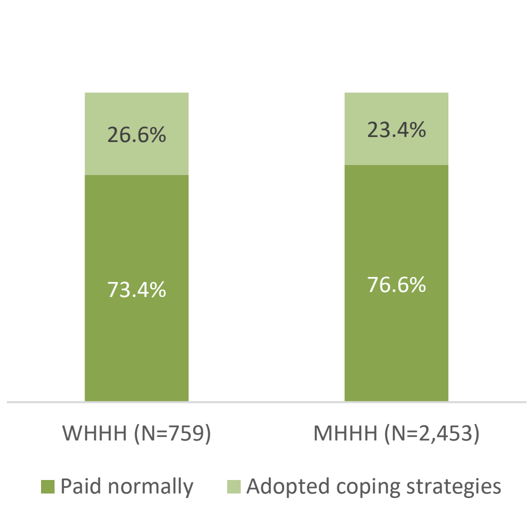


Figure 5.6 shows the proportion of households reporting repayment stress (**experienced actual difficulties in loan repayment and missing one or more monthly repayments**) – at any point over the past six months (July to December 2022) – by gender of head of household. This proportion is **24.1% for the overall sample (N=3,212) with at least one active loan in the last 6 months**. Women headed households (WHH) reporting a higher likelihood of stress and

having to adopt coping strategies (26% of households) compared to male headed households (MHH, 23%). Similarly, there is not much difference between rural and urban sample households.

Table 5.1 Repayment stress by location

Borrower location	Paid normally	Adopted coping strategies
Rural (N=2,562)	76.3%	23.7%
Urban (N=650)	74.3%	25.7%

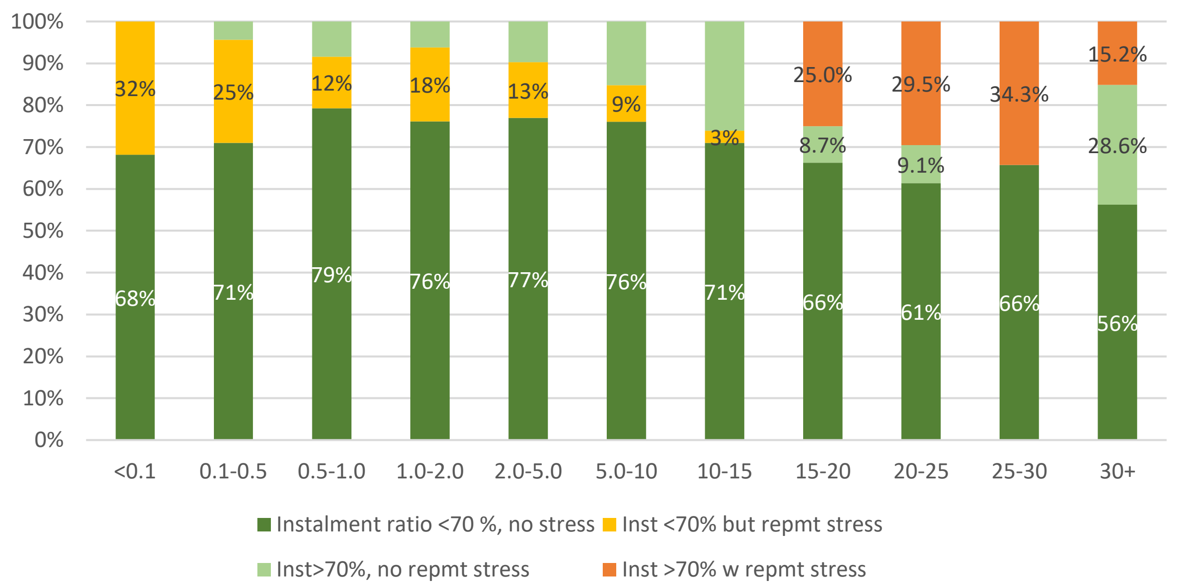
Table 5.2 Repayment stress by poverty status

Borrower poverty status (N=...)	Paid normally	Adopted coping strategies
Poor, 1.5xNPL (1,248)	66.2%	33.8%
Non-poor (1,964)	82.0%	18.0%

But there is a difference between SPS poor (below 1.5x poverty line, NPL) and above 1.5xNPL borrowers with a substantially higher proportion of SPS poor borrowers reporting adoption of coping strategies relative to the non-poor (**Table 5.2** above). Using the ID Poor classification, 34.8% of those reported as "ID poor" coping strategies compared to 20.9% of the non-poor.

Figure 5.7 disaggregates repayment stress by the range of loans outstanding per household. Here, it is apparent that a significant proportion (>25%) of households in the lowest loan

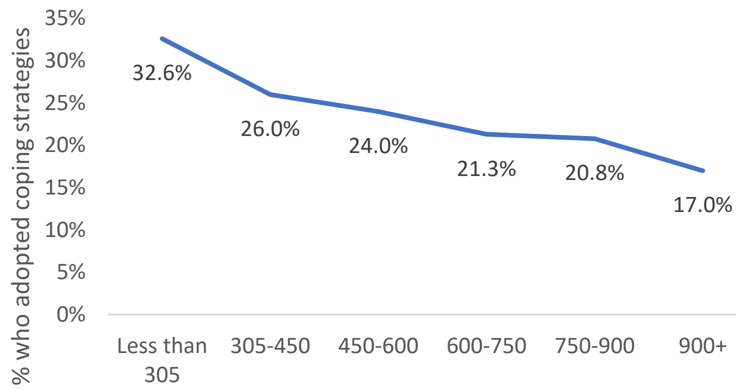
Figure 5.7 Repayment stress by overindebtedness threshold



outstanding categories (below $1,000) report encountering occasional repayment stress even though their instalments are **mostly less than** the 70% stress level regarded (according to the international norm) as indicative of over-indebtedness.

For the higher loan outstanding categories above $15,000 (nearly 11% of the overall sample) 25-35% report occasional repayment stress (though in this case their payment instalments are, in any case, in excess of 70% of their incomes). The instalment threshold for over-indebtedness does not work uniformly since **significant proportions of those over the stress threshold still apparently repay without much difficulty**.

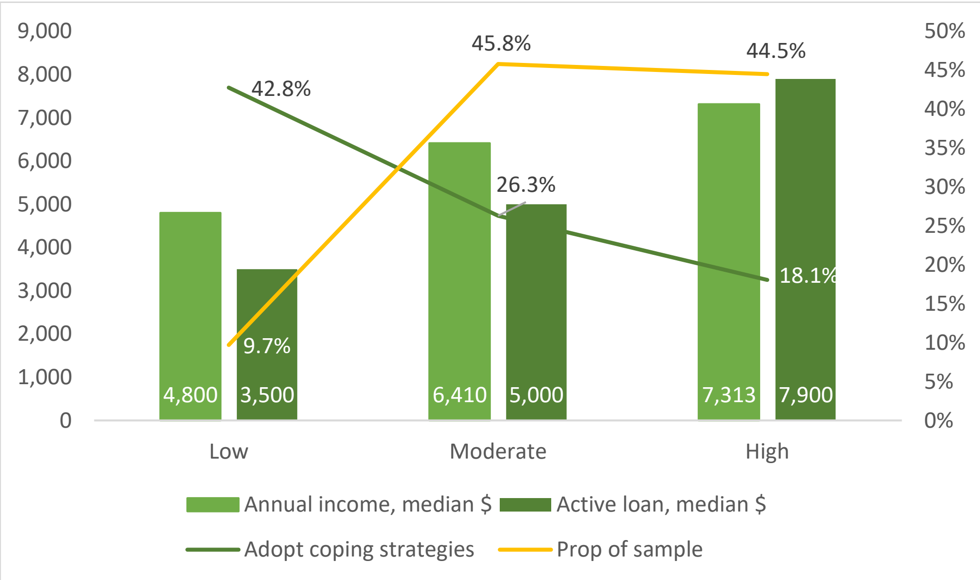
Figure 5.8 Repayment stress by monthly household income range



As **Figure 5.3** shows, the average incomes of the categories of borrowers with outstanding loans in excess of $20,000 are greater than $900 per month. It is not surprising, therefore, that households with incomes in excess of $900 per month have the lowest incidence of repayment stress/need to adopt coping strategies (despite their large loan sizes) – see **Figure 5.8**.

It is apparent from **Figure 5.9** that those who are more financially aware are less likely to take on repayment commitments that cause stress. Of those households with high awareness, 18% are likely to face repayment stress (by the indicator used here) compared with 43% of households with low financial awareness (albeit a relatively small 9.7% of the sample).

Figure 5.9 Repayment stress by financial awareness



The concept of repayment stress discussed in this analysis relates to households facing repeated, but not constant, difficulty in repaying when an instalment becomes due. We emphasise that this is **not the same as default** – it is rather the situation in which the household has to take measures beyond their normal cashflows to ensure that they are able to make the payment that is committed to the lender.

Actual default in the sample was reported by just 6 out of 3,113 households with outstanding loans – **0.19% of the sample**, which extrapolates to 6,360 defaulters amongst the 3.3 million MFI borrowers in the country as a whole.

5.2 Coping with Stress

It is worth recalling that a quarter of the sample reported repayment stress, that is, missing one or more repayments in the six months (July to December 2022) preceding the field survey. Clients failed to make timely repayments due to various reasons, including due to COVID-19 related constraints on avenues for self-employment, delay in salaries and pensions, and diversion of repayment amount for medical treatments and other urgent expenses. One of the clients also said that she was too busy and forgot to pay by the due date. In a few other cases clients said that loan officers arrived after the due date for collection but that is not considered as 'repayment stress' in this section.

What do households do when faced with the prospect of delinquency or default?

Figure 5.10 distils the coping strategies of the households experiencing repayment stress by the gender of the household head. Overall, the patterns are the same for households with heads of both genders. **Secondary borrowing from family, friends and employers is the most common strategy for the 24.1% to make delayed repayments to FIs while emergency borrowing from the informal market/moneylenders is also frequent.** WHH are more likely to borrow from moneylenders or from another institutional lender than MHH who tend to have better/more resourceful informal links in the community. WHH are also more likely to take on additional income generating activities or sell land, sell other assets and/or reduce food intake (in terms of quality or even quantity).

By location (rural-urban), the main difference is the ability of urban households to pursue additional income generating activities reducing, if not eliminating, the need for food deprivation. Rural households have better community links and are therefore more able to borrow locally.

The graphs below show coping strategies adopted in the last 6 months preceding the survey. These figures are applicable for households experiencing stress. Hence, while a significantly high proportion of households experiencing stress **borrowed from moneylenders** in the last 6 months, effectively, **this strategy is adopted by about one-tenth of the sample**. Similarly, of those experiencing stress, 0.6% and 1.2% had to sell portions of their residential or agricultural land to enable repayment. Such borrowers constitute 0.46% of the overall study sample.

Figure 5.10 Coping strategies of borrowing households reporting significant repayment stress/missed repayments within the past 6 months

The vexed issue of coercion and deprivation – does microfinance lead to the sale of land and other assets and/or food deprivation (reduction of food intake below usual levels for borrowing households)?

The fact that over 10% of stressed households report the sale of **high value assets (especially motorbikes) and a few also sell land** has become a matter of significant attention in the international debate on the impacts of microfinance in Cambodia (as referenced early in this section); for this reason the incidence of the sale of assets and of reported food deprivation is examined more closely below using the data in **Figure 5.10**. As stated above, most of the households paid their dues in time in the last six months. The graphs below show coping strategies for the set of households that missed repayments.

Distilling a wide range of responses to potential (or actual delinquency) is a complicated task. Here we focus on the evidence on issues of deprivation emerging from our survey. As the data in **Figure 5.10** shows, around **13% of those who missed repayments over the past 6 months reported selling high value assets (HVA – mainly motorbikes, jewellery, household appliances) or land or both**; besides, around **11% had to survive on inadequate or smaller quantities of preferred quality foods, for limited periods, over the past 6 months.** In some cases, households have both sold assets and sometimes survived on deficient food intake in order to maintain their repayments and goodwill with their lenders.

As in any household decision making the reasons for asset sale or reduction in food intake tend to overlap – was it because of the

- **pressure of repayment to the lender**,
- **need for funds for education/migration**, or
- **for emergency expenses**

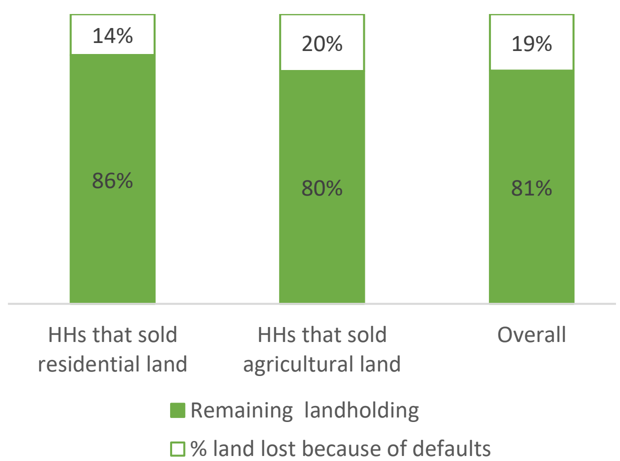
or, more likely, a combination of reasons (including the above)?

*Feedback from FGDs and IDIs shows that **there are some unscrupulous elements in the microfinance sector** that use threats of community-pressure or legal action in order to ensure repayments; a number cases of such actions were reported to the M-CRIL evaluation team. These are covered by FGD feedback in the boxes below.*

What the household survey does show is that full land sale resulting in landlessness is rare; this survey did not encounter any such cases.

There were 59 cases of land sale reported by sampled households (1.9% of the sample) but only 15 households were able or willing to provide details of the sale of a part of their land in order to arrange money for repayment <u>during the past 6 months</u>. Land sale consists of parcels of land (1.5 hectare, out of an average of 6.6 ha. of agricultural landholding or 233 sqm of

Figure 5.11 <u>Proportion of household landholdings sold (N=15)</u>

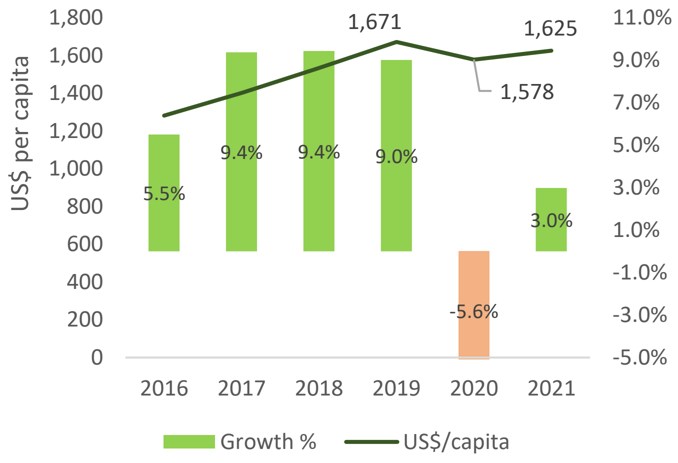


an average of 1,200 sqm of residential land) to raise funds for any or all of the above reasons. This constituted about 19% of their overall landholding (**Figure 5.11)**. What this means is that the borrower would have to be persistently debt-ridden and/or habitually profligate in order to lose **all** her/his land and become landless over a period of time.

An addendum on Covid

Like economies all over the world, the economy of Cambodia suffered a substantial setback on account of Covid; World Bank data shows that there was a decline of 5.6% in GDP per capita in 2020 and subsequent growth of just 3.0% in 2021, see **Figure 5.12**.[17] This was after GDP per capita growth rates of over 9% per annum during the previous 3 years, 2017 to 2019.

Figure 5.12 Annual growth of per capita income



Not surprisingly, many households among microfinance borrowers in Cambodia were adversely affected by Covid-related expenses/losses. For the **Covid** period, about **25.4% reported delinquency** in repayment. This is not much different from the 24.1% of households reporting stress during the reference period for this survey but there are differences in the borrower response. Coping strategies for delinquency during this period are set out in **Figure 5.13** by the gender of the head of household and also by rural-urban location for comparison with **Figure 5.10**. The proportion of stressed clients relying on moneylenders during Covid is smaller when compared with the clients reporting stress in

Caught in a debt cycle…
A household has borrowed US$5,000 from money lenders and US$3,000 from FIs. It owes US$2,900 to FIs. "When they want to pay off the loans of FI, they take loans from money lenders, then when they receive new loans from FIs they pay back the money lenders. A typical case of over-indebtedness resulting in HHs becoming enmeshed in a cycle of debt.

COVID-19 adding to reliance on moneylenders…
One of the sample households borrowed US$14,000 from FIs in the last five years. They lost their main source of income during COVID and then their pigs also died. They had to borrow from a moneylender to repay an FI. They owe US$5,000 to moneylenders and about US$13,500 to FIs. This is an example of increased debt as a result of a decline in income.

the last 6 months (after Covid).

Figure 5.13 Covid: Coping strategies of borrowing households reporting significant repayment stress

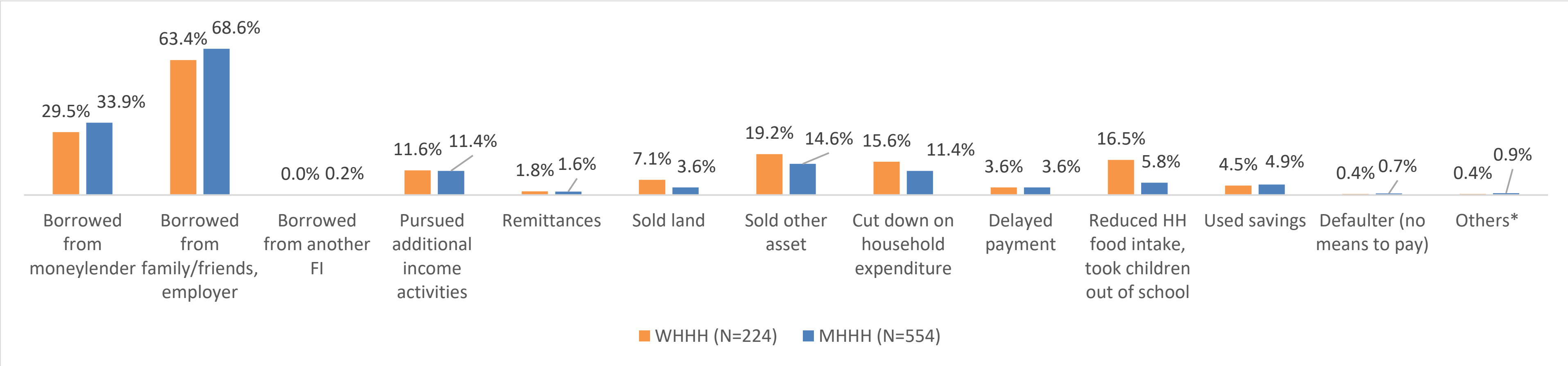
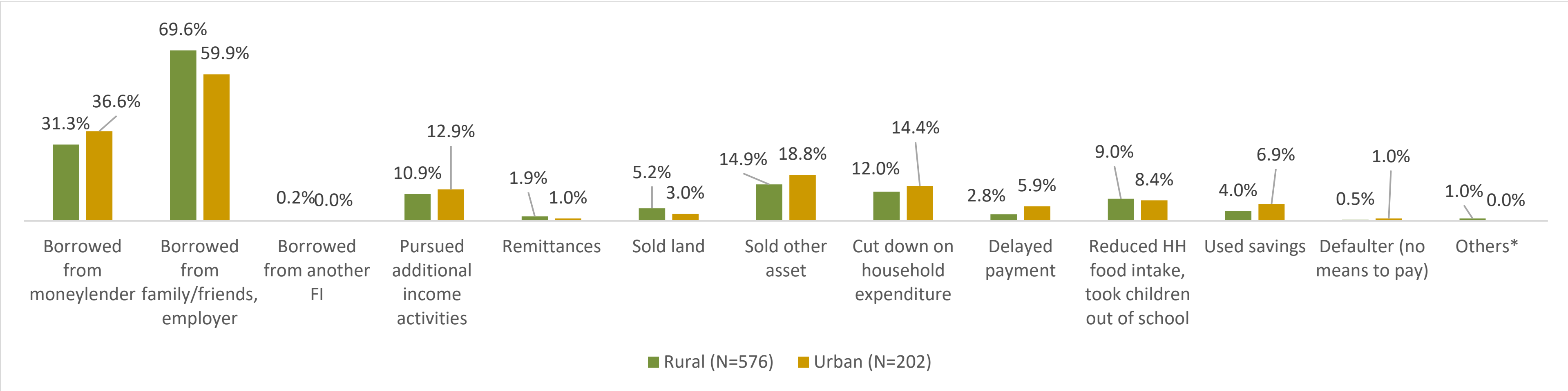
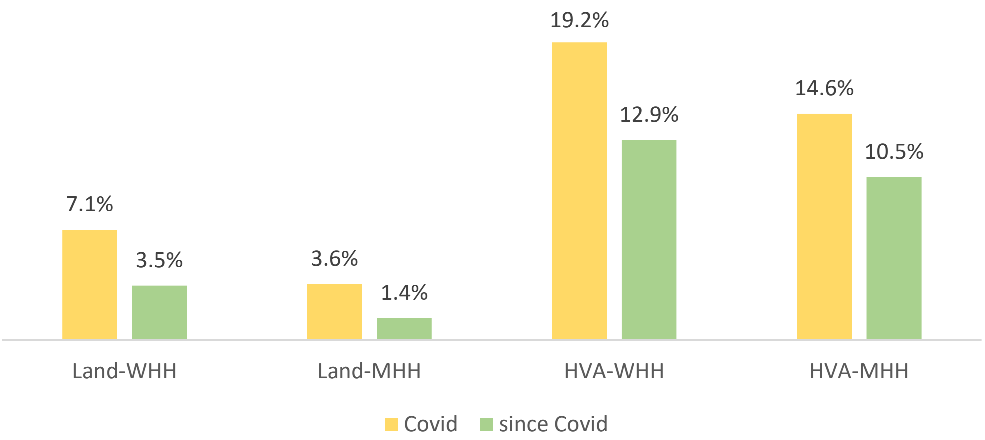


Figure 5.13...continued Covid: Coping strategies of borrowing households reporting significant repayment stress



The options for alternative sources of funding for household debt (moneylender/other MFIs) were constrained during Covid by the **limitations and enhanced risk perception resulting from Covid**. This necessitated a greater resort to savings as well as reductions in expenses on food and education. More importantly, there was considerably more sale of land and other assets, particularly by WHH – reported by 7.1% and 19.2% of borrowing WHH households compared to 3.5% and 12.9% over the post-Covid reference period of this survey. There has been less sale of assets by MHH also but the effect (reduction in proportion of households reporting land sale) relative to the Covid period is less than that for WHH (see **Figure 5.14**).

Figure 5.14 Sale of assets during Covid and after



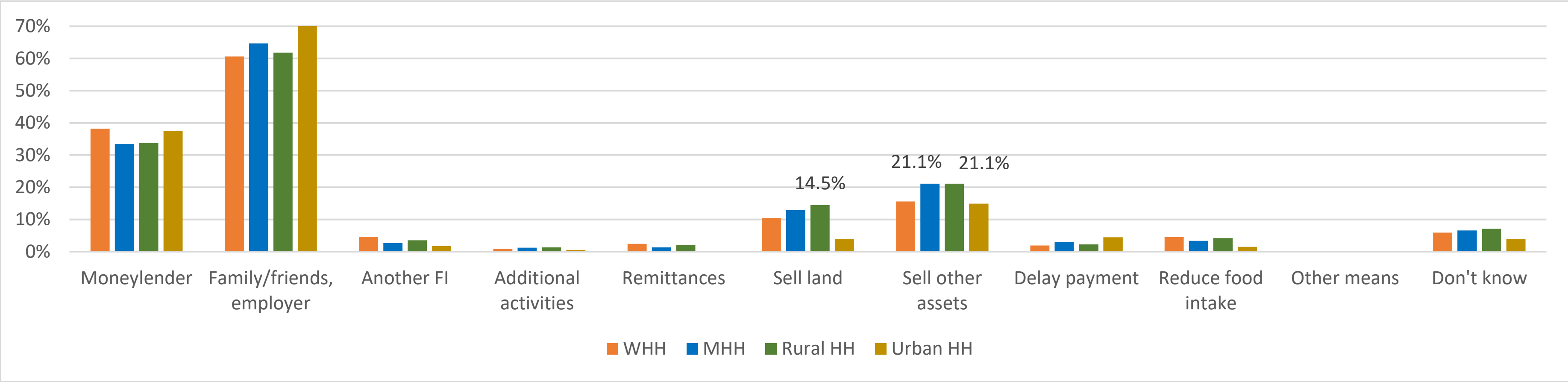
FGD feedback: Among farming households, reduced income/distress is caused by high input costs (including high leasing costs), low crop yields, changing climatic conditions, and lower market prices for produce. Clients borrow from moneylenders to repay FIs and then borrow from FIs to pay back moneylenders which puts them into a cycle of debt. Some households had to sell high-value assets including land to clear their debts to FIs and moneylenders.

"Some clients took loans around the pandemic when businesses were closing and in the absence of an income source, they were not able to repay debts." [FGD with predominantly women clients, Siem Reap]

5.3 How will borrowers cope with future stress

Relatively few borrowers report huge concerns about over-indebtedness either now or in the future; but what thoughts do they have about coping with repayment stress in the future? These thoughts summarised in **Figure 5.15** are not very different from the strategies pursued so far (**Figure 3.8**); the pattern is the same as before. The major difference is the extent to which the selling of land and/or other assets is seen as a coping strategy *from the borrower's own perspective* – compared with the 11-12% level of the sale of assets over the past 6 months, for the future the sale of high value assets (motorbikes, jewellery, household goods) is cited by 15-20% of households and the sale of land by more than 10% of households (cf. 2-4% actual sale over the past 6 months) ***in case they were to face severe repayment stress***. The recognition of the possibility of losing assets and (possibly) some land in case of repayment stress is informative in the context of the concern of observers about such a risk; it is interesting that up to 15% of households recognise the possibility of having to use their land as informal security..

Figure 5.15 Future strategies in case of repayment stress

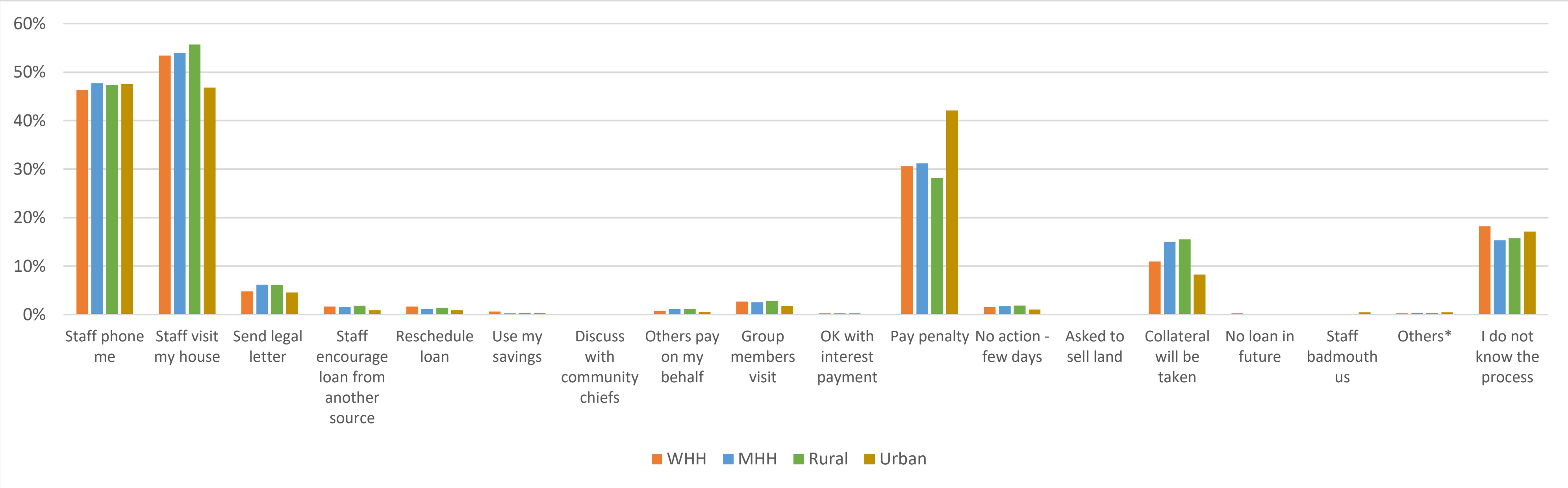


And how do borrowers view their loan contracts vis-à-vis the possibility that they could miss their repayment instalments in future (or could face difficulties in paying the instalment)? What actions do they see financial institutions taking and therefore what will be the consequences for them?

Figure 5.16 (following page) summarises respondent households' feedback on the matter. Apart from the obvious actions – "staff will phone me/visit my house/expect me to pay a penalty" – the important point is the **seizure of collateral**.

Most MFI collateral in Cambodia consists of either the registration papers of motorbikes (for relatively small amounts of up to $2,000) or land ownership titles that microfinance clients with larger loans (in excess of $5,000) are expected to deposit with their lenders. If they fail to pay one or more instalments and other means of repayment prove to be inadequate, those land titles **could be** seized by the MFI. Since land titles often consist of a single document covering all of the borrower's land – say, 6.5 hectare of agricultural land – and are not easily divisible, rural borrowers normally provide land titles for their entire agricultural landholding as collateral. The failure to repay an amount that could be recovered through the sale of maybe 1.0 ha of land, would need a bureaucratic process to first divide the land title into a saleable plot before an adequate sale could take place. The net result, is therefore, not "landlessness" for the borrower (due to the sale of her/his entire 6.5 ha) or the destitution implied by the alarmists and ideologues attacking the industry. What it would result in would be a borrower with less agricultural land, but the remaining 5 ha of land would still belong to the "defaulting" borrower. As indicated earlier, the borrower would have to be persistently debt-ridden and/or habitually profligate in order to lose all her/his land.

Figure 5.16 FI's action if repayments are missed in future



Summary of FGD feedback: Clients are aware of key loan terms including loan tenure, interest rates, monthly repayment size, and loan processing fee. Clients also discussed the conditions for loan restructuring or refinancing and new loans. For instance, a client must make repayments in time for at least 6 months to be eligible for a new loan. They are also aware of the consequences of default which could include foreclosure of their assets.

"*In case of missed repayments or defaults, FIs ask local authorities to resolve the issue. In some cases, they take some extreme measures like seizing collateral.*" [FGD of predominately female clients, Mondul Kiri]

FGD input on land sale vis a vis collection practices: For the last 5 years, households faced a failure of investments as they took loans for agriculture businesses such as potato and paddy. The business failed due to COVID impact so there is no income, then they have to *borrow* money from money lenders to pay the loans of FIs and some households even sold their land to pay off debts.

[**FGD with female clients, Takeo**] *"FI staff can visit clients' houses and then blame them (*for not repaying loans*), confiscate their properties, sell their land, bring lawyers, call on the village chief, use impolite words and stare. They can put up a banner about selling the clients' houses or farmland and force the client to put thumbprints agreeing to sell their farms. In some instances, they permit clients 3 hours to find the money for repayment and wait at their house until 8 PM."*

Section 6 What is the impact?

Summary of the section: Feedback from borrowers in the sample for this study shows that

- **Two-thirds (67%) reported life improvements, including 31% who experienced substantial economic benefit and life improvements over the past five year period.**
- **Deterioration in their income/living conditions were reported by 23% of sample households.**
- The remaining 8% gave mixed responses – "some things have improved, while others have worsened."
- The positive impact of microfinance credit is being experienced by at least 26% of the sample. This estimate is based on direct attribution by clients and indirect assessment (by M-CRIL) of the support provided by financial institutions in the form of credit for enterprises which are doing well and resulting in improved standard of living.
- Less than 20% of the sample attributed changes in their lives (better or worse) directly to loans. About 13% said that borrowing helped in improving their lives and 5% attributed deterioration directly to credit as "too many loans".

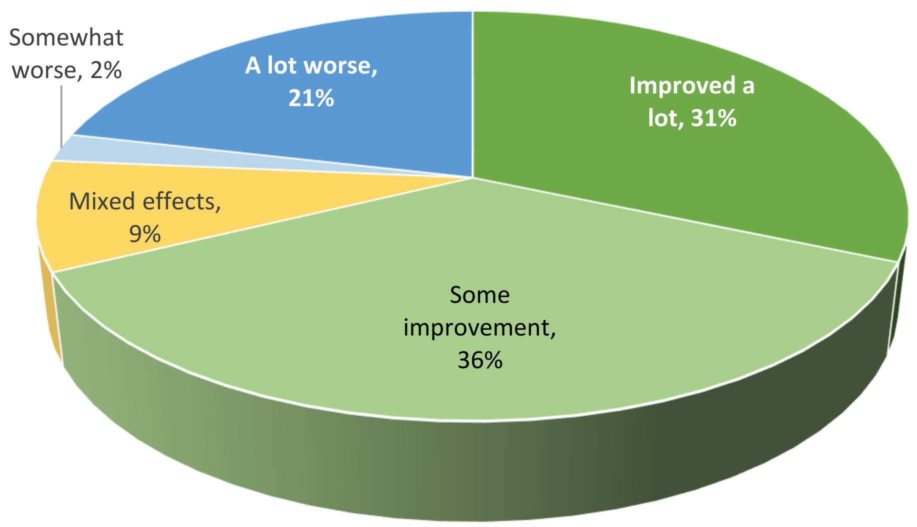
Improvements have occurred mainly due to economic growth (garment factories, other jobs and remittances) while **lives have worsened (primarily) due to Covid** but also due to business failures linked to it as well as crop failure and decline in grain prices. Those whose lives improved cite access to loans as *one of the factors* in the process, while those whose lives deteriorated cite too many loans as *one of the factors*.

Life is complex and there is no straightforward correlation with financial conditions. There is no overall environment of distress amongst microfinance clients. Nevertheless, a few lives have been directly affected by a vicious cycle of debt and, as socially conscious institutions, microfinance lenders should address the issues that affect such

6.1 How has life changed over the past five years…?

Measuring impact is one of the most difficult tasks in researching microfinance; not only is it difficult to measure household income accurately but also there are issues of social change, on the one hand, and the complex matter of attributing income variations and social change to a single cause, on the other. For this reason, this study has adopted the approach of getting feedback from borrowers themselves on how they feel about changes taking place in their lives. We have used the qualitative feedback obtained in a graded manner in **Figure 6.1**.

Figure 6.1 Household perceptions of changes in their situation - past 5 years



Changes over the past 5 years…

- **Two-thirds** of respondents report positive changes in their lives
- **Over one-fifth** were adversely affected (a lot or somewhat) worse
- **Around 9%** report mixed effects

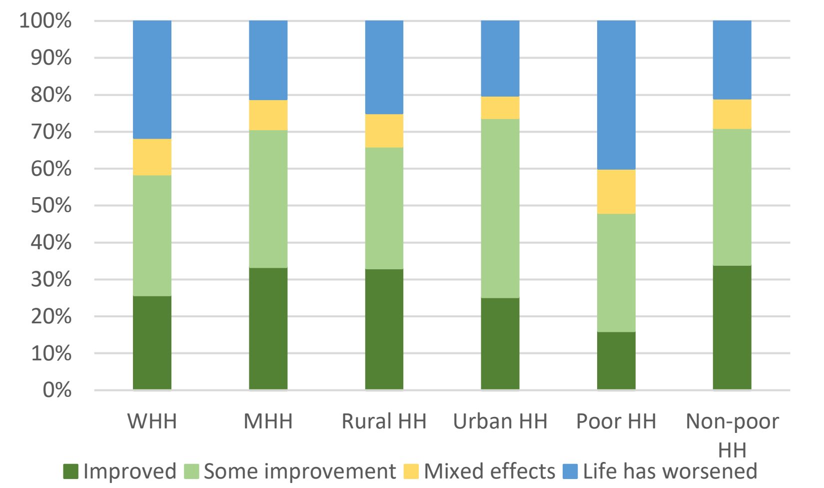
As in any qualitative response, these findings have to be considered keeping in mind the following aspects

- **Life has improved a lot** – the Cambodian economy has grown dramatically over the past ten years; in the three years, 2017-19, immediately preceding Covid the per capita incomes grew at over 9% per annum (as presented in the previous section) – the post-Covid recovery looks positive too; pre-Covid, the growth of the textile sector (garment factories), tourism and increasing remittances from Cambodian migration to better-off countries like Japan, S Korea and Thailand contributed to economic growth and improvement in the lives of borrowing households

- **Adversely affected** (life is a lot worse) – Covid has had adverse effects on many households in many countries; the responses of those who lost close relatives/ associates, who had to spend money on rescuing lives or whose occupations/incomes were seriously affected during that time will have been heavily influenced by that experience

- **Mixed effects** – those who experienced a mix of the above two factors.

Figure 6.2 Perceptions of life changes by type of household



By type of household (in **Figure 6.2**) MHH and non-poor (likely above NPL) urban households are the ones that report the greatest improvements while WHH and poor (likely below NPL) households have seen the greatest worsening of their life conditions.

Factors in the lives of borrowing (respondent) **households that led to improvements or worsening in their situations** are collated in **Figures 6.3 and 6.4** respectively.

Figure 6.3 Factors contributing to **improvements** in household conditions identified by sample respondents (% of survey sample that reported one these factors – multiple responses)

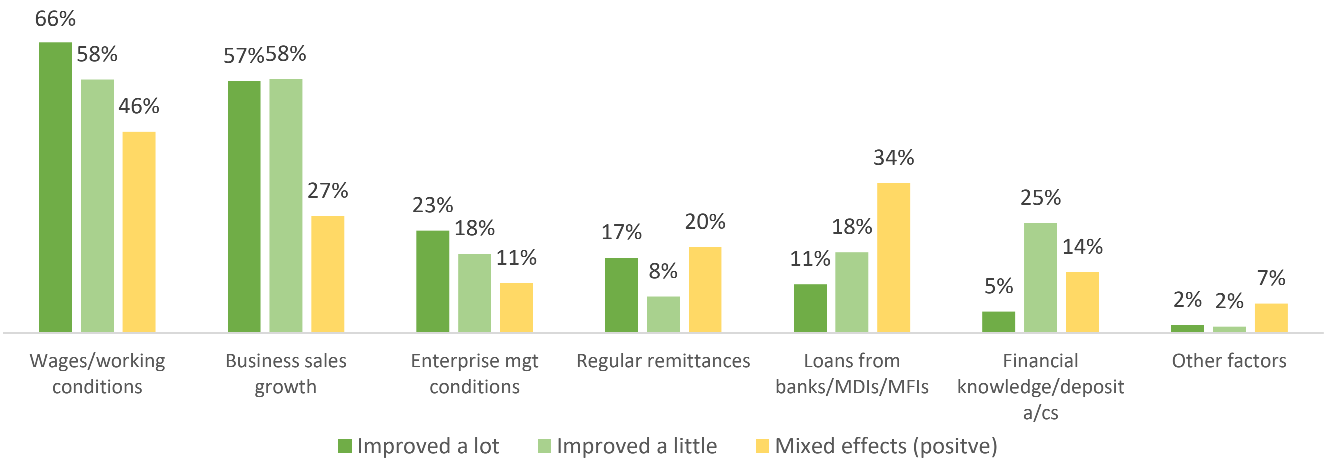
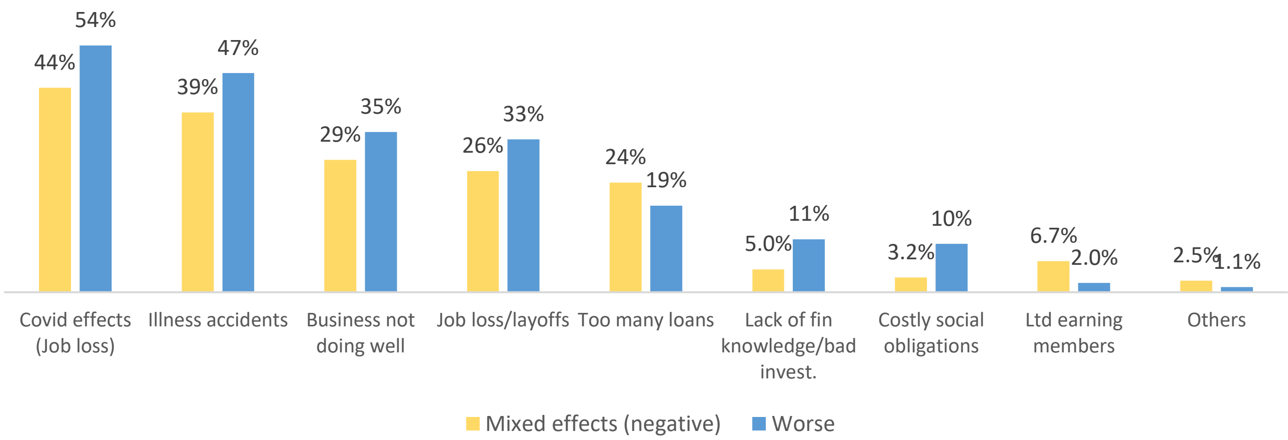


Figure 6.4 Factors contributing to the **worsening** of household conditions identified by sample respondents (% of survey sample that reported one of these factors – multiple responses)



The two figures show the importance of **activity in the economy** as a whole to the well-being of households. Economic growth enables large numbers of people to work in more stable jobs, earn more from formal or informal businesses and lead stable lives. The two-thirds of respondents who reported improvements in their lives were supported by regular remittances; they also **appreciated the availability of credit from MDI/MFIs and bank**s as well as the concomitant financial knowledge and deposit accounts to which this provided access. This is emphasised by feedback from a client who has managed his life very well based on support from financial institutions, from his determination to save and also from his awareness of the dangers posed by too many loans [**Caselet 6.1** at the end of this section].

Summary of FGD responses on positive change in microfinance clients' lives: Availability of loans from FIs (MFIs/MDIs/banks) along with the boom in garment factories, investments by foreign companies, overall growth in infrastructure, steady income, government support through targeted schemes like ID-Poor, and mutual support within the family have contributed to improvement in standards of living in the last 10 years. An FI client (also a village chief) from in Kampong Thom province remarked:

"About 30 years ago, *I did not have any property. I borrowed money from the bank and my mother to start a transport service (taxi). My family life has improved over the years. I have been able to purchase a house, a car, a farm and I am able to educate my children in Phnom Penh."*

On the other hand, the advent of a pandemic (Covid) and the resulting **environment of disease** and job loss greatly **dampened the lives of nearly one-quarter of respondents** amongst microfinance borrowers who reported that their household conditions had worsened over the past five years. Naturally, job losses and business problems (resulting from lower economic activity at the time) compounded the environment of disease that affected their lives; some felt they even lacked the financial knowledge to pull themselves out of the economic rut, while **their weak earnings position meant that they also felt overburdened with debt**. Overall, 198 of 3,262 households (6% of the sample) reported this feeling of being overburdened; however, while this undoubtedly led to the repayment stress discussed in the previous section, actual defaults were limited to just 14 (0.43%) of borrowers even during Covid.

The 8.6% of sample households who reported **mixed fortunes** for their households **cited a spectrum of positive and negative factors** – while a third of them appreciated the availability of credit another quarter felt they had too many loans. They were bolstered (20% of those with mixed fortunes) by regular remittances but pulled back by job losses, with others having businesses that were adversely affected by the pandemic.

Summary of negative factors emerging from FGDs: Covid emerged as the primary cause of distress amongst many of the FGD respondents; Covid-19-induced lockdowns negatively affected the economic status of households and microfinance clients' abilities to repay loans:

"Some clients took loans around the pandemic when businesses were closing and in the absence of an income source, they were not able to repay debts." [FGD with predominantly women clients, Siem Reap]

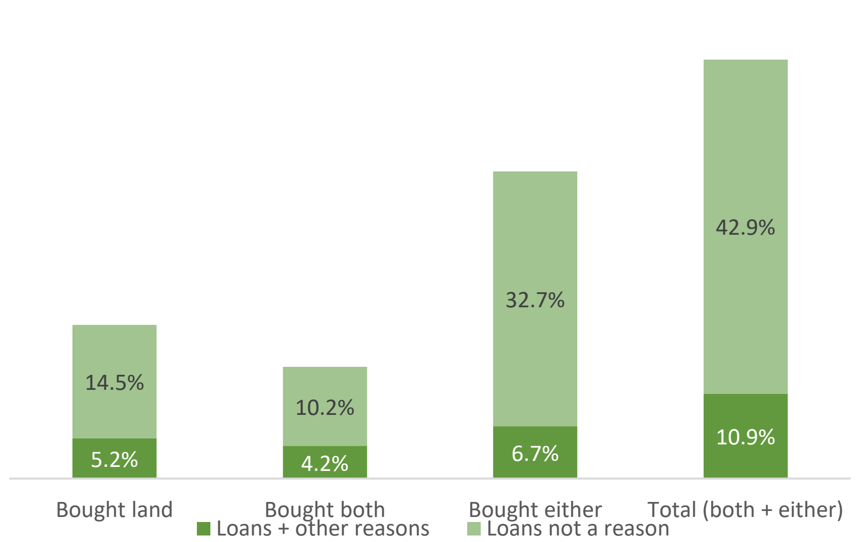
Generally, failed businesses affect clients' abilities to repay MFIs/MDIs/banks as they cannot generate income that is sufficient for repayment as well as meeting household expenses. Among farming households, which constitute 30% of the household survey sample, reduced income and distress are caused by high input costs (including high leasing costs), low crop yields, sometimes due to changing climatic conditions and lower market prices of produce. Some clients borrow from moneylenders to repay financial institutions (FIs) and then borrow from the FIs to pay back moneylenders which puts them into a debt cycle. Some households had to sell high-value assets including land to clear their debts to FIs and moneylenders.

6.2 Is the microfinance sector causing widespread distress and land deprivation?

The issue of distress and/or land deprivation "caused" by the activities of the microfinance sector in Cambodia has been largely discussed in **Section 5**. It is raised again here to relate it to the perceptions of microfinance clients in the context of the life changes reported by them for the past five-year period. As discussed in the previous section, a small proportion of the sample sold land over the six months before this survey and, overall (including the period of the Covid pandemic) 5.8% sold some land and/or high value assets over the previous five years. However, as already discussed the causality of such negative effects is varied with respondents reporting Covid as an important factor in around 50% of cases and around 20% reporting "too many loans" as **one of the reasons**. As far as the M-CRIL study team was able to discern there is acknowledgement that excessive borrowing can result in the loss of some land (and also some complaints of coercive behaviour by loan officers of a few MFIs) but there is not a general environment of distress and no complaints either from survey respondents or from FGD participants of huge pressure to borrow resulting in loss of land.

Conversely, the survey team also obtained information on the **purchase of land** by microfinance clients. As **Figure 6.5** shows, more than 50% bought both land and high value assets over the past five years, of whom nearly 20% bought land.

Figure 6.5 Purchase of land and/or high value assets (motorbikes, jewellery, household appliances) by microfinance clients over the past five years



Some of those who bought land credited access to loans as **one of the reasons** for their ability to buy land (and/or high value assets) – see **Caselet 6.1** below. So, while 6% of the sample reduced their landholdings over the past five years, some 20% of the sample increased their landholdings. Neither did the 6% reducing land cite “too many loans” as a sole or predominant reason for the loss of land (**Caselet 6.2** below) nor did the 20% who added to their landholdings report the “availability of credit” for the increase in their landholdings as a predominant reason (as in **Caselet 6.1**). In both cases “too many loans” or “the availability of credit” were one of **multiple factors** involved in the causation of the land/high value asset transaction. Whether it is in Cambodia, another less developed country, or even in an advanced economy, life is complex and the attribution of household prosperity or distress to microfinance alone is inappropriate. To the extent that microfinance does cause some distress in a few cases, it is certainly a matter of concern and MFIs/MDIs – supported by CMA – should address the issues that result in those cases. Suggestions on how to do this are incorporated in the discussion in the following section.

Summary from other FGDs: Loans from financial institutions are perceived positively and clients understand the value they add to their lives especially considering the exorbitantly high interest rates charged by private money lenders (more than 10% per month and up to 60% while FIs charge 1.5% pm):

“Without loans, it would be very difficult to fulfil our aspirations. We would have to borrow from private lenders who demand a high-interest rate and often do not treat us politely. Moreover, if we do not take loans from FIs, we might not have adequate money to build a new home, purchase a motorbike, support our children's education, and expand our businesses.” [FGD with predominantly female clients, Siem Reap

While clients appreciate loans from FIs they also understand the risks associated with debt due to lack of financial literacy and low income:

*“Loans from FIs are affordable but some households do not have adequate financial literacy and fall deeper and deeper into debt by taking more loans, firstly from FI and then from moneylenders to repay FIs. Less educated and poor people take too many loans. It improves the lives of some and worsens others’ lives. Some people have become poorer after taking loans. Microcredit loans do not necessarily support people with low incomes but accumulate more debt for some of them. These services are only beneficial for those who already have [*well performing*] businesses.”* FGD conducted with female clients in the age group of 50-60 years, Takeo province.

“This is why FIs should not give too many loans and should clearly ask the loan purpose. Loan amount should align with clients’ abilities to repay.” [FGD with farmers, Kampong Thom].

See caselets on prosperity and distress on the next page.

Case 6.1 Prosperity: Woman_value chain_export loan support helped in improving life

Suon Saunli is a 47-year-old female pepper producer in Kampot province. She has been growing pepper for about 8 years but her income from its sales has increased significantly only in the last four years. She used to earn US$5-7 per kg but now the price is at least US$17 per kg for black pepper and as much as US$28 per kg for peeled red pepper. A 3x price rise has taken place because of exports to Europe. She sells her produce collectively with other farmers to an export company run by 'David.'

She took her first loan five years ago to purchase a plot of land that her relative proposed to sell. *"I would have regretted it if someone else bought that piece of land, so I took a loan to buy it."* It is on that plot that she now produces pepper.

Saunli has now borrowed 3 times in the last five years. The most recent loan of US$2,000 is still active. She needed this money to purchase another plot for pepper, some farm tools and to repair her house. She credits 'David' for her increased income and an enhanced standard of living. *"I would not have taken loans if I was not exporting pepper."* She also understands that the loans have helped her in increasing exports through the expansion of her land ownership. Her savings would not have been enough to purchase land as well as repair her house and she would have had to wait longer. She is thankful to FIs for meeting her loan requirements and for quick disbursements. Her active loan closes in five months. The business has been doing well; she has 'enough' land for production and for distribution among children and feels that she would not need a loan again.

Case 6.2 Distress: WHH_crop failure_Covid_repayment stress

ABC (name withheld), 62F, lives in Battambang Province with her husband and 4 grandchildren. She runs a grocery store, and her husband is a farmer. They own 5 ha of cultivable land on which they grow paddy for sale. Her son sends around US$100 as remittance from Thailand every month. The household income is about US$330 a month.

ABC first borrowed US$1,000 from a FI about 10 years ago to purchase a two-wheeled tractor to plough the couple's fields. In the last 5 years, she has taken 3 loans of US$6,000, US$1,500, US$1,500 – of which the first two are active. They used half of these disbursements for agricultural inputs and the remaining half for daily household expenses and social investments (festivals/marriage/funerals). All was going well until their farm productivity began to decline and income slumped due to unpredictable weather patterns. In addition, their grocery store which had been a major source of income no longer performed well. Their son also lost his job in Thailand during Covid.

As a result, they have been experiencing stress in making repayments over the past couple of years. In order to arrange money, they sold their high value assets and borrowed from family members and moneylenders. They have missed a couple of instalments including one in the last 6 months; they were sent a legal notice and also taken to the police station by FI staff where a restructured repayment agreement was signed. They will pay only interest for some time. They are planning to take their oldest grandson (17) out of school and send him to work in Thailand. They have even had to compromise on their food quality and consume lower quality food to save money for repayments. They feel that **too many loans, Covid and crop failure** are responsible for their situation.

Section 7 Contribution of microfinance to the Sustainable Development Goals

Microfinance makes substantial facilitating contributions to SDG-1 and SDG-2 – reducing poverty and zero hunger – though in a few cases it can contribute to negative consequences as well. In those cases where it is successfully used, microfinance can make dramatic contributions to SDG-10, reducing inequalities. By extension, through providing financial liquidity at the household level enabling access to health, education and water and sanitation services (whether or not financial products are designed for the purpose) microfinance also contributes to SDG-3, SDG-4 and SDG-6 – good health, quality education and WASH. As an activity that specifically targets women as economic actors, microfinance can also contribute greatly to SDG-5 (gender equality). Since much of microfinance is used for enabling (establishing, growing or supporting) microenterprises providing employment to family members it also facilitates decent work and economic growth (SDG-8). Its contributions to SDG-7 (clean energy) in Cambodia and to SDG-9 (industry and innovation) are relatively muted.

Being a first-of-its-kind impact assessment, this study is constrained by the non-availability of longitudinal (baseline) data to measure the quantitative impact of microfinance on client household welfare with respect to specific UN SDG indicators. Moreover, due to measurement complexities needing far more time and resources than were available for this study, impact measurement for most of the indicators was not possible here. However, the findings of the study presented in the above sections can be summarised through qualitative judgement and extrapolation of how microcredit enables investments that contribute to client welfare and achievement of SDGs at the country level.

This impact assessment report is an opportunity to appreciate microfinance companies for fostering inclusive growth by promoting financial inclusion and extending loans for activities and investments that contribute to and make a difference on specific SDGs, like SDG-1 no poverty, SDG-2 zero hunger, SDG-3 good health and well-being, SDG-4 quality education, SDG-5 gender equality, SDG-6 WASH, SDG-10 reduce inequality, that are of relevance. The contribution of microfinance to the achievement of SDGs is discussed sequentially in this Section.

Microfinance is accessible to poor households, **Figure 3.1** (page 25) shows that 38.7% of the sample for this study are either very poor (11.6%, classified by SPS as likely to be below the NPL) or poor (27.1% likely to be between NPL and 1.5 times NPL). Another 19.9% are from households with incomes likely to be between 1.5 and 2.0 times NPL and, therefore, belonging to households that are vulnerable to poverty. So, a total of 58.6% of the sample belongs to poor or vulnerable groups. To the extent that microfinance has supported substantial or some life improvements for 67% of the sample over the past 5 years (including 50% of very poor households) it has a positive effect on incomes. Some 26% of the overall sample attributed changes

	in their life situation to microfinance.
2 ZERO HUNGER	As in the case of SDG 1, the achievement of SDG 2 is dependent on life improvements, especially amongst the poor and vulnerable sections of the population. While a small proportion (around 9%) of the households faced with repayment stress report reductions in food intake, just 7.6% of these stressed households are from the "poor" cohort (so less than 0.8% of the sample is affected by periods of reduced food intake); these periods are predominantly temporary (for a few weeks). As with SDG-1, there is no evidence available on whether or not this has changed over time. However, 31% of clients invested around 8% of credit to increase their incomes and build resilience by accessing capital for raw materials and infrastructure for their agri-based income generating activities. This, in turn, provided food for their families, which is one of the key objectives of SDG 2 (zero hunger).
3 GOOD HEALTH AND WELL-BEING	Along with other SDGs it is impossible to attribute the achievement of good health and well-being to a single factor. Financial inclusion eases managing medical expenses and rebound from a health emergency and thus helps improve health and wellbeing. The fact that 67% of the sample respondents report "a lot" or at least "some" improvement in their lives over the past five years suggests a reasonable level of well-being; around 26% of the sample attributes changes specifically to microfinance borrowing. The fact that 20% of the sample (and 40% of the 11.6% very poor in the sample) report a significant worsening in their lives is a matter of concern. However, less than 20% of these (less than 2.5% of the total sample) report "too many loans" as **one of the causes**. Some 18% of the likely poor clients in the sample and 10% of the likely non-poor report health-related expenditure over the past five years (**Figure 3.13**, page 33) so microfinance has made a difference in a significant number of cases. There is no index of good health and well-being; to the extent that microfinance enables people to undertake medical expenses when the need arises, it contributes to SDG-3.
4 QUALITY EDUCATION	Microfinance institutions/MDIs generally do not have educational loans as a financial service provided by them. To the extent that loans contribute to life improvements and enable borrowers to send their children to educational institutions (and, over time, better institutions) microfinance makes a contribution to quality education. Since lending is not specifically for education it is impossible to establish a direct link between microfinance and quality education. About 4% of the clients reported spending 0.4% of the credit on their children's education (**Figure 3.13** and additional calculations from the survey database) but the contribution to SDG-4 "quality education" cannot be determined here as indicator level data is not available.

<table>
<tr>
<td>5 GENDER EQUALITY</td>
<td>This is the SDG to which microfinance makes the most apparent and direct contribution. Analysis of survey data from a gender perspective shows that the number of female borrowers is higher than male borrowers (46% vs 41% of adults interviewed). This greatly reduces the concern about gender bias in most areas of economic activity where traditionally men are preferred for undertaking transactions. The caveat here is that women being borrowers and signatories for loans does not by itself necessarily empower them. In spite of being the formal signatory to a loan a woman's husband or other male relatives could still exercise control in matters of income earning and financial transactions.

Traditional attitudes to domestic tasks mean that women usually have the key role in domestic affairs while their contribution to household income/production discussions is limited. Nevertheless, a far larger proportion of women clients in the sample report a role and confidence in taking saving decisions and the management of financial transactions while men are more likely to be confident in borrowing decisions and operating deposit accounts with financial institutions (MDIs/banks).

Women entrepreneurs compared to homemakers were found by the survey for this study to be more confident in public speaking and participate in decision making on issues of income generation. While it is difficult to ascertain a direct effect of loans on women's participation in decision making – which is one of the key aspects of gender equality – in the absence of a baseline, it is well established in literature that loans enable the achievement of SDG-5 (gender equality). This is a good example of how microcredit promotes cross cutting SDG themes.</td>
</tr>
<tr>
<td>6 CLEAN WATER AND SANITATION</td>
<td>On clean water and sanitation the survey results indicate very limited client interest in borrowing for WASH specifically. Clients are likely to have invested part of the loans taken for house construction and repair in WASH facilities but this level of segregation of household investment is not available. The limited information available from the survey indicates a negligible number (<1% of clients) reported borrowing for the purpose of building toilets and to dig wells and/or purchase pumping sets for irrigating clients' agricultural fields (Figure 3.13) amongst their reasons for borrowing. Water for farming is not directly covered by SDG-6 but communities generally use underground water for drinking purposes due to its relative purity in many (but not all) areas. Thus there is an indirect contribution of microcredit here.

Nevertheless, CMA does have a collaboration with the WASH programme promotion institution, Water.org and reports the following numbers from the Water Credit Adoption Program
- 13 partner MFIs</td>
</tr>
</table>

	- 445,360 loans disbursed - 84% Loans to Women Borrowers - over 2 million people reached - $292.5 million capital mobilized - $658 Avg Loan Size - 20 Months Avg Loan Term - 99% Repayment Rate
7 AFFORDABLE AND CLEAN ENERGY	Since Cambodian MFIs do not currently have clean energy related products, there is not much evidence to report on SDG 7. The survey undertaken for this impact assessment did not provide any formal or informal evidence of the use of clean energy products by microfinance clients.
8 DECENT WORK AND ECONOMIC GROWTH	Both female and male respondents in the sample are entrepreneurs and they report using loans to grow their micro and small businesses. Borrowing for productive income generating activities was reported by 58% of (likely) poor households and 48% of (likely) non-poor households. Productive investments of any sort contribute to economic growth and owner-managed and operated micro-enterprises (with mainly family labour and few, if any, employees) are more likely to provide decent work opportunities than paid employment in micro-enterprises; household enterprise surveys usually show that non-household/family employees of microenterprises are a much-exploited cohort of the population.
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	SDG 9 is about the creation and growth of industry and infrastructure along with innovation in those fields. Investments by microfinance clients in Cambodia are mostly in the range of $3,000 to $7,000; even for the largest loan sizes provided by MFIs these do not generally exceed $100,000 so their direct contribution to SDG 9 about industry can be said to be negligible. There may be some indirect contribution in terms of microenterprises being engaged as value chain partners of larger industrial enterprises but that is not possible to quantify without a more detailed study of microenterprise investments than was possible as part of this study.
10 REDUCED INEQUALITIES	Reduced inequalities (SDG 10) are directly linked to the zero poverty goal of SDG 1 so, to the extent that 31% of sample microfinance clients were able to improve their lives substantially over the past five years (**Figure 6.1,** page 59), it is possible to assert that, in their cases, inequalities were reduced. For those 36% who reported some improvement, the level of inequality was not necessarily changed, for others, the 23% who reported a worsening in their life conditions, inequality is even likely to have increased. For the poorest households, provision of finance is not enough for them to graduate out of poverty. Loans alone are not sufficient to narrow economic inequalities. The income and savings inequality gap

	was quite wide at the time of interview for this survey: poor households reported earnings 34% less than the non-poor. A comparatively larger number of non-poor are able to save and their average savings have always been larger in size when compared over a five-year period. The chances of poor households reporting delinquency and repayment stress are also higher.

The following two SDGs

- **SDG-11 Sustainable Cities and Communities, and**
- **SDG-12 Responsible Consumption and Production**

affect policy and actions at the macro-level and do not apply directly to the provision of microfinance services to low income households, so these are not covered by the scope of this study.

The next three SDGs are

- **SDG-13 Climate Action**
- **SDG-14 Life below Water**
- **SDG-15 Life on Land**

These SDGs are related to reducing or eliminating the impact of climate change and also to the conservation of the environment. These are not directly relevant to the provision of microfinance services in Cambodia at present.

Finally, the remaining two SDGs

- **SDG-16 Peace, Justice and Strong Institutions**
- **SDG-17 Partnerships for the Goals**

These are related to institutional support to economic and social development and are also not directly relevant to the provision of microfinance services to low-income clients/households. These institutional issues are outside the scope of this study.

To conclude on this discussion, microfinance's contributions to the SDGs related to the lives and livelihoods of low-income families can be substantial when viewed in conjunction with other facilitating conditions like economic growth (as in Cambodia over the past 15 years) and policy-stimulated support for social services and social change. In the relatively limited number of situations where it is not deployed successfully due to changing conditions in the economic or physical environment (as in the case of Covid) it can also have negative consequences and can undermine progress to the SDGs. In such circumstances, the creation of ameliorating processes for supporting lives and livelihoods of unsuccessful borrowers (by microfinance service providers themselves) is the key to ensuring positive net effects on the welfare of families who must survive with limited resources.

Section 8 Cambodia Microfinance Impact – Conclusions & Recommendations

A recent study of microfinance in Cambodia focusing on its challenges and another on the policy implications of financial literacy in the country came to similar conclusions albeit from different perspectives.[18] Broadly, these match with M-CRIL's findings from the current study and from its extensive experience of microfinance in Cambodia. The conclusions from this study are

1 Microfinance is undoubtedly a **means of contributing to the empowerment of low-income segments of society**. To the considerable extent that MFIs target women, and also low-income male borrowers, microfinance provides them with access to finance and makes a positive contribution in terms of capital for enabling economic activities (enterprise and agriculture investment) and social investments (in housing, education, health, WASH). During a time like Covid, while repayment stress was enhanced for a significant proportion of borrowers, microfinance nevertheless provided protection through the availability of capital for large numbers of low income households to bridge the income deficits resulting from the decline in economic activity.

2 **Loan sizes outstanding** (and, therefore, also disbursed) are very high. The average loan size outstanding with sample households covered by the M-CRIL survey is of the order of US$6,000 (median $3,000). As M-CRIL's data for other low income countries in Asia shows, microfinance loan sizes are around 15-25% of GDP per capita in those countries while in Cambodia these are more than **3 times GDP per capita**. However, the GDP per capita comparison is based on the conventional assumption that a microfinance loan has an average tenure of (and therefore must be repaid in) 12 months. This is no longer the case in Cambodia where the average loan tenure (based on the M-CRIL survey) is now in the range of 3.5 to 4 years. In practice, therefore, the average servicing requirement of a microfinance loan in Cambodia is roughly equivalent to GDP per capita. This is still much higher than in other countries with large microfinance sectors but not as out of sync with average earnings as is generally reported. The matter of loan size is discussed further below.

3 **Regulation of interest rates** limited to 18% per annum by the National Bank of Cambodia has played a role in the exponential growth of microfinance loan sizes; MFIs argue that it is no longer viable to provide micro-loans to low income borrowers and, therefore, it is not surprising that there are just 11.6% of clients of "microfinance" service providers in Cambodia with simple poverty (SPS) scores that indicate they are likely to have incomes below NPL compared to 18.3% at the national level (for the population as a whole).

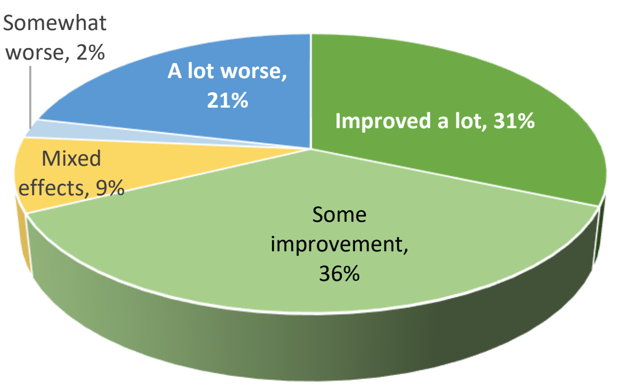
[18] Bliss, Frank, 2022. *"Micro" Finance in Cambodia: Development, Challenges and Recommendations*. AVE Study 30b/2022, Institute for Development and Peace, Universitat Duisburg Essen, and
Samreth, Sovannrouen (Saitama University, JICA Ogata Research Institute and Aiba, Daiju (Waseda University), October 2022. *Financial Literacy Among Microfinance Borrowers: Findings and Policy Implications from a Household Survey in Cambodia* (ppt report).

4 **Repayment stress** resulting from over-indebtedness is considerable but not necessarily intolerable. The findings of this assessment indicate that while there is a significant degree of repayment stress, **occasional stress for around one-fourth (24%) of borrowers**, the concern that this results in many of them losing their land (even implying landlessness and destitution) is over-stated. **There is a reduction of some landholdings in about 0.5% of the repayment stress cases in the past 6 months and perhaps up to 6% over a five-year period**; it entails the sale of small plots of land but any cases of landlessness resulting from such sales are rare and this study did not discover any. Most borrowers faced with repayment stress have coping strategies like borrowing from relatives/friends/associates or from moneylenders. Less frequent than these strategies are the sales of high value assets (mainly motorbikes or other household assets) and (of greater concern) the temporary lowering of the intake of more costly (protein/vitamin-rich) foods. The sale of land is the least common of all these strategies.

5 **Impact on clients' welfare**: Feedback on impact from borrowers in the sample for this study was obtained via questions about changes that have taken place in their lives over the previous five years. With reference to these changes, borrowers report that

- **Substantial economic benefit and life improvements** have taken place for **31% of sample households** over the past five-year period while another **36% report some improvement**.
- The lives of **nearly 25% of sample households have deteriorated.**

Figure 7.1 Household perceptions of changes in their situation - past 5 years



Improvements have occurred as a result of the

- **growth of the economy** (garment factories, tourism, other jobs even in the financial sector (!) and remittances)

while lives have **worsened** due to

- **Covid but also business failures** linked to the pandemic and **crop failure and a decline in grain prices** in recent years.

Those whose lives improved cite "access to loans" as one of the factors in the process, while those whose lives deteriorated cite "too many loans" as one of the factors responsible for the decline in their fortunes.

Life is complex; there is no straightforward correlation with financial services. There is **not a general environment of distress** amongst microfinance clients, **but a few lives have**

been directly affected by a vicious cycle of debt. This happens in any financial services activity, whether from lending by microfinance service providers or by the commercial banking sector regulated by central banks. It happens in every country in the world whether with low income or high-income populations.
Nevertheless, there are mischievous elements in the microfinance sector as well. FGD input shows that these could be loan officers being excessively zealous in chasing repayment collections, or in a couple of cases managements of microfinance service providers allowing such behaviour through implicit approval (in order to limit their delinquency rates). As socially conscious institutions, microfinance lenders should address the issues that affect households who get caught in this vicious cycle and work to ameliorate the conditions of those affected as well as to minimize the recurrence of distress.

Recommendations

6 **Risks and mitigation strategies:** Based on the conclusions above, clearly, some action is needed from all stakeholders to ensure that the ***social mission of the microfinance sector*** is re-emphasised and its reputation as a sector dedicated to ameliorating the conditions of poverty is restored. The key points to be considered here are

6.1 Clearly some of the problems of the sector are caused by **fast expansion and growth of loan sizes**. This has been caused partly by the **well-intentioned action of the regulator to keep the price of micro-credit (interest rates) under control**. The growth in the size of loans is directly attributable to this – if financial institutions do not feel they can cover the high relative cost of the smallest loans, they will, naturally migrate to a larger loan size (in order to reduce the average operating expense incurred and maintain the surplus earned by the financial institution).

6.2 The leading institutions in the sector are now completely owned by **international investors *some of whom are more conscious of the social mission of microfinance than others***. It is worth noting that while average returns on equity of some of the largest service providers have declined from 20% to around 12% over the past 15 years, a few of the large providers have maintained returns on equity at the 25% level. **A more intensive and knowledgeable effort by CMA and the international community to address the issue of loan size** and the related cost of micro-credit would not only be beneficial to borrowers but would also reduce the incentive to push up loan size relentlessly. As part of this, the refinancing of loans before the completion of loan terms, has become a major factor in the practice of microfinance in Cambodia. M-CRIL's research on Cambodian MFI profitability shows that cost reduction for borrowers – through the reduction of operating expenses to lower than current levels – is an economically feasible proposition.[19]

6.3 Overall, this can only be managed by **creating an environment of social responsibility** in which CMA, the international community of concerned institutions

[19] Research using data from the Annual Reports of 9 leading microfinance service providers.

(CGAP, SPTF, the European Microfinance Platform) along with international investors join the regulator in controlling the growth of MFIs. A focused effort by the regulator on the returns earned by investors in the sector would also be beneficial along with client protection training for MFI managements and Boards but this is only one part of the set of measures needed. **The aim would not be to penalise efficiency or to stifle investment but rather to maintain returns at levels that have proven to be adequate for some institutions (even in Cambodia) but have been substantially surpassed by others. MFIs that earn high rates of return should consider contributing to clients' welfare as part of corporate social responsibility (CSR) or should set up a fund to support clients in extreme distress.**

6.4 The MFIs themselves need to focus on maintaining their social responsibility through **close monitoring of the welfare of their clients**. Since an environment of refinancing of loans of other MFIs has taken hold in Cambodia, there is the tendency, perhaps, not to regard any particular borrower as **an MFI's own client**. For this reason, CMA (rather than individual MFIs) may need to take the initiative to obtain information from its members on ***all those borrowers whose collateral is on the point of being seized*** – particularly those who could possibly be compelled to sell land or other high value assets**.**

An MDI/MFI sponsored (restructuring or even a livelihood restoration) unit as an independent agency created for the purpose **could monitor the status of borrowers in distress** and work with the principal lenders to those borrowers to understand the problems faced by their client. The solution could be the restructuring of loans or other non-financial support to individual borrowers to bolster their ability to generate income. This unit could also recommend write-offs in a limited number of cases. **Such an agency, not the local police and courts, should be the first resort for MFIs faced with defaulting clients**.

In a note published in 2019 on the issue of client distress in Cambodia, M-CRIL suggested the establishment of "Livelihood Restitution Teams" to support such clients.[20] More recently, Daniel Rozas, an independent consultant with deep knowledge of Cambodian microfinance, in a more detailed document, has also called for such a measure for debt resolution. This incorporates restructuring and constructive refinancing of loans (as opposed to the current environment of random refinancing to increase loan size) to support borrowers in distress.[21] The M-CRIL idea goes into livelihood support as well – **a constructive use of some of the profit earned by MFIs to enable those microfinance clients faced with destitution to rebuild their lives**. The details of such an important action would need to be worked out but, whatever its name, a joint sectoral effort of this type to prevent and support the limited number of cases of extreme distress is needed.

[20] https://www.m-cril.com/oldsite/wp-content/uploads/2019/10/Cambodia-Collateral-Damage-M-CRIL-Advisory-3.pdf
[21] Daniel Rozas, 2023. Empowered debt counsellors – a new way to address overindebtedness in Cambodia.

[Incidentally, a functioning initiative of this type would also be good for the image of the Cambodian microfinance sector but that is far less important than the welfare of MFIs borrowers in distress].

Annex 1 Additional Caselets

Case A.1 Prosperity: #WHH – home improvement including WASH_gender_happy_client

Cherm Nay 45F woman household head lives in Santuk district in Kampong Thom and sells dried fish and meatballs on her bike. About 10 years ago, she was living in a house with a thatched roof and came across an advertisement about a home improvement loan. She applied for a US$150 loan instantly. Later she borrowed for her child's education and marriage. She finds the loan terms and conditions affordable – interest rates are lower compared to private moneylenders and the loan tenure is manageable and makes it easy for her to repay the loans. She recently borrowed US$1,500 to build a toilet (SDG 6.2) in her house.

Case A.2 Prosperity: #MHH – young_educated_successful entrepreneur

Yarith (32) is a young male entrepreneur based in Khan Dangko, Phnom Penh. He shifted to Phnom Penh from Takeo in 2012 to attend university. After graduating in 2017, he worked for a company in Phnom Penh for two years while staying in a rented room. In 2019, he opened a coffee shop in partnership with a friend. Yarith invested US$2,000, his friend put in US$1,000 and they borrowed US$3,000 from an FI. His business (supported by credit) flourished, he saved money and purchased a house recently. He explicitly remarked that the loans from FIs helped him a lot and enabled him to pursue what he wanted to. Turnover dipped during the pandemic due to poor retail sales and he pivoted to e-commerce sales to stay afloat. His turnover has since recovered and he now has plans to top up his active loan with an additional loan to expand and open two more coffee shops.

Case A.3 Distress: #MHH_medical treatment_assets sold_almost_default

ABC, lives in Prek Prasab district in Kracheh with his wife, 46, and their young daughter. His family first borrowed US$500 from a financial institution some 15 years ago to purchase residential land. They continued to borrow to increase their assets – the family constructed a house and bought 2ha of farmland – and also started a livestock business. They always managed to clear their debts in time until three years ago when ABC met with an accident and borrowed US$5,000 for his treatment *[lender information not available]*. Later he was diagnosed with appendicitis and had to spend another US$500 on its removal. He was no longer able to earn money for his family and could not repay FIs and moneylenders. At the verge of default, he decided to sell all assets including the house for US$12,000 to arrange money for repayment but still fell short of US$750. The family now lives in a small house on his mother's land. They are worried because they do not know how to arrange the funds to pay the remaining amount.

Case A.4 Distress: #WHH_Debt stress_health_unruly behaviour

KLM 42F lives with her husband and their 6 children in a Village in Tram Kok District, Takeo Province. She is a homemaker and her husband works as a construction labourer. Their 3 elder children work in a garment factory. The household earns about US$1,000 a month.

The family first took a US$1,000 loan from an FI 20 years ago to repay a moneylender. Over the years, they borrowed several times for medical treatment of the father and son. They took loans from one lender to repay another, and the cycle continued. Without a consistent income source, the family was gradually pushed into a debt trap. They currently owe money to 7 FIs apart from moneylenders, family and friends. They have sold their bikes, and the children had to discontinue school to work in a factory. The younger children collect vegetables from the jungle and sell them in the market. Unable to arrange money in time, there are times when the family hides in barrels or in bushes to escape from FI staff. Credit officers wander around their house till 7 in the evening. KLM cannot go home until after 7pm. FIs have sent them legal letters and had the village chief talk to them and put pressure to arrange repayment. They fear that their collateral will be taken away and they would be forced to pay penalties.